

COMPANY REGISTRATION NUMBER: 30546

**Methodist Chapel Aid Limited**  
**Financial Statements**  
**For the Year Ended**  
**31 December 2021**



**BEEVER AND STRUTHERS**  
Chartered Accountant & Statutory Auditor  
The Beehive  
Lions Drive  
Shadsworth Business Park  
Blackburn  
BB1 2QS

# **Methodist Chapel Aid Limited**

## **Financial Statements**

**Year Ended 31 December 2021**

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# Methodist Chapel Aid Limited

## Officers and Professional Advisers

<b>The Board of Directors</b>	G Alan Pimlott ACIB (Chair) Peter A Mills FCA (Deputy Chair) Helen E Ashley Taylor BMus FCCA ( <i>appointed 22 April 2021</i> ) Revd James A Booth LLB D Jeremy M Burchill LLB BL Rt Revd Paul J Ferguson MA FRCO Peter J Forward FCA ( <i>retired 22 April 2021</i> ) Anne F Goodman BSc (Econ) A Christopher Jarratt BSc FCA Richard J Price MA Andrew C Slim BA FCIB
<b>Chief Executive</b>	A Christopher Jarratt BSc FCA
<b>Company Accountant and Company Secretary</b>	Steven R Jones BA FCCA
<b>Registered Office</b>	1 Telford Terrace Albemarle Road York YO24 1DQ
<b>Telephone</b>	01904 622150
<b>Email</b>	info@mcafundingforchurches.co.uk
<b>Website</b>	www.mcafundingforchurches.co.uk
<b>Regulators</b>	Registered in England and Wales No. 30546  Authorised by the Prudential Regulation Authority  Regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference No: 204508
<b>Auditor</b>	Beever and Struthers Chartered Accountant & Statutory Auditor The Beehive Lions Drive Shadsworth Business Park Blackburn BB1 2QS
<b>Banker</b>	HSBC Bank Plc City of London Branch 60 Queen Victoria Street London EC4N 4TR
<b>Solicitor</b>	Harrowells Limited 1 St Saviourgate York YO1 8ZQ
<b>Investment Manager</b>	Sarasin & Partners LLP Juxon House 100 St Paul's Churchyard London EC4M 8BU
<b>Internal Auditor</b>	RSM Risk Assurance Services LLP Fifth Floor, Central Square 29 Wellington Street Leeds LS1 4DL

# **Methodist Chapel Aid Limited**

## **Chair's Statement**

**Year Ended 31 December 2021**

### **Economic background**

The Covid-19 pandemic continued to impact the economy during 2021, both in the UK and worldwide. This resulted in ongoing disruption to the activities of churches and delays to their building projects. Investment markets experienced continuing volatility, with initial falls in market values in January and February more than offset by a net recovery in the following months. The Bank of England base rate increased from a record low of 0.10% to 0.25% 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 2021 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 approved, undrawn 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 interest received from deposits held with other financial institutions. In addition, the investment income remains below pre-pandemic levels, although it has recovered significantly during 2021.

### **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 is well aware that there is the risk that the Company's capital could be eroded by factors outside its control.

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 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 market volatility on the value of the Company's investment portfolio and income.

### **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 Company's needs, which is in line with the Board's 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 Christian churches and associated organisations at the lowest practicable rates of interest will continue to be its priority. Within that broad policy, the Board is continuing to implement its strategy of promoting its loans to a range of Christian churches and associated organisations, consistent with the aim of diversifying its core lending activity.

# **Methodist Chapel Aid Limited**

## **Chair's Statement** *(continued)*

### **Year Ended 31 December 2021**

#### **Loans**

The Company's total committed (i.e. approved) loans increased, as planned, during 2021 although the year-end balance advanced was slightly lower than 2020 as a result of Covid-19 related delays in churches' building projects affecting the timing of the drawdowns of approved loans. Several such large commitments are forecast to be advanced during the first half of 2022. This growing demand is expected to continue during the coming year in the form of increased enquiries and applications for loans for church property projects.

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

#### **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 has sought 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 for most of the year. As a result, a reduction in interest rates for depositors was made in July 2021. 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 November 2021 and covered issues such as policy development, sustainable lending growth, advertising and marketing, governance (including succession planning) and ensuring that the organisation adapts as appropriate to changing economic times.

The Company pursues a strategy of growing its 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 throughout 2021, but the lending levels will remain under close review. It is expected that there will be increased credit risk for the foreseeable future, and this is being considered carefully during the assessment of loan applications.

#### **Regulatory issues**

The Board liaises with the regulators in relation to new requirements which become effective in 2022 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 2021 there were two changes to the membership of the Board – the appointment of Mrs Helen Ashley Taylor and the retirement of Mr Peter Forward after nine years of excellent service for which the Board is very grateful. 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, with one Director scheduled to retire at the Annual General Meeting in April 2022, a potential replacement has been identified.

# **Methodist Chapel Aid Limited**

## **Chair's Statement** *(continued)*

### **Year Ended 31 December 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 also 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 throughout 2021. Their knowledge and effectiveness have always been evident, and enable the Company to look to the future with confidence.



**Alan Pimlott**  
**Chair**  
**5 January 2022**

# Methodist Chapel Aid Limited

## Strategic Report

Year Ended 31 December 2021

The Directors have pleasure in presenting their Strategic Report for the year ended 31 December 2021.

### Principal Activities

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

In support of the Company's purpose it:

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

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

### Board Strategy for the Company

The Board recognises its ongoing responsibility to keep under review its strategies through which it pursues its aims and objectives. 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 2021 and ongoing work includes formalisation and implementation of succession planning and diversity strategy. These will be developed further during 2022.

**b) Advertising and Marketing**

The Board has an ongoing objective to develop its communication to target the churches and associated organisations. Significant progress has been made in actively promoting the Company's loan services both to Methodist churches and to other denominations, primarily the Church of England.

**c) Lending Policy**

A key aim of the strategy is to promote the Company outside the Methodist Church, primarily to the larger denominations and organisations. The planned controlled growth in lending levels is defined and monitored in line with the SBP. Thus, the level of approved loans grew during 2021 in line with this strategy and several of these large commitments are forecast to be advanced during the first half of 2022. Non-Methodist (mainly Church of England) property loans accounted for 61% 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.

**d) 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.

# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

### Year Ended 31 December 2021

It is recognised that Covid-19 will continue to 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.

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 2022 and beyond

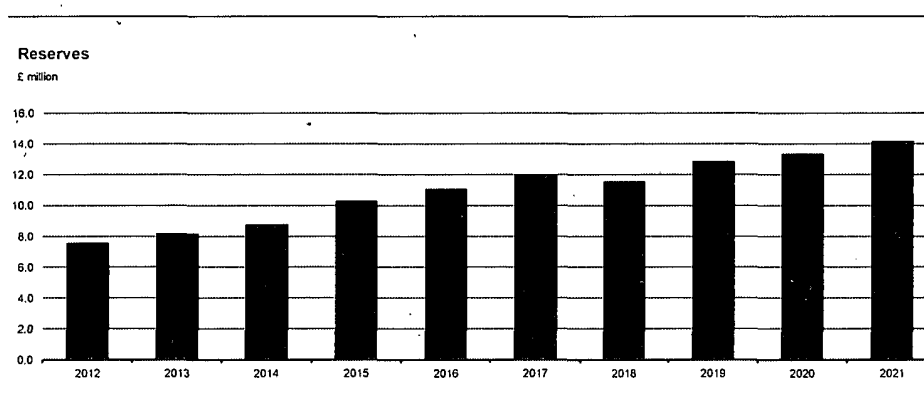
The Board's key aims for 2022 and beyond are to increase the Company's loan book in a controlled way to around £10.3 million by 2025 (although there remains the capacity for this figure to increase in line with demand), and to widen the Company's support for non-Methodist projects. The Board is clear that growth should continue to be achieved only 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, to support the expected increase in lending.

#### Overall Performance in 2021

During 2021 an operating surplus of £265,630 was achieved, including £172,235 received as a bequest. Excluding this one-off amount, the operating surplus was around £72,000 higher than that budgeted at the start of the year, largely as a result of the recovery in investment income combined with savings in management expenditure.

This operating surplus was enhanced by significant positive net fair value adjustments to the Company's investments during the year. Therefore, the Company's reserves increased by £733,213 during 2021. The graph below shows the capital position over the past ten years:



The Company's Return on Assets for the year ended 31 December 2021 was 1.8% (2020: 1.5%). The year-on-year variance reflects the volatility in the equity markets.



# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

### Year Ended 31 December 2021

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

	Amount £m			Number of loans		
	2019	2020	2021	2019	2020	2021
<b>Loans balances at year end</b>						
Term loans	6.0	7.2	6.6	41	49	45
Bridging loans	1.9	0.1	0.6	6	1	3
	7.9	7.3	7.2	47	50	48
Car loans	0.0	0.0	0.0	8	5	3
<b>Total</b>	<b>7.9</b>	<b>7.3</b>	<b>7.2</b>	<b>55</b>	<b>55</b>	<b>51</b>
<b>Undrawn loans at year end</b>	<b>2.3</b>	<b>2.9</b>	<b>4.1</b>	<b>10</b>	<b>12</b>	<b>10</b>
<b>Total drawn and undrawn loans</b>	<b>10.2</b>	<b>10.2</b>	<b>11.3</b>	<b>65</b>	<b>67</b>	<b>61</b>
<b>Loan advances during year</b>						
Property loans	3.9	2.6	3.6	24	17	19
Car loans	0.0	0.0	0.0	1	0	1
	3.9	2.6	3.6	25	17	20

The benefits of the Company's ongoing advertising and marketing strategy are continuing to be realised with a 11% increase in the total of drawn and undrawn loans during the year. This is shown in the graph on the next page. In addition, enquiries have been made about loan facilities for some further projects and preliminary discussions have already taken place to assess their feasibility.

Following the onset of the Covid-19 pandemic, many church buildings were closed for a significant part of 2020, and many church activities remained at reduced levels during at least the first half of 2021, reducing borrowers' income. Nevertheless, as at 31 December 2021, only one loan was subject to a capital repayment extension.

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.

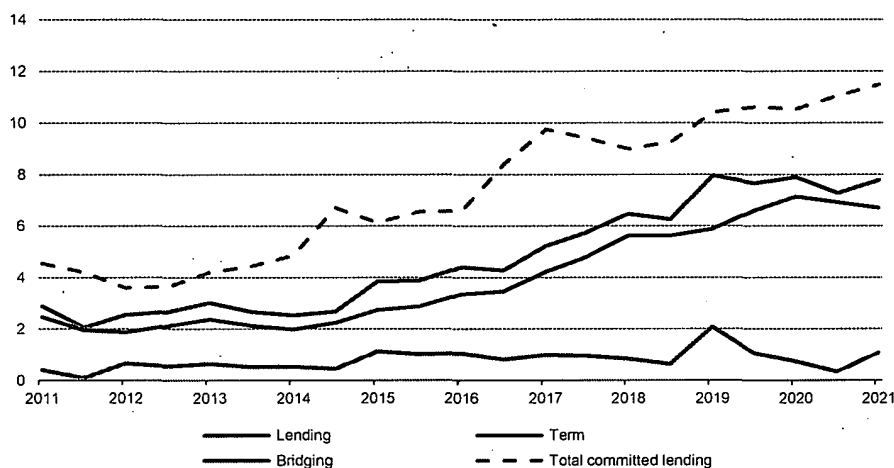
# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

Year Ended 31 December 2021

### Total lending to Christian churches and associated organisations

£ million



Short term bridging loans account for approximately 9% of the total loans as at 31 December 2021. 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. However, the money market interest rates available to the Company continued to decrease during the year. As a result, the Company's savings rates for all account types were reduced with effect from 1 July 2021.

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.

As shown in the first graph on the next page, the amount held on deposit with the Company increased during the year with the total as at 31 December 2021 being £25,374,073 (2020: £25,034,413). Withdrawals during the year represented 9% of the balance of deposits at the start of the year and new deposits and interest applied amounted to 11%.

The Company opened 62 new savings accounts during the year. The total number of accounts held with the Company totalled 2,993 as at 31 December 2021 (2020: 3,071). The total amount held on deposit as at 31 December 2021 included 46% held in Premium Plus Accounts, 20% in ISAs and 11% in Child Trust Fund (CTF) Accounts.

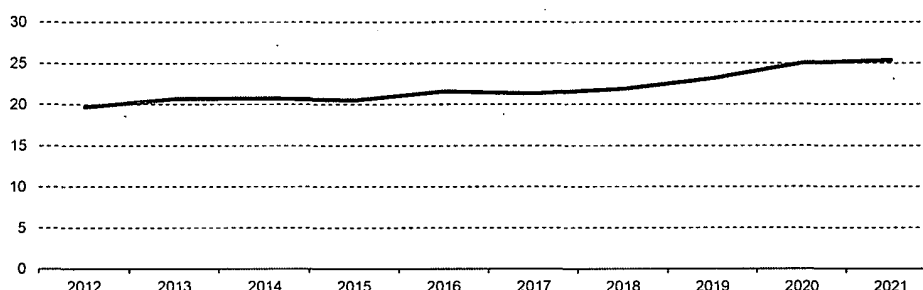
# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

Year Ended 31 December 2021

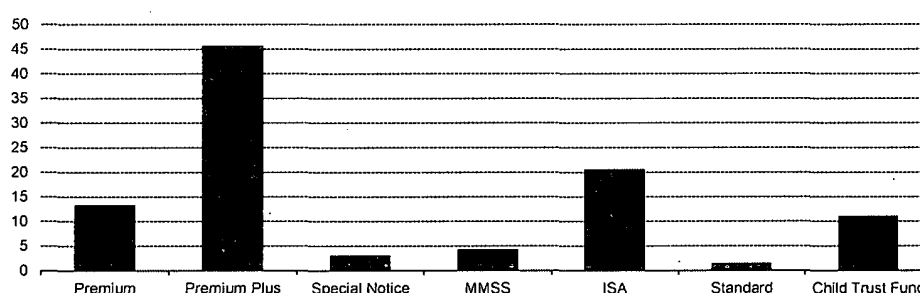
### Deposits at year end

£ million



### Account Types at year end

% of funds held in accounts



### Investments

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

As at 31 December 2021 the total carrying value of equity shares and debt securities amounted to £17,733,105 (2020: £17,654,007). This comprised £4,133,438 (2020: £4,246,361) dated treasury stocks, £4,202,868 (2020: £4,801,131) bond funds and £9,396,799 (2020: £8,606,515) equity shares and similar investments. The Investment Manager held short term funds of £729,476 (2020: £236,135) for investment purposes. In addition, the Company held £14,392,157 of cash and deposits with other UK financial institutions (2020: £13,653,122).

A provision for the amortisation of the premium on dated treasury and commercial loan stocks was made amounting to £86,814 for the year (2020: £96,429). 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 £197,947 (2020: £231,281).

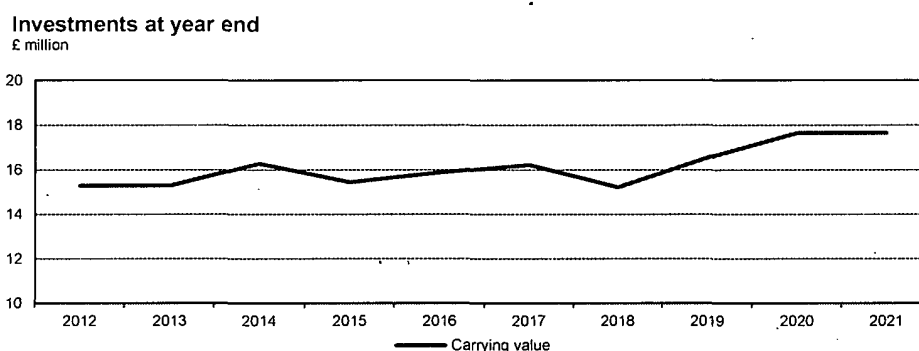
In addition, there was a positive fair value adjustment to the Company's investment portfolio in the year of £711,942 (2020: positive adjustment of £318,792) which is shown in the Statement of Income and Retained Earnings.

The change in the total market value of the investments is shown in the graph on the next page.

# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

### Year Ended 31 December 2021



It is important to note that the Company's policy of holding investments is for the long term and that it is not an investment trading company. The Company continued to be grateful to its Investment Manager, Sarasin & Partners LLP, for its services provided during the year.

#### **Ethical 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.

#### **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 2021 and calculated that, in addition to the minimum regulatory requirement, 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 regulatory capital and calculated buffer.

Looking ahead, the Board has budgeted for an operating surplus in 2022 in line with the normal 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.

# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

**Year Ended 31 December 2021**

### **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.

#### *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 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.

# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

Year Ended 31 December 2021

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 value 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.

# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

### Year Ended 31 December 2021

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 the 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.

#### *Risk Appetite*

The Company's operational risks arise largely as a result of 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; and
- legal cases

The Company ensures that it adopts all regulatory, legal and other compliance requirements in a proportionate and timely manner.

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 are 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).

#### *Risk Appetite*

Credit Risk (wholesale markets):

The Company will not engage in wholesale deposit lending other than with 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 internal limits. The amount of deposits placed with any one bank or building society is limited to 25% of the Company's regulatory capital.

# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

### Year Ended 31 December 2021

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 and exposures are subject to Board approved limits as specified in the Treasury Policy Statement.

#### *Risk Appetite*

Credit Risk (retail markets):

The Company lends to Christian churches and associated organisations only within the UK, Isle of Man and Channel Islands 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 regulatory minimum plus an internally calculated buffer to cover potential stresses as identified in the Company's Internal Capital Adequacy Assessment Process (ICAAP) document.

#### *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 accepts that there is inherent risk in running a banking business. It is the Company's policy to minimise the impact of unavoidable risks and further mitigate them wherever the costs of doing so are proportionate to the potential impact.

#### Climate Change Risk

Climate change risk is defined as a risk resulting from climate change and affecting natural and human systems and regions. Climate change risk is likely to manifest itself in physical events such as extreme weather conditions; it may lead to systemic changes in public policy as society moves to a low-carbon economy, and it may affect the ability of the Company to deliver its services, or affect the value of the Company's assets and loan security.



# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

### Year Ended 31 December 2021

There is increased focus on these risks by key stakeholders (e.g. customers) and the regulatory landscape is evolving to reflect these risks. As such, there is also the potential reputational risk associated with the Company investing in organisations which could be seen as responsible for, or contributing to, climate change.

#### *Risk Appetite*

The financial risks of climate change to the Company are primarily in relation to the market risks associated with its effect on the Company's investment portfolio and the credit risks of lending to Christian churches and associated organisations.

Therefore, the risk appetite is considered within other existing risk categories, i.e. market risk and credit risk.

#### *Mitigation*

The Company will continue to develop its consideration of sustainability and climate related issues and integrate these within the risk register and monthly management information schedules.

Stress testing/scenario analysis is carried out in respect of significant falls in the value of the Company's investments, reductions in investment income and the credit risks of lending to Christian churches and associated organisations, as part of the annual ICAAP. The results are used in calculating the internal capital buffers. It is recognised that climate change could be a driver for such stresses e.g. increased natural disasters.

The Board requires the Investment Manager to demonstrate a continued commitment to recognising and responding to climate change as part of their investment decision making process. This may include performing climate stress testing (based on both de-carbonisation and physical stresses) and deciding whether to divest or engage with companies based on the results. In addition, the Board requires the Investment Manager to align with the goals of the Paris Climate Accords (as updated by any revised global commitments that result from new scientific research), including pressing investee companies to align to these goals.

As the scientific evidence on climate change becomes ever clearer, the Company will further embed climate risk in its existing risk management framework.

#### 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 its 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 2021. These disclosures are published in the Financial Information section of the Company's website: <https://www.mcafundingforchurches.co.uk/financial-information>.

# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

Year Ended 31 December 2021

### 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 2021, the Board sent out a further Customer Satisfaction Survey to a proportion of its depositors and borrowers. The results are summarised in the table below. A 5-point scale was used, "Strongly Agree" being the best score. None of the 56 replies received implied concern by using "Disagree" or "Strongly Disagree".

	Depositors (% Agree / Strongly Agree)	Borrowers (% Agree / Strongly Agree)
Happy with the overall service provided by the Company	98%	100%
Would recommend the savings account / loan to others	91%	100%

No complaints were received from customers during 2021.

### Statement by the Directors in performance of their statutory duties in accordance with section 172(1) of the 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:

- Christian 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;
- 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;

# Methodist Chapel Aid Limited

## Strategic Report *(continued)*

**Year Ended 31 December 2021**

- the 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 Board 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.

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

Signed by order of the Directors



Steven R Jones BA FCCA  
Company Secretary

Registered office:  
1 Telford Terrace, Albemarle Road, York, YO24 1DQ  
Approved by the Directors on 22 February 2022

# Methodist Chapel Aid Limited

## Directors' Report

### Year Ended 31 December 2021

The Directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 December 2021.

#### 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 2021 No.	At 31 Dec 2020 No.	At 31 Dec 2021 £	At 31 Dec 2020 £
Alan Pimlott	143	143	-	-
Peter Mills	175	175	-	-
Helen Ashley Taylor (appointed 22 April 2021)	-	-	-	-
James Booth	-	-	-	-
Jeremy Burchill	200	200	-	-
Paul Ferguson	-	-	-	-
Peter Forward (retired 22 April 2021)	200	200	-	-
Anne Goodman	-	-	-	-
Christopher Jarratt	61	61	-	-
Richard Price	-	-	-	-
Andrew Slim	166	166	64,870	76,820
	<u>945</u>	<u>945</u>	<u>64,870</u>	<u>76,820</u>

#### Events after the Reporting Period

Particulars of events after the reporting period are detailed in note 23 of the financial statements.

#### 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 five non-executive Directors (Jeremy Burchill (Chair), James Booth, Anne Goodman, Peter Mills and Andrew Slim), which meets at least four times annually and ensures that the recommendations of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the independent 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.

# Methodist Chapel Aid Limited

## Directors' Report *(continued)*

### Year Ended 31 December 2021

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.

#### Proposals

- The Directors propose a dividend of 23.25 pence per fully paid A share and £9.30 per fully paid B share of the Company, payable on 30 April 2022 (Detailed in note 10 of the financial statements).
- Alan Pimlott retires by rotation and, being eligible, offers himself for re-election for a one-year term.
- Anne Goodman retires by rotation and, being eligible, offers herself 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 2022 is proposed.

#### Donations

For many years the Company's policy has been to make donations at the level of 10% of the previous year's adjusted 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 (2020: 7 charities):

	2021	2020
	£	£
Charitable donations	<u>5,500</u>	<u>15,750</u>

#### 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.

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.

# **Methodist Chapel Aid Limited**

## **Directors' Report** *(continued)*

**Year Ended 31 December 2021**

### **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

A handwritten signature in black ink, appearing to be 'S. Jones', written over a horizontal line.

Steven Jones BA FCCA  
Company Secretary

Registered office:

1 Telford Terrace, Albemarle Road, York, YO24 1DQ

Approved by the Directors on 22 February 2022

# **Methodist Chapel Aid Limited**

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

**Year Ended 31 December 2021**

### **Opinion**

We have audited the financial statements of Methodist Chapel Aid Limited (the 'Company') for the year ended 31 December 2021 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 2021 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.

### **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 impairment within the loans advanced and the security held over loans as explained fully within the 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 reviewing 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.

# Methodist Chapel Aid Limited

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

(continued)

Year Ended 31 December 2021

### 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.

Key Audit Matter	How Our Audit Responded to the Key Audit Matter
<p><b>Property Loan Provisioning</b></p> <p>At 31 December 2021 the property loan book totalled £7.19m (2020: £7.30m) as shown in note 13 of the financial statements. No provision has been recorded against these loans.</p> <p>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.</p> <p>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. There is also a perceived higher default risk as a result of the ongoing Covid-19 pandemic.</p> <p>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.</p>	<p>Our audit work included but was not restricted to the following:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li><li>• 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.</li><li>• For a sample of loans noted as secured, we have confirmed the Company has satisfactory title to the security. We have also reviewed management's assessment of the intrinsic value of the security held and confirmed it is in excess of the individual loan values.</li></ul> <p>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.</p>

### 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 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 2021 to be £284,000 (2020: £268,000). For 31 December 2021, 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 Company is a bank, and therefore designated as a public interest entity, we consider a benchmark of 2% to be appropriate.



# **Methodist Chapel Aid Limited**

## **Independent Auditor's Report to the Shareholders of Methodist Chapel Aid Limited** (continued)

### **Year Ended 31 December 2021**

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

We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £14,000. Additionally, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

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

#### **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.

# **Methodist Chapel Aid Limited**

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

*(continued)*

**Year Ended 31 December 2021**

### **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](http://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.

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.

# **Methodist Chapel Aid Limited**

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

*(continued)*

### **Year Ended 31 December 2021**

#### **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 twelve years.

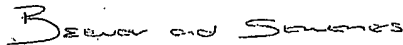
The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

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.

#### **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.

Beever and Struthers

Suzanne Lomax BA FCA (Senior Statutory Auditor)

For and on behalf of  
Beever and Struthers  
Chartered Accountant & Statutory Auditor  
The Beehive  
Lions Drive  
Shadsworth Business Park  
Blackburn  
BB1 2QS

8 March 2022

**Methodist Chapel Aid Limited**  
**Statement of Income and Retained Earnings**  
**Year Ended 31 December 2021**

	Note	2021 £	2020 £
Interest receivable - on loans	3	226,796	238,045
Interest receivable - on debt securities	3	297,207	310,571
Interest receivable - on bank and building society deposits	3	11,584	42,272
Interest payable - to depositors		(158,940)	(218,608)
Interest payable - amortisation of debt securities	12	(86,814)	(96,429)
Dividend income from equity shares	3	220,001	190,548
Investment (losses)/gains on debt securities	12	(30,549)	328,406
Fees and commissions payable to Investment Manager		(29,476)	(43,050)
Other operating income	4	177,145	2,924
Administrative expenses - staff costs	7&8	(202,930)	(205,751)
Administrative expenses - other		(154,761)	(150,767)
Depreciation	11	(3,633)	(14,732)
<b>Operating surplus</b>	5	<b>265,630</b>	<b>383,429</b>
Fair value adjustment to investments	12	711,942	318,792
<b>Surplus on ordinary activities before taxation</b>		<b>977,572</b>	<b>702,221</b>
Tax on surplus on ordinary activities	9	(243,291)	(125,620)
<b>Surplus for the financial year and total comprehensive income</b>		<b>734,281</b>	<b>576,601</b>
Dividends paid and payable	10	(1,068)	(1,058)
<b>Retained earnings at the start of the year</b>		<b>13,441,792</b>	<b>12,866,249</b>
<b>Retained earnings at the end of the year</b>		<b>14,175,005</b>	<b>13,441,792</b>

All the activities of the Company are from continuing operations.

The notes on pages 29 to 45 form part of these financial statements.

# Methodist Chapel Aid Limited

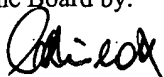
## Statement of Financial Position

31 December 2021


	Note	2021 £	2020 £
<b>Assets</b>			
Tangible fixed assets	11	31,127	7,852
Investments	12	17,733,105	17,654,007
Cash and bank balances		14,392,157	13,653,122
Loans and advances to customers	13	7,197,340	7,314,586
Prepayments, accrued income and other assets	13	71,600	74,764
Investments held for short term purposes	14	729,476	236,135
<b>Total Assets</b>		<u>40,154,805</u>	<u>38,940,466</u>
<b>Liabilities</b>			
Customer Accounts	15	25,374,073	25,034,413
Other Liabilities	15	64,139	167,071
<b>Total Liabilities</b>		<u>25,438,212</u>	<u>25,201,484</u>
<b>Provisions</b>			
Deferred tax	16	540,391	295,993
<b>Net Assets</b>		<u>14,176,202</u>	<u>13,442,989</u>
<b>Shareholders' Funds</b>			
Called up equity share capital	19	1,197	1,197
Reserves		14,175,005	13,441,792
		<u>14,176,202</u>	<u>13,442,989</u>

These financial statements were approved by the Board of Directors and authorised for issue on 22 February 2022, and are signed on behalf of the Board by:

Alan Pimlott - Chair



Christopher Jarratt - Director



Company registration number: 30546

The notes on pages 29 to 45 form part of these financial statements.

# Methodist Chapel Aid Limited

## Statement of Cash Flows

Year Ended 31 December 2021

	2021 £	2020 £
<b>Cash flows from operating activities</b>		
Surplus for the financial year	734,281	576,601
<i>Adjustments for:</i>		
Depreciation of tangible assets	3,633	14,732
Amortisation of investments	86,814	96,429
Fair value adjustment to investments	(711,942)	(318,792)
Tax on surplus on ordinary activities	243,291	125,620
Accrued income/expenses	(8,128)	23,101
<i>Changes in:</i>		
Trade and other debtors	(2,384)	19,028
Trade and other creditors	(158)	1,890
Loans advanced to customers	117,246	573,501
Customer accounts	339,660	1,865,005
Cash from operations	802,313	2,977,115
Tax paid	(87,991)	(3,400)
Net cash from operating activities	714,322	2,973,715
<b>Cash flows from investing activities</b>		
Purchase of tangible assets	(26,908)	(500)
Purchase of investments	(2,622,204)	(7,715,257)
Proceeds from sale of investments	3,168,234	6,823,153
Net cash from investing activities	519,122	(892,604)
<b>Cash flows from financing activities</b>		
Dividends paid	(1,068)	(1,058)
Net cash used in financing activities	(1,068)	(1,058)
<b>Net increase in cash and cash equivalents</b>	1,232,376	2,080,053
<b>Cash and cash equivalents at beginning of year</b>	13,889,257	11,809,204
<b>Cash and cash equivalents at end of year</b>	15,121,633	13,889,257
<b>Consisting of</b>		
Cash	14,392,157	13,653,122
Short term liquid investments	729,476	236,135
<b>Cash and cash equivalents at end of year</b>	15,121,633	13,889,257

The notes on pages 29 to 45 form part of these financial statements.

# **Methodist Chapel Aid Limited**

## **Notes to the Financial Statements**

**Year Ended 31 December 2021**

### **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.

#### **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.

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

Year Ended 31 December 2021

### 2. Accounting Policies *(continued)*

#### Judgements and Key Sources of Estimation Uncertainty *(continued)*

##### *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 (2020: £nil) was recognised in respect of property loans totalling £7,187,279 (2020: £7,301,521) of which £1,346,352 (2020: £1,160,251) are unsecured. Note 18 contains further details of the impairment consideration.

##### *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.

##### *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.



# **Methodist Chapel Aid Limited**

## **Notes to the Financial Statements *(continued)***

**Year Ended 31 December 2021**

### **2. Accounting Policies *(continued)***

#### **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.

#### **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.

**Methodist Chapel Aid Limited**  
**Notes to the Financial Statements** *(continued)*

**Year Ended 31 December 2021**

**2. Accounting Policies** *(continued)*

**Provisions**

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

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

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

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

**Financial Instruments**

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

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

Debt instruments are subsequently measured at amortised cost.

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

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

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.

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 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

	2021	2020
	£	£
Income from a legacy	172,235	-
Loan administration fees received and sundry income	4,910	2,924
	<u>177,145</u>	<u>2,924</u>

#### 5. Operating Surplus

Operating surplus is stated after charging / (crediting):

	2021	2020
	£	£
Depreciation of tangible assets	3,633	14,732
Amortisation of investments	86,814	96,429
Release of bad debt provision (car loans)	(77)	(372)
Operating lease costs - land and buildings	7,200	7,200
Operating lease costs - other equipment	<u>3,441</u>	<u>2,679</u>

#### 6. Auditor's Remuneration

	2021	2020
	£	£
Fees payable for the audit of the financial statements (exclusive of VAT)	<u>17,500</u>	<u>15,500</u>

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 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:

	2021	2020
	No	No
Administrative staff	2	2
Management staff	1	1
	<u>3</u>	<u>3</u>

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

	2021	2020
	£	£
Wages and salaries	82,910	82,843
Social security costs	3,142	3,113
	<u>86,052</u>	<u>85,956</u>

#### 8. Directors' Remuneration

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

	2021	2020
	£	£
Remuneration	108,156	111,125
Social security costs	8,722	8,670
Expenses	1,950	1,475
	<u>118,828</u>	<u>121,270</u>

The above aggregate remuneration includes the Company's one executive Director (2020: 1) and nine non-executive Directors (2020: 9). The non-executive Directors are not involved in the daily management or operations of the Company.

#### 9. Tax on Surplus on Ordinary Activities

##### Major components of tax expense

	2021	2020
	£	£
<b>Current tax:</b>		
UK current tax expense	-	89,098
Adjustments in respect of prior periods	(1,107)	(1,499)
Total current tax	<u>(1,107)</u>	<u>87,599</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	114,704	38,021
Impact of change in tax rate	129,694	-
<b>Tax expense on surplus on ordinary activities</b>	<u>243,291</u>	<u>125,620</u>

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 9. Tax on Surplus on Ordinary Activities *(continued)*

##### Reconciliation of tax expense

The tax assessed on the surplus on ordinary activities for the year is the same as (2020: same as) the standard rate of corporation tax in the UK of 19% (2020: 19%).

	2021	2020
	£	£
Surplus on ordinary activities before taxation	977,572	702,221
Surplus on ordinary activities by rate of tax	185,739	133,422
Items not allowable for tax purposes	(12)	2,506
Exempt dividend income	(41,800)	(36,204)
Non-chargeable investment gains	27,661	-
Unrealised non-chargeable investment loss/(gains)	(56,884)	27,395
Effect of increase in tax rate (*)	129,694	-
Adjustments to tax charge in respect of previous periods	(1,107)	(1,499)
Tax expense on surplus on ordinary activities	243,291	125,620

(\*) Deferred tax in the current year has been provided for at a rate of 25% following the substantive enactment of the Finance Bill 2021 giving rise to an increase in the corporation tax rate from 1 April 2023.

#### 10. Dividends

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

	2021	2020
	£	£
Ordinary A shares at 22.30p (2020: 22.10p)	916	908
Ordinary B shares at £8.92 (2020: £8.84)	152	150
	1,068	1,058

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

	2021	2020
	£	£
Ordinary A shares at 23.25p (2020: 22.30p)	955	916
Ordinary B shares at £9.30 (2020: £8.92)	158	152
	1,113	1,068

# Methodist Chapel Aid Limited

## Notes to the Financial Statements (continued)

### Year Ended 31 December 2021

#### 11. Tangible Assets

	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
<b>Cost</b>				
At 1 January 2021	27,857	10,102	89,351	127,310
Additions			26,908	26,908
<b>At 31 December 2021</b>	<b>27,857</b>	<b>10,102</b>	<b>116,259</b>	<b>154,218</b>
<b>Depreciation</b>				
At 1 January 2021	27,857	9,749	81,852	119,458
Charge for the year		205	3,428	3,633
<b>At 31 December 2021</b>	<b>27,857</b>	<b>9,954</b>	<b>85,280</b>	<b>123,091</b>
<b>Net book value</b>				
<b>At 31 December 2021</b>	<b>-</b>	<b>148</b>	<b>30,979</b>	<b>31,127</b>
At 31 December 2020	-	353	7,499	7,852

#### 12. Investments

	Debt and fixed income securities £	Equity investments £	Total £
<b>Cost</b>			
At 1 January 2021	9,278,773	8,606,515	17,885,288
Additions	1,407,487	1,214,717	2,622,204
Disposals	(1,895,343)	(1,393,039)	(3,288,382)
Fair value adjustment	(256,664)	968,606	711,942
<b>At 31 December 2021</b>	<b>8,534,253</b>	<b>9,396,799</b>	<b>17,931,052</b>
<b>Amortisation</b>			
At 1 January 2021	231,281	-	231,281
Charge for year	86,814	-	86,814
Disposals	(120,148)	-	(120,148)
<b>At 31 December 2021</b>	<b>197,947</b>	<b>-</b>	<b>197,947</b>
<b>Net book value</b>			
<b>At 31 December 2021</b>	<b>8,336,306</b>	<b>9,396,799</b>	<b>17,733,105</b>
At 31 December 2020	9,047,492	8,606,515	17,654,007

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 12. Investments *(continued)*

The investments held at amortised cost have a market value of £4,230,638 (2020: £4,563,238) (including interest accrued of £10,503 (2020: £19,337)).

The investments held at fair value have a historical cost of £10,976,795 (2020: £11,129,261).

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 £557,000 (2020: £295,000) assuming a tax rate of 25% (2020: 19%).

During the year, the Company disposed/part disposed of 3 debt securities (2020: 17 debt securities), which had been held at amortised cost, as follows:

	2021 £	2020 £
Proceeds	1,403,047	4,183,941
Cost	(1,553,743)	(3,973,097)
Amortisation to date of sale	120,147	177,735
	<u>(30,549)</u>	<u>388,579</u>
Accrued interest at date of sale	-	(60,173)
Investment (losses)/gains on debt securities	<u>(30,549)</u>	<u>328,406</u>

#### 13. Debtors

##### Loans and advances to customers

	2021 £	2020 £
Loans and advances to customers	<u>7,197,340</u>	<u>7,314,586</u>

	At 31 Dec 2020 £	Advanced £	Repaid £	Transfer Secured/ Unsecured	Released/ (provided) £	At 31 Dec 2021 £
Property loans:						
Secured	6,141,270	1,205,210	(1,574,553)	69,000	-	5,840,927
Unsecured	<u>1,160,251</u>	<u>2,353,574</u>	<u>(2,098,473)</u>	<u>(69,000)</u>	-	<u>1,346,352</u>
Total	7,301,521	3,558,784	(3,673,026)	-	-	7,187,279
Car loans:						
Unsecured	<u>13,400</u>	<u>7,000</u>	<u>(10,081)</u>	-	-	<u>10,319</u>
	7,314,921	3,565,784	(3,683,107)	-	-	7,197,598
Bad debt provision	<u>(335)</u>	-	-	-	<u>77</u>	<u>(258)</u>
	<u>7,314,586</u>	<u>3,565,784</u>	<u>(3,683,107)</u>	-	<u>77</u>	<u>7,197,340</u>

Of the unsecured property loans shown above, £480,703 (2020: £55,000) 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.

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 13. Debtors *(continued)*

##### Analysis of maturity of loans and advances to customers

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

	2021	2020
	£	£
Due within 3 months	1,848	57,672
In more than 3 months but not more than 1 year	364,515	672,303
In more than 1 year but not more than 5 years	3,182,168	2,328,530
In more than 5 years	3,649,067	4,256,416
Less provision for bad debts	(258)	(335)
	<u>7,197,340</u>	<u>7,314,586</u>

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 or associated organisation. 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

	2021	2020
	£	£
Prepayments and accrued income	<u>71,600</u>	<u>74,764</u>

#### 14. Investments held for short term purposes

	2021	2020
	£	£
Funds held short term by Sarasin & Partners LLP for investment	<u>729,476</u>	<u>236,135</u>

#### 15. Liabilities

##### Customer Accounts

	2021	2020
	£	£
Customer accounts	<u>25,374,073</u>	<u>25,034,413</u>

Amounts standing to the credit of depositors:

	2021	2020
	£	£
At 1 January 2020	25,034,413	23,169,409
Received	2,633,102	4,483,678
Withdrawn	(2,293,442)	(2,618,674)
At 31 December 2021	<u>25,374,073</u>	<u>25,034,413</u>



**Methodist Chapel Aid Limited**  
**Notes to the Financial Statements** *(continued)*  
**Year Ended 31 December 2021**

**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:

	2021	2020
	£	£
In one year or less or repayable on demand	21,840,412	21,524,571
In more than one year but not more than two years	1,048,173	897,232
In more than two years	2,485,488	2,612,610
	<u>25,374,073</u>	<u>25,034,413</u>

**Other Liabilities**

	2021	2020
	£	£
Corporation tax	-	89,098
Other taxation and social security	8,079	8,237
Accruals and deferred income	56,060	69,736
	<u>64,139</u>	<u>167,071</u>

**16. Deferred Tax**

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

	2021	2020
	£	£
Included in provisions (note 17)	<u>540,391</u>	<u>295,993</u>

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

	2021	2020
	£	£
Excess of taxation allowances over depreciation of fixed assets	7,173	921
Provision for fair value adjustments to investments	557,033	295,072
Excess management charges	(23,815)	-
	<u>540,391</u>	<u>295,993</u>

**17. Provisions**

	Deferred tax (note 16) £
At 1 January 2021	295,993
Additions	114,704
Change in tax rates	129,694
At 31 December 2021	<u>540,391</u>

**Methodist Chapel Aid Limited**  
**Notes to the Financial Statements** *(continued)*  
**Year Ended 31 December 2021**

**18. Financial Instruments**

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

	2021 £	2020 £
<b>Financial assets</b>		
Financial assets measured at fair value through income or expenditure:		
- Investments	<u>13,599,666</u>	<u>13,407,647</u>
Financial assets that are debt instruments measured at amortised cost:		
- Investments	4,133,439	4,246,360
- Cash and balances at central banks	14,392,157	13,653,122
- Cash held in investment portfolio	729,476	236,135
- Loans and advances to customers:		
- Property loans	7,187,279	7,301,521
- Car loans	10,061	13,065
	<u>26,452,412</u>	<u>25,450,203</u>

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

**Financial liabilities**

Financial liabilities measured at amortised cost:

- Customer deposit accounts	<u>(25,374,073)</u>	<u>(25,034,413)</u>
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For all financial instruments measured at fair value, the basis for determining the fair value is the quoted market price in an active market.

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

**Credit Risk**

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 £4.1 million (2020: £2.9 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, £5.8 million (2020: £6.2 million) of the Company's £7.2 million (2020: £7.3 million) property loans were secured by legal charge (or equivalent) on church buildings or manses. In addition, for unsecured bridging loans (2021: £0.6 million, 2020: £0.1 million), the Company has obtained undertakings from the appropriate solicitors to repay the proceeds from sale of properties currently being marketed for sale. The remaining loans of £0.8 million (2020: £1.0 million) are generally smaller unsecured loans.

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 18. Financial Instruments *(continued)*

As at 31 December 2021 the Company had one secured loan (2020: 2 loans) and no unsecured loans (2020: 1 loan) which were neither past due nor impaired but for which capital repayment extensions had been agreed. The capital balance of this loan was £70,000 (2020: total £426,000). The interest has been received on a timely basis and scheduled capital repayments are expected to resume in 2022.

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

	As at 31 December 2021		As at 31 December 2020	
	Balance overdue	Balance of loans	Balance overdue	Balance of loans
	£	£	£	£
Up to 1 month overdue	5,815	148,778	17,276	224,000
Over 1 month overdue	-	-	-	-

The Company's property term loans are repayable in semi-annual instalments on 30 June and 31 December each year. The above 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 £258 (2020: £335) has been included in respect of the £10,319 (2020: £13,400) balance of unsecured car loans.

The Company has not taken possession of any collateral it holds as security for loans during 2021 (2020: 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 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 2021 was 6 months (2020: 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 2021 and at 31 December 2020 none of the treasury assets were past due or impaired.

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 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-realizable investments, sufficient to meet a demand for payment of all retail deposits repayable within 8 days, even under stressed scenarios.

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

	Total	Less than 1 month (*)	1 - 3 months	3 months to 1 year	1 to 5 years	More than 5 years
	£	£	£	£	£	£
<b>At 31 December 2021</b>						
Customer deposits	25,374,073	12,950,598	11,620,012	-	803,463	-
Other liabilities	64,139	64,139	-	-	-	-
	<b>25,438,212</b>	<b>13,014,737</b>	<b>11,620,012</b>	<b>-</b>	<b>803,463</b>	<b>-</b>
<b>At 31 December 2020</b>						
Customer deposits	25,034,413	13,083,849	11,147,101	-	803,463	-
Other liabilities	167,071	77,973	-	89,098	-	-
	<b>25,201,484</b>	<b>13,161,822</b>	<b>11,147,101</b>	<b>89,098</b>	<b>803,463</b>	<b>-</b>

(\*) 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.

##### 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.

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

**Year Ended 31 December 2021**

### 18. Financial Instruments *(continued)*

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 2021 (2020: 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 Company's interest-bearing assets is computed back to a net present value.

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

	2021 £'000	2020 £'000
Net present Value Sensitivity to:		
Positive Shift (+2%)	-568	-569
Negative Shift (-2%)	685	691

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 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:

	2021 £'000	2020 £'000
Reduction in surplus	76	82

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.

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 18. Financial Instruments *(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; and
- 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 £2.3 million (2020: £2.2 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 2021 (and 2020).

#### 19. Called Up Share Capital

##### **Issued, called up and fully paid**

	2021		2020	
	Number	£	Number	£
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
	<u>4,125</u>	<u>1,197</u>	<u>4,125</u>	<u>1,197</u>

# Methodist Chapel Aid Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 December 2021

#### 20. Operating Leases

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

	2021	2020
	£	£
Not later than 1 year	10,595	10,595
Later than 1 year and not later than 5 years	13,671	24,266
Later than 5 years	-	-
	<u>24,266</u>	<u>34,861</u>

#### 21. Analysis of Changes in Net Debt

	At 1 Jan 2021	Cash flows	At 31 Dec 2021
	£	£	£
<i>Cash and cash equivalents</i>			
Cash at bank and in hand	13,653,122	739,035	14,392,157
Short term liquid investments	236,135	493,341	729,476
	<u>13,889,257</u>	<u>1,232,376</u>	<u>15,121,633</u>
<i>Borrowings</i>			
Debt due within one year	-	-	-
Total	<u>13,889,257</u>	<u>1,232,376</u>	<u>15,121,633</u>

#### 22. 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% (2020: 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.

#### 23. Events after the Reporting Period

The Russian invasion of Ukraine in February 2022 has led to significant volatility in the global stock markets. This has affected the Company's investment portfolio, resulting in total net realised and unrealised losses before tax of £815,544 in the period between the year-end and 22 February 2022. The total value of the investment portfolio at 22 February 2022 on an FRS102 basis was £17,138,893.

#### 24. 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.

#### 25. Controlling Party

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