

COMPANY REGISTRATION NUMBER: 30546

Methodist Chapel Aid Limited
Financial Statements
For the Year Ended
31 December 2016



BEEVER AND STRUTHERS
Chartered Accountant & Statutory Auditor
St. George's House
215 - 219 Chester Road
Manchester
M15 4JE

Methodist Chapel Aid Limited

Financial Statements

Year Ended 31 December 2016

Contents	Page
Officers and Professional Advisers	1
Chair's Statement	2
Strategic Report	4
Directors' Report	16
Independent Auditor's Report to the Shareholders	19
Statement of Income and Retained Earnings	21
Statement of Financial Position	22
Statement of Cash Flows	23
Notes to the Financial Statements	24

Methodist Chapel Aid Limited

Officers and Professional Advisers

The Board of Directors

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

Chief Executive

A Christopher Jarratt BSc (Hons) FCA

Company Accountant and Company Secretary

Steven R Jones BA (Hons) FCCA

Registered Office

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Website

www.mcafundingforchurches.co.uk

Regulators

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

Auditor

Beever and Struthers
Chartered Accountant & Statutory Auditor
St. George's House
215 - 219 Chester Road
Manchester
M15 4JE

Bankers

HSBC Bank Plc
13 Parliament Street
York
YO1 8XS

Solicitors

Harrowells
1 St Saviourgate
York
YO1 8ZQ

Methodist Chapel Aid Limited

Chair's Statement

Year Ended 31 December 2016

Economic background

The economic environment in the UK has remained uncertain, although broadly encouraging, during 2016, with the FTSE 100 closing the year at a record high. The Bank of England base rate was reduced to 0.25% in August 2016.

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 2016 the Company has operated successfully and within its regulatory requirements. Once again the two most significant indicators of the Company's long term sustainability, namely adequate capital and sufficient liquidity, have proved to be very robust.

Capital adequacy

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

The Board's policy for many years has been to enhance its capital base by producing an annual operating surplus of approximately £100,000 prior to taking into account capital movements on the investment portfolio. This policy and practice has ensured that the Company's capital base has continued to grow each year and so has stayed well ahead of the minimum required by the regulators. This trend has continued in 2016 and the Strategic Report gives details of the further enhancement achieved in the Company's capital base.

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

Liquidity

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

The Company's Vision

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

Loans

The implementation of the re-branding project in 2015, using the 'MCA Funding for Churches' logo in promoting its loan services to all churches and associated organisations, together with the Company's advertising and marketing strategy, have continued to bring an increase in the Company's committed lending. The level of loans, both drawn and undrawn has grown significantly during the year. This increase can be seen in the graph of lending shown in the Loans section of the Strategic Report.

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

Non-Methodist (primarily Church of England) property loans now account for 42% of the total committed lending, demonstrating the success of this initiative to date. In the case of some larger loans approved, these have not yet been advanced, mainly as a result of external factors such as planning permission taking longer than was originally anticipated. Several such large loans are expected to be advanced during the first half of 2017.

Methodist Chapel Aid Limited

Chair's Statement *(continued)*

Year Ended 31 December 2016

Deposits

Monies held on deposit with the Company remained largely unchanged during 2016, in line with the Board's strategy which is to maintain deposits at appropriate levels to support the Company's lending activities and manage the associated risks.

Interest Rates

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

Interest rates generally have remained low throughout 2016 and the Bank of England reduced the base rate by a further 0.25% in August 2016. Following this, the Company announced a cut in interest rates for both borrowers and depositors. It seems likely that such pressures will continue to be felt during most if not the whole of 2017. However, the Company aims to remain competitive and to provide a high quality of service to its customers.

Strategic Planning

An element of the Company's governance policy and practice is for the Directors to meet informally on a regular basis to review strategic issues in more depth. This practice continued in 2016 with an event covering issues such as policy development, sustainable lending growth, advertising and marketing and to ensure that the organisation adapts as appropriate to changing economic times. The 2016 strategic meeting also included an internal review of the Board's skills, expertise and its succession planning. This range of issues will be developed further during 2017.

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

Regulatory issues

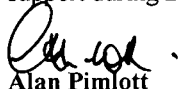
The Board is liaising closely with the regulators in relation to several new regulatory initiatives which become effective in 2017 and beyond. Whilst the new demands being made on institutions within the industry are significant, the Company is confident of fulfilling its obligations in this respect.

The Board

During 2016 there were no changes to the membership of the Board, and a continuing system of retirement and re-appointment of Directors by rotation remained fully operational. I wish to thank the Directors for their commitment to the Company.

The Staff

On behalf of the Board I would like to thank the Company's loyal and dedicated staff for their hard work and support during 2016.



Alan Pimlott

Chair

11 January 2017

Methodist Chapel Aid Limited

Strategic Report

Year Ended 31 December 2016

The Directors have pleasure in presenting their Strategic Report of the Company for the year ended 31 December 2016.

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

Board Strategy for the Company

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

Since 2011 the Board has undertaken a comprehensive review of the Company's structure and strategy including the development of its Strategic Business Plan (SBP), a rolling 5-Year Plan setting out the Company's immediate and medium term plans to meet its objectives. This takes account of the economic context in which the Company operates as a bank taking deposits and making loans with regulatory responsibilities underlying its key functions.

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

a) Governance Review

In 2011 the Board appointed an external firm to perform an independent review of the Board, including its membership, structure and operation. The fundamental recommendations were implemented during the period from 2011 to 2014 and continue to be reviewed.

These have included changes to the way in which the Board itself functions and involved a recruitment programme – the key outcomes including the refreshing of the Board with over 75% being new members appointed since December 2010, and the appointment of new non-executive Directors who have specialist skills and knowledge in key areas (e.g. investment management). In addition, the Audit and Risk Committee has been given a wider role and a Nomination Committee has been established to focus on recruitment of Directors and senior management, advertising, induction training and remuneration.

The Board has continued to review its effectiveness during 2016 and ongoing work includes formalisation of succession planning and diversity strategy. These will be developed further during 2017.

b) Company Model

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

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

c) Shareholdings

The Company's Memorandum and Articles of Association were updated in April 2015 to include the relevant changes in company law, and again in April 2016 to remove the financial liability on the partly-paid shares and to clarify the rights of the shareholders in the event of the Company being wound up.

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

d) Rebranding

As the Company widened its work in recent years to include other Christian denominations, further consideration was given as to how best to reflect that diversification and focus. The Company is often referred to internally as "MCA" and consequently the re-branding project developed the logo and website on this basis. This was formally launched at the AGM in April 2015, together with the updated website, as part of the ongoing advertising and marketing strategy.

e) Advertising & Marketing

The Board has set an immediate objective to develop its communication among the churches in new and contemporary ways; a more pro-active marketing strategy is being implemented.

Significant progress has been made in actively promoting the Company's loan services both to Methodist churches and to other denominations. The Company has also appointed a non-executive Director with a marketing role which has been and will continue to be of great assistance in the execution of this strategy.

f) Lending Policy

A key aim of the strategy is to promote the Company outside of the Methodist Church, primarily to the larger denominations and organisations a balance will be kept so that the optimum lending levels are identified and monitored in line with its advertising policy and plans. The level of loans, both drawn and undrawn, has grown significantly during 2016 in line with this strategy and Non-Methodist property loans now account for 42% of the total committed lending, demonstrating the success of this initiative to date.

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

g) Sustainability Plans

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

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

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

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

Strategy for 2017 and beyond

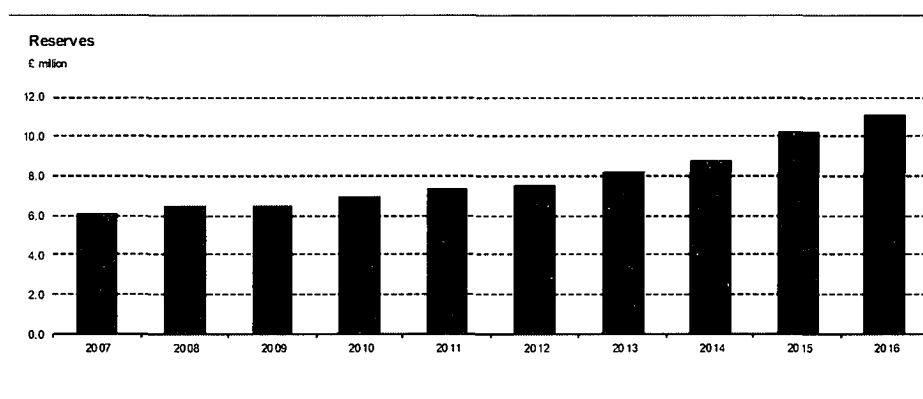
The Board's key aims for 2017 and beyond are to increase the Company's loan book in a measured way to around £6 million by 2020 (although there remains the capacity for this figure to increase in line with demand), and to widen the Company's support for non-Methodist projects. However, the Board is clear that this planned growth should only be achieved from high-quality loan applications which satisfy the Company's risk assessment process. Internal limits (e.g. by borrower, denomination) are closely monitored within the Company's lending policy.

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

Overall Performance in 2016

During 2016 an operating surplus of £138,270 was achieved, £41,270 higher than that budgeted at the start of the year. This was largely as a result of higher than expected income from special dividends.

As a consequence of this operating surplus, and movements in investments and the provision for deferred tax, the Company's reserves have risen by £756,687 during 2016. The graph below shows the increasing capital over the past ten years:



The Company's Return on Assets for the year ended 31 December 2016 was 2.3% (2015: 0.6%). This reflects the current strength in the equity markets.

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

Loans

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

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

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

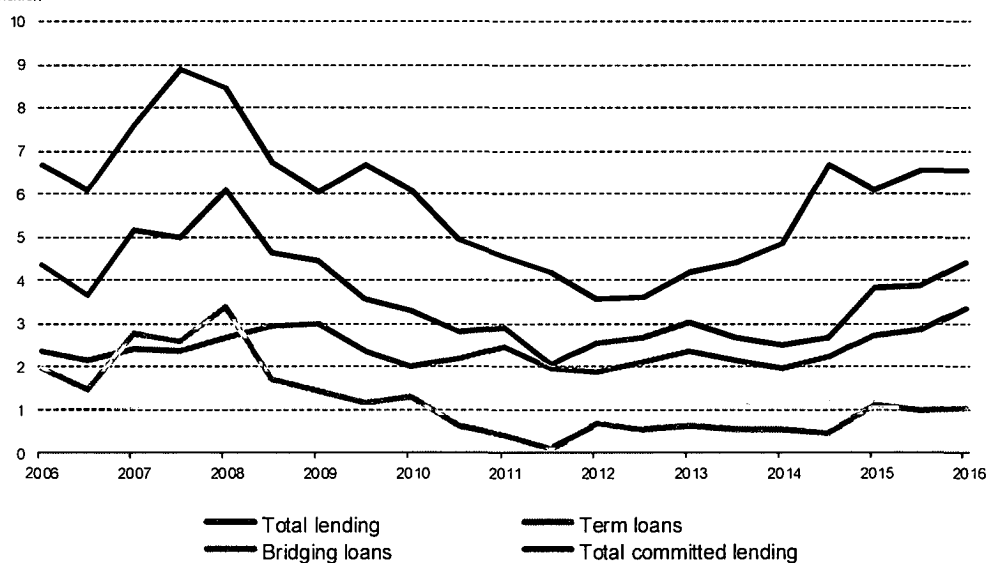
	Amount £m			Number of loans		
	2014	2015	2016	2014	2015	2016
Loans balances at year end						
Term loans	2.0	2.6	3.4	31	26	31
Bridging loans	0.2	0.5	0.8	1	3	3
	2.2	3.1	4.2	32	29	34
Car loans	0.2	0.1	0.1	33	28	25
Total	2.4	3.2	4.3	65	57	59
Undrawn loans at year end	2.5	3.2	2.6	6	11	11
	4.9	6.4	6.9	71	68	70
Loan advances during year						
Property loans	0.9	3.6	4.3	11	17	25
Car loans	0.1	0.0	0.1	13	6	8
	1.0	3.6	4.4	24	23	33

The benefits of the Company's ongoing advertising and marketing strategy are continuing to be realised with a 36% increase in property loan balances during 2016. This is shown in the graph below. In addition, enquiries have been made about loan facilities for some further significant projects and preliminary discussions have already taken place to assess their feasibility.

With regard to interest rates, those charged by the Company for property loans were reduced by 0.25% with effect from 1 October 2016, following the Bank of England Base rate reduction in August. The standard rate is 2.92% APR for term loans of above £25,000 and 3.94% APR for bridging loans. The Company's rate for car loans has remained at 5.00% APR fixed with a 0.5% discount incentive for car loan applicants who choose to purchase a car with low carbon dioxide emissions, i.e. one which falls within bands A to F of the government's car tax banding system.

Total lending to Christian churches and associated organisations

£ million



Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

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. As a result, from May 2016 the opening of new accounts was temporarily restricted to existing customers only.

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

The Company always seeks to ensure that every deposit is kept safe, and that as far as practicable it generates a competitive level of return. The Board has sought to protect as far as possible the interest rates paid to depositors.

The Company's participation in the Financial Services Compensation Scheme, which guarantees £75,000 (£85,000 from 30 January 2017) of each eligible depositor's savings in the event of the failure of the Company, has enabled customers to continue to deposit with confidence.

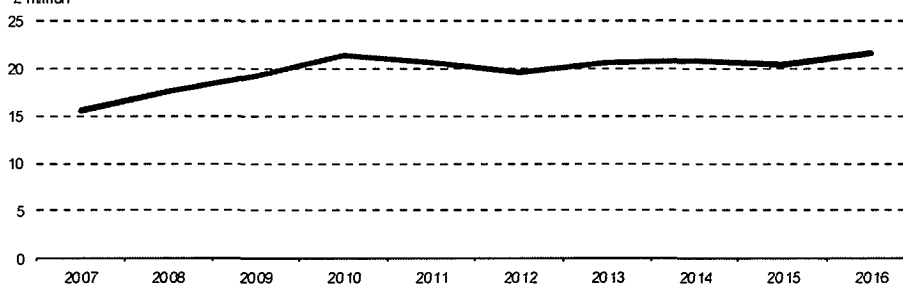
The amount held on deposit with the Company remained relatively stable during the year in line with the Board's strategy, with the total as at 31 December 2016 being £21,572,515. Withdrawals during the year represented 12% of the balance of deposits at the start of the year and new deposits amounted to 17%.

The Company saw 30 new savings accounts opened during the year. The total number of accounts held with the Company totalled 3,303 as at 31 December 2016 (3,383 in 2015 and 3,470 in 2014). The total amount held on deposit as at 31 December 2016 included 31% held in Premium Plus Accounts, 26% in ISAs and 11% in Child Trust Fund (CTF) Accounts.

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

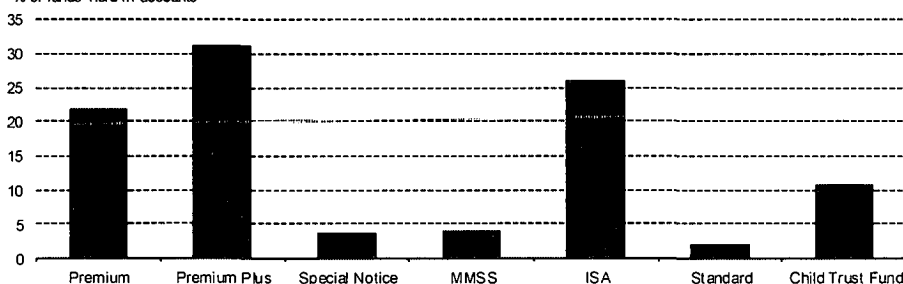
Deposits at year end

£ million



Account Types at year end

% of funds held in accounts



Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

Investments

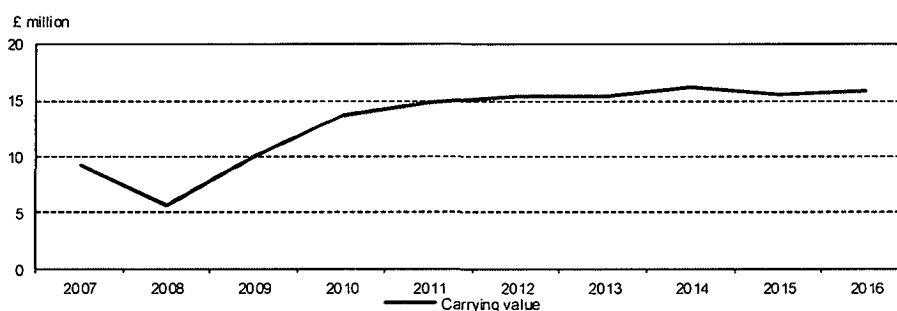
The Company holds an investment portfolio to generate income and long term capital growth to support its primary purpose of lending to Christian churches and associated organisations for property projects at the lowest practicable rates. This portfolio is carefully managed within Board-approved limits.

As at 31 December 2016 the total carrying value of equity shares and debt securities amounted to £15,868,251 (2015: £15,442,876). This comprised £3,213,676 (2015: £3,248,799) dated treasury stocks, £2,768,351 (2015: £2,898,008) commercial loan stocks, £1,958,414 (2015: £1,846,172) bond funds and £7,927,810 (2015: £7,449,897) equity shares and similar investments. In addition, the Company held £12,174,432 of cash and deposits with other UK financial institutions (2015: £11,994,728).

A provision for the amortisation of the premium of dated treasury and commercial loan stocks was made amounting to £52,449 for the year. 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 £202,636.

There was a positive fair value adjustment to the Company's investment portfolio in the year of £666,013 (2015: negative adjustment of £104,335) which is shown in the Statement of Income and Retained Earnings. The increase in the total market value of the investments is shown in the graph below.

Investments at year end



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

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

Ethical Investing Policy

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

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

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

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

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

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

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 2016 and calculated that in addition to the minimum requirement of €5 million a further £3.321 million of capital should be retained as a buffer against future stresses on the Company’s capital resources, although there has never been a need to call upon this buffer. Even after making this allowance and including regulatory deductions, there remained substantial headroom above the combined €5 million and buffer threshold.

Looking ahead, the Board has budgeted for an operating surplus in 2017 of approximately £133,000.

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

Risk Appetite Statement

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

Principal Risks

The principal risks faced by the Company are:

Business Risk

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

Risk Appetite

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

Mitigation

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

The risk that the 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 the Company does not have sufficiently stable and diverse sources of funding, or that the funding structure is inefficient.

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

Risk Appetite

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

a) Internal measurement

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

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

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

b) Liquidity coverage ratio (LCR)

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

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

Risk Appetite

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

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

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

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

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

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

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

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

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

Mitigation

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

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

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

Operational and Regulatory Risk

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

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

Risk Appetite

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

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

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

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

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

Mitigation

The Company undertakes the following:

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

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

Credit Risk

The risk of a reduction in earnings and/or capital, 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).

Risk Appetite

Credit Risk (wholesale markets):

The Company will not engage in wholesale deposit lending other than with UK interbank counterparties with strong long term credit ratings (minimum Moody's rating of Baa2 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.

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

Mitigation

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

Credit Risk (retail markets):

The Company lends to Christian churches and organisations within the UK only and the total balance on loan at any time is restricted to an internally imposed guideline of 50% 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 legal charge and for loans up to £60,000 a declaration from the trustees of the church is obtained. 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 £10,000 per individual.

Mitigation

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

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

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.

Risk Appetite

The Company's target is to maintain its capital resources at a level which is increasingly above the €5 million plus £3.321m (subject to review) to cover potential stresses as identified in the Company's 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 was approved by the Board and in response to which the PRA felt able to issue Individual Capital Guidance (ICG) to the Company.

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

Remuneration Risk

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

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

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

Pillar 3 disclosures

A fuller description of these risks and controls can also be found in the Company's Pillar 3 Disclosure Statements for the year ending 31 December 2016. These disclosures are published in the Financial Information section of the Company's website: <https://www.mcafundingforchurches.co.uk/financial-information>.

Treatment of Customers

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

In the final quarter of 2016 the Board sent out a further Customer Satisfaction Survey to a proportion of its depositors, borrowers with property loans and borrowers with car loans.

For the two questions analysed by the Company the results have been as follows. A 6 point score total was used, 6 being the best score. None of the 58 replies received implied concern by using scores 1 to 3.

Methodist Chapel Aid Limited

Strategic Report *(continued)*

Year Ended 31 December 2016

Customer survey satisfaction results:

	Depositors	Borrowers with property loans	Borrowers with car loans
Level of satisfaction with documentation provided by MCA (out of 6)			
(a) clarity and conciseness of content	5.5	5.6	5.6
(b) quality of presentation	5.5	5.5	5.6
Level of satisfaction with communication and assistance provided by MCA (out of 6)			
(a) before the account was opened	5.7	5.8	5.8
(b) after the account was opened	5.6	5.7	5.3

No complaints were received from customers during 2016.



Signed by order of the Directors

Steven R Jones BA (Hons) FCCA
Company Secretary

Registered office:
1 Telford Terrace, Albemarle Road, York, YO24 1DQ
Approved by the Directors on 21 February 2017

Methodist Chapel Aid Limited

Directors' Report

Year Ended 31 December 2016

The Directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 December 2016.

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 (2015: Ordinary shares of £10 each, 25 pence paid)		Amounts held on deposit	
	At 31 Dec 2016 No.	At 31 Dec 2015 No.	At 31 Dec 2016 £	At 31 Dec 2015 £
G Alan Pimlott	143	143	39,279	-
Revd James A Booth	-	-	-	-
D Jeremy M Burchill	200	200	-	-
Rt Revd Paul J Ferguson	-	-	-	-
Peter J Forward	200	200	-	-
A Christopher Jarratt	48	48	-	-
Anne F Goodman	-	-	-	-
Peter A Mills	175	175	-	-
Andrew C Slim	166	166	40,812	40,302
	<u>932</u>	<u>932</u>	<u>80,091</u>	<u>40,302</u>

Corporate Governance

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

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

The Company has an Audit and Risk Committee, consisting of four non-executive Directors (Mr D Jeremy M Burchill, Chair, Revd James A Booth, Mrs Anne F Goodman and Mr Peter A Mills), which meets at least three times annually and ensures that the recommendations of the Prudential Regulation Authority, the Financial Conduct Authority and the external auditors are considered in full and implemented, where appropriate. It also oversees the work and considers the reports of the Company's internal audit function, reviewing the implementation of its recommendations where appropriate, and considers the effectiveness of internal controls. To comply with the requirements of legislation and to ensure prudent management of the business, the Company has established a range of internal controls, which have operated effectively throughout the year.

Methodist Chapel Aid Limited

Directors' Report *(continued)*

Year Ended 31 December 2016

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

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

Supervision

The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Throughout the year Methodist Chapel Aid 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 20.45 pence per fully paid A share and £8.18 per fully paid B share of the Company, payable on 30 April 2017. (Detailed in note 10 of the financial statements).
- Mr D J M Burchill, Rt Revd P J Ferguson and Mr P A Mills retire by rotation and, being eligible, offer themselves for re-election for a three year term.
- The independent auditor, Beever and Struthers, has indicated its willingness to continue in office and its appointment for 2017 is proposed.

Donations

During the year the Company made the following contributions:

	2016	2015
	£	£
Charitable	<u>15,000</u>	<u>9,000</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 judgments 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Methodist Chapel Aid Limited

Directors' Report *(continued)*

Year Ended 31 December 2016

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

In so far as the Directors are aware:

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

Signed by order of the Directors



Steven R Jones BA (Hons) FCCA
Company Secretary

Registered office:

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

Approved by the Directors on 21 February 2017

Methodist Chapel Aid Limited

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

Year Ended 31 December 2016

We have audited the financial statements of Methodist Chapel Aid Limited for the year ended 31 December 2016 which comprise the statement of income and retained earnings, statement of financial position, statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the strategic report and the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its surplus 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.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- 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.

Methodist Chapel Aid Limited

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

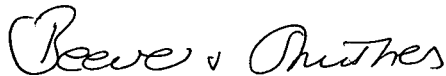
Year Ended 31 December 2016

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 where 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.



Caroline Monk (Senior Statutory Auditor)

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

For and on behalf of
Beever and Struthers
Chartered Accountant & Statutory Auditor

21 February 2017

Methodist Chapel Aid Limited
Statement of Income and Retained Earnings
Year Ended 31 December 2016

	Note	2016 £	2015 £
Interest receivable - on loans	3	140,331	116,995
Interest receivable - on debt securities	3	329,862	339,746
Interest receivable - on National Savings and bank deposits	3	89,504	99,184
Interest payable - to depositors		(263,234)	(249,424)
Interest payable - amortisation of debt securities	12	(52,449)	(48,086)
Dividend income from equity shares		287,571	323,660
Investment gains on debt securities		24,643	5,433
Fees and commissions payable		(66,220)	(65,282)
Other operating income	4	3,925	6,318
Administrative expenses - staff costs	7&8	(179,379)	(201,892)
Administrative expenses - other		(162,246)	(154,754)
Depreciation	11	(14,038)	(20,261)
Operating surplus	5	138,270	151,637
Fair value adjustment to investments	12	666,013	(104,335)
Surplus on ordinary activities before taxation		804,283	47,302
Tax on surplus on ordinary activities	9	(46,629)	125,133
Surplus for the financial year and total comprehensive income		757,654	172,435
Dividends paid and payable	10	(967)	(958)
Retained earnings at the start of the year		10,313,628	10,142,151
Retained earnings at the end of the year		<u>£11,070,315</u>	<u>£10,313,628</u>

All the activities of the Company are from continuing operations.

The notes on pages 24 to 39 form part of these financial statements.

Methodist Chapel Aid Limited

Statement of Financial Position

31 December 2016

	Note	2016 £	2015 £
Assets			
Tangible fixed assets	11	66,102	63,787
Investments	12	15,868,251	15,442,876
Cash and bank balances		12,174,432	11,994,728
Loans and advances to customers	13	4,295,209	3,191,561
Prepayments, accrued income and other assets	13	92,648	105,734
Investments held for short term purposes	14	476,027	323,016
Total Assets		<u>32,972,669</u>	<u>31,121,702</u>
Liabilities			
Customer Accounts	15	21,572,515	20,510,677
Other Liabilities	15	88,824	95,286
Total Liabilities		<u>21,661,339</u>	<u>20,605,963</u>
Provisions			
Taxation including deferred tax	16	239,818	200,914
Net Assets		<u>£11,071,512</u>	<u>£10,314,825</u>
Shareholders' Funds			
Called up equity share capital	19	1,197	1,197
Reserves		11,070,315	10,313,628
		<u>£11,071,512</u>	<u>£10,314,825</u>

These financial statements were approved by the Board of Directors and authorised for issue on 21 February 2017, and are signed on behalf of the Board by:

G A Pimlott - Chair

P A Mills - Director

A C Jarratt - Director

Company registration number: 30546

The notes on pages 24 to 39 form part of these financial statements.

Methodist Chapel Aid Limited

Statement of Cash Flows

Year Ended 31 December 2016

	2016 £	2015 £
Cash flows from operating activities		
Surplus for the financial year	757,654	172,435
<i>Adjustments for:</i>		
Depreciation of tangible assets	14,038	20,261
Amortisation of investments	52,449	48,946
Fair value adjustment to investments	(666,013)	104,335
Tax on surplus on ordinary activities	46,629	(125,133)
Accrued (income)/expenses	(4,972)	(14,601)
<i>Changes in:</i>		
Trade and other debtors	13,086	(18,656)
Trade and other creditors	(9,215)	325
Loans advanced to customers	(1,103,648)	(804,497)
Customer accounts	1,061,838	(232,756)
Cash generated from operations	161,846	(849,341)
Tax paid	-	(77,473)
Net cash (used in)/from operating activities	161,846	(926,814)
Cash flows from investing activities		
Purchase of tangible assets	(16,353)	(56,362)
Purchase of investments	(3,763,534)	(4,052,313)
Proceeds from sale of investments	3,951,723	4,170,777
Net cash from investing activities	171,836	62,102
Cash flows from financing activities		
Dividends paid	(967)	(958)
Net cash used in financing activities	(967)	(958)
Net increase/(decrease) in cash and cash equivalents	332,715	(865,670)
Cash and cash equivalents at beginning of year	12,317,744	13,183,414
Cash and cash equivalents at end of year	£12,650,459	£12,317,744
Consisting of		
Cash	12,174,432	11,994,728
Short term liquid investments	476,027	323,016
Cash and cash equivalents at end of year	£12,650,459	£12,317,744

The notes on pages 24 to 39 form part of these financial statements.

Methodist Chapel Aid Limited

Notes to the Financial Statements

Year Ended 31 December 2016

1. General Information

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

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

2. Accounting Policies

Statement of Compliance

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

Basis of Preparation

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

Going Concern

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

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

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

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 2016

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 carrying value of investments at fair value through income and expenditure. In determining this, the Company applies the overriding concept that the fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction. The nature, facts and circumstances of the investment derives the valuation methodology. Listed investments are valued at the quoted bid price at the reporting date.
- Determination of recoverability of loans made to customers. A specific provision is made against loans, where, in the opinion of the Directors, the loan is not fully recoverable. A general provision is made against those unsecured advances which have not been specifically identified as impaired, but where the Company's experience and the general economic climate indicate that losses may ultimately be realised.

Significant judgements

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

- Determination of whether leases entered into by the Company as lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determination of whether there are indicators of impairment of the Company's tangible fixed assets including investments. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

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.

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

2. Accounting Policies *(continued)*

Other income and expenses

Other income and expenses are recognised on an accruals basis.

Income Tax

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

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

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

Operating Leases

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

Tangible Assets

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

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.

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

2. Accounting Policies *(continued)*

Impairment of Fixed Assets

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

Provisions

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

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

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.

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

2. Accounting Policies *(continued)*

Financial Instruments *(continued)*

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

Cash and Cash Equivalents

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

3. Income

Income arises from interest receivable on customer accounts 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

	2016	2015
	£	£
Loan administration fees and sundry income	<u>3,925</u>	<u>6,318</u>

5. Operating Surplus

Operating surplus is stated after charging / (crediting):

	2016	2015
	£	£
Depreciation of tangible assets	14,038	20,261
Amortisation of investments	52,449	48,086
Fair value movement on investments	(660,013)	104,335
Release of bad debt provision (car loans)	(85)	(1,020)
Operating lease costs - land and buildings	6,500	6,500
Operating lease costs - other equipment	<u>1,196</u>	<u>1,672</u>

6. Auditor's Remuneration

	2016	2015
	£	£
Fees payable for the audit of the financial statements	<u>12,000</u>	<u>9,162</u>
Fees payable to the Company's auditor and its associates for other services:		
Other non-audit services	<u>5,871</u>	<u>6,723</u>

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

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:

	2016	2015
	No	No
Administrative staff	2	2
Management staff	1	2
	<u>3</u>	<u>4</u>

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

	2016	2015
	£	£
Wages and salaries	74,686	115,783
Social security costs	6,345	10,072
	<u>81,031</u>	<u>125,855</u>

The administrative staff comprises 3 part-time employees. On 21 April 2015 Chris Jarratt, the Chief Executive was appointed to the Board. Therefore, from this date, he has not been included within the 'management staff' in the figures above and his payroll costs have been included within Directors' Remuneration in note 8.

8. Directors' Remuneration

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

	2016	2015
	£	£
Remuneration	90,874	70,669
Social security costs	7,474	5,368
Expenses	8,359	8,383
	<u>106,707</u>	<u>84,420</u>

Chris Jarratt was appointed to the Board on 21 April 2015 and his remuneration is included in the above total from this date (previously included in staff costs).

9. Tax on Surplus on Ordinary Activities

Major components of tax (income)/expense

	2016	2015
	£	£
Current tax:		
UK current tax expense	7,725	—
Adjustments in respect of prior periods	—	(1,844)
Total current tax	<u>7,725</u>	<u>(1,844)</u>
Deferred tax:		
Origination and reversal of timing differences	38,904	(123,289)
Tax on surplus on ordinary activities	<u>46,629</u>	<u>(125,133)</u>

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

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

Reconciliation of tax (income)/expense

The tax assessed on the surplus on ordinary activities for the year is the same as (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%).

	2016	2015
	£	£
Surplus on ordinary activities before taxation	804,283	47,302
Surplus on ordinary activities by rate of tax	160,857	9,579
Items not allowable for tax purposes	–	(7,977)
Capital allowances in excess of depreciation	(760)	(7,675)
Exempt dividend income	(57,514)	(65,541)
Fair value adjustment not taxable	(84,357)	7,849
Chargeable gains	(9,390)	60,851
Increase/(decrease) in losses/utilisation of charges on income	(1,111)	2,948
Adjustments to tax charge in respect of previous periods	–	(1,844)
Marginal relief/effect of reduced rates of tax	–	(34)
Tax on surplus on ordinary activities	7,725	(1,844)

10. Dividends

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

	2016	2015
	£	£
Ordinary A shares at 20.20p (2015: 20.00p)	830	822
Ordinary B shares at £8.08 (2015: £8.00)	137	136
	967	958

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

	2016	2015
	£	£
Ordinary A shares at 20.45p (2015: 20.20p)	840	830
Ordinary B shares at £8.18 (2015: £8.08)	139	137
	979	967

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

11. Tangible Assets

	Leasehold improvements £	Office equipment £	Computer equipment £	Total £
Cost				
At 1 January 2016	27,857	21,928	160,093	209,878
Additions	-	236	16,117	16,353
Disposals	-	(7,326)	(86,389)	(93,715)
At 31 December 2016	<u>27,857</u>	<u>14,838</u>	<u>89,821</u>	<u>132,516</u>
Depreciation				
At 1 January 2016	27,835	20,907	97,349	146,091
Charge for the year	7	596	13,435	14,038
Disposals	-	(7,326)	(86,389)	(93,715)
At 31 December 2016	<u>27,842</u>	<u>14,177</u>	<u>24,395</u>	<u>66,414</u>
Carrying amount				
At 31 December 2016	<u>15</u>	<u>661</u>	<u>65,426</u>	<u>66,102</u>
At 31 December 2015	<u>22</u>	<u>1,021</u>	<u>62,744</u>	<u>63,787</u>

Capital commitments

	2016 £	2015 £
Contracted but not provided for in the financial statements	-	4,140

12. Investments

	Debt and fixed income securities £	Equity investments £	Total £
Cost			
At 1 January 2016	8,146,763	7,449,897	15,596,660
Additions	252,168	3,511,366	3,763,534
Disposals	(368,096)	(3,587,224)	(3,955,320)
Fair value adjustment	112,242	553,771	666,013
At 31 December 2016	<u>8,143,077</u>	<u>7,927,810</u>	<u>16,070,887</u>
Amortisation			
At 1 January 2016	153,784	-	153,784
Disposals	(3,597)	-	(3,597)
Charge for year	52,449	-	52,449
At 31 December 2016	<u>202,636</u>	<u>-</u>	<u>202,636</u>
Carrying amount			
At 31 December 2016	<u>7,940,441</u>	<u>7,927,810</u>	<u>15,868,251</u>
At 31 December 2015	<u>7,992,979</u>	<u>7,449,897</u>	<u>15,442,876</u>

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

12. Investments *(continued)*

The investments held at amortised cost have a market value of £6,636,682 (2015: £6,588,057) (including interest accrued of £41,850 (2015: £43,127))

The investments held at fair value have a historical cost of £8,418,200 (2015: £8,274,994).

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 £220,000 (2015: £165,000) assuming a tax rate of 20% (2015: 20%)

13. Debtors

Loans and advances to customers

	2016		2015	
	£		£	
Loans and advances to customers	<u>4,295,209</u>		<u>3,191,561</u>	

	At 31 Dec 2015	Advanced	Repaid	Released/ (provided)	At 31 Dec 2016
	£	£	£	£	£
Property loans - secured	2,434,860	2,616,453	(1,519,280)	-	3,532,033
Property loans - unsecured	<u>633,303</u>	<u>1,665,575</u>	<u>(1,655,812)</u>	-	<u>643,066</u>
Property loans - total	3,068,163	4,282,028	(3,175,092)	-	4,175,099
Car loans - unsecured	<u>126,563</u>	<u>62,039</u>	<u>(65,412)</u>	-	<u>123,190</u>
	3,194,726	4,344,067	(3,240,504)	-	4,298,289
Provision for bad debts	<u>(3,165)</u>	-	-	85	<u>(3,080)</u>
	<u>3,191,561</u>	<u>4,344,067</u>	<u>(3,240,504)</u>	85	<u>4,295,209</u>

Analysis of maturity of loans and advances to customers

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

	2016	2015
	£	£
Due within 3 months	9,959	29,650
In more than 3 months but not more than 1 year	1,183,851	804,253
In more than 1 year but not more than 5 years	1,241,379	990,155
In more than 5 years	1,863,100	1,370,668
Less provision for bad debts	<u>(3,080)</u>	<u>(3,165)</u>
	<u>4,295,209</u>	<u>3,191,561</u>

Property loans above £60,000 are secured in accordance with the Company's approved policies.

Prepayments, accrued income and other assets

	2016	2015
	£	£
Prepayments and accrued income	<u>92,648</u>	<u>105,734</u>

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

14. Investments held for short term purposes

	2016	2015
	£	£
Funds held short term by Sarasin and Partners for investment	<u>476,027</u>	<u>323,016</u>

15. Liabilities

Customer Accounts

	2016	2015
	£	£
Customer accounts	<u>21,572,515</u>	<u>20,510,677</u>

Amounts standing to the credit of depositors:

	2016	2015
	£	£
At 1 January 2016	20,510,677	20,743,433
Received	3,581,999	3,000,279
Withdrawn	<u>(2,520,161)</u>	<u>(3,233,035)</u>
At 31 December 2016	<u>21,572,515</u>	<u>20,510,677</u>

Analysis of maturity of customer accounts

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

	2016	2015
	£	£
In one year or less or repayable on demand	18,446,709	17,506,873
In more than one year but not more than two years	803,463	805,307
In more than two years	<u>2,322,343</u>	<u>2,198,497</u>
	<u>21,572,515</u>	<u>20,510,677</u>

Other Liabilities

	2016	2015
	£	£
Corporation tax	7,725	-
Other taxation and social security	4,895	14,110
Accruals and deferred income	<u>76,204</u>	<u>81,176</u>
	<u>88,824</u>	<u>95,286</u>

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

16. Deferred Tax

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

	2016 £	2015 £
Included in provisions (note 17)	<u>239,818</u>	<u>200,914</u>

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

	2016 £	2015 £
Excess of taxation allowances over depreciation of fixed assets	11,874	11,116
Provision for fair value adjustments to investments	<u>227,944</u>	<u>189,798</u>
	<u>239,818</u>	<u>200,914</u>

17. Provisions

	Deferred tax (note 16) £
At 1 January 2016	200,914
Charge against provision	<u>38,904</u>
At 31 December 2016	<u>239,818</u>

18. Financial Instruments

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

	2016 £	2015 £
Financial assets		
Financial assets measured at fair value through income or expenditure:		
- Investments	<u>9,886,226</u>	<u>9,296,069</u>
Financial assets that are debt instruments measured at amortised cost:		
- Investments	5,982,025	6,146,807
- Cash and balances at central banks	12,174,432	11,994,728
- Cash held in investment portfolio	476,027	323,016
- Loans and advances to customers:		
- Property loans	4,175,099	3,068,163
- Car loans	<u>120,110</u>	<u>123,398</u>
	<u>22,927,693</u>	<u>21,656,112</u>

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

Financial liabilities

Financial liabilities measured at amortised cost:

- Customer deposit accounts	<u>(21,572,515)</u>	<u>(20,510,677)</u>
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Note 15 includes details of other financial liabilities measured at amortised cost.

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

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

18. Financial Instruments *(continued)*

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

Credit Risk

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

For each of the Company's holdings in financial instruments, i.e. loans, investments and bank deposits, the Company's maximum exposure to credit risk is the carrying value as shown in the statement of financial position, plus the committed undrawn loans of £2.6 million (2015: £3.2 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

Of the Company's £4.2 million of property loans (2015: £3.1 million), £3.5 million (2015: £2.4 million) were secured by legal charge (or equivalent) on church buildings or manses. In addition, for unsecured bridging loans totalling £0.4 million (2015: £0.5 million), the Company has obtained undertakings from the appropriate solicitors to repay the proceeds from sale of properties currently being marketed for sale. The remaining loans of £0.3 million (2015: £0.2 million) are generally smaller unsecured loans.

As at 31 December 2016 the Company had two secured loans (2015: 1 loan) which were neither past due nor impaired but for which a capital repayment extension had been agreed. The total capital balance of these loans was £454,557 (2015: 382,895) and the repayments to date had all been received on a timely basis.

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

	As at 31 December 2016		As at 31 December 2015	
	Balance overdue	Balance of loans	Balance overdue	Balance of loans
	£	£	£	£
Up to 1 month overdue	9,945	39,650	11,769	151,292
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 January.

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 £3,080 (2015: £3,165) has been included in respect of the £123,190 (2015: £126,563) balance of unsecured car loans.

The Company has not taken possession of any collateral it holds as security for loans during 2016 (2015: none).

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

18. Financial Instruments *(continued)*

Treasury credit risk

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

The Company does not engage in wholesale deposit lending other than with UK interbank counterparties with strong long term credit ratings (minimum Moody's rating of Baa2 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 2016 was 6 months (2015: 95 days).

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

As at 31 December 2016 and at 31 December 2015 none of the treasury assets were past due or impaired.

Liquidity Risk

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

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

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

	Total	Less than 1 month (*)	1 - 3 months	3 months to 1 year	1 to 5 years	More than 5 years
At 31 December 2016						
Customer deposits	21,572,515	14,025,775	6,741,433	1,844	803,463	-
Other liabilities	88,824	88,824	-	-	-	-
	21,661,339	14,114,599	6,741,433	1,844	803,463	-
At 31 December 2015						
Customer deposits	20,510,677	13,226,969	6,478,401	-	805,307	-
Other liabilities	95,286	95,286	-	-	-	-
	20,605,963	13,322,255	6,478,401	-	805,307	-

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

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

18. Financial Instruments *(continued)*

Market Risk

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

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

Interest rate risk

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

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

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

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 2016 (2015: none) and no deposits linked to other benchmarks.

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

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

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

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

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

	2016	2015
Net present Value Sensitivity to:	£'000	£'000
Positive Shift (+2%)	-556	-606
Negative Shift (-2%)	660	726

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.

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

18. Financial Instruments *(continued)*

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

	2016 £'000	2015 £'000
Reduction in surplus	104	102

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

Foreign exchange risk

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

Market price risk

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

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

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

The main market risk relates to the volatility of the investments, particularly the equities and equity funds in response to market or investment-specific events. A 25% decrease in the market value of equity would result in a negative movement in the unrealised gain/loss on these investments totalling £2.0 million (2015: £1.8 million). The Company's capital would decrease by the same amount, but would remain well above the regulatory minimum.

Capital

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

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

In addition, the Company's internal policy is to maintain a buffer of £3.321 million (2015: £3.362 million) 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 2016 (and 2015).

Methodist Chapel Aid Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2016

19. Called Up Share Capital

Issued, called up and fully paid

	2016		2015	
	No	£	No	£
Ordinary A shares of £0.25 each (2015: Ordinary shares £0.25 paid of £10 each)	4,108	1,027	4,108	1,027
Ordinary B Shares of £10 each (2015: Ordinary shares fully paid up of £10 each)	17	170	17	170
	<u>4,125</u>	<u>1,197</u>	<u>4,125</u>	<u>1,197</u>

On 19 April 2016 a special resolution was signed by the Directors to reduce the issued share capital of the company by means of solvency statement procedures under section 642 of the Companies Act 2006 from £41,250 to £1,197 by re-designating 4,108 of the issued partly paid ordinary shares of £10 each to 4,108 fully paid ordinary A shares of £0.25 each. Additionally, the fully paid ordinary shares of £10 each were re-designated as fully paid ordinary B shares of £10 each. The solvency statement was signed on 19 April 2016.

20. Operating Leases

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

	2016	2015
	£	£
Not later than 1 year	7,696	7,695
Later than 1 year and not later than 5 years	5,599	13,295
	<u>13,295</u>	<u>20,990</u>

21. Related Party Transactions

Mr Alan Pimlott (Director) is a member of the Board of the Trustees for Methodist Church Purposes. Mrs 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% (2015: 30%) of the share capital of the Company. It holds these shares for the charitable purposes of the Methodist Church generally.

Mr Andrew Slim (Director) is a Trustee of Manchester Circuit. During the year, a bridging loan of £200,000 was advanced to, and repaid by Manchester Circuit. Interest of £3,272 was received on the loan. At 31 December 2016, Manchester Circuit had deposit accounts with the Company totalling £135,580 (2015: £163,613).

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

22. Winding up

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

23. Controlling Party

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