Solvency and Financial Condition Report

30 September 2022

Cornish Mutual

Solvency and Financial Condition Report

Summary

Cornish Mutual manages the business in a prudent manner for the benefit of Members. We price our products on a technical and consistent basis to deliver stable, fair premiums to Members while delivering a return that supports an appropriate level of growth of Members' Funds over a five-year planning period. Investment returns form an intrinsic part of the financial performance, utilising capital surpluses to take investment risk and generate returns.

The overall sources of profit and loss contributing to changes in Members' Funds are shown below.

	2022 £'000	2021 £'000
Technical Profit	1,146	5,095
Other charges	(1,089)	(1,044)
Underwriting result	**56**	**4,051**
Investment income net of fair value adjustments	(1,582)	2,089
Tax	0	0
Revaluation of property	0	0
Pension adjustments net of tax	(154)	107
Changes in Members' Funds	**(1,679)**	**6,247**

Members' funds have decreased by £1.7m during the year to £27.0m on a GAAP basis.

On a Solvency II basis Members' Funds, which represent the total of own funds, increased to £31.4m from £31.1m. All own funds are eligible to cover the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR).

The ratio of Own Funds to the SCR is 185% and has improved compared to last year's figure of 165%. There are no volatility or matching adjustments. No transitional measures have been adopted in the calculation of the technical provisions.

The MCR is calculated as £4.24m being the higher of the Absolute Floor of £3.1m or 25% of SCR, £4.24m at 30 September 2022.

There are no areas of non-compliance with the SCR or the MCR through the year to 30 September 2022.

With a stable, high retention book of business and broadly similar reinsurance arrangements, we expect our insurance risk to remain relatively consistent on a forward-looking basis. However, this is an area where we do not consider that we are able to fully reflect the benefits of our stop loss programme due

to the mechanics of the standard formula in the insurance risk calculation of our SCR. As such, our internal view of insurance risk differs to the standard formula, with the Solvency Capital Requirement being approximately £3.6m higher overall than our Economic Capital Assessment.

A large source of variability in the total capital required to support the business arises from market risk. This risk changes in response to the allocation of funds to different asset classes within our investments held directly or as part of the assets of the defined benefit pension scheme. The company has considerable scope and flexibility to manage the market risk through its investment policy.

In November 2021, the Pension Trustees of Cornish Mutual's Defined Benefit Scheme entered into a buy-in transaction with Legal and General to match the liabilities of the Cornish Mutual Pension Scheme. The intention is for the Scheme to move to buy-out during financial year 2023.

As a mutual insurance company, Cornish Mutual is owned by its customers who are all Members of the company. Member approved directors make up the Board. The governance objectives of the Board of Cornish Mutual are set out publicly in its *Board Charter* (www.cornishmutual.co.uk).

The company operates with three Board committees: Risk and Audit, Investment and Capital Management and Remuneration and Nomination.

The following standard sections of the SFCR are considered not applicable and are therefore not included: A5, B8, C7, D4, D5, E3 and E4.

Where numbers are provided on a rounded basis, each individual number is presented using conventional rounding without adjustment. No adjustment is introduced to allow totals to agree so tables and columns of rounded numbers may be subject to rounding errors.
This report is subject to audit in accordance with the PRA Supervisory Statement SS11/16.

Statement of Directors' Responsibilities

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued so to comply and will continue so to comply in future.

P S Beaumont
Managing Director
28/2/23

Clare Green
Finance Director
28/2/23

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF THE CORNISH MUTUAL ASSURANCE COMPANY LIMITED ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Cornish Mutual Assurance Company Limited as at 30 September 2022:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Cornish Mutual Assurance Company Limited as at 30 September 2022, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 ('**the Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- Information contained within the relevant elements of the Solvency and Financial Condition Report, set out about above, which are identified in the Appendix to this report;

- The 'Business and performance', 'System of Governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S05.01.02, S19.01.21;

- the written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Cornish Mutual Assurance Company Limited as at 30 September 2022 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determination.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Cornish Mutual Assurance Company Limited in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- Review of the latest available Own Risk and Solvency Assessment ('ORSA') return to ensure compliance with regulatory solvency requirements, noting the Company to be in excess of the minimum solvency requirement;
- Checked the solvency through reference of sufficiency of assets to meet liabilities and the adequacy of regulatory capital;
- Review of the Company's budget for the next 12 months considering the validity of assumptions made and
- Enquiries of the Directors and scrutiny of management information, board minutes and regulatory correspondence to ascertain the existence of undisclosed events or obligations that may cast doubt on the Company's ability to continue as a going concern.

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

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

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' section of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and does not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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

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

- Obtaining an understanding of the legal and regulatory framework applicable to the Company's operations and the control environment in monitoring compliance with laws and regulations;
- Review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA);
- Review of the assumptions and methodology applied by the Company in the valuation of the best estimate to consider whether the methods utilised are in compliance with Technical Actuarial Standards (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance), using our actuaries as auditors experts;
- Enquiries of management;
- Review of minutes of board meetings throughout the period; and
- Agreement of the SFCR to underlying supporting documentation.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Cornish Mutual Assurance Company Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DocuSigned by:
Tom Reed
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06 March 2023

Thomas Reed (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

55 Baker Street,

London,

W1U 7EU

The maintenance and integrity of the Cornish Mutual Assurance Company Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

A. Business and performance

A1 - Business

Cornish Mutual Assurance Co Ltd is a company limited by guarantee. Company number 78768.

The company, as a category 5 firm, has no named supervisor and is managed through the smaller insurer regime by the Prudential Regulation Authority. Their address is 20 Moorgate, London, EC2R 6DA. The company is also regulated by the Financial Conduct Authority. Their address is 12 Endeavour Square, EC20 1JN.

This Solvency and Financial Condition ("SFCR") report is not required to be audited by regulation. However, this year we have audited our SFCR on a discretionary basis as part of our three-year internal audit plan. The external auditor for the annual report and the SFCR for the year ended 30 September 2022 is:

BDO LLP, Chartered Accountants and Statutory Auditors
55 Baker Street, London, W1U 7EU, United Kingdom.

The Company conducts general insurance business in the four counties of the South West of England. Material lines of business are identified in section A2 by inclusion of the segmental analysis from the financial statements, as set out on page 11.

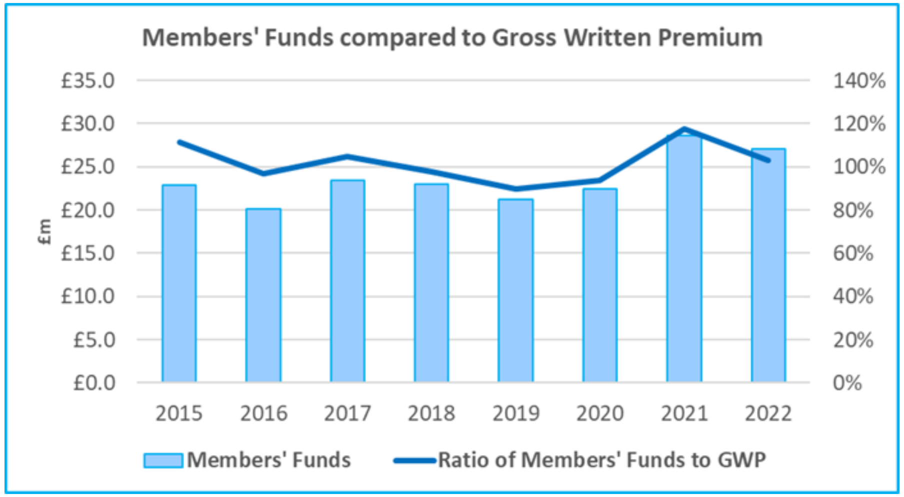
A2 – Underwriting performance

The overall sources of profit and loss contributing to changes in Members' Funds are shown below.

	2022 **£'000**	**2021** **£'000**
Technical Profit	1,146	5,095
Other charges	(1,089)	(1,044)
Underwriting result	**56**	**4,051**
Investment income net of fair value adjustments	(1,582)	2,089
Tax	0	0
Revaluation of property	0	0
Pension adjustments net of tax	(154)	107
Changes in Members' Funds	**(1,679)**	**6,247**

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

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



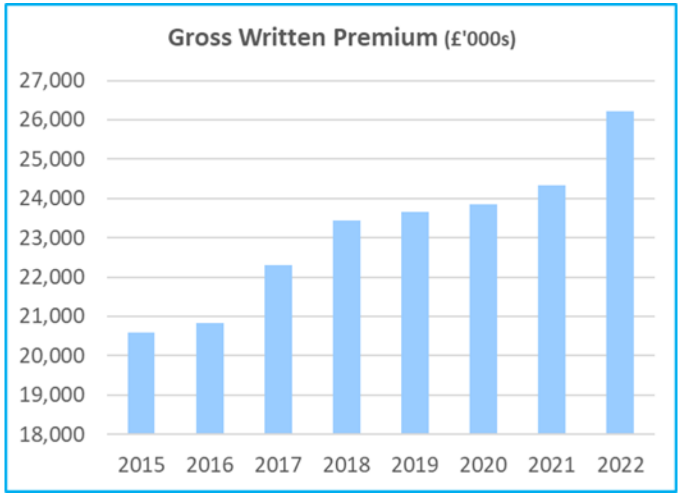
We are required by regulators to maintain a sufficient level of capital, and this is determined in accordance with Solvency II rules by reference to a set of standard calculations. These calculations determine how much capital we need to survive particular stress scenarios. Our Members' Funds need to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

Description	Financial Year							
	2015	2016	2017	2018	2019	2020	2021	2022
	£'000s							
Gross Written Premium	20,590	20,820	22,310	23,440	23,650	23,860	24,330	26,210
Gross Earned Premium	20,710	20,600	21,500	23,000	23,450	23,880	24,140	25,190
Less: Gross Claims	(9,460)	(10,870)	(12,070)	(13,830)	(15,360)	(18,340)	(11,060)	(16,550)
Gross Loss Ratio	46%	53%	56%	60%	66%	77%	46%	66%
	11,250	9,730	9,430	9,170	8,090	5,540	13,080	8,640
Add: Other Income	260	290	250	280	280	290	290	70
Less: Expenses	(5,630)	(5,960)	(6,430)	(6,830)	(6,980)	(6,870)	(6,940)	(7,420)
Gross Earned Expense Ratio	27.2%	28.9%	29.9%	29.7%	29.8%	28.8%	28.7%	29.5%
Gross Insurance Profit / (Loss)	**5,880**	**4,060**	**3,250**	**2,620**	**1,390**	**(1,040)**	**6,430**	**1,290**
Effect of Reinsurance	(5,470)	(4,320)	(2,880)	(3,220)	(3,340)	2,370	(2,380)	(1,230)
Effect of Reinsurance as % of GEP	-26%	-21%	-13%	-14%	-14%	10%	-10%	-5%
Net Insurance Profit / (Loss)	**410**	**(260)**	**370**	**(600)**	**(1,950)**	**1,330**	**4,050**	**60**
Add: Investment Returns / (Losses)	350	1,820	1,900	270	590	(130)	2,090	(1,580)
Profit / (Loss) Before Tax	**760**	**1,560**	**2,270**	**(330)**	**(1,360)**	**1,200**	**6,140**	**(1,520)**

Rounded to nearest £10,000

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

Gross Written Premium



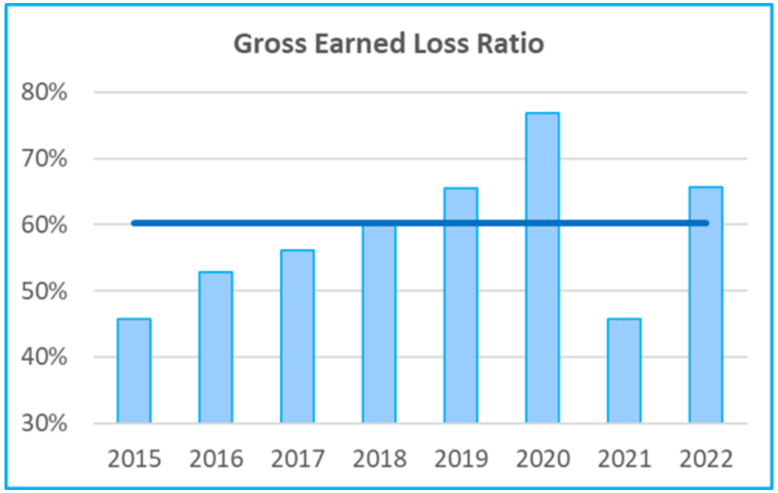
Gross Written Premium increased over the period to £26,205k (2021: £24,331k). This excellent level of growth is above forecast for Financial Year 2022, and represents a clear increase following the impact of the pandemic on new business levels. While some of this increase is driven by increases in sums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

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

Gross Earned Loss Ratio (GELR)

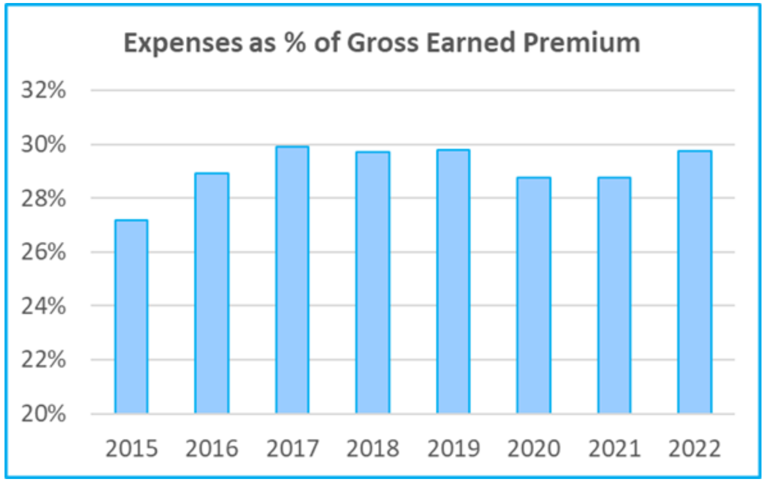
Gross Earned Loss Ratio is the movement in the cost of claims, excluding the effect of reinsurance, as a proportion of Gross Earned Premium. It includes the cost of claims reported in the year and movements in the estimated cost of claims brought forward from previous accounting periods.

GELR shows the underlying performance of the book of business and reflects our ability to correctly select and price the risks we insure.



Despite underwriting broadly the same risks each year, the gross claims cost varies considerably. This is mostly caused by the effect of a few individual large claims or periods of exceptionally bad weather. The increasing trend from 2015 to 2020, shown in the graph, has arisen due to the increase in value of a very small number of large claims during these years. This increase reflects the volatility we face as a business and not a deterioration of the overall portfolio and for that reason is in line with our expectations. Without this, the loss ratio for 2020 would be well below target, reflecting more clearly the reduction in small motor claims during the lockdown of March and April 2020. This trend continues in 2021, with a lower loss ratio resulting from the low claims volumes brought about by multiple lockdowns, and no material increases to claims values in prior years. Our result for Financial Year 2022 is a combination of the impact of Storm Eunice and movement in larger claims – without the latter our loss ratio would be in line with our average expected loss ratio.

Expenses



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

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

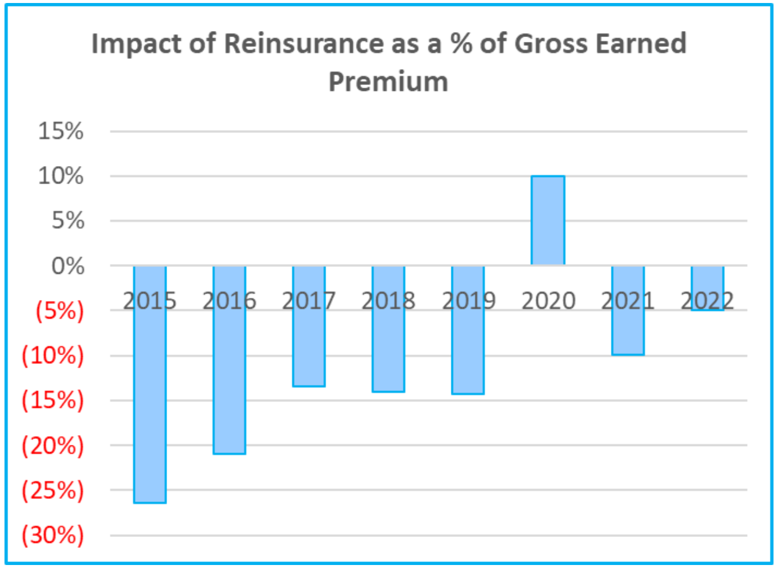
The Use and Effect of Reinsurance

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

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

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

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



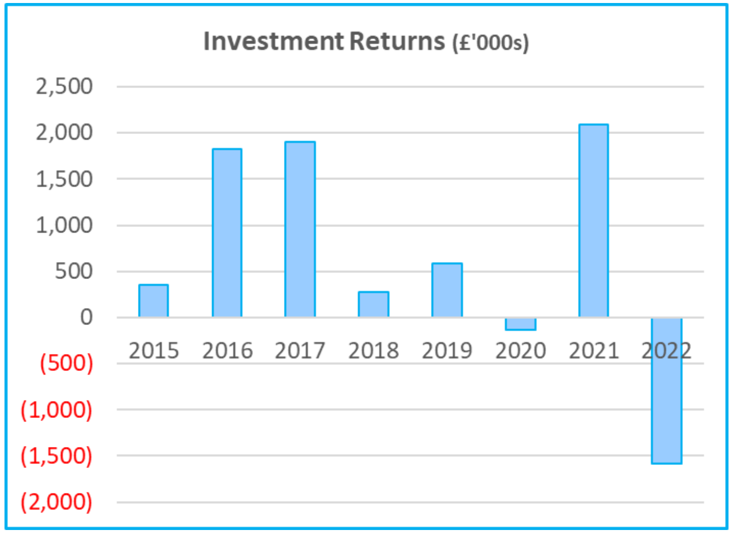
While reinsurance clearly comes at a cost, the net insurance result is less volatile than the gross insurance result. It is the net insurance result that impacts on Members' Funds.

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

Our current structure retains more risk against certain events which are expected to be infrequent and not occur every year. By retaining more of the risk, we retain more of the profit in intervening years, while continuing to receive sufficient capital protection against large individual losses. In Financial Year

2021, under the stop loss we were able to retain more profits thanks to our low loss ratio than was the case in 2015 when we experienced a similar loss ratio but had to cede significantly more profits to quota share reinsurers. The stop loss also benefits Cornish Mutual with protection against a significant cluster of small losses which could impact our results.

Investment Returns



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

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

Investment losses during the last year has meant that Members' Funds have reduced from £28.7m to £27.0m.

Cash Flow

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

Segmental Analysis

Set out below is the breakdown of premium and claims incurred from the financial statements.

SEGMENTAL INFORMATION

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

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

A3 – Investment Performance

The company's investments are disclosed in the financial statements as follows:

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

The funds we invest in have absolute return targets and we give the fund managers discretion over asset allocation decisions to both increase returns and reduce volatility in a cost-effective way.

The expectation of a low return environment over a longer period of time is challenging for insurers, especially when combined with the potential for market shocks. The use of multi asset funds gives our selected expert providers more ability to manage these challenges on our behalf.

The collective funds are not operated under a mandate specific to Cornish Mutual. The funds have investment objectives and typically broad ranges for allocation within different asset classes.

Investment income/(expense)

	2022	2021
	£	**£**
Income from Land & Buildings	124,778	122,016
Income from listed investments	16,688	139
Income from other investments	4	309
Dividend from subsidiary	0	0
	141,470	**122,463**
Gains / (Losses) on the realisation of investments	0	0
Less accumulated unrealised gains from prior years	0	0
Profit on disposed investments	**0**	**0**
Unrealised (loss) / gain on retained investments	**(1,561,094)**	**2,115,711**
Total investment (losses) / gains	**(1,561,094)**	**2,115,711**
Total investment (expense) / income	**(1,419,624)**	**2,238,174**
Less investment management expenses	(162,581)	(149,118)
Contribution from investment activities	**(1,582,205)**	**2,089,056**

The result lies within the range of reasonably foreseeable outcomes for the overall performance of our chosen investments.

A4 – Performance of Other Activities

Tax

At 30 September 2022 Cornish Mutual carried no tax provisions. The company is carrying forward some untaxed gains and some unrelieved management expenses. The resulting deferred tax asset has not been recognised.

Pension

The company has a defined benefit pension scheme. Details of the accounting for the pension are included within the financial statements. The valuation of the pension scheme by actuaries has indicated a small deficit of £11k for accounting purposes.

Between the end of Financial Year 2021 and the signing our Annual Report, the Pension Trustees entered into a buy-in transaction with Legal and General to match the liabilities of the Cornish Mutual Pension Scheme. The intention is for the Scheme to ultimately move to buy-out during the Financial Year 2023. This transaction will be reflected in next year's Financial Statements. During the year £160k of Members Funds was spent on contributions towards the Pension Scheme.

The cost of achieving Buy-Out is estimated to be £300k. This has been accrued and is shown in the statement of comprehensive income.

FINANCIAL COMMITMENTS

The company has entered into operating lease agreements as lessee and this is quantified below; commitments which are not recognised in the balance sheet are shown along with disclosure of amounts recognised in the current year. This note is reproduced from the annual report and financial statements.

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

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

B. System of governance

B1 – General Information on the system of governance

As a mutual insurance company, Cornish Mutual is owned by its customers who are all Members of the company. Members are all entitled and encouraged to participate in the stewardship of the company and to influence its culture and direction through voting and participation in its annual general meetings, by becoming qualified to be members of its Board, or by providing feedback to management on any aspect of their current and future insurance protection and service needs.

The governance objectives of the Board of Cornish Mutual are set out publicly in its *Board Charter* (www.cornishmutual.co.uk).

The company operates with three Board committees: Risk and Audit, Investment and Capital Management and Remuneration and Nomination.

Board directors take individual and collective responsibility for determining the Company's objectives and strategy and for ensuring that the Company is managed and directed in such a way as to determine good outcomes for Members as a whole. Directors, where appropriate, are controlled function holders under the Senior Management and Certification Regime (SM&CR).

The Board is responsible for corporate governance; stewardship of Members' Funds; and for the reputation of the Company. The Board's ORSA Policy sets out the role and responsibilities of the Board, its committees, the executive, management and employees in respect of the ORSA process.

Appointment of Directors is initially handled by a Remuneration and Nominations committee. A short list of suitable candidates is derived and from this list candidates for interview are selected by the committee. Interviews take place with the committee using a common format. Successful candidates are recommended for co-option to the Board: Directors co-opted by the Board face election by the Membership at the next AGM.

Most non-executive Directors serve 3 terms of 3 years each, but there is also value through continuity in some directors serving for longer than 9 years, subject to recommendation by the Board and annual approval by Members at the AGM in accordance with good governance. At present, we have no Directors that have served for longer than 9 years.

The composition of the Board and Board succession are managed to maintain the range of skills and experience needed to direct and govern the affairs of the company and to support and constructively challenge management. In addition to the qualities of intelligence, integrity and independent judgement, particular attributes and experience are sought at different times to maintain the right balance: directors are chosen as being fit and proper, with the requisite experience, skills and diversity to influence positively the development of the Company in the interests of Members and other stakeholders.

The Board sets a number of Company Policies, some of which are designed to recognise and control financial risk; others to control conduct risk and to promote a culture of prudent management and customer focused service. In some instances, such as the Company's *Underwriting and Pricing Policy*, both prudential and conduct issues are defined.

The Board has agreed policies in twenty-five areas. Those deemed critical are reviewed annually with all others reviewed at a minimum of every three years. These are supported by Operational policies which in turn are augmented by processes and procedures for delivery of agreed outcomes.

For the SM&CR functions of risk management, internal audit and the actuarial function, the company adopts an approach which reflects the nature, scale and complexity of the business and delivers the desired outcomes:

Ultimate executive responsibility for Risk Management has rested with the Insurance Director during the year, who also performs the role of Chief Risk Officer[1]. The Board view this as both proportionate and appropriate.

In respect of Internal Audit the responsibility, from a regulatory perspective, rests with the Governance Leader. This SM&CR function reports directly to the chair of the Risk and Audit Committee and completes a programme of work which has been agreed with the Committee. This role oversees work which is done internally taking a risk-based approach. This is enhanced by work done by external agencies, usually relevant professionals. The end result is an objective and independent approach.

An independent actuarial review of claims reserves, previously as a stand-alone exercise and now as part of statutory audit is conducted by qualified providers and is subject to oversight by the Risk and Audit Committee.

The remuneration policy is based on ensuring the business attracts and retains staff who can deliver the service the Members desire. As part of this Cornish Mutual does not think paying bonuses to Executives is appropriate and consequently, they form no part of Executives' remuneration. Executive pay is dependent on individual performance and the performance of the Company as a whole and arises from a recommendation by the Remuneration and Nomination Committee.

B2 – Fit and proper requirements

Directors are appointed under the "fit and proper" process adopted by the Company and in addition Senior Management Function holders are pre-approved by the PRA/FCA.

[1] Chief Risk Officer is an internal designation. It is not held as an official SMF function via the SM&CR.

The process within Cornish Mutual which is used to determine, honesty, integrity, reputation, competence/capability and financial soundness, involves a personal declaration, credit checks, criminal record checks as well as the assessment as to whether individuals have the knowledge, skills and experience to undertake a particular role. This is reflected in the Scope of Responsibilities.

"Fit and proper" is reviewed annually and there is a continuing obligation to advise the Chairman if, at any stage, individuals cannot fulfil these requirements.

B3 – Risk management system including the ORSA

The Company identifies and manages risk within a clearly defined framework. The framework comprises our Board Risk Management Policy, Risk Appetite Statement, Risk Appetite, Tolerance and Control Register, and is underpinned by a Three Lines of Defence monitoring mechanism. The framework informs the major risk elements of the Company's Own Risk and Solvency Assessment (ORSA).

This framework begins with the Board who have ultimate responsibility for identifying and managing the risks which the business faces as set out in the Risk Policy, and the appetite to risk the Company exhibits in achieving its business goals. The framework is directly overseen by the Risk and Audit Committee, an advisory Committee to the Board, who have effective ownership of the Company's Risk Appetite, Tolerance and Control Register. On an operational basis, risk is managed by the Management Risk Committee, which met six times during Financial Year 2022 and is chaired by the Chief Risk Officer, with each of the identified risks being owned by an individual member of the Executive and Leadership Team.

The Company's ORSA process pulls together the work which is done on risk within the business and ensures that appropriate monitoring takes place, that appropriate reviews are conducted in line with the regulatory guidelines and the appropriate amendments made to any necessary documentation. The ORSA is reviewed and approved by the Board on an annual basis.

Cornish Mutual has adopted the Standard formula as the basis for calculating its solvency capital requirement. The Board has a policy which determines the level of surplus capital it holds in addition to the SCR, currently determined at a minimum of 150% of MCR.

B4 – Internal control system

The company's Internal Control Framework is described in the Board policy on Internal Audit and Internal Control. Key elements include the following:

- Shared values bind the organisation together, provide the context in which the company conducts its business and serve as touchstones. This shared culture is the foundation of all the other controls.

- Training and development of the Board and staff is also an important control. All joiners undertake a common induction programme which emphasises culture, values and the mutual aspects of the business. Cornish Mutual has Chartered Insurer status and there is a focus on achieving CII qualifications.
- Performance appraisal is based on behaviours and involves a rigorous process to ensure company-wide consistency.
- Technical controls: a well-established Validation and Support Programme drives improvements in standards and member outcomes; a Pricing Committee is charged with reviewing all products for pricing appropriateness on an annual basis and individual authority levels are set for both claims handling and underwriting acceptance.
- Treating Customers Fairly (TCF) is embedded and supported by management information discussed during a quarterly meeting which ensures the agreed outcomes are being delivered. Our TCF process is currently being reviewed and updated in preparation for Consumer Duty regulations.
- A Management Risk Committee, which meets six times a year, ensures all identified risks are closely monitored, reviewed and remedial action taken where appropriate.
- During the year an Inflation Working Group was set up to provide a cross departmental focus on inflation to ensure all a proactive approach to tackling inflation was achieved.

This overall framework can be envisaged as layered, with relevant outputs being produced as evidence of the control which is being exercised. There are three layers:

Operational Governance
Executive governance
Board Governance

Within this approach a traditional “three lines of defence” is adopted:

- Internal controls are firmly established in work practices, for example, in the authorisation of expenditure and the acceptance of risk.

- Monitoring takes place at Line Manager level to ensure that correct procedures are adopted, and desired outcomes achieved. Such activities range from file reviews, quality monitoring of phone calls and accompanied visits.

- The obtaining of independent assurance that what is desired is being achieved. This is overseen by the internal audit-controlled function, which reports independently into the Chair of the Risk and Audit Committee. This function ensures that the organisation’s Validation and Support Team focusses on any particular areas of concern, ensures that a system of peer reviews take place which utilise the knowledge and experience in the business and ensures that external reviews have the appropriate focus and are conducted within agreed timescales.   Specific internal audits of key functions {e.g., claims) are sanctioned by the Risk and Audit Committee on a both a scheduled and ad hoc basis using external specialist auditors in these areas.

Compliance is the responsibility of all within the business. The Governance Leader holds the SMF 16 for Compliance. We have a Compliance Leader who chairs a Legal and Regulatory Committee- which encompasses other parts of the business- and ensures all relevant legislation and regulation is incorporated into the business and adhered to, fostering our embedded approach. A program of validation and internal audit monitors performance with any changes being introduced as required.

B5 – Internal audit function

The Board exercises the Internal Audit control via the Risk and Audit Committee (RAC). Regulatory responsibility rests with the Governance Leader who holds the SMF 5 function. This function holder reports directly to the RAC Chair. This approach gives the necessary independence and objectivity.

There is a rolling programme of internal audit activity in place which includes peer reviews, independent evaluation of compliance with company polices and technical reviews of underwriting and claims functions by external specialists. This process is underpinned by the involvement of an external provider of internal audit services, PKF Littlejohn. This enhances the objectivity and independence of the work which is undertaken.

B6 – Actuarial Function

The Actuarial Function Holder during the year was the Managing Director. While not a qualified actuary, the Board considers this individual has the capability of discharging the responsibility in line with regulations. Additional permanent members of the Actuarial Function include the Finance Director and Finance Business Partner. The Actuarial Function is separate from the Finance Function.

The Actuarial Function deals with uncertainty and risk. It has a key role to play in identifying, analysing and quantifying levels of uncertainty and in assessing Company strategies for managing and mitigating risk. It is recognised that the wide use of judgement and estimation in quantifying uncertain insurance liabilities introduces the potential for bias.

As a vital control function, the key requirement is that the function is effective in delivering robust application of appropriate techniques within the control areas, minimising bias and being conscious of the limitations and sensitivity to the assumptions it uses.

Where senior staff carry a broader responsibility, they should operate with a wider perspective. Accordingly, while the company does not have an actuary who has no operational role, equally there are no directors with narrow responsibilities for whom increasing risk or introducing bias might be actively, if inadvertently, increased. For example the executive team do not receive performance bonuses.

In Cornish Mutual, full separation of the function cannot be achieved cost effectively. What cannot be sacrificed are the desired features of an effective function.

- Objectivity
- Challenge to others

- Challenge to itself

The approach to the structure of the Actuarial Function within Cornish Mutual has been considered by the Board to be appropriate in achieving the full intended aims of the function. It is proportional in constitution but complete in scope.

B7 – Outsourcing

Cornish Mutual ensure that decisions regarding customer outcomes, where Cornish Mutual are the contracting party, for example whether a claim should be paid and how much, are always retained within the business. There is no appetite to outsource any of this core activity to third parties, Cornish Mutual take the view that such outcomes are critical to the delivery of its business objectives. Hence there is no outsourcing of any critical or important operational functions and activities.

Cornish Mutual makes use of an outsourcing arrangement in respect of the internal audit function to provide independent, expert input to this activity. The relevant Senior Insurance Management Function (SMF5) is held by a Cornish Mutual employee, the Governance Leader.

C. Risk profile

Risks are quantified through the application of the standard formula. The overall risk, quantified as the SCR, is broken down across the relevant risks below.

Description	Sep-22
Insurance Risk	**£M**
Premium & Reserve Risk	5.7
Catastrophe Risk	2.7
Lapse and Expense Risk	1.6
Diversification	-2.9
Total Insurance Risk	**7.0**
Market Risk	**£M**
Interest Rate Risk	0.4
Equity Risk	6.3
Property Stress	0.6
Currency Risk	3.8
Credit Risk	4.5
Diversification	-3.2
Total Market Risk	**12.4**
Counterparty Risk	**£M**
Reinsurance and Long Term Deposits	1.1
Credit exposure within collective investments	0.1
Pension	0.0
Total Counterparty Risk	**1.3**
Total Before Diversification	20.7
Overall Diversification Risk (SII)	-4.5
Total After Diversification	**16.2**
Operational Risk	0.8
Loss Absorbing Capacity of TPs & Deferred Tax	0.0
Solvency Capital Requirement (a)	**17.0**
Minimum Capital Requirement (b)	4.24
Members' Funds (c)	**31.4**
Captial Management Buffer (d) = (b x 1.5)	**6.4**
SCR Plus Buffer (e) = (a+d)	**23.3**
Surplus in addition to SCR plus Buffer (c-e)	**8.1**
Solvency Capital Ratio	**185%**

C1 – Underwriting risk

Underwriting risk is the risk of making losses on the activity of insurance either in assessing the risks it provides policies for or in quantifying claims that occur.

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

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

A number of measures are in place to ensure this risk is managed prudently and conservatively; these include meetings of our Large Loss Committee, the Management Risk Committee, the Pricing Committee, the Inflation Working Group and the fortnightly Business meeting. Attendees of the business meeting also receive relevant management information in relation to the insurance side of the business.

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Company has also ensured that sufficient reinsurance arrangements are in place and has an active claims handling team.

As a niche insurer, the Company holds insurance risks entirely within the four counties of the South West being Cornwall, Devon, Somerset and Dorset. This creates a regional concentration of risk in relation to weather events.

The company concentrates on rural risks and this avoidance of urban settings limits concentration risk for certain event types; the majority of property damage exposure is commercial farm business or connected in some way to a farm. The company also maintains limits at an individual risk level to reduce exposure to individual events at the gross level.

Risk is quantified through the risk of catastrophe, uncertainty of claims value (premium and reserve risk) and the risk of policies lapsing.

The material lines of business against which these risks are quantified are motor liability, motor damage, property and non-motor liability (public and employers).

In addition to the rural nature of the business and the individual risk limits, the chief mitigation for underwriting risk is reinsurance and the company utilises it as described in section A2 above.

Core to our reinsurance arrangements is a stop loss contract which responds when the loss ratio exceeds 70% on an overall basis, howsoever that is caused. The stop loss responds to a loss ratio of up to 120%, combined with the excess of loss reinsurance we have in place. The stop loss benefits from excess of loss protection in respect of catastrophe, property, motor and liability events. All reinsurance elements are placed with a panel of reinsurers.

The principle effect of stop loss reinsurance is to reduce premium and reserve risk to £5.7m from an expected £7.0m without reinsurance under the standard formula before the application of diversification. The change in reinsurance from quota share to stop loss has led to an increase in premium and reserve risk. This is because the mechanics of the standard formula mean that we have been unable to identify a way to fully reflect the benefits of our stop loss reinsurance. Our alternative Economic Capital Assessment suggests an insurance risk of approximately £3.4m, which reduces our overall capital requirement by approximately £2.2m after diversification.

The principle effect of excess of loss insurance is a significant reduction of the gross diversified SCR for catastrophe from £30.3m to £21.3m. The stop loss reinsurance then reduces this further to £2.7m.

C2 – Market risk

The market risk Cornish Mutual faces is that an adverse movement in the value of assets, such as interest rates or equity prices, is not matched by a corresponding movement in the value of liabilities.

Market risk under the standard formula represents the largest component of Cornish Mutual's SCR at £12.4m in the table above. The capitalisation of the company allows for this level of risk to be carried within the limits of the Board Capital Management Policy.

Our investment policy ensures that we have a suitable balance of assets. Testing the impact of particular events on these assets, such as failure of investments and equity downturns, is a critical part of our Solvency II work, in particular the calculation of the SCR. Cornish Mutual makes wide use of collective investment funds. These collective funds are not operated under a mandate specific to Cornish Mutual. The funds have investment objectives and typically broad ranges for allocation within different asset classes. Accordingly the contribution of market risk to the SCR can be quite volatile. The SCR is monitored on a quarterly basis. Quarterly monitoring does not allow for timely adjustment and maintaining the SCR is required at all times. Accordingly, sensitivity analysis has been carried out to ensure the capital of the company can bear the capital charge which would arise if the funds trade at the upper end of their limits for the asset classes which attract the highest level of capital charge, most notably equities.

During the year we undertook an Investment Review and concluded that our current set up is most appropriate for our existing needs. We will continue to monitor our approach.

C3 – Counterparty risk

Counterparty risk arises from the risk of loss if another party fails to perform its obligations or fails to perform in a timely or appropriate fashion.

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

As quantified in D1 below, Cornish Mutual has a reinsurance recoverable balance with quota share and excess of loss partners, albeit the quota share element is reducing as we see a reduction of claims under this reinsurance arrangement in run-off. Overall the credit quality of those counterparties means the SCR is relatively modest however, during the past year there have been some instances of downgrading of specific reinsurer counterparties, and while the credit level remains acceptable, there has been an increase in counterparty risk under the Standard Formula. The company recognises the potential for this risk and has significant mitigation in place to deal with counterparty risk and the related operational risk identified in C5 below. Additionally the 1 in 200 catastrophe risk faced by the company gives rise to a potential reinsurance recoverable of 30.3m as identified in C1 above under the standard formula calculation. The crystallisation of this additional recoverable amount is included within the calculation of the counterparty SCR.

There are significant controls in place to ensure that the risk is minimised:

- The stop loss and excess of loss covers are placed with a panel of reinsurers, reducing concentration risk.

- The excess of loss treaties which could give rise to a significant recovery are placed with a panel of reinsurers to avoid excessive concentration.

C4 – Liquidity risk

The liquidity risk is the possibility that the business may be unable to meet its obligations as they fall due as a consequence of having insufficient accessible funds. We pursue an investment policy that means we have sufficient liquid assets to ensure the liquidity is not a significant risk for Cornish Mutual.

C5 – Operational risk

Operational risk relates to the risk of loss resulting from inadequate or failing internal processes, people and systems or from external events, for example, a disruption to the business by natural catastrophe.

The range of operational risks, identified by the Board is captured in a risk register. The risk register is actively managed through a quarterly management risk committee (MRC) which monitors, quantifies and assigns actions on a quarterly basis. The activities of the MRC are supported through the operational organisation of the company and the MRC is subject to oversight by the Risk and Audit Committee and the Board, both of which receive the minutes of MRC meetings.

In particular, given the reliance on reinsurance, any failure in the arrangement, placement or conduct of reinsurance activities in line with our contracts could have a material impact on the company.

Given their potential impact, particular focus is placed on such operational reinsurance risks by the Board with a variety of mechanisms in place to both mitigate their effect should they arise, and to prevent them arising in the first place. Multiple layers of review take place within the reinsurance process, primary wordings are reviewed in line with the reinsurance contracts and extensive training around acceptance criteria and limits is provided. We also had an independent review undertaken of our wording during Financial Year 2021. In relation to claims there are further mitigating activities such as audit activity and the inclusion of reinsurers within the large loss committee to aid awareness of potential recoveries and scenarios under which specific notification is required.

All identified operational risks have a documented approach to the monitoring, control and mitigation of the risk according to the nature, scale and complexity of the risk.

Operational risk is quantified under the standard formula at £0.8m and the company has determined, through an examination of the operational risks it faces, that the operational SCR sufficiently captures a wide range of potential, independently operating risks on a probability weighted basis.

C6 – Other material risks - Climate Change

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

Governance

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

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

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

Strategy

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

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

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

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

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

As part of our review of the financial risks arising from Climate Change, we have reviewed our investment portfolios to ensure we do not hold carbon heavy assets. We have engaged with our Investment Manager to understand the risk presented within our current holdings and to understand the way Climate Change considerations are evaluated in line with regulatory expectations. Please refer to page 42 (Report of the Investment and Capital Management Committee) for more information.

Risk Management

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

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

Metrics and Targets

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

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

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

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

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

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

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

D. Valuation for solvency purposes

D1 – Assets

We set out below the basis for our Solvency II asset valuation for each material class of assets. Assets are measured on a market value basis at the balance sheet date of 30 September 2022. Except where stated, the valuations of other assets is in line with those disclosed in Note 3 of the annual report available on the Cornish Mutual website.

Assets	**Solvency II**	**Statutory GAAP Accounts**
	£	**£**
Intangible assets	0	57,284
Property, plant & equipment held for own use	2,374,230	2,374,230
Collective Investment Undertakings	42,027,184	42,027,184
Reinsurance recoverable	4,162,669	7,051,120
Insurance and intermediaries' receivables	0	6,393,552
Reinsurance receivables	3,671,560	3,676,476
Cash and cash equivalents	1,036,616	1,036,616
Receivables (trade, not insurance)	0	0
Any other assets, not elsewhere shown	298,689	320,138
Total Assets	**53,570,947**	**62,936,600**

Property

Freehold property is valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP. Full valuations are made by an independent, professionally qualified valuer every three years. A valuation took place on 30 September 2020.

Plant and equipment is held at historical cost less depreciation which has been judged to be equivalent to fair value. The difference in Any Other Assets relates to balances that have been moved to Technical Provisions under Solvency II.

Investments

Our investments are valued on a Solvency II basis. Fair value is based on quoted bid prices on 30 September 2022.

As at 30 September 2022 the total value of investment assets was £44.23 million, analysed as follows:

	£m
Collective investments funds	42.03
Freehold property partially occupied	2.20
Total investments	**44.23**

During the financial year over 45% of the portfolio was invested in the Insight Broad Opportunities Fund. The fund is a multi-asset fund with a wide-ranging mix of investment classes and assets. This fund aims to deliver positive returns over the medium term while minimising losses. The manager has freedom to make significant asset allocation decisions. The Fund targets a return based on a percentage in excess of LIBID (a technical measure for the return expected from cash holdings) and is measured against its own absolute return targets as opposed to a benchmark.

In addition to the Insight Broad Opportunities fund we invest in the Insight managed BNY Mellon Absolute Return Bond Fund. This fund seeks to provide a positive absolute return in all market conditions, over a rolling 12-month period, by investing primarily in debt and debt-related securities and instruments located worldwide and in financial derivative instruments relating to such securities and instruments. The Fund targets a return based on a percentage in excess of 3 Months EURIBOR (a further technical measure for the return expected on cash holdings).

All of our holdings of long-term investment funds have a focus on capital preservation and the management of risk. The Committee recognises and has actively sought to reduce the overall level of risk and volatility our investment portfolio is exposed to. While this is expected to reduce the return profile of the portfolio moving forwards, we consider this to be appropriate given the importance of preserving Member's Funds while growing these in real terms.

As part of maintaining liquidity we hold specific liquidity funds within our collective investment funds. The Company maintains sufficient cash balances to meet short-term liabilities.

Reinsurance recoverable (Reinsurers' share of technical provisions)

Under the Solvency II balance sheet the reinsurers' share of technical provisions are valued as part of net technical provisions. This has been calculated as the reinsurers' share of the unearned premium provision multiplied by the expected claim rate for each Solvency II line of business.

Insurance and intermediaries' receivables

Under GAAP these figures relate primarily to the amount owed to us by Members through direct debits. However, under Solvency II, these amounts are included as part of premium provisions within Technical Provisions and therefore do not feature within Solvency II assets. This represents one of the most significant differences between the GAAP and Solvency II technical provisions.

Reinsurance receivables

Reinsurance receivables primarily relate to the amount owed to us from our reinsurers arising from claims payments made or profit share due. The difference between the Solvency II amount and GAAP figure relates to an unexpired minimum reinsurance commitment from one reinsurer. However, it is excluded from the Solvency II figures because it has no future cash flow.

Other Assets

Remaining assets not covered above represent prepayments. Included within prepayments in the statutory balance sheet is an amount for reinsurance prepayments which is not recognised in the Solvency II balance sheet.

D2 – Technical provisions

Components of Technical Provisions

Technical provisions represent the current cost of insurance liabilities at the balance sheet date. They are calculated on a discounted cash flow basis and include the following high-level components to be calculated separately:

- Best estimate of claims provisions being claims incurred at the balance sheet date
- Best estimate of premium provision being claims expected to be incurred after the balance sheet date on contracts incepted prior to that date.
- Risk Margin representing the amount a third party would require in addition to the best estimates to assume the liability, calculated on a cost of capital basis.

	Technical Provisions	
Description	**Per Solvency II**	**Per GAAP**
	£	**£**
Technical Provisions	19,250,997	32,760,552
Risk Margin	730,207	
Total Technical Provisions	**19,981,204**	**32,760,552**

We set out in the table below a summary of the Solvency II valuation of technical provisions split between best estimate and risk margin in the table below by Solvency II line of business **(S.17.01.01 Non-Life Technical Provisions)**

	Direct business and accepted proportional reinsurance					
	Motor vehicle liability insurance	**Other motor insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Miscellaneous financial loss**	**Total Non-Life obligation**
	C0050	C0060	C0080	C0090	C0130	C0180
Technical provisions calculated as a whole	0.00	0.00	0.00	0.00	0.00	0.00
Direct business						0.00
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole						0.00
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross - Total	651,890.89	923,844.27	815,805.96	625,066.46	14,454.84	3,031,062.42
Gross - direct business	651,890.89	923,844.27	815,805.96	625,066.46	14,454.84	3,031,062.42
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty defaul	0.00	0.00	0.00	0.00	0.00	0.00
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses						0.00
Recoverables from SPV before adjustment for expected losses						0.00
Recoverables from Finite Reinsurance before adjustment for expected losses						0.00
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	182,422.24	-484,561.69	-155,633.44	198,528.92	-961.76	-260,205.73
Net Best Estimate of Premium Provisions	469,468.65	1,408,405.96	971,439.40	426,537.54	15,416.60	3,291,268.15
Claims provisions						
Gross - Total	2,280,178.84	6,840,536.53	3,820,518.38	3,272,968.51	5,732.73	16,219,934.99
Gross - direct business	2,280,178.84	6,840,536.53	3,820,518.38	3,272,968.51	5,732.73	16,219,934.99
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty defaul	0.00	0.00	0.00	0.00	0.00	0.00
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses						0.00
Recoverables from SPV before adjustment for expected losses						0.00
Recoverables from Finite Reinsurance before adjustment for expected losses						0.00
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	738,750.49	2,216,251.45	163,746.05	1,304,126.66	0.00	4,422,874.65
Net Best Estimate of Claims Provisions	1,541,428.35	4,624,285.08	3,656,772.33	1,968,841.85	5,732.73	11,797,060.34
Total best estimate - gross	2,932,069.73	7,764,380.80	4,636,324.34	3,898,034.97	20,187.57	19,250,997.41
Total best estimate - net	2,010,897.00	6,032,691.04	4,628,211.73	2,395,379.39	21,149.33	15,088,328.49
Risk margin	100,568.88	86,155.00	463,032.73	78,996.19	1,453.98	730,206.78
Amount of the transitional on Technical Provisions						
TP as a whole						0.00
Best estimate						0.00
Risk margin						0.00
Technical provisions - total	3,032,638.61	7,850,535.80	5,099,357.07	3,977,031.16	21,641.55	19,981,204.19
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to c	921,172.73	1,731,689.76	8,112.61	1,502,655.58	-961.76	4,162,668.92
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	2,111,465.88	6,118,846.04	5,091,244.46	2,474,375.58	22,603.31	15,818,535.27

Gross claims cash flows and reinsurance recoveries

Our best estimate calculations have been completed on a deterministic basis in line with the Directive. No transitional measure has been used in the calculation of technical provisions.

1. **Claims provision**

The current claims provisions have been developed over time to separate out best estimate and prudent elements. The claims provisions on a GAAP basis have been used as a starting point for the expected nominal value of the Solvency II future cash flow. We have excluded elements within our GAAP provisions which we consider to represent prudence. We have also only included expenses which relate to the cost of handling existing business.

Projected cash flows are estimated by applying payment patterns to the estimates of gross claims and recoveries. These payment patterns have been calculated based on historic trends for each Solvency II line of business. However, given the relatively short tail nature of our book, the impact of discounting on our technical provisions is limited.

2. **Premium provision**

Premium provision replaces UK GAAP unearned premium reserve (UEPR). Premium provisions are split between a future claims element and a future expenses element. In addition, all of CM premium, which is uncollected due to instalment patterns is treated as premium provision. The rationale is that all instalment patterns are designed so that Members are effectively in credit with respect to insurance exposure. To determine the nominal number of future claims we take the amount of UEPR for each segment within the GAAP accounts and multiply it by the planned loss ratio for the current year. The loss ratios used are in line with Solvency II guidance. We have included an amount for expenses which represents our estimate of the cost of handling the remaining element of this business.

Discounting

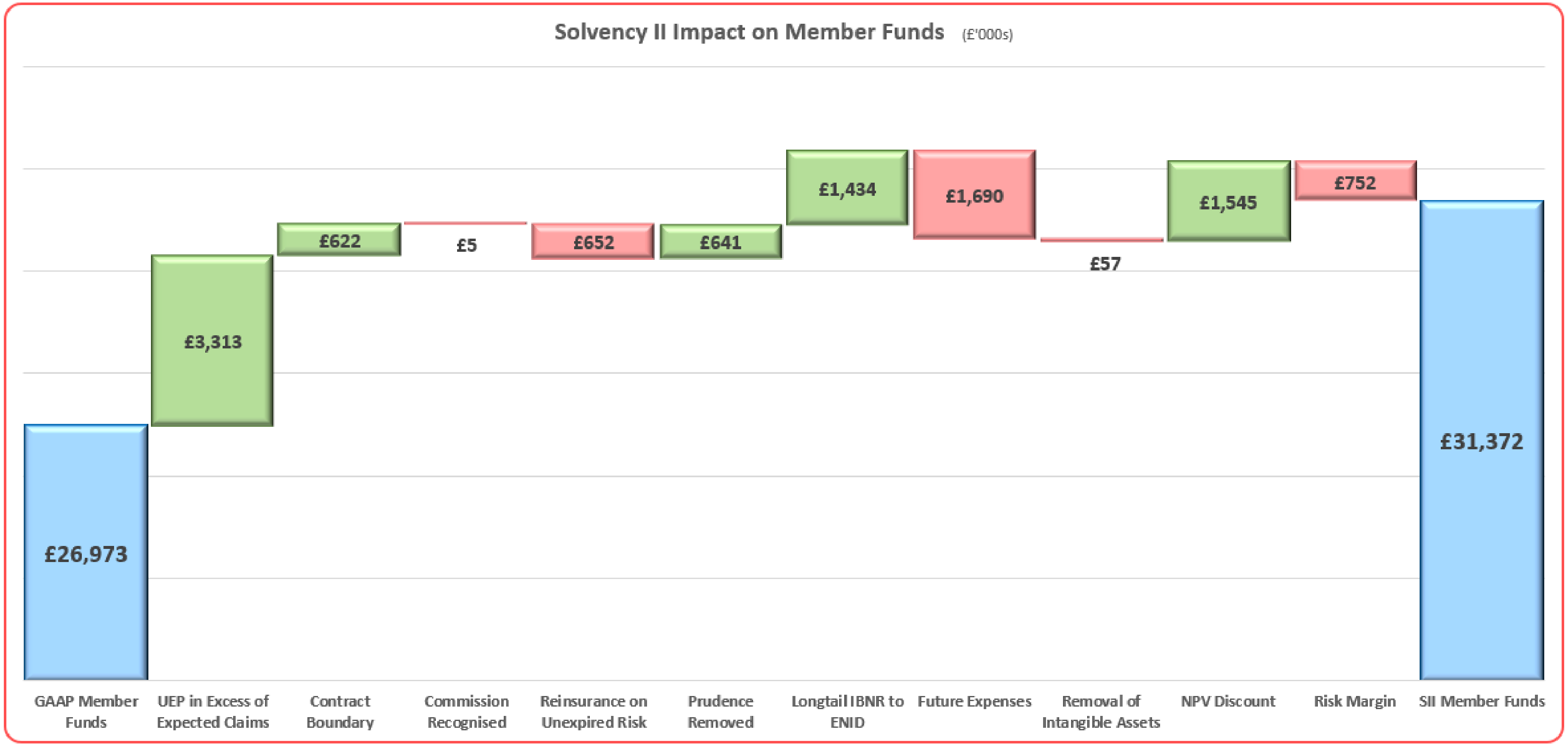
Claims, premium and expense cash flows have been discounted using the EIOPA yield curve.

Risk Margin

To calculate the risk margin we have estimated the SCR using the Standard Formula. We have then projected future SCRs using different runoff patterns for different elements of the SCR. We have discounted and summed the projected SCRs and multiplied this by the cost of capital.

Solvency II Adjustments Impact on Members' Funds

We set out in the graph below a reconciliation between GAAP Members' Funds and Solvency II Members' Funds all of which are derived from movements in Technical Provisions which are in line with expectations.



UEP in Excess of Expected Claims

In the statutory financial statements, unearned premium (UEP) is deferred to the extent that it relates to unexpired term of each policy. Under Solvency II, all premium is recognised and the future expected value of claims is provided for. This adjustment represents the difference between the two approaches.

Contract Boundary

Under Solvency II the recognition of insurance contracts is extended to include policies on which terms have been agreed even if the renewal date lies in the future. This is the estimate of the effect on technical provisions of including these contracts.

Prudence removed and long tail IBNR to ENID adjustment

Under UK GAAP the inclusion of prudence is permitted within the technical provisions whereas within the Solvency II balance sheet, provisions are made on the probability weighted best estimate of future cash flows. These two adjustments take account of this different policy. ENID is Events Not In Data and is an estimate of claims which might occur that lie outside of the provisions which have been estimated using existing historical data. We have used the cost of reinsurance as a reference point for ENIDs. Our logic is that material tail events which would change technical provisions are likely to arise in liability classes which are covered by reinsurance. While not in our data, these events are likely to be in reinsurer data or priced in. Accordingly the starting point for our ENIDs is an interpolation from the amount paid to reinsurers for excess of loss cover in relation to liability classes.

Future Expenses

This is an accrual of the expected cost of expenses required to discharge the provisions within technical provisions.

NPV Discount (Net Present Value)

The technical provisions are allocated over future periods in which the cash flows are expected to occur. The cash flows in future periods are discounted at a prescribed rate to reflect the 'time value of money'. This is the effect of that discount.

Risk Margin

The technical provisions are an estimate of what the company would have to pay a third party to assume the insurance liabilities. A third party would need to hold capital to meet regulatory conditions if they assumed these liabilities. The risk margin is the extra amount the third party would require to accept the liabilities and represents a 6% annual cost of capital on the reducing balance of regulatory capital required.

Commission Recognised on Written Premium

Under Solvency II, all profit on existing contracts is recognised in the period. In the annual statements the commission relating to unearned premium (UEP) is also deferred. In line with the adjustment to premium, the related commission is also recognised in the Solvency II net assets.

Data adjustments and recommendations

Overall we consider that the technical provisions are prepared on a suitable basis, in line with the approach laid down in the legislation and sources of interpretation we have referred to. It is expected that our approach will continue to develop and be refined in response to external audit, ongoing commentary and guidance by the regulator and our own ongoing continuous improvement reviews.

In the face of uncertainty we have taken a cautious approach. Where we believe our best estimate lies in a range of values we are biased towards higher values at this stage through our choice of estimates or parameters within calculations.

Control over our sources of data and the processing of that data are good. The link between our GAAP reserves and our Solvency II provisions is straightforward, well understood by those undertaking the work and enables reliance to be placed on underlying accounting controls as well as those specific to the technical provision exercise. There are some opportunities to refine our approach. There will always be a trade-off between model precision and error rate. Where simplified approaches are warranted, proportional and will not lead to a material error, we have adopted such approaches.

Sensitivity Analysis

The following table lays out the key components of the TPs. For each component there is a sensitivity column which gives an idea of the degree of confidence in each number. There are three key sources of sensitivity: uncertainty, volatility and model inaccuracy. The sensitivities quoted are against the intended calculated value of TPs prescribed in the directive. It is not a view on the result as a measure of the fair value of the liabilities. For example the risk margin methodology is prescribed as a cost of capital calculation at the rate of 6%. The sensitivity below is a reflection of confidence in the calculation of this item rather than its appropriateness as a method.

Uncertainty arises in incurred claims where the final outcome is not known.

Volatility arises in future claims cost expectations, particularly large claims.

Model inaccuracy arises in incorrect assumptions or calculations. The sensitivity captured here is the difference to the intended model rather than overall model inaccuracy. The main source of model inaccuracy is the estimate of the allocated expense nominal cash amount. ENIDs also represent a challenge in arriving at a well-supported number.

Element of Technical Provisions	Balance	Sensitivity	Sensitivity	Source of Sensitivity	Notes
Net Claims Provisions - Attritional	5.1	5%	0.25	Accuracy of savings model. High volume, low value claims are subject to accurate statistical analysis and capable of achieving accurate results	Analysis of run-off of aggregate small claims cost. High confidence in figure.
Net Claims Provisions - Large	6.7	15%	1.01	Accuracy subject to expert judgement.	High volatility in large claims run-off but small net figure. Original best estimate error lies in case estimate.
Claims Expenses	0.3	3%	0.01		Cost of settling outstanding 1,500 claims.
Premium Provisions	8.3	8%	0.62	Underlying volatility in each class of business.	Uncertainty higher as not yet incurred. Looked at loss ratio volatility over time for portfolio.
Contract Boundary	1.9	3%	0.06	Estimated premiums.	
Expenses - Premium	2.1	15%	0.32	Uncertainty over the method of calculation.	Lack of prescribed methods in directive.
Reinsurer Payments	1.1	3%	0.03	This is the future cost of unexpired risk based on the existing contracts, so known figure.	
Future Premium - Policy Holders	(8.8)	1%	(0.09)	Absolute number.	Potentially could split a small amount (<£0.2M) into Claims Provisions.
ENIDs	0.0	50%	0.00	Huge amount of judgement here. Look to refine and benchmark.	Unknown, but low on a probability weighted basis. Record gross and net.
Effect of Discounting	(1.5)	3%	(0.05)	Uncertainty is driven by cash flow profiles. Short-tail book is relatively insensitive.	Sensitivity to potential best estimate error is diluted by the high discount rate.
Reinsurer Default	0.0	0%	0.00	No allowance made at this stage.	Not material.
Best Estimate	**15.1**		**2.16**	**Sum of individual sensitivities.**	
Risk Margin	0.7	10%	0.07		
TOTAL	**15.8**		**1.26**	**Diversified uncertainty. (Square root of sum of squares of individual sensitivities).**	

D3 – Other liabilities

Set out in the table below are our other liabilities under Solvency II and GAAP. Except where stated, the valuations of liabilities is in line with those disclosed in Note 3 of the Annual Report available on the Cornish Mutual website.

	Liabilities	
Description	**Per Solvency II**	**Per GAAP**
	£	**£**
Reinsurance Payables		549,570
Payables (trade, not insurance)	1,917,625	1,917,625
Pension benefit obligations	0	0
Deferred tax liabilities	0	0
Any other liabilities, not shown elsewhere	300,000	735,762
Total Liabilities	**2,217,625**	**3,202,957**

Any other liabilities in the GAAP accounts represents commission income unearned on the unearned proportion of premium ceded to reinsurers. Within the Solvency II balance sheet these amounts are recognised on a written basis and all associated commission has been taken to Members' Funds rather than remain outstanding within liabilities.

Deferred tax liabilities

Deferred tax liabilities are recognised where transactions or events have occurred at the balance sheet date that will result in an obligation to pay tax in the future.

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

The deferred tax liability held in the balance sheet at the reporting date is made up as follows:

	2022	**2021**
	£	**£**
Unrealised gains on investments	143,361	561,596
Fixed asset timing differences	13,368	15,778
Short term timing differences	(39,250)	0
Tax losses carried forward	(117,479)	(577,374)
Net deferred tax liability	**0**	**0**
Net provision for liability at start of period	0	0
Deferred tax charge in profit and loss	0	0
Provision for liability at the end of the period	**0**	**0**

When realised, the untaxed gains on investments can be offset against the carried forward losses. No specific date has been set for sale of the assets but it is envisaged that these timing differences will expire within the next 3 years.

Pension benefit obligations

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

An actuarial valuation of the scheme was carried out on 31 July 2019. The valuation of the scheme used the projected unit credit method and was carried out by Barnett Waddingham LLP who are professionally qualified actuaries. This valuation basis is the same as the Solvency II basis.

The major assumptions used by the actuary at the balance sheet date were:

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

The amounts recognised in the statement of financial position were are as follows:

	2022
	£000's
Fair value of assets	5,393
Present value of funded obligations basic calculation	(5,704)
Surplus/ (Deficit) in scheme	(311)
Restriction to surplus	nil
Net Pension (Deficit)	(311)

The fair value of the plan assets are 100% insured through an Insurance Policy with L&G.

E. Capital management

E1 Own Funds

Cornish Mutual's Own Funds are made up 100% of Members' Funds which equal retained profits as adjusted for Solvency II, which have arisen from past underwriting and investment surpluses. As such all capital is Tier 1 and there are no restrictions on the availability of Cornish Mutual's own funds to support the MCR or SCR.

Cornish Mutual has adopted the Standard formula as the basis for calculating its solvency capital requirement. The Board have a policy which determines the level of surplus capital it holds in addition to the SCR, currently determined at 150% of MCR. The expectation of meeting the SCR and the higher internal capital requirement in future periods is tested annually. If the Solvency Capital Ratio falls below 170%, there is a clear process to be followed by the ICMC initially, and then subsequently the Board to identify next steps. The current SCR is 185%. The Company are comfortable with this position due to the inability to fully recognise the benefit from the stop loss reinsurance programme in the standard formula.

The ICMC has now set an additional monitoring trigger which is a blend of the ECA and the SCR. The blended trigger uses the standard formula SCR, with the exception of insurance risk where the ECA is adopted to determine the insurance risk capital requirement. ECA insurance risk is reached by calculating the actual additional claims costs that would be required to attach to earned premium to reach the stop loss attachment of 70% in the current two underwriting years. The higher of these two years is adopted and a reinstatement premium added. Lapse risk and diversification is included based on the standard formula. Based on the position as at the end of September, this ratio was 198%, and therefore above the monitoring trigger for this metric. Should this blended trigger approach or fall below 170% the ICMC will review and instigate any necessary actions.

The Company produces a five-year plan with a forecast balance sheet for each year. The balance sheet for each scenario is subject to stress testing as our Regulator would expect, to ensure they would meet regulatory capital requirements at each future period. Additionally, we test these future balance sheets against our own internal capital standard.

As a mutual the Company does not set out to make a specific return on capital. Rather it seeks to use its capital for the benefit of Members by delivering a high quality and cost-effective service. The Company does not return capital to Members through any specific distribution mechanism. Accordingly, premiums are maintained at a level which allows for sustainable growth and provides a reasonable expectation that Own Funds meet the capital appetite described above, without generating excessive profits over the five-year planning period.

E2 Minimum Capital Requirement and Solvency Capital Requirement

Cornish Mutual uses the standard formula as the basis for calculating capital requirements having reviewed the assumptions underlying the formula and assessed them as appropriate for the firm. We have not adopted any simplified calculations or undertaking specific parameters (USPs). Set out below is a summary of Own Funds, which also includes the appendix reference where a more detailed breakdown can be found.

	2022		Appendix Reference
Description	**Per Solvency II**	**Per GAAP**	
	£	**£**	
Own Funds	31,372,118	26,973,091	S.23.01.b
Minimum Capital Requirement	4,240,355		S.28.01.b
Solvency Capital Requirement	16,961,422		S.25.01.b
Solvency Ratio	**185%**		

	2021		Appendix Reference
Description	**Per Solvency II**	**Per GAAP**	
	£	**£**	
Own Funds	31,111,311	28,652,466	
Minimum Capital Requirement	4,722,175		
Solvency Capital Requirement	18,888,699		
Solvency Ratio	**165%**		

Set out below is a summary of our overall MCR Calculation.

E5 Non-compliance with MCR and SCR

The company has fully complied with the standard formula calculation of MCR and SCR throughout the period. Cornish Mutual uses the standard formula as the basis for calculating capital requirements having reviewed the assumptions underlying the formula and assessed them as appropriate for the firm.

S.02.01.01
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	0.00
R0040	Deferred tax assets	0.00
R0050	Pension benefit surplus	0.00
R0060	Property, plant & equipment held for own use	2,374,229.53
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	42,027,183.99
R0080	*Property (other than for own use)*	0.00
R0090	*Holdings in related undertakings, including participations*	0.00
R0100	*Equities*	0.00
R0110	*Equities - listed*	0.00
R0120	*Equities - unlisted*	0.00
R0130	*Bonds*	0.00
R0140	*Government Bonds*	0.00
R0150	*Corporate Bonds*	0.00
R0160	*Structured notes*	0.00
R0170	*Collateralised securities*	0.00
R0180	*Collective Investments Undertakings*	42,027,183.99
R0190	*Derivatives*	0.00
R0200	*Deposits other than cash equivalents*	0.00
R0210	*Other investments*	0.00
R0220	Assets held for index-linked and unit-linked contracts	0.00
R0230	Loans and mortgages	0.00
R0240	*Loans on policies*	0.00
R0250	*Loans and mortgages to individuals*	0.00
R0260	*Other loans and mortgages*	0.00
R0270	Reinsurance recoverables from:	4,162,668.92
R0280	*Non-life and health similar to non-life*	4,162,668.92
R0290	*Non-life excluding health*	4,162,668.92
R0300	*Health similar to non-life*	0.00
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0.00
R0320	*Health similar to life*	0.00
R0330	*Life excluding health and index-linked and unit-linked*	0.00
R0340	*Life index-linked and unit-linked*	0.00
R0350	Deposits to cedants	0.00
R0360	Insurance and intermediaries receivables	0.00
R0370	Reinsurance receivables	3,671,560.35
R0380	Receivables (trade, not insurance)	0.00
R0390	Own shares (held directly)	0.00
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.00
R0410	Cash and cash equivalents	1,036,615.79
R0420	Any other assets, not elsewhere shown	298,688.63
R0500	**Total assets**	53,570,947.21

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	19,981,204.19
R0520	*Technical provisions - non-life (excluding health)*	19,981,204.19
R0530	*TP calculated as a whole*	0.00
R0540	*Best Estimate*	19,250,997.41
R0550	*Risk margin*	730,206.78
R0560	*Technical provisions - health (similar to non-life)*	0.00
R0570	*TP calculated as a whole*	0.00
R0580	*Best Estimate*	0.00
R0590	*Risk margin*	0.00
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0.00
R0610	*Technical provisions - health (similar to life)*	0.00
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0.00
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0.00
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	0.00
R0840	Payables (trade, not insurance)	1,917,625.04
R0850	Subordinated liabilities	0.00
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0.00
R0880	Any other liabilities, not elsewhere shown	300,000.00
R0900	**Total liabilities**	22,198,829.23
R1000	**Excess of assets over liabilities**	31,372,117.98

S.05.01.01

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					Total
		Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	
		C0040	C0050	C0070	C0080	C0120	C0200
	Premiums written						
R0110	*Gross - Direct Business*	3,355,298.35	10,065,895.04	9,160,901.76	3,462,737.48	160,633.09	26,205,465.72
R0120	*Gross - Proportional reinsurance accepted*	0.00	0.00	0.00	0.00	0.00	0.00
R0130	*Gross - Non-proportional reinsurance accepted*						0.00
R0140	*Reinsurers' share*	410,943.40	1,232,830.20	847,091.30	372,438.78	14,218.94	2,877,522.62
R0200	*Net*	2,944,354.95	8,833,064.84	8,313,810.46	3,090,298.70	146,414.15	23,327,943.10
	Premiums earned						
R0210	*Gross - Direct Business*	3,239,545.48	9,718,636.43	8,791,901.77	3,289,260.96	155,521.91	25,194,866.55
R0220	*Gross - Proportional reinsurance accepted*	0.00	0.00	0.00	0.00	0.00	0.00
R0230	*Gross - Non-proportional reinsurance accepted*						0.00
R0240	*Reinsurers' share*	395,986.77	1,187,960.30	806,979.02	352,445.99	10,230.88	2,753,602.96
R0300	*Net*	2,843,558.71	8,530,676.13	7,984,922.75	2,936,814.97	145,291.03	22,441,263.59
	Claims incurred						
R0310	*Gross - Direct Business*	2,315,684.97	6,947,054.90	5,191,208.00	1,996,481.90	96,189.50	16,546,619.27
R0320	*Gross - Proportional reinsurance accepted*	0.00	0.00	0.00	0.00	0.00	0.00
R0330	*Gross - Non-proportional reinsurance accepted*						0.00
R0340	*Reinsurers' share*	395,749.76	1,187,249.27	-422,470.21	-315,018.70	0.00	845,510.12
R0400	*Net*	1,919,935.21	5,759,805.63	5,613,678.21	2,311,500.60	96,189.50	15,701,109.15
	Changes in other technical provisions						
R0410	*Gross - Direct Business*	0.00	0.00	0.00	0.00	0.00	0.00
R0420	*Gross - Proportional reinsurance accepted*	0.00	0.00	0.00	0.00	0.00	0.00
R0430	*Gross - Non-proportional reinsurance accepted*						0.00
R0440	*Reinsurers' share*	0.00	0.00	0.00	0.00	0.00	0.00
R0500	*Net*	0.00	0.00	0.00	0.00	0.00	0.00
R0550	**Expenses incurred**	874,818.39	2,624,455.17	2,372,921.75	912,400.75	41,600.03	6,826,196.09
R1200	**Other expenses**						
R1300	**Total expenses**						6,826,196.09

S.17.01.01
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance					
		Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	Total Non-Life obligation
		C0050	C0060	C0080	C0090	C0130	C0180
R0010	**Technical provisions calculated as a whole**	0.00	0.00	0.00	0.00	0.00	0.00
R0020	Direct business						0.00
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole						0.00
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
	Premium provisions						
R0060	**Gross - Total**	651,890.89	923,844.27	815,805.96	625,066.46	14,454.84	3,031,062.42
R0070	Gross - direct business	651,890.89	923,844.27	815,805.96	625,066.46	14,454.84	3,031,062.42
R0100	Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty defaul	0.00	0.00	0.00	0.00	0.00	0.00
R0110	*Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses*						0.00
R0120	*Recoverables from SPV before adjustment for expected losses*						0.00
R0130	*Recoverables from Finite Reinsurance before adjustment for expected losses*						0.00
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	182,422.24	-484,561.69	-155,633.44	198,528.92	-961.76	-260,205.73
R0150	**Net Best Estimate of Premium Provisions**	469,468.65	1,408,405.96	971,439.40	426,537.54	15,416.60	3,291,268.15
	Claims provisions						
R0160	**Gross - Total**	2,280,178.84	6,840,536.53	3,820,518.38	3,272,968.51	5,732.73	16,219,934.99
R0170	Gross - direct business	2,280,178.84	6,840,536.53	3,820,518.38	3,272,968.51	5,732.73	16,219,934.99
R0200	Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty defaul	0.00	0.00	0.00	0.00	0.00	0.00
R0210	*Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses*						0.00
R0220	*Recoverables from SPV before adjustment for expected losses*						0.00
R0230	*Recoverables from Finite Reinsurance before adjustment for expected losses*						0.00
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	738,750.49	2,216,251.45	163,746.05	1,304,126.66	0.00	4,422,874.65
R0250	**Net Best Estimate of Claims Provisions**	1,541,428.35	4,624,285.08	3,656,772.33	1,968,841.85	5,732.73	11,797,060.34
R0260	**Total best estimate - gross**	2,932,069.73	7,764,380.80	4,636,324.34	3,898,034.97	20,187.57	19,250,997.41
R0270	**Total best estimate - net**	2,010,897.00	6,032,691.04	4,628,211.73	2,395,379.39	21,149.33	15,088,328.49
R0280	**Risk margin**	100,568.88	86,155.00	463,032.73	78,996.19	1,453.98	730,206.78
	Amount of the transitional on Technical Provisions						
R0290	TP as a whole						0.00
R0300	Best estimate						0.00
R0310	Risk margin						0.00
R0320	**Technical provisions - total**	3,032,638.61	7,850,535.80	5,099,357.07	3,977,031.16	21,641.55	19,981,204.19
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to c**	921,172.73	1,731,689.76	8,112.61	1,502,655.58	-961.76	4,162,668.92
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total**	2,111,465.88	6,118,846.04	5,091,244.46	2,474,375.58	22,603.31	15,818,535.27

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											1,380.00	1,380.00	1,380.00
R0160	N-9	6,775,244.54	2,899,433.22	501,573.05	566,045.56	460,536.31	122,125.27	66,697.67	0.00	594.00	0.00		0.00	11,392,249.62
R0170	N-8	8,726,015.98	3,775,430.33	459,665.06	263,732.07	281,662.32	63,922.81	21,692.88	19,039.43	815.59			815.59	13,611,976.47
R0180	N-7	5,377,224.80	2,929,591.07	740,604.31	655,366.97	207,902.22	135,554.55	114,451.94	7,825.76				7,825.76	10,168,521.62
R0190	N-6	6,183,761.53	3,038,253.99	625,580.99	386,731.31	390,660.47	145,278.50	59,046.30					59,046.30	10,829,313.09
R0200	N-5	6,230,272.43	3,134,765.89	679,823.97	371,015.92	499,083.30	566,085.40						566,085.40	11,481,046.91
R0210	N-4	8,545,703.18	3,443,903.07	1,173,864.45	832,046.28	5,720,918.50							5,720,918.50	19,716,435.48
R0220	N-3	7,109,179.74	3,126,438.66	969,836.35	1,104,282.67								1,104,282.67	12,309,737.42
R0230	N-2	6,843,521.99	3,649,795.57	620,148.65									620,148.65	11,113,466.21
R0240	N-1	5,862,860.22	3,071,364.68										3,071,364.68	8,934,224.90
R0250	N	8,387,369.77											8,387,369.77	8,387,369.77
R0260												**Total**	19,539,237.32	117,945,721.49

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Year	Development year											**Year end (discounted data)**
	0	1	2	3	4	5	6	7	8	9	10 & +	
Prior											0.04	0.24
N-9	293,857.89	1,343,225.78	1,264,549.01	1,152,499.30	290,956.90	102,057.35	0.00	0.00	0.00	0.00		0.00
N-8	5,820,075.74	1,099,296.26	1,430,056.67	572,888.44	198,694.68	122,642.05	26,345.72	10.00	0.00			0.00
N-7	4,035,110.43	1,453,020.08	1,062,137.25	610,509.58	506,306.87	325,462.10	156,591.60	92,010.70				92,010.70
N-6	5,336,170.57	2,022,232.30	1,040,524.10	968,796.72	452,223.07	242,721.94	38,191.34					37,243.07
N-5	5,731,551.79	2,775,725.78	2,157,526.21	1,969,928.97	1,390,820.12	615,427.71						582,526.79
N-4	5,772,067.10	2,465,678.62	8,634,897.20	7,882,862.53	1,848,819.53							1,832,221.99
N-3	7,261,877.08	4,548,315.55	4,067,370.87	3,939,682.35								3,742,310.94
N-2	5,481,988.21	2,195,596.05	2,002,312.44									1,898,545.36
N-1	4,539,663.30	1,638,120.87										1,626,480.51
N	7,087,869.94											6,408,595.39
											Total	16,219,934.99

S.23.01.01
Own Funds

		Total	Tier 1 unrestricted
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020
R0010	Ordinary share capital (gross of own shares)	0.00	0.00
R0030	Share premium account related to ordinary share capital	0.00	0.00
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0.00	0.00
R0050	Subordinated mutual member accounts	0.00	
R0070	Surplus funds	0.00	0.00
R0090	Preference shares	0.00	
R0110	Share premium account related to preference shares	0.00	
R0130	Reconciliation reserve	31,372,117.98	31,372,117.98
R0140	Subordinated liabilities	0.00	
R0160	An amount equal to the value of net deferred tax assets	0.00	
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0.00	0.00
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds		
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0.00	
	Deductions		
R0230	Deductions for participations in financial and credit institutions	0.00	
R0290	**Total basic own funds after deductions**	31,372,117.98	31,372,117.98
	Ancillary own funds		
R0300	Unpaid and uncalled ordinary share capital callable on demand	0.00	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0.00	
R0320	Unpaid and uncalled preference shares callable on demand	0.00	
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0.00	
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0.00	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0.00	
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00	
R0390	Other ancillary own funds	0.00	
R0400	**Total ancillary own funds**	0.00	
	Available and eligible own funds		
R0500	Total available own funds to meet the SCR	31,372,117.98	31,372,117.98
R0510	Total available own funds to meet the MCR	31,372,117.98	31,372,117.98
R0540	Total eligible own funds to meet the SCR	31,372,117.98	31,372,117.98
R0550	Total eligible own funds to meet the MCR	31,372,117.98	31,372,117.98
R0580	**SCR**	16,961,421.70	
R0600	**MCR**	4,240,355.42	
R0620	**Ratio of Eligible own funds to SCR**	184.96%	
R0640	**Ratio of Eligible own funds to MCR**	739.85%	

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	31,372,117.98
R0710	Own shares (held directly and indirectly)	0.00
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0.00
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	31,372,117.98

S.25.01.01

Solvency Capital Requirement - for undertakings on Standard Formula

Z0010 Article 112 **Regular reporting**

		Net solvency capital requirement	Gross solvency capital requirement
		C0030	C0040
R0010	Market risk	12,388,189.42	12,388,189.42
R0020	Counterparty default risk	1,140,490.87	1,140,490.87
R0030	Life underwriting risk		
R0040	Health underwriting risk		
R0050	Non-life underwriting risk	7,020,899.54	7,020,899.54
R0060	Diversification	-4,344,004.13	-4,344,004.13
R0070	Intangible asset risk		0.00
R0100	**Basic Solvency Capital Requirement**	16,205,575.70	16,205,575.70

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0130	Operational risk	755,846.00
R0140	Loss-absorbing capacity of technical provisions	0.00
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	16,961,421.70
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	16,961,421.70

S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance	C0010
R0010	MCR_{NL} Result	3,294,284.02

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R002	Medical expense insurance and proportional reinsurance	0.00	0.00
R003	Income protection insurance and proportional reinsurance	0.00	0.00
R004	Workers' compensation insurance and proportional reinsurance	0.00	0.00
R005	Motor vehicle liability insurance and proportional reinsurance	2,010,897.00	2,944,354.95
R006	Other motor insurance and proportional reinsurance	6,032,691.04	8,833,064.84
R007	Marine, aviation and transport insurance and proportional reinsurance	0.00	0.00
R008	Fire and other damage to property insurance and proportional reinsurance	4,628,211.73	8,319,778.11
R009	General liability insurance and proportional reinsurance	2,395,379.39	3,090,298.70
R0100	Credit and suretyship insurance and proportional reinsurance	0.00	0.00
R0110	Legal expenses insurance and proportional reinsurance	0.00	0.00
R0120	Assistance and proportional reinsurance	0.00	0.00
R0130	Miscellaneous financial loss insurance and proportional reinsurance	21,149.33	140,446.50
R0140	Non-proportional health reinsurance	0.00	0.00
R0150	Non-proportional casualty reinsurance	0.00	0.00
R0160	Non-proportional marine, aviation and transport reinsurance	0.00	0.00
R0170	Non-proportional property reinsurance	0.00	0.00

	Linear formula component for life insurance and reinsurance oblig	C0040
R020 0	MCR_L Result	0.00

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R022	Obligations with profit participation - future discretionary benefits		
R023	Index-linked and unit-linked insurance obligations		
R024	Other life (re)insurance and health (re)insurance obligations		
R025 0	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	3,294,284.02
R0310	SCR	16,961,421.70
R032	MCR cap	7,632,639.76
R033	MCR floor	4,240,355.42
R0340	Combined MCR	4,240,355.42
R0350	Absolute floor of the MCR	3,126,130.00
R0400	**Minimum Capital Requirement**	4,240,355.42