

Manx Credit Union Limited
Annual Report and Financial Statements
30 September 2017



Manx Credit Union Limited

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Manx Credit Union Limited

Administrative information

Directors

David Talbot (Chairman)

Ian Yates (Secretary)

Adrian Tinkler

Wendy Shimmin

Paul Blake

Johanna Watkinson (Appointed 21 March 2017)

Gordon Lloyd-West (Appointed 29 November 2017)

Beverley Williamson (Resigned 29 September 2017)

Tracey Hellowell (Resigned 6 March 2017)

John Hellowell (Resigned 6 March 2017)

Nicholas White (Resigned 20 March 2017)

Secretary

Ian Yates

Registration number

I.27 - Industrial & Building Societies Act 1892-1979

Registered Office

Nadine House

13 North Quay

Douglas

IM1 4LE

Contact details

Tel: (01624) 619459

Email: info@mcu.im

Website: www.mcu.im

Auditors

Browne Craine Associates Limited

Burleigh Manor

Peel Rd

Douglas

IM1 5EP

Bankers

Lloyds Bank International Limited

Victory House

Prospect Hill

Douglas

IM99 1AH

Cayman National Group

4-8 Hope St

Douglas

IM1 1AQ

Manx Credit Union Limited

Board of Management Report

Introduction

The Board of the Manx Credit Union (MCU) is delighted to present this report to members at the first Annual General Meeting (AGM). It is an historic occasion - MCU is the first and only credit union on the Isle of Man, and so this is the first-ever AGM held by a credit union on the Island.

MCU came into existence on 22 August 2016 when we received our "certification of incorporation" from the Isle of Man Companies Registry. This was a great day for the working party which had been working tirelessly for several years before this date to establish a credit union on the Island: the Board is particularly appreciative of the endeavours and hard work of the Chairman, David Talbot, who was instrumental in setting up the working party.

Governance

MCU is governed by two main pieces of Manx legislation, the Industrial & Building Societies Act 1892 and the Credit Unions Act 1993, and is regulated by the Isle of Man Financial Services Authority, with whom we have regular meetings.

The Rules of MCU incorporate the legislative requirements, and a set of policies and procedures have been developed to administer the day-to-day operations of the credit union. Copies of these documents are retained in the registered office and are available to members for inspection.

MCU is managed by a Board of Directors, currently comprising seven members. All the Board members take a great interest in the successful operation of MCU and take their duties seriously. The Board is required to meet at least four times a year, but has met eleven times in the 16-month period to December 2017. Minutes are taken at all the Board meetings.

The Board established a Credit Committee to review and process all loan applications. Minutes are taken at all the Credit Committee meetings to document the decisions made, and reports are provided to the Board. *(See the separate Credit Committee report to the AGM for further information.)*

Volunteers

MCU has no paid staff and is run entirely by volunteers, including the Directors: quite simply, it would not operate without their valued input. The Board would like to give special thanks to all the volunteers who have given their time freely and enthusiastically to MCU.

Training

Training has been given a high importance, especially as there are legal responsibilities incumbent upon both MCU and the volunteers as well as the more straightforward tasks of understanding how to use the various systems. Induction training has been carried out for all volunteers which includes the statutory areas such as Data Protection and Anti-Money Laundering, as well as covering essential Health & Safety knowledge.

Thirty-two volunteers (including Directors) have received formal training on 18 different topics as at 30 September 2017. One-to-one training has taken place continuously as all have shared the new knowledge with each other. A blended learning style has seen volunteer development take place in formal workshops, on the job training, reading, checklists and flowcharts, online training and day to day knowledge sharing.

Detailed training records are in place and training reviews have been carried out with all volunteers to end of September. Volunteers have taken their responsibilities seriously and have been fully engaged in the learning.

Manx Credit Union Limited

Board of Management Report (Cont.)

Members

As at 30 September 2017, MCU had 307 members and the Board would like to thank each and every one of them for joining the credit union. Since that date, another 48 members have joined. As with the Board members and volunteers, we are sure that all the members appreciate the benefit of having a credit union on the Island.

Dividend

A dividend will not be declared for the financial period ending 30 September 2017. This is covered in more detail in the Treasurer's report.

Complaints and disputes

No complaints were made to, or disputes raised with, MCU in the period to 30 September 2017, and none have occurred since that date.

Awards

To assess our approach to disability and accessibility issues, and to evaluate our preparedness to the Equality Act 2017, we participated in the Tiered Award Scheme facilitated by Crossroads Care in partnership with the Department for Social Care. Following our self-assessment we achieved a Bronze level award in October 2017 and we will continue to monitor our progress for our re-appraisal under this scheme in autumn 2018.

We were a finalist at the Isle of Man Responsible Business Awards 2017 and, being a not-for-profit organisation, we were entered in the category "Top Inclusive Organisation of the Year for Charities".

Special thanks

In addition to the members and volunteers, and the many ordinary folk on the Island who gave extraordinarily to see this venture off the ground, the Board wishes to thank the following for their help and support:

- Lloyds Bank and Cayman National for providing banking arrangements;
- Barclays Bank for selecting us to participate in their Credit Union Programme, through which we gained invaluable guidance and assistance from their various associates during the formative six months of our operations;
- UKCU, the trade body to which we are affiliated, for always being available to provide help and guidance about all things relating to credit unions;
- our auditors Browne Craine Associates Limited for waiving their normal audit fee of £6,000 + VAT and instead accepting a contribution to their costs as indicated in the notes to the accounts;
- Denzil Williams for providing a hearing loop for the office;
- CIDS for providing a free credit reference service for two years;
- the Nadine Charitable Trust's commitment to pay for office space for the five years to the end of 2018, and;
- the trustees or MCU Trust who provide the guarantee for our members' savings.

Challenges and events for the next year

The key challenge for the success and sustainability of MCU over the next year is to develop the loans side of the business. As well as an increase in the number of loan products available we hope to introduce a Payroll Deduction Scheme to enable members to pay into their MCU savings and loan accounts through their salaries with the co-operation of their employers.

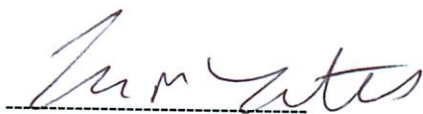
Manx Credit Union Limited

Board of Management Report (Cont.)

The Credit Unions Act 1993 is under review and went out for public consultation in March 2017: the Credit Unions (Amendment) Bill 2017 is expected to be enacted by Tynwald in Spring 2018, and that new legislation will remove credit unions from the requirements of the Industrial & Building Societies Act 1892 and update the Credit Unions Act 1993. One major benefit of the new legislation, if enacted, is that MCU will be able to offer savings accounts for Island residents under the age of 16. Also we will be able to offer to members deferred shares and enable third sector organisations to save with MCU. However, the change in legislation will require amendments to our Rules and so a Special General Meeting will be arranged to agree the Rule changes.

The European Union's General Data Protection Regulation (GDPR) will become fully enforceable on 25 May 2018: the Board is currently reviewing MCU's data protection arrangements in order to achieve full compliance by that date.

Signed on behalf of Board of Management



Company Secretary

Manx Credit Union Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MANX CREDIT UNION LIMITED

Opinion

We have audited the financial statements of Manx Credit Union Limited for the period ended 30 September which comprise the Revenue Account, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

The report is made solely to the Credit Union's shareholders, as a body, in accordance with the Credit Unions Act 1993. Our audit work has been undertaken so that we might state to the Credit Union's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Credit Union and the Credit Union's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- give a true and fair view of the state of the Credit Union's affairs as at 30 September 2017 and of the income and expenditure for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Industrial and Buildings Societies Act 1892 and the Credit Unions Act 1993 .

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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

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

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

Manx Credit Union Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MANX CREDIT UNION LIMITED (*continued*)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- maintaining adequate accounting records; and
- safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi. This description forms part of our auditor's report.

Browne Craine Associates Limited

Burleigh Manor
Peel Road
Douglas

BROWNE CRAINE ASSOCIATES LIMITED
Chartered Accountants

19th December 2017

Manx Credit Union Limited

Revenue Account

for the period from incorporation date to 30 September 2017

	Note	2017 £
Loan interest receivable and similar income	4	1,212
Interest payable		-
Net interest income		<u>1,212</u>
Fees and commissions receivable	6	1,535
Fees and commissions payable		-
Net fees and commissions receivable		<u>1,535</u>
Other income	2	13,960
Manx Credit Union Working Party	2	34,090
Administrative expenses	7a	(10,647)
Promotion	7b	(2,520)
Other operating expenses	7c	(5,274)
Depreciation and amortisation	10,11	(10,027)
Impairment losses on loans to members		-
Surplus before taxation		<u>22,329</u>
Taxation		-
Surplus for the financial year		<u>22,329</u>
Other comprehensive income		-
Total comprehensive income		<u><u>22,329</u></u>

Manx Credit Union Limited

Balance Sheet

as at 30 September 2017

	Note	2017 £
ASSETS		
Cash, cash equivalents and liquid deposits	16	285,650
Loans to members	12	34,158
Tangible fixed assets	10	4,728
Intangible fixed assets	11	18,084
Prepayments and accrued income		1,192
Total Assets		<u>343,812</u>
LIABILITIES		
Subscribed capital - repayable on demand	13	313,683
Other payables		4,800
Creditor due after one year	14	3,000
Retained earnings		22,329
Total Liabilities		<u>343,812</u>

The financial statements were approved and authorised for issue by the Board on 18 December 2017 and signed on its behalf by:



Company Secretary



Director



Director

Manx Credit Union Limited

Statement of changes in equity

for the period ended 30 September 2017

	<i>General Reserves</i>	<i>Restricted Reserves</i>	<i>Total reserves</i>
	£	£	£
As at 22 August 16	-	-	-
Transferred in	-	34,090	34,090
Deficit for the period	(1,728)	(10,033)	(11,761)
As at 30 September 2017	<u>(1,728)</u>	<u>24,057</u>	<u>22,329</u>

Manx Credit Union Limited**Cash flow statement**

for the period ended 30 September 2017

		2017
	Note	£
Cash flows from operating activities		
Surplus before taxation		22,329
Adjustments for non-cash items:		
Depreciation & amortisation	10	10,027
Depreciation & amortisation introduced	10,11	2,710
Impairment losses	12b	-
		<u>35,066</u>
Movements in:		
Accrued interest		-
Other receivables		(1,192)
Other payables		7,800
		<u>6,608</u>
Cash flows from changes in operating assets and liabilities		
Cash inflow from subscribed capital	13	332,128
Cash outflow from repaid capital	13	(18,445)
New loans to members	12a	(39,876)
Repayment of loans by members	12a	5,718
		<u>279,525</u>
Taxation paid	9	-
Net cash flows from operating activities		<u>279,525</u>
Cash flow from investing activities		
Purchase of tangible assets	10	(2,263)
Tangible assets introduced	10	(5,146)
Purchase of intangible assets	11	(2,160)
Intangible assets introduced	11	(25,980)
		<u>(35,549)</u>
Net increase in cash and cash equivalents		285,650
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year	16	<u><u>285,650</u></u>

Manx Credit Union Limited
Notes to the Accounts
for the period from 22 August 2016 to 30 September 2017

1 Legal and regulatory framework

Manx Credit Union Limited (referred to as MCU in these notes) is a society established under the Industrial and Building Societies Act 1892, whose principal activity is to operate as a credit union, within the meaning of the Credit Unions Act 1993. MCU is regulated by the Isle of Man Financial Services Authority. The date of incorporation was 22nd August 2016.

In accordance with the regulatory environment for credit unions on the Isle of Man, savings from members can be made by subscription for redeemable shares.

2 Accounting policies

Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

Going Concern

The financial statements have been prepared on a going concern basis.

Income

Loan interest receivable and similar income: Interest on both loans to members and loans to banks (i.e. cash and cash equivalents held on deposit with other financial institutions) is recognised using the effective interest method, and is calculated and accrued on a daily basis.

Fees and commissions receivable: Fees and charges either arise in connection with a specific transaction, or accrue evenly over the year. Income relating to individual transactions is recognised when the transaction is completed.

Tangible Fixed Assets

Tangible fixed assets comprises items of property, plant and equipment, which are stated at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is provided to write off the cost of each item of plant and equipment on a straight line basis over its estimated useful life. The categories of plant and equipment are depreciated as follows:

Computer Equipment	33.3% straight line
Fixtures & Fittings	33.3% straight line

Intangible Fixed Assets

Intangible fixed assets comprises items of credit union software which is stated at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Amortisation is provided to write off the cost of the credit union software on a straight line basis over its estimated useful life. It is amortised as follows:

Credit Union Software	25.0% straight line
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Financial Assets - loans and advances to members

Loans to members are financial assets with fixed or determinable payments, and are not quoted in an active market. Loans are recognised when cash is advanced to members and measured at amortised cost using the effective interest method.

Manx Credit Union Limited
Notes to the Accounts
for the period from 22 August 2016 to 30 September 2017

2 Accounting policies (Cont.)

Loans are derecognised when the right to receive cash flows from the asset have expired, usually when all amounts outstanding have been repaid by the member. MCU does not transfer loans to third parties. MCU assesses, at each balance sheet date, if there is objective evidence that any of its loans to members are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics, because no loans are individually significant. In addition, if during the course of the year, there is objective evidence that individual any loan is impaired, a specific test will be recognised. Any impairment losses are recognised in the revenue account, as the difference between the carrying value of the loan and the net present value of the expected cash flows.

Financial Liabilities - subscribed capital

Members shareholdings in MCU are redeemable and therefore classified as financial liabilities, and described as subscribed capital. They are initially recognised as the amount of cash deposited and subsequently measured at cost.

Donations

It had been the policy of the Manx Credit Union Working Party, that spent three and half years preparing for incorporation of MCU, and the subsequent Board of Management, not to use member's savings for setup and development costs. All such funds have, and continue to be, raised by way of donations and are treated for accounting purposes as restricted funds and so kept separate from the day to day running costs and income of MCU.

<i>Donations received during the year to cover:</i>	2017	Pre-Incorporation
	£	£
Development costs	1,000	16,585
Annual property licence fee - Nadine House	4,800	7,200
Legal fees	-	12,964
Audit costs	5,400	-
Bank charges	600	-
Credit union software & licence fees	2,160	25,980
	<u>13,960</u>	<u>62,729</u>

Comparative figures

As this is the first year of operations there are no comparative figures to display. However prior to MCU being incorporated a Working Party had been busy fund raising and researching what was needed to bring about an appropriate legal framework. By the date of incorporation the Working Party was able to introduce £34,090 into the project comprising capital goods £28,416 and working capital of £5,674. Your directors are grateful to those who have and continue to make donations for the development of the project.

Reconciliation of donations received to sums introduced into MCU

	£	£
Pre-Incorporation Donations		62,729
Less sums expended on:		
Legal & Property Expenses	22,829	
Administration	4,436	
Training	1,374	28,639
Total transferred to MCU from Manx Credit Union Working Party	<u>28,639</u>	<u>34,090</u>

Manx Credit Union Limited
Notes to the Accounts
for the period from 22 August 2016 to 30 September 2017

3 Use of estimates and judgements

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Directors to exercise judgement in applying MCU's accounting policies. The areas requiring a higher degree of judgement, or complexity, and areas where assumptions or estimates are most significant to the financial statements are disclosed below:

Impairment losses on loans to members

MCU . conducts impairment reviews through its Credit Committee which meets weekly to review new loan applications, submitted by Loans Officers, and a list of previously agreed loans to check that members are observing the terms of their loan agreements.

4 Loan interest receivable and similar income

	£
Loan interest receivable from members	868
Bank interest receivable on cash and liquid deposits	344
	<u>1,212</u>

5 Interest Expense

Interest expense is the dividend paid to members for the prior year. The dividend is formally proposed by the Directors after the year end and is confirmed at the following AGM. As a result it does not represent a liability at the balance sheet date. No interest has been recognised due it being the first year of accounts.

6 Fees and commissions receivable

	£
Entrance fees	614
Annual administrative charge	921
	<u>1,535</u>
Number of members	307

7 Expenses

		£
Administrative expenses	7a.	10,647
Promotion	7b.	2,520
Other operating expense	7c.	5,274
Depreciation & amortisation	10	10,027
		<u>28,468</u>

Manx Credit Union Limited
Notes to the Accounts
for the period from 22 August 2016 to 30 September 2017

7a. Administrative expenses

	£
Audit	7,200
Staff training and welfare	796
Legal & Professional	50
Telephone	392
Bank Charges	600
Printing, Stationery & Postage	674
Insurance	935
	<u>10,647</u>

A corresponding contribution of £5,400 has been made by the auditors in respect of the above fee.

7b. Promotion

A variety of methods are used to promote our services which would include such expenses as use of venues for 'drop-in' events, media, and printed material.

	£
Website	1,674
On-line Applications for membership and loan	150
Other promotional activity	696
	<u>2,520</u>

7c. Other operating expenses

Other operating expenses comprise the cost of occupying an office and regulatory and financial management costs:

	Note	£
Cost of occupying an office (excluding depreciation)		
Licence agreement for fully serviced office	18	4,800
Security		60
		<u>4,860</u>
Regulatory and financial management costs		
Fidelity insurance		386
Death Benefit - Members Loans		28
		<u>414</u>
		<u>5,274</u>

8 Employees & Directors remuneration and costs

All volunteers, including directors, are members of MCU and do not receive any remuneration for their services. However, it is part of our ethos and in some aspects our regulatory responsibility to provide training to all who assist in the operation of the credit union, the costs of which are included in Administrative Expenses.

Manx Credit Union Limited
Notes to the Accounts
for the period from 22 August 2016 to 30 September 2017

9 Taxation

Taxation is chargeable at the standard rate, which currently stands at zero percent.

10 Tangible fixed assets

	Fixtures & Fittings	Computer & Office Equipment	Total
Cost	£	£	£
At 22 August 2016	-	-	-
Transferred in	2,735	2,411	5,146
Additions	1,727	536	2,263
At 30 September 2017	4,462	2,947	7,409
Depreciation			
At 22 August 2016	-	-	-
Charge for the period	1,664	1,017	2,681
At 30 September 2017	1,664	1,017	2,681
Net book value			
At 30 September 2017	2,798	1,930	4,728
At 22 August 2016	-	-	-

11 Intangible fixed assets

	Software
Cost	£
At 22 August 2016	-
Transferred in	25,980
Additions	2,160
At 30 September 2017	28,140
Depreciation	
At 22 August 2016	-
Transferred in	2,710
Charge for the period	7,346
At 30 September 2017	10,056
Net book value	
At 30 September 2017	18,084
At 22 August 2016	-

Intangible fixed assets comprise of software installation, training and four years licence fees. The costs are being amortised over four years. During the year a further licence was obtained. The licence fees will be payable again from May 2020.

Manx Credit Union Limited
Notes to the Accounts
for the period from 22 August 2016 to 30 September 2017

12 Loans to members - financial assets

12a Advanced during the Year:

Total loan assets at 22 August 2016	£ -
Loans to members	39,876
Repaid during the year	(5,718)
Impairment losses	-
Total loan assets at 30 September 2017	<u>34,158</u>
Number of Loans advanced during the year	20
Completed	(1)
Carry Forward	<u>19</u>

12b Credit risk disclosures

MCU started to advance loans to members in February 2017. To the date of the Balance Sheet there is no bad debt exposure which would necessitate the application of the following impairment reserves which would ordinarily apply:

- (1) 35% of the *net liability* of borrowers where the amount is more than three months in arrears
- (2) 60% of the *net liability* of borrowers where the amount is more than six months in arrears
- (3) 80% of the *net liability* of borrowers where the amount is more than nine months in arrears
- (3) 100% of the *net liability* of borrowers where the amount is more than twelve months in arrears

Net Liability of a member's loan is the amount of the remaining loan balance less the value of their shares which are secured against the member's loan. It is part of the terms and conditions of all loan products that the value of a member's savings are held as security against a loan. Savings can therefore not be withdrawn until the value of a member's savings is more than the loan the savings are secured against. The carrying value of the loans to members at the period ended 30 September 2017 is £34,158 with a total of £15,000 of savings secured against member's loans.

13 Subscribed Capital - financial liabilities

As at 22 August 2016	£ -
Received during the year	332,128
Withdrawn during the year	(18,445)
As at 30 September 2017	<u>313,683</u>

It is a requirement of S.16 of the Credit Unions Act 1993 that shares held by members of a credit union are secured by an arrangement which has the approval of the Isle of Man Financial Services Authority, so that in the event that a credit union has to close, savers will be fully compensated for their net savings i.e. gross savings less any loan issued to a member. As credit unions under the same Act are excluded from the Isle of Man Government's Depositor Compensation Scheme, MCU obtained such cover and approval by two means.

Manx Credit Union Limited
Notes to the Accounts
for the period from 22 August 2016 to 30 September 2017

13 Subscribed Capital - financial liabilities (cont.)

Firstly through an Isle of Man trust, who from their own resources, hold in escrow £250,000 which under an agreement with MCU the trust would be obliged to make those funds available in the event that MCU was wound up. Secondly the balance between the trust funds and the above subscribed capital is deposited by MCU in a strict term deposit with a licenced Isle of Man bank which is reviewed by the directors on a regular basis to ensure its adequacy.

14 Other payables

Creditors due within one year

Creditors	£
Accruals	3,000
	<u>1,800</u>
	<u>4,800</u>

Creditors due after one year

Creditors	<u>3,000</u>
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The creditors relate to retention monies on the purchase of the credit union software and licences which is to be paid in May 2018 and May 2019.

15 Additional financial instruments disclosures

15a Financial risk management

MCU manages its subscribed capital and loans to members so that it earns income from the margin between interest receivable and expenses payable. The main financial risks arising from MCU's activities are credit risk, liquidity risk, market risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

Credit Risk: Credit risk is the risk that a borrower will default on their contractual obligations relating to repayments to MCU, resulting in financial loss to MCU. In order to manage this risk the Board approves MCU's lending policy, and all changes to it. All loan applications are assessed by the Credit Committee with reference to the lending policy in force at the time. Subsequently loans are regularly reviewed by the Credit Committee for any factors that may indicate that the likelihood of repayment has changed.

Liquidity risk: MCU's policy is to maintain sufficient funds in liquid form at all times to ensure that it can meet its liabilities as they fall due. The objective of MCU's liquidity policy is to smooth the mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected developments that may arise.

Market risk: Market risk is generally comprised of interest rate risk, currency risk and other price risk. MCU conducts all its transactions in sterling and does not deal in derivatives, commodity markets nor has external borrowing arrangements. Therefore MCU is not exposed to any form of currency risk or other price risk.

Interest rate risk: MCU's main interest rate risk arises from differences between the interest rate exposures on the receivables and payables that form an integral part of a credit union's operations. MCU considers rates of interest receivable when deciding on the dividend rate payable on subscribed capital. MCU does not use interest rate options to hedge its own positions.

Manx Credit Union Limited
Notes to the Accounts
for the period from 22 August 2016 to 30 September 2017

15b Interest rate risk disclosures

The following table shows the average annual interest rate applicable to relevant financial assets.

	Amount £	Average interest rate
Financial assets		
Loans to members	34,158	6.87%
Financial liabilities		
Subscribed capital	313,683	-

The maximum interest rates applicable to a member's loan is 1% on the reducing loan balance as determined by an Act of Tynwald. Interest is calculated by accruing the appropriate interest rate on a daily basis and compounding monthly. No interest is payable on subscribed capital.

15c Liquidity risk disclosures

Excluding creditors payable after one year, as noted in the balance sheet, MCU's financial liabilities, the subscribed capital, are repayable on demand.

The Board meets periodically to ensure that all known risks are being measured and effectively managed.

16 Cash and cash equivalents

Cash and bank deposits	£ 285,650
Less: amounts maturing after three months	(20,000)
	<u>265,650</u>

17 Post balance sheet events

There are no material events after the balance sheet date to disclose.

18 Contingent liabilities

There are no contingent liabilities at the date of the report.

19 Related party transactions

During the year, two members of the Board, staff and their close family members had loans with MCU. These loans were approved on the same basis as loans to other members of MCU. None of the directors, staff or their close family members, have any preferential terms on their loans.

The licence agreement for use of the ground floor at Nadine House, which covers the period to 31 December 2018, is with a company controlled by a director of MCU. The Nadine Charitable Trust, for whom the same director is a settlor, has agreed to cover the cost of the licence during its current term which is included in the accounts as a donation under other income.

Manx Credit Union Limited

Credit Committee Report

The Credit Committee was established by the Board of the Manx Credit Union to monitor the credit union's loan business, and to consider and decide on all loan applications. The Credit Committee comprises between three to five members and meets regularly. The Credit Committee provides reports to each Board meeting about the loans business, highlighting any feedback from members which may cause the Directors to consider changes to policies and procedures.

Loans to members were made available from February 2017. Each loan application is dealt with by a Loans Officer who will interview the member to ascertain that the repayments are affordable taking into account their income and expenditure on a month to month basis. For amounts up to £500 Loans Officers are authorised to approve or decline an application themselves. For loans above this amount the information is passed to the Credit Committee for their review. During the first twelve months loans to the value of £39,876 were approved for 20 member applications..

The Credit Committee is aware of its obligations to all members to ensure that sound decisions are made so as to minimise any potential losses. As we point out to all our members who take out loans, we appreciate that circumstances can change through, for example, redundancy or ill health. We encourage members under these circumstances to always make contact with the office before repayments are missed so arrangements can be made to reflect the change in circumstances.

The ethos of a credit union is to encourage savings with planned expenditure. However we recognise that the need for extra financial assistance whether an emergency or planned is needed from time to time. To that end three new loan products will be made available to members to better suit individual needs. During the interview process a member is encouraged to continue to save albeit at a smaller amount to keep up the savings habit and create a nest egg for the future.

The Credit Committee also reviews loans that have been previously approved to ensure that members keep to the terms agreed. The Credit Committee will take the necessary action to make contact with the member, where missed repayments occur, in a firm but friendly manner.

Signed on behalf of Credit Committee



+ *Lurynes*
Secretary