

Manx Credit Union Limited
Annual Report and Financial Statements
30 September 2018



Manx Credit Union Limited

Contents

	Page
Administrative information	1
Board of Management Report	2/4
Independent Auditors' Report	5/6
Revenue Account	7
Balance Sheet	8
Statement of Changes in Equity	9
Cash Flow Statement	10
Notes to the Accounts	11/19
Credit Committee Report	20

Manx Credit Union Limited

Administrative information

Directors

David Talbot (Chairman)

Ian Yates (Secretary)

Wendy Shimmin

Paul Blake

Gordon Lloyd-West

David Allwood (Appointed 10th July 2018)

Wendy Bruchal (Appointed 10th July 2018) (Resigned 22nd October 18)

Andrew Dunlop (Appointed 28th August 2018)

Adrian Tinkler (Resigned 10th July 2018)

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

Manx Credit Union Limited

Board of Management Report

Introduction

The Board of Directors of the Manx Credit Union (MCU) is delighted to present this report to members at the second Annual General Meeting (AGM).

Membership of the Manx Credit Union has continued to increase over the past year. Members of the Manx Credit Union are part of a world-wide movement: in its 2017 Statistical Report, the World Council of Credit Unions noted that it contained information from 89,026 credit unions serving over 260 million members in 117 countries worldwide. The same report indicated that there are 450 credit unions in Great Britain with 1,749,441 members, and in Ireland there are 359 credit unions with 3,600,000 members (which means that over half its population are members of a credit union – impressive!).

Governance

Currently, the Manx Credit Union is governed by two main pieces of Manx legislation, the Industrial & Building Societies Act 1892 and the Credit Unions Act 1993: however, amendments to the Credit Unions Act 1993 have received Royal Assent and are likely to become effective in February 2019 when an Appointed Day Order is approved by Tynwald.

The Rules of the Manx Credit Union 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.

The 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 the MCU and take their duties seriously. The Board is required to meet at least four times a year, but has met 5 times in the reporting period.

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.)

The MCU is regulated by the Isle of Man Financial Services Authority, with whom we have regular meetings.

Volunteers

The MCU has no paid staff and is run entirely by volunteers, including the Board members: 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 the MCU.

Manx Credit Union Limited
Board of Management Report (Cont.)

Training

Training has been given a high importance, especially as there are legal responsibilities incumbent upon both the 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 with all volunteers, and ongoing training is provided in areas including Data Protection and Anti-Money Laundering.

Members

As at 30 September 2018, the MCU had 468 members and the Board would like to thank each and every one of them for joining the credit union. 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 for the financial year ending 30 September 2018 will be discussed at the AGM.

Complaints and disputes

No complaints were made to, or disputes raised with, MCU in the period to 30 September 2018 and none have occurred since that date.

Special thanks

In addition to the members and volunteers, the Board wishes to thank the following for their help and support:

- Lloyds Bank International for providing banking arrangements;
- Barclays Bank for their continued support, including offering us space in their “tent” at the Royal Manx Agricultural Show in August 2018 and enabling us to hold monthly “meet the members” sessions at their Ramsey branch;
- 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;
- CIDS for providing a free credit reference service;
- the Nadine Charitable Trust’s commitment to pay for office space for the five years to the end of 2018;

- the trustees of Manx Credit Union Trust who provide the guarantee for our members' savings, and;
- the Manx Lottery Trust for providing a grant of £3,000 from its Community Awards Programme to help publicise our activities.

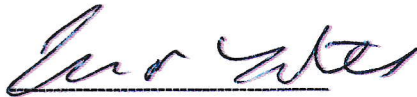
Manx Credit Union Limited
Board of Management Report (Cont.)

Challenges and events for the next year

The biggest challenge will be how we adapt from our current status as a body regulated by the Isle of Man Financial Services Authority (FSA) to becoming a licenceholder under the Financial Services Act 2008: this change in status will occur when the Appointed Day Order is approved by Tynwald. This change will increase the administrative burden required to manage the credit union in order to adhere to the standard licence conditions, and will incur extra costs: for example, the FSA will require us to pay an annual licence fee at a proposed rate of £500. It is worth noting that the Manx Credit Union will be in a unique position as a licenceholder: it will be the only credit union on the Island and one that is run entirely by unpaid volunteers.

Other key challenges in the year ahead for the continuing development and growth of the Manx Credit Union are:

- to continue to provide loans and savings products to suit the needs of our members from all sectors of the Island's population;
- to develop relationships with other 'not-for-profit' organisations who seek to serve those who feel financially excluded, and;
- to recruit volunteers with specialist financial knowledge as we increasingly reach out into the community, develop our services and increase the size of the membership.



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 year ended 30 September 2018 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 2018 and of its 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 1982 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
(Cont.)**

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

- 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/auditscopeukprivate. This description forms part of our auditor's report.

Browne Craine Associates Limited

BROWNE CRAINE ASSOCIATES LIMITED
Chartered Accountants

Burleigh Manor
Peel Road
Douglas

17/01/19

Manx Credit Union Limited

Revenue Account

for the period ended 30 September 2018

	Note	2018 £	2017 £
Loan interest receivable and similar income	4	13,300	1,212
Interest payable		-	-
Net interest income		13,300	1,212
Fees and commissions receivable	6	1,776	1,535
Fees and commissions payable		-	-
Net fees and commissions receivable		1,776	1,535
Other income	2	10,165	13,960
Manx Credit Union Working Party	2	-	34,090
Administrative expenses	7a	(8,794)	(10,647)
Promotion	7b	(1,056)	(2,520)
Other operating expenses		(6,751)	(5,274)
Depreciation and amortisation	10,11	(9,884)	(10,027)
Impairment losses on loans to members		(3,428)	-
		(19,748)	19,582
(Deficit)/Surplus before taxation		(4,672)	22,329
Taxation	9	-	-
(Deficit)/Surplus for the financial year		(4,672)	22,329
Other comprehensive income		-	-
Total comprehensive income		(4,672)	22,329

Manx Credit Union Limited

Balance Sheet

as at 30 September 2018

	Note	2018 £	2017 £
ASSETS			
Cash, cash equivalents and liquid deposits	16	299,738	285,650
Loans to members	12	227,767	34,158
Tangible fixed assets	10	2,976	4,728
Intangible fixed assets	11	10,860	18,084
Prepayments and accrued income		3,226	1,192
Total Assets		544,567	343,812
LIABILITIES			
Subscribed capital - repayable on demand	13	521,972	313,683
Other payables	14	4,938	4,800
Creditor due after one year	14	0	3000
Retained earnings		17,657	22,329
Total Liabilities		544,567	343,812

The financial statements were approved and authorised for issue by the Board on 27 November 2018 and signed on its behalf by:



Director

Director

Manx Credit Union Limited

Statement of changes in equity

for the period ended 30 September 2018

	<i>General Reserves</i>	<i>Restricted Reserves</i>	<i>Total reserves</i>
	£	£	£
As at 22 August 2016	-	-	-
Transferred in	-	34,090	34,090
Surplus/(Deficit) for the period	(1,728)	(10,033)	(11,761)
As at the 30 September 2017	<u>(1,728)</u>	<u>24,057</u>	<u>22,329</u>
As at 1 October 2017	(1,728)	24,057	22,329
Transferred in	-	-	-
Surplus/(Deficit) for the period	5,549	(10,221)	(4,672)
As at 30 September 2018	<u>3,821</u>	<u>13,836</u>	<u>17,657</u>

Manx Credit Union Limited

Cash flow statement

for the period ended 30 September 2018

		2018	2017
	Note	£	£
Cash flows from operating activities			
(Deficit)/Surplus before taxation		(4,672)	22,329
Adjustments for non-cash items:			
Depreciation & amortisation	10	9,884	10,027
Depreciation & amortisation introduced	10,11	-	2,710
Impairment losses	12b	3,428	-
		<u>8,640</u>	<u>35,066</u>
Movements in:			
Accrued interest		-	-
Prepayments and accrued income		(2,034)	(1,192)
Other payables		(2,862)	7,800
		<u>(4,896)</u>	<u>6,608</u>
Cash flows from changes in operating assets and liabilities			
Cash inflow from subscribed capital	13	281,690	332,128
Cash outflow from repaid capital		(73,401)	(18,445)
Loans to members	12a	(274,331)	(39,876)
Repayment of loans by members	12a	77,294	5,718
Net cash flows from operating activities		<u>11,252</u>	<u>279,525</u>
Cash flow from investing activities			
Purchase of tangible assets	10	(908)	(2,263)
Tangible assets introduced	10	-	(5,146)
Purchase of intangible assets	11	-	(2,160)
Intangible assets introduced	11	-	(25,980)
		<u>(908)</u>	<u>(35,549)</u>
Net increase in cash and cash equivalents		<u>14,088</u>	<u>285,650</u>
Cash and cash equivalents at beginning of year		<u>285,650</u>	-
Cash and cash equivalents at end of year	16	<u><u>299,738</u></u>	<u><u>285,650</u></u>

Manx Credit Union Limited

Cash flow statement

for the period ended 30 September 2018

		2018	2017
	Note	£	£
Cash flows from operating activities			
(Deficit)/Surplus before taxation		(4,672)	22,329
Adjustments for non-cash items:			
Depreciation & amortisation	10	9,884	10,027
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		8,640	35,066
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Intangible assets introduced	11	-	(25,980)
		(908)	(35,549)
Net increase in cash and cash equivalents		14,088	285,650
Cash and cash equivalents at beginning of year		285,650	-
Cash and cash equivalents at end of year	16	299,738	285,650

Manx Credit Union Limited
Notes to the Accounts
for the year ended 30 September 2018

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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Manx Credit Union Limited
Notes to the Accounts
for the year ended 30 September 2018

2 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.

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.

	2018	2017
	£	£
<i>Donations received during the year to cover:</i>		
Development costs	-	1,000
Annual property licence fee - Nadine House	4,800	4,800
Audit costs	3,600	5,400
Training	471	
Website Costs	162	-
Printing	369	-
Bank charges	763	600
Credit union software & licence fees	-	2,160
	<u>10,165</u>	<u>13,960</u>

Comparative figures

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, these numbers being reflected in the comparative figures in the Revenue Account. Your directors are grateful to those who have and continue to make donations for the development of the project.

Manx Credit Union Limited
Notes to the Accounts
for the year ended 30 September 2018

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

	2018	2017
	£	£
Loan interest receivable from members	11,569	868
Bank interest receivable on cash and liquid deposits	1,731	344
	<u>13,300</u>	<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

	2018	2017
	£	£
Entrance fees	342	614
Annual administrative charge	1434	921
	<u>1,776</u>	<u>1,535</u>

Number of members	470	307
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7 Expenses

		2018	2017
		£	£
Administrative expenses	7a.	8,794	10,647
Promotion	7b.	1,056	2,520
Other operating expense	7c.	6,751	5,274
Depreciation & amortisation	10	9,884	10,027
		<u>26,485</u>	<u>28,468</u>

Manx Credit Union Limited
Notes to the Accounts
for the year ended 30 September 2018

7a. Administrative expenses

	2018	2017
	£	£
Audit	5,400	7,200
Staff training and welfare	471	796
Legal & Professional	-	50
Telephone	532	392
Bank Charges	846	600
Printing, Stationery & Postage	667	674
Insurance	878	935
	<u>8,794</u>	<u>10,647</u>

A corresponding contribution of £3,600 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.

	2018	2017
	£	£
Website	540	1,674
On-line Applications for membership and loan	300	150
Other promotional activity	216	696
	<u>1,056</u>	<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	2018	2017
		£	£
Cost of occupying an office (excluding depreciation)			
Licence agreement for fully serviced office	19	4,800	4,800
Security		240	60
		<u>5,040</u>	<u>4,860</u>
Regulatory and financial management costs			
Trade Association Fees		949	-
Fidelity insurance		537	386
Death Benefit - Members Loans		225	28
		<u>1,711</u>	<u>414</u>
		<u>6,751</u>	<u>5,274</u>

Manx Credit Union Limited
Notes to the Accounts
for the year ended 30 September 2018

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.

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 1 October 2017	4,462	2,947	7,409
Additions	288	620	908
At 30 September 2018	<u>4,750</u>	<u>3,567</u>	<u>8,317</u>
Depreciation			
At 1 October 2017	1,664	1,017	2,681
Charge for the year	1,536	1,124	2,660
At 30 September 2018	<u>3,200</u>	<u>2,141</u>	<u>5,341</u>
Net book value			
At 30 September 2018	<u>1,550</u>	<u>1,426</u>	<u>2,976</u>
At 1 October 2017	<u>2,798</u>	<u>1,930</u>	<u>4,728</u>

11 Intangible fixed assets

	Software
	£
Cost	
At 1 October 2017	28,140
Additions	-
At 30 September 2018	<u>28,140</u>
Amortisation	
At 1 October 2017	10,056
Charge for the year	7,224
At 30 September 2018	<u>17,280</u>
Net book value	
At 30 September 2018	<u>10,860</u>
At 1 October 2017	<u>18,084</u>

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

Manx Credit Union Limited
Notes to the Accounts
for the year ended 30 September 2018

12 Loans to members - financial assets

12a Loans advanced to members

	2018	2017
	£	£
Total loan assets at 1 October 2017	34,158	-
Loans to members	274,331	39,876
Repaid during the year	(77,294)	(5,718)
Impairment losses	(3,428)	-
Total loan assets at 30 September 2018	<u>227,767</u>	<u>34,158</u>
Number of Loans in operation	97	19
The average borrowed by members during the year	2,828	2,099

12b Credit risk disclosures

Where there is doubt about the ability of a member to repay their loan the following impairment reserves 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
- (4) 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 2018 is £227,767 with a total of £80,592 of savings secured against member's loans.

The Credit Union does not offer mortgages and as a result all loans are unsecured, except that there are restrictions on the extent to which borrowers may withdraw their savings whilst loans are outstanding. The limit on how much may be borrowed by each member is £5,000 above the balance of their savings.

The carrying amount of the loans to members represents the Credit Union's maximum exposure to credit risk. The following table provides information on the credit quality of loan repayments.

	2018		2017	
	Amount	Proportion	Amount	Proportion
	£	%	£	%
Not impaired:				
Not yet past due	204,307	92.19%	32,828	96.11%
Up to 3 months past due	17,315	7.81%	1,330	3.89%
Between 3 and 6 months past due	-	-		
Between 6 and 9 months past due	-	-		
Between 9 and 12 months past due	-	-		
Over 1 year past due	-	-		
Loans not impaired	<u>221,622</u>	<u>100%</u>	<u>34,158</u>	<u>100%</u>

Manx Credit Union Limited
Notes to the Accounts
for the year ended 30 September 2018

12b Credit risk disclosures (cont.)

Individually impaired:

Not yet past due, but impaired	-	-	-	-
Up to 3 months past due	8,703	90.91%	-	-
Between 3 and 6 months past due	837	8.74%	-	-
Between 6 and 9 months past due	-	-	-	-
Between 9 and 12 months past due	33	0.34%	-	-
Over 1 year past due	-	-	-	-
Specifically impaired loans	9,573	100%	-	-
Total loans	231,195	100%	34,158	100%
Specific impairment allowance	(3,428)		-	
Total carrying value of loans	<u>227,767</u>		<u>34,158</u>	

Factors that are considered in determining whether loans are impaired are discussed in Note 3 above.

12c Allowance account for impairment losses

	2018 £	2017 £
As at 1 October 2017	-	-
Increase in allowance losses in year	3,428	-
As at 30 September 2018	<u>3,428</u>	<u>-</u>

13 Subscribed Capital - financial liabilities

	2018 £	2017 £
At 1 October 2017	313,683	-
Received during the year	281,690	332,128
Withdrawn during the year	(73,401)	(18,445)
As at 30 September 2018	<u>521,972</u>	<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.

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.

Manx Credit Union Limited
Notes to the Accounts
for the year ended 30 September 2018

14 Other payables

Creditors due within one year

	2018	2017
	£	£
Creditors	3,000	3,000
Accruals	1,938	1,800
	<u>4,938</u>	<u>4,800</u>

Creditors due after one year

Creditors	<u>-</u>	<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 year ended 30 September 2018

15b Interest rate risk disclosures

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

	2018		2017	
	Amount	Average interest rate	Amount	Average interest rate
	£		£	
Financial assets				
Loans to members	<u>231,195</u>	5.75%	34,158	6.87%
Financial liabilities				
Subscribed capital	<u>521,972</u>		<u>313,683</u>	

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

	2018	2017
	£	£
Cash and bank deposits	299,738	285,650
Less: amounts maturing after three months	(115,628)	(20,000)
	<u>184,110</u>	<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, three 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, which comprises of three to five members, was established by the Board of the Manx Credit Union to monitor the credit union's loan business. They meet on a weekly basis to make decisions on applications for loans and monitor all existing loans, Reports are provided to the Board of Management on it's activities.

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 consideration. In this last financial year the committee approved loans to the value of £274,331 and were managing 97 loans to members.

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 Committee however will make contact with a member as soon as it becomes apparent that a payment is overdue.

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. There are now five loan products available to members which can be discussed during the application process. As well as a basic and emergency loans, members can choose from - Saver Loyalty Loan, Save as you Borrow and the Stork Plan (planning for a new family member). The guiding principle is that you will pay less interest for your loan if there has been a clear savings plan in place.

During the process of an application 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.

Loan products under management at the year-end shown against the different types are as follows:

Type	Qty.	£
Save as you Borrow	15	67,654
Loyalty Saver	6	21,327
Basic & Emergency	<u>76</u>	<u>142,214</u>
Total	<u>97</u>	<u>231,195</u>

Signed on behalf of Credit Committee

