

Manx Credit Union Limited

Annual Report and Financial Statements

30th September 2020



Manx Credit Union Limited

Administrative information

Directors

David Talbot (Chairman)
Ian Yates (Secretary)
Wendy Shimmin
Paul Blake
David Allwood
Andrew Dunlop
Gordon Lloyd-West (Resigned 5/2/20)

Secretary

Ian Yates

Registration number

No.000001U - The Credit Unions Act 1993

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

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Manx Credit Union Limited

Board of Management Report

for the year ended 30 September 2020

Introduction

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

It is an understatement to say that the year 2020 has been a very challenging year globally because of the COVID-19 pandemic. We closed the office to members and visitors alike during the period 23 March to 27 June 2020, but during that period we kept the business operating by the use of laptops, online bank transactions and email at various volunteers' homes throughout the Island. We received much positive feedback from members about the continuity of service that was provided during the lockdown period and the Manx Credit Union was mentioned as a "Howard's Hero" during Chief Minister Howard Quayle's daily COVID-19 update on 25 April 2020.

Governance

The Manx Credit Union is governed by Credit Unions Act 1993: it became licensed on 1 April 2019 and continues to be regulated by the Isle of Man Financial Services Authority.

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 six members: we are always keen to recruit new members to the Board so please contact the Chairman or Secretary if this is of interest to you. 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 and it met four 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.)*

Volunteers

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

Members

As at 30 September 2020, the MCU had 677 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.

Manx Credit Union Limited

Board of Management Report (Cont.)

for the year ended 30 September 2020

Dividend

Notwithstanding the challenges as discussed above, we are pleased to report continuing growth in the return on our loan book and consequent increase in the reserves of the MCU. Bearing in mind that it is the responsibility of the Board to ensure we have adequate reserves to meet the regulatory requirements imposed by our licence, we also have a duty to our members to provide where possible a return on their savings. Taking these points together, your Board will be proposing at the AGM a dividend of 1.0% (the 2018-19 dividend was 0.5%) based on the average members savings during the financial year to 30 September 2020.

Complaints and disputes

No complaints were made to, or disputes raised with, MCU in the period to 30 September 2020.

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 for providing banking.
- Barclays Bank for letting us use the foyer of their Ramsey branch for occasional monthly "meet our members" sessions.
- 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 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 trustees of Manx Credit Union Trust who provide the guarantee for our members' savings.

Challenges and events for the next year

Various projects such as child accounts and payroll deductions were put on hold because the office was closed for three months because of the COVID-19 pandemic, where the priority was to keep the essential and existing areas of the business operating.

A major issue is that the MCU has too much cash at bank and not enough out on loan: this is a common issue with many credit unions in the UK and is perhaps reflective of economic uncertainties during these difficult times. To deal with this we introduced a £250 limit to the maximum that can be saved each month as from 24 September 2020, although this limit will be subject to review as the savings to loan ratio changes.

However, as the ethos of a credit union is to encourage the building of a 'nest egg' for current and future requirements, notwithstanding that from time to time members may need to borrow to meet emergencies and planned expenditure, so we welcomed the Financial Services Authority's consultation in August 2020 that proposed to increase the maximum amount that a member can save in a credit

Manx Credit Union Limited

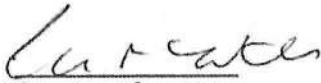
Board of Management Report (Cont.)

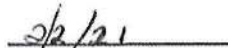
for the year ended 30 September 2020

union to £15,000 or 1.5% of total member savings whichever is the higher. This was proposed by MCU members at the previous AGM. If legislation has been changed by the time of the next AGM, a motion will be brought forward to change the Rules of the MCU to reflect this new savings limit. Taking together the restriction as to what a member can save each month, yet increasing the amount that can be saved, will help MCU to achieve its objectives and meet member aspirations.

During the year efforts have been made to introduce a new loan product called the 'Family Loan' which can be paid for through deduction from Child Benefit at source. This has been arranged with the co-operation of the Treasury and the Department of Social Care. Also, we have progressed the idea of signposting members to a special Visa debit card operated by Engage (a Contis Plc company), which is exclusive to credit union members. Whilst it has attractions to all our members, it will have particular benefit to those who do not have a bank account as it comes with a Sort Code and Account Number. It can be used to make purchases, withdrawals at an ATM and to receive benefit payments.

As from 1 October 2020, the £3 (three pound) Annual Administration Fee was removed and replaced by an increased Entrance Fee of £5 (five pounds) for new members, as mentioned at the last AGM.


Company Secretary


Date

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 2020 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).

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 2020 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the 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.

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

Use of our report

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.

Browne Craine Associates Limited

BROWNE CRAINE ASSOCIATES LIMITED
Chartered Accountants

Burleigh Manor
Peel Road
Douglas

23/02/2021

Manx Credit Union Limited
Revenue Account

for the year ended 30 September 2020

| | Note | 2020 £ | 2019 £ |
|---|-------|----------------------|---------------------|
| Loan interest receivable and similar income | 4 | 53,528 | 34,068 |
| Less dividend paid | 5 | <u>(2,745)</u> | <u>-</u> |
| Net interest income | | 50,783 | 34,068 |
| | | | |
| Fees and commissions receivable | 6 | 2,267 | 2,287 |
| Fees and commissions payable | | <u>(1,262)</u> | <u>(1,129)</u> |
| Net fees and commissions receivable | | 1,005 | 1,158 |
| | | | |
| Other income | 2 | 9,313 | 9,957 |
| Administrative expenses | 7a | (11,701) | (9,422) |
| Promotion | 7b | (1,879) | (2,425) |
| Other operating expenses | 7c | (9,712) | (8,461) |
| Depreciation and amortisation | 10,11 | (3,636) | (10,200) |
| Impairment losses on loans to members | | <u>(12,941)</u> | <u>(10,914)</u> |
| | | (30,556) | (31,465) |
| | | | |
| Surplus before taxation | | 21,232 | 3,761 |
| Taxation | 9 | <u>-</u> | <u>-</u> |
| Surplus for the financial year | | 21,232 | 3,761 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>21,232</u> | <u>3,761</u> |

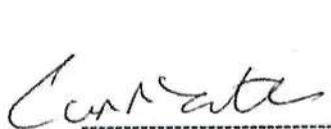
Manx Credit Union Limited

Balance Sheet

as at 30 September 2020

| | | 2020 | 2019 |
|--|------|-----------------------|-----------------------|
| | Note | £ | £ |
| ASSETS | | | |
| Cash, cash equivalents and liquid deposits | 16 | 520,577 | 349,541 |
| Loans to members | 12 | 282,856 | 325,961 |
| Intangible fixed assets | 11 | 0 | 3,636 |
| Prepayments and accrued income | | 15,540 | 1,124 |
| Total Assets | | <u><u>818,973</u></u> | <u><u>680,262</u></u> |
| LIABILITIES | | | |
| Subscribed capital - repayable on demand | 13 | 723,951 | 657,044 |
| Deferred Shares | 17 | 33,916 | - |
| Other payables | 14 | 18,456 | 1,800 |
| Retained earnings | | 42,650 | 21,418 |
| Total Liabilities | | <u><u>818,973</u></u> | <u><u>680,262</u></u> |

The financial statements were approved and authorised for issue by the Board on 2 February 2021 and signed on its behalf by:



Director



Director

Manx Credit Union Limited

Statement of Changes in Equity

for the year ended 30 September 2020

| | General Reserves | Restricted Reserves | Total Reserves |
|----------------------------------|-----------------------------|--------------------------------|---------------------------|
| | £ | £ | £ |
| as at 30 September 2018 | 3,821 | 13,836 | 17,657 |
| Surplus/(deficit) for the period | 12,591 | (8,830) | 3,761 |
| as at 30 September 2019 | 16,412 | 5,006 | 21,418 |
| Surplus/(deficit) for the period | 22,723 | (1,491) | 21,232 |
| as at 30 September 2020 | 39,135 | 3,515 | 42,650 |

Manx Credit Union Limited**Cash Flow Statement***for the year ended 30 September 2020*

| | | 2020 | 2019 |
|--|-------|-----------------------|-----------------------|
| | Note | £ | £ |
| Cash flows from operating activities | | | |
| Surplus before taxation | | 21,232 | 3,761 |
| Adjustments for non-cash items: | | | |
| Depreciation & amortisation | 10,11 | 3,636 | 10,200 |
| Impairment losses | 12c | <u>12,941</u> | <u>10,874</u> |
| | | 37,809 | 24,835 |
| Movements in: | | | |
| Accrued interest | | 1,088 | 1,262 |
| Prepayments and accrued income | | (14,416) | 2,102 |
| Other payables | | <u>16,656</u> | <u>(3,138)</u> |
| | | 3,328 | 226 |
| Cash flows from changes in operating assets and liabilities | | | |
| Deferred Shares | 17 | 33,916 | - |
| Cash inflow from subscribed capital | 13 | 362,380 | 317,658 |
| Cash outflow from repaid capital | 13 | (295,473) | (182,586) |
| Loans to members | 12a | (188,976) | (327,026) |
| Repayment of loans by members | 12a | <u>218,052</u> | <u>216,696</u> |
| Net cash flows from operating activities | | 129,899 | 24,742 |
| Cash flow from investing activities | | | |
| Purchase of tangible assets | 10 | <u>-</u> | <u>-</u> |
| Net increase in cash and cash equivalents | | 171,036 | 49,803 |
| Cash and cash equivalents at beginning of year | | <u>349,541</u> | <u>299,738</u> |
| Cash and cash equivalents at end of year | 16 | <u><u>520,577</u></u> | <u><u>349,541</u></u> |

Manx Credit Union Limited
Notes to the financial statements

for the year ended 30 September 2020

1 Legal and regulatory framework

Manx Credit Union Limited (referred to as MCU in these notes) is a society registered under The Credit Unions Act 1993, whose principal activity is to operate as a credit union, within the meaning of the Act. MCU was granted a Class 9 license by the Isle of Man Financial Services Authority on 1st April 2019 No.000001U. The date of incorporation under previous legislation 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 ordinary and since 1st August 2019 deferred 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. The directors of MCU believe this is appropriate despite a mismatch in the maturity analysis of subscribed capital and loans to members, because subscribed capital is not redeemable at short notice unless loans with the same member have been repaid (note 12b).

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.

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 |
|-----------------------|---------------------|

Manx Credit Union Limited
Notes to the financial statements

for the year ended 30 September 2020

2 Accounting policies (Cont.)

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 any individual 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 ordinary shares 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. Deferred shares have limited redemption rights and as such are treated as reserves.

Donations

It had been the policy of the Manx Credit Union's 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.

| | 2020 | 2019 |
|---|---------------------|---------------------|
| | £ | £ |
| <i>Donations received during the year to cover:</i> | | |
| Audit costs - Browne Craine Associates Ltd. | 3,360 | 3,600 |
| Training - UKCU Trade Association | - | 370 |
| Bank charges - Lloyds Bank International Ltd. | 1,213 | 1,081 |
| Credit check fees - Channel Islands Debt Services | 470 | 538 |
| Annual property licence fee - Nadine Charitable Trust | - | 1,200 |
| Promotion - Manx Lottery grant | - | 3,000 |
| Development costs - Sundry donations | 3,310 | 168 |
| Software | 960 | - |
| | <u>9,313</u> | <u>9,957</u> |

Reserves

Retained earnings are the accumulated surpluses to date that have not been declared as dividends returnable to members. However the Board are mindful that it is from these reserves that future services can be developed. Also a Regulatory Capital Ratio of 5%, after dividend, has to be maintained as part of the licence requirements of the 2008 Financial Services Act that MCU are subject to.

Manx Credit Union Limited
Notes to the financial statements

for the year ended 30 September 2020

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. Impairment allowances have been made in accordance with regulatory requirements. However in view of the current pandemic and its potential impact on household finances it was considered prudent to include an additional general impairment allowance.

4 Loan interest receivable and similar income

| | 2020 | 2019 |
|--|---------------|---------------|
| | £ | £ |
| Loan interest receivable from members | 51,793 | 31,835 |
| Bank interest receivable on cash and liquid deposits | <u>1,735</u> | <u>2,233</u> |
| | <u>53,528</u> | <u>34,068</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.

| | 2020 | 2019 |
|---------------|--------------|----------|
| | £ | £ |
| Dividend Paid | <u>2,745</u> | <u>-</u> |

6 Fees and commissions receivable

| | 2020 | 2019 |
|---------------------------|--------------|--------------|
| | £ | £ |
| Entrance fees | 184 | 366 |
| Annual administrative fee | <u>2,083</u> | <u>1,921</u> |
| | <u>2,267</u> | <u>2,287</u> |

It was agreed at the last AGM that fees payable by members should be amended as from 1/10/20 providing revenues justified this. This being the case the Board implemented the decision to abolish the Annual Membership Fee but to increase to £5 the one-off Entrance fee.

| | | |
|-------------------|-----|-----|
| Number of members | 677 | 618 |
|-------------------|-----|-----|

7 Expenses

| | | 2020 | 2019 |
|-----------------------------|-------|---------------|---------------|
| | | £ | £ |
| Administrative expenses | 7a. | 11,701 | 9,422 |
| Promotion | 7b. | 1,879 | 2,425 |
| Other operating expense | 7c. | 9,712 | 8,461 |
| Depreciation & amortisation | 10/11 | <u>3,636</u> | <u>10,200</u> |
| | | <u>26,928</u> | <u>30,508</u> |

Manx Credit Union Limited
Notes to the financial statements

for the year ended 30 September 2020

7a. Administrative expenses

| | 2020 | 2019 |
|--------------------------------|---------------|--------------|
| | £ | £ |
| * Audit | 5,400 | 5,400 |
| * Staff training and welfare | - | 452 |
| * Credit Check Fees | 470 | 538 |
| Legal & Professional | 687 | 669 |
| Telephone | 521 | 537 |
| Printing, Stationery & Postage | 1,681 | 895 |
| Insurance | 1,022 | 931 |
| * Software | 1,920 | - |
| | <u>11,701</u> | <u>9,422</u> |

*Contributions have been made by suppliers to cover full or part costs as detailed in Note 2.

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.

| | 2020 | 2019 |
|--|--------------|--------------|
| | £ | £ |
| Website | 414 | 396 |
| On-line Applications for membership and loan | 300 | 300 |
| Other promotional activity | 1,165 | 1,729 |
| | <u>1,879</u> | <u>2,425</u> |

The carrying value of Restricted Funds, as seen on page 10, is available for promotional purposes.

7c. Other operating expenses

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

| | Note | 2020 | 2019 |
|---|------|--------------|--------------|
| | | £ | £ |
| Cost of occupying an office (excluding depreciation) | | | |
| Licence agreement for fully serviced office | 19 | 4,913 | 5,250 |
| Security | | 294 | 240 |
| | | <u>5,207</u> | <u>5,490</u> |
| Regulatory and financial management costs | | | |
| Trade Association Fees | | 1,321 | 1,321 |
| Fidelity insurance | | 991 | 727 |
| Death Benefit - Members Loans | | 2,193 | 923 |
| | | <u>4,505</u> | <u>2,971</u> |
| | | <u>9,712</u> | <u>8,461</u> |

Manx Credit Union Limited
Notes to the financial statements

for the year ended 30 September 2020

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 2019 | 4,750 | 3,567 | 8,317 |
| Additions | - | - | - |
| At 30 September 2020 | <u>4,750</u> | <u>3,567</u> | <u>8,317</u> |
| Depreciation | | | |
| At 1 October 2019 | 4,750 | 3,567 | 8,317 |
| Charge for the year | - | - | - |
| Surplus on revaluation | - | - | - |
| On disposals | - | - | - |
| At 30 September 2020 | <u>4,750</u> | <u>3,567</u> | <u>8,317</u> |
| Net book value | | | |
| At 30 September 2020 | <u>-</u> | <u>-</u> | <u>-</u> |
| At 1 October 2019 | - | - | - |

11 Intangible fixed assets

| | Software |
|-----------------------------|---------------|
| | £ |
| Cost | |
| At 1 October 2019 | 28,140 |
| Additions | - |
| At 30 September 2020 | <u>28,140</u> |
| Amortisation | |
| At 1 October 2019 | 24,504 |
| Charge for the year | 3,636 |
| At 30 September 2020 | <u>28,140</u> |
| Net book value | |
| At 30 September 2020 | <u>-</u> |
| At 1 October 2019 | <u>3,636</u> |

Intangible fixed assets comprise of software installation, training and four years licence fees. The costs were amortised over four years. The licence fees will be payable again from May 2020. Subsequently a new licence agreement came into force for a period of three years, this being accounted for through the Revenue account.

Manx Credit Union Limited
Notes to the financial statements

for the year ended 30 September 2020

12 Loans to members - financial assets

12a Loans advanced to members

| | 2020 | 2019 |
|---|----------------|----------------|
| | £ | £ |
| Total loan assets at 1 October 2019 | 325,961 | 227,767 |
| Loans advanced during the year | 188,976 | 327,026 |
| Repaid during the year | (219,140) | (217,958) |
| Impairment losses | (12,941) | (10,874) |
| Total loan assets at 30 September 2020 | <u>282,856</u> | <u>325,961</u> |
| Number of Loans in operation | 153 | 154 |
| The average borrowed by members during the year | 1,443 | 1,935 |

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 2020 is £282,856 with a total of £74,673 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.

| | 2020 | | 2019 | |
|----------------------------------|----------------|-----------------|----------------|-----------------|
| | Amount £ | Proportion % | Amount £ | Proportion % |
| Not impaired: | | | | |
| Not yet past due | 248,663 | 86.76% | 308,102 | 95.48% |
| Up to 3 months past due | 37,946 | 13.24% | 14,584 | 4.52% |
| 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>286,609</u> | <u>100%</u> | <u>322,686</u> | <u>100%</u> |

Manx Credit Union Limited
Notes to the financial statements

for the year ended 30 September 2020

12b Credit risk disclosures (cont.)

Individually impaired:

| | 2020 | | 2019 | |
|--------------------------------------|-----------------------|-------------|-----------------------|-------------|
| | Amount | Proportion | Amount | Proportion |
| Not yet past due, but impaired | - | - | - | - |
| Up to 3 months past due | - | 0.00% | - | 0.00% |
| Between 3 and 6 months past due | 4,671 | 19.88% | 5,367 | 30.53% |
| Between 6 and 9 months past due | 4,016 | 17.10% | 2,775 | 15.79% |
| Between 9 and 12 months past due | 1,503 | 6.40% | 4,284 | 24.37% |
| Over 1 year past due | 13,300 | 56.62% | 5,151 | 29.31% |
| Specifically impaired loans | 23,490 | 100% | 17,577 | 100% |
| Total loans | 310,099 | 100% | 340,263 | 100% |
| Specific impairment allowance | (18,412) | | (14,302) | |
| Additional general allowance | (8,831) | | - | |
| | <u>(27,243)</u> | | <u>(14,302)</u> | |
| Total carrying value of loans | <u>282,856</u> | | <u>325,961</u> | |

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

12c Allowance account for impairment losses

| | 2020 | 2019 |
|--------------------------------------|---------------|---------------|
| | £ | £ |
| As at 1 October 2019 | 14,302 | 3,428 |
| Increase in allowance losses in year | 12,941 | 10,874 |
| As at 30 September 2020 | <u>27,243</u> | <u>14,302</u> |

13 Subscribed capital - financial liabilities

| | 2020 | 2019 |
|---------------------------|----------------|----------------|
| | £ | £ |
| As at 1 October 2019 | 657,044 | 521,972 |
| Received during the year | 362,380 | 317,658 |
| Withdrawn during the year | (295,473) | (182,586) |
| As at 30 September 2020 | <u>723,951</u> | <u>657,044</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 financial statements

for the year ended 30 September 2020

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

| | 2020 | 2019 |
|---|---------------|--------------|
| | £ | £ |
| Creditors - Caroma licence fees due 31/5/21 | 8,640 | |
| Accruals and deferred income | 9,816 | 1,800 |
| | <u>18,456</u> | <u>1,800</u> |

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 financial statements

for the year ended 30 September 2020

Interest rate risk disclosures

15b The following table shows the average annual interest rate applicable to relevant financial assets.

| | Note | 2020 | | 2019 | |
|------------------------------|------|----------------|-----------------------------|----------------|-----------------------------|
| | | Amount £ | Average interest rate | Amount £ | Average interest rate |
| Financial assets | | | | | |
| Loans to members - gross | | 310,099 | 12.60% | 340,263 | 7.39% |
| Impairment losses | | (27,243) | | (14,302) | |
| Loans to members - net | 12 | <u>282,856</u> | | <u>325,961</u> | |
| Financial liabilities | | | | | |
| Subscribed capital | 13 | <u>723,951</u> | | <u>657,044</u> | |

The maximum interest rates applicable to a member's loan is 3% 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

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.

15d Fair value of financial instruments.

All financial instruments are held at amortised cost.

16 Cash, cash equivalents and liquid deposits

| | 2020 £ | 2019 £ |
|------------------------|----------------|----------------|
| Cash and bank deposits | 164,743 | 91,564 |
| One month term | - | 50,357 |
| 95 Day notice | 180,038 | 207,620 |
| Six month term | 75,775 | - |
| Twelve month term | 100,021 | - |
| Total | <u>520,577</u> | <u>349,541</u> |

17 Deferred shares

| | 2020 £ | 2019 £ |
|---------------------------|---------------|-----------|
| As at 1 October 2019 | - | - |
| Received during the year | 33,916 | - |
| Withdrawn during the year | - | - |
| As at 30 September 2020 | <u>33,916</u> | <u>-</u> |

18 Post balance sheet events

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

Manx Credit Union Limited
Notes to the financial statements

for the year ended 30 September 2020

19 Contingent liabilities

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

19 Contingent liabilities

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

20 Related party transactions

During the year, three members (2019: five members) of either the Board, staff and their close family members had loans with MCU granted for £10,854 (2019: £26,173). 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 carrying value as at the year end was £17,584 (2019: £21,854).

The licence agreement for use of the ground floor at Nadine House, which covers the period to 31 December 2020, is with a company controlled by a director of MCU. The Nadine Charitable Trust, for whom the same director is a settlor, had donated funds to cover the cost of the licence agreement up to the 31st December 2018.

21 Subsequent Event

The Board have proposed a dividend of 1% (2019 .5%) which will be confirmed at the AGM.

Manx Credit Union Limited

Credit Committee Report

for the year ended 30 September 2020

The Credit Committee 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. Members of the Committee keep in contact with each other, outside the weekly meetings, so that a consistent and seamless approach to the application for a loan and its decision-making process, is made as quickly and effectively as possible.

During the COVID-19 lockdown period, unknown to all concerned, we helped our members by keeping the meetings active on Zoom and allowing customers who needed payment holidays to make their request known. This enabled the Loans Officers to present the loan applications provided by the members and to deal sympathetically with members who had suffered a reduction in income because of the restrictions our government expected from Island residents.

The Credit Committee is aware of its obligations to all members to ensure that sound decisions are made to minimise any potential losses. As we point out to our members who take out loans, we appreciate that circumstances can change through, for example, redundancy, breakdown of a relationship or ill health. We encourage members under these circumstances to always contact the office, before payments are missed, so arrangements can be made to reflect the change in circumstances. Each week an arrears list is reviewed, and decisions taken as to what actions are needed.

At the year-end, the Committee reviews those accounts that are in arrears with a view to recommending to the Board what provision should be made for potential bad debts. Firstly, provisions are made on based on the number of weeks a loan is in arrears by. Secondly because of the unknown outcome on incomes and the uncertainty the covid-19 pandemic has created a further general reserve has been created this year as per Note 12b in the accounts.

There are several loan types on offer which can be tailored to the specific needs of a member. Below is a list of loan types and their values with a comparison to the previous year values:

| Loan products | 2019 | | | |
|--------------------|----------|---------|----------|---------|
| | Quantity | £ | Quantity | £ |
| Basic | 106 | 240,445 | 112 | 250,715 |
| Loyalty Savers | 14 | 45,578 | 19 | 67,674 |
| Save as you Borrow | 22 | 20,344 | 21 | 20,919 |
| Starter | 11 | 3,731 | 2 | 955 |
| | | | | |
| Totals | 153 | 310,098 | 154 | 340,263 |
| | | | | |