

Manx Credit Union Limited

30th September 2019

Annual Report and Financial Statements



I confirm that the attached accounts are
a true copy of the original.

Janis

Secretary Manx Credit Union,

20.2.20

Manx Credit Union Limited

30th September 2019

Annual Report and Financial Statements



Manx Credit Union Limited

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Manx Credit Union Limited

Administrative information

Directors

David Talbot (Chairman)
Ian Yates (Secretary)
Wendy Shimmin
Paul Blake
Gordon Lloyd-West
David Allwood
Andrew Dunlop

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
Board of Management Report
for the year ended 30 September 2019

Introduction

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

Members of the Manx Credit Union are part of a world-wide movement. Latest statistics from the World Council of Credit Unions states that there are 85,400 credit unions serving over 274 million members in 118 countries worldwide. The total amount of members' savings is over \$1.7 trillion. Credit unions as ever are in the business of promoting financial inclusion. The Manx Credit Union shares the same objective that all people should have access to affordable, reliable and sustainable financial services.

Governance

The Manx Credit Union is governed by the 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 latest copy of the Rulebook can be downloaded from our website.

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 five times in the reporting period.

A Credit Committee, established by the Board, reviews and processes 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 Credit Committee report 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. In-house training is offered to all volunteers who need to be kept up to date with the obligations of being a licenced entity. Once a year a Board member attends the annual conference of our trade body to hear about the latest developments and network with other credit union representatives.

Members

As at 30 September 2019, the MCU had over 600 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 2019

Dividend

Information about a possible dividend for the current financial period ending 30 September 2019 was minuted on 27 November 2019. This will be declared at the AGM by the Treasurer.

Deferred shares

As discussed at our last AGM, your Board hoped to make available to members a second type of savings to sit alongside ordinary shares. This has been possible since 1 August 2019 when Tynwald gave approval for credit unions to issue deferred shares. Unlike ordinary shares, the issue value of deferred shares is unlimited but still attract a dividend when surpluses permit. Deferred shares improve the capital base of the credit union as they are credited to reserves and are transferrable to a named beneficiary.

There are two distinct and different characteristics of deferred shares which mark them out as more of a philanthropic choice and would favour those who have a long-term interest in the well-being of the Manx Credit Union. Firstly, they are not covered by our guarantee scheme and, secondly, they are only redeemable if strict criteria are met. To 27 November 2019 around £27,000 in deferred share applications have been received. Full details about deferred shares are contained in an issue document which can be obtained from our office or downloaded from our website.

Complaints and disputes

No complaints were made to, or disputes raised with, MCU in the period to 30 September 2019.

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 arrangements;
- Barclays Bank for letting us use the foyer of their Ramsey branch for regular 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;
- E Solutions Ltd for sponsoring the room hire fee for the previous AGM;
- the Nadine Charitable Trust's commitment to pay for office space for the five years to the end of 2018, and;
- the trustees of Manx Credit Union Trust who provide the guarantee for our members' savings.

Manx Credit Union Limited
Board of Management Report (Cont.)
for the year ended 30 September 2019

Challenges and events for the next year

Changes to the Credit Union Act 1993 enabled MCU to recast their loan products for new loans agreed after July 2019 with an emphasis on the amount of savings a member has accumulated. Loans prior to the changes had interest payable of up to 1% whereas they now range from 1% up to a maximum of 3%, which means that the relationship between rewarding savers with a dividend and maintaining competitive loan products has now been addressed.

New products are being worked on and developed as opportunity arises and also, we need to keep abreast of digital changes through our own credit union software and third-party products as tried and tested by affiliate members of our trade association. This has led to your Board approving the formation of a Development Committee to research and recommend back to the Board where products offered in the surrounding Islands are appropriate for use in the Isle of Man.

Such an idea is the Payroll Deduction Scheme which is ready to run but for which there has been no takers to date. Savings and loans paid through an employee's salary is a substantial part of the turnover of other credit unions in the UK and Ireland with advantages to both employers and their staff. We need to make connections in both the private and public sector to make this scheme fly.

Other services waiting to be explored and launched are for childrens' entry to membership and a Visa Debit Card exclusive at present to credit union members in the UK. The latter will be of great benefit to those without a bank account as each card carries its own sort-code and account number. The card can be preloaded with benefits and loans to be used in ATM's and for retail purchases.

The Board has discussed whether the £3 (three pound) Annual Administration Fee should continue: it was decided to leave it in place for another year to build up reserves and then, subject to further review, consider waiving the £3 Annual Administration Fee and replace it with a one-off Entrance Fee of £5 from around October 2020.

As we expand and grow MCU more strain has been placed on our volunteer model. We will always need volunteers, but as a not-for-profit mutual organisation it is becoming clear that your Board needs to appoint a paid administrator to cover the ten hours the office is open each week. It is anticipated that the cost of this will be covered by our growing revenue base.

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 year ended 30 September 2019 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 2019 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 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.

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.

Manx Credit Union Limited

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

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

17/02/20

Manx Credit Union Limited

Revenue Account

for the period ended 30 September 2019

	Note	2019 £	2018 £
Loan interest receivable and similar income	4	<u>34,068</u>	<u>13,300</u>
Net interest income		34,068	13,300
Fees and commissions receivable	6	2,287	1,776
Fees and commissions payable		<u>(1,129)</u>	<u>(846)</u>
Net fees and commissions receivable		1,158	930
Other income	2	9,957	10,165
Administrative expenses	7a	(9,422)	(7,948)
Promotion	7b	(2,425)	(1,056)
Other operating expenses	7c	(8,461)	(6,751)
Depreciation and amortisation	10,11	(10,200)	(9,884)
Impairment losses on loans to members		<u>(10,914)</u>	<u>(3,428)</u>
		(31,465)	(18,902)
Surplus/(Deficit) before taxation		3,761	(4,672)
Taxation	9	<u>-</u>	<u>-</u>
Surplus/(Deficit) for the financial year		3,761	(4,672)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u><u>3,761</u></u>	<u><u>(4,672)</u></u>

Manx Credit Union Limited
Balance Sheet

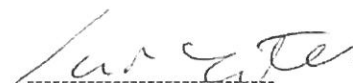
as at 30 September 2019

	Note	2019 £	2018 £
ASSETS			
Cash, cash equivalents and liquid deposits	16	349,541	299,738
Loans to members	12	325,961	227,767
Tangible fixed assets	10	0	2,976
Intangible fixed assets	11	3,636	10,860
Prepayments and accrued income		1,124	3,226
Total Assets		<u><u>680,262</u></u>	<u><u>544,567</u></u>
LIABILITIES			
Subscribed capital - repayable on demand	13	657,044	521,972
Retained earnings		21,418	17,657
Other payables	14	<u>1,800</u>	<u>4,938</u>
Total Liabilities		<u><u>680,262</u></u>	<u><u>544,567</u></u>

The financial statements were approved and authorised for issue by the Board on 26 November 2019 and signed on its behalf by:



 Director



 Director

Manx Credit Union Limited
Statement of Changes in Equity

for the year ended 30 September 2019

	General Reserves	Restricted Reserves	Total reserves
	£	£	£
As at 1 October 2017	(1,728)	24,057	22,329
Surplus/(deficit) for the period	<u>5,549</u>	<u>(10,221)</u>	<u>(4,672)</u>
as at 30 September 2018	3,821	13,836	17,657
Surplus/(deficit) for the period	<u>12,591</u>	<u>(8,830)</u>	<u>3,761</u>
as at 30 September 2019	<u>16,412</u>	<u>5,006</u>	<u>21,418</u>

Manx Credit Union Limited**Cash Flow Statement***for the year ended 30 September 2019*

		2019	2018
	Note	£	£
Cash flows from operating activities			
Surplus/(deficit) before taxation		3,761	(4,672)
Adjustments for non-cash items:			
Depreciation & amortisation	10,11	10,200	9,884
Impairment losses	12c	<u>10,874</u>	<u>3,428</u>
		24,835	8,640
Movements in:			
Accrued interest		1,262	1,032
Prepayments and accrued income		2,102	(2,034)
Other payables		<u>(3,138)</u>	<u>(2,862)</u>
		226	(3,864)
Cash flows from changes in operating assets and liabilities			
Cash inflow from subscribed capital	13	317,658	281,690
Cash outflow from repaid capital	13	(182,586)	(73,401)
Loans to members	12a	(327,026)	(274,331)
Repayment of loans by members	12a	<u>216,696</u>	<u>76,262</u>
Net cash flows from operating activities		24,742	10,220
Cash flow from investing activities			
Purchase of tangible assets	10	<u>-</u>	<u>(908)</u>
Net increase in cash and cash equivalents		49,803	14,088
Cash and cash equivalents at beginning of year		<u>299,738</u>	<u>285,650</u>
Cash and cash equivalents at end of year	16	<u><u>349,541</u></u>	<u><u>299,738</u></u>

Manx Credit Union Limited

Notes to the financial statements

for the year ended 30 September 2019

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 licensed 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 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
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Manx Credit Union Limited

Notes to the financial statements (Cont.)

for the year ended 30 September 2019

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.

	2019	2018
	£	£
<i>Donations received during the year to cover:</i>		
Audit costs - Browne Craine Associates Ltd.	3,600	3,600
Training - UKCU Trade Association	370	471
Bank charges - Lloyds Bank International Ltd.	1,081	763
Credit check fees - Channel Islands Debt Services	538	-
Annual property licence fee - Nadine Charitable Trust	1,200	4,800
Promotion - Manx Lottery grant	3,000	-
Development costs - Sundry donations	168	-
Website Costs	-	162
Printing	-	369
	<u>9,957</u>	<u>10,165</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 (Cont.)

for the year ended 30 September 2019

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

	2019	2018
	£	£
Loan interest receivable from members	31,835	11,569
Bank interest receivable on cash and liquid deposits	2,233	1,731
	<u>34,068</u>	<u>13,300</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.

6 Fees and commissions receivable

	2019	2018
	£	£
Entrance fees	366	342
Annual administrative charge	1,921	1,434
	<u>2,287</u>	<u>1,776</u>
Number of members	618	470

7 Expenses

		2019	2018
		£	£
Administrative expenses	7a.	9,422	7,948
Promotion	7b.	2,425	1,056
Other operating expense	7c.	8,461	6,751
Depreciation & amortisation	10/11	10,200	9,884
		<u>30,508</u>	<u>25,639</u>

Manx Credit Union Limited
Notes to the financial statements (Cont.)

for the year ended 30 September 2019

7a. Administrative expenses

	2019	2018
	£	£
* Audit	5,400	5,400
* Staff training and welfare	452	471
* Credit Check Fees	538	-
Legal & Professional	669	-
Telephone	537	532
Printing, Stationery & Postage	895	667
Insurance	931	878
	<u>9,422</u>	<u>7,948</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.

	2019	2018
	£	£
Website	396	540
On-line Applications for membership and loan	300	300
Other promotional activity	1,729	216
	<u>2,425</u>	<u>1,056</u>

7c. Other operating expenses

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

	Note	2019	2018
		£	£
Cost of occupying an office (excluding depreciation)			
Licence agreement for fully serviced office	19	5,250	4,800
Security		240	240
		<u>5,490</u>	<u>5,040</u>
Regulatory and financial management costs			
Trade Association Fees		1,321	949
Fidelity insurance		727	537
Death Benefit - Members Loans		923	225
		<u>2,971</u>	<u>1,711</u>
		<u>8,461</u>	<u>6,751</u>

Manx Credit Union Limited

Notes to the financial statements (Cont.)

for the year ended 30 September 2019

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 2018	4,750	3,567	8,317
Additions	-	-	-
At 30 September 2019	4,750	3,567	8,317
Depreciation			
At 1 October 2018	3,200	2,141	5,341
Charge for the year	1,550	1,426	2,976
At 30 September 2019	4,750	3,567	8,317
Net book value			
At 30 September 2019	-	-	-
At 1 October 2018	1,550	1,426	2,976

11 Intangible fixed assets

	Software
Cost	£
At 1 October 2018	28,140
Additions	-
At 30 September 2019	28,140
Amortisation	
At 1 October 2018	17,280
Charge for the year	7,224
At 30 September 2019	24,504
Net book value	
At 30 September 2019	3,636
At 1 October 2018	10,860

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 financial statements (Cont.)

for the year ended 30 September 2019

12 Loans to members - financial assets

12a Loans advanced to members

	2019	2018
	£	£
Total loan assets at 1 October 2018	227,767	34,158
Loans advanced during the year	327,026	274,331
Repaid during the year	(217,958)	(77,294)
Impairment losses	(10,874)	(3,428)
Total loan assets at 30 September 2019	<u>325,961</u>	<u>227,767</u>
Number of Loans in operation	154	97
The average borrowed by members during the year	1,935	2,828

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 2019 is £325,961 with a total of £98,948 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.

	2019		2018	
	Amount £	Proportion %	Amount £	Proportion %
Not impaired:				
Not yet past due	308,102	95.48%	204,307	92.19%
Up to 3 months past due	14,584	4.52%	17,315	7.81%
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>322,686</u>	100%	<u>221,622</u>	100%

Manx Credit Union Limited

Notes to the financial statements (Cont.)

for the year ended 30 September 2019

12b Credit risk disclosures (cont.)

Individually impaired:

	2019		2018	
	Amount	Proportion	Amount	Proportion
Not yet past due, but impaired	-	-	-	-
Up to 3 months past due	-	0.00%	8,703	90.91%
Between 3 and 6 months past due	5,367	30.53%	837	8.74%
Between 6 and 9 months past due	2,775	15.79%	-	-
Between 9 and 12 months past due	4,284	24.37%	33	0.34%
Over 1 year past due	5,151	29.31%	-	-
Specifically impaired loans	<u>17,577</u>	<u>100%</u>	<u>9,573</u>	<u>100%</u>
Total loans	340,263	100%	231,195	100%
Specific impairment allowance	(14,302)		(3,428)	
Total carrying value of loans	<u><u>325,961</u></u>		<u><u>227,767</u></u>	

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

12c Allowance account for impairment losses

	2019	2018
	£	£
As at 1 October 2018	3,428	-
Increase in allowance losses in year	10,874	3,428
As at 30 September 2019	<u><u>14,302</u></u>	<u><u>3,428</u></u>

13 Subscribed capital - financial liabilities

	2019	2018
	£	£
As at 1 October 2018	521,972	313,683
Received during the year	317,658	281,690
Withdrawn during the year	(182,586)	(73,401)
As at 30 September 2019	<u><u>657,044</u></u>	<u><u>521,972</u></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 financial statements (Cont.)

for the year ended 30 September 2019

14 Other payables

	2019	2018
	£	£
Creditors	-	3,000
Accruals	1,800	1,938
	<u>1,800</u>	<u>4,938</u>

The creditors relate to retention monies on the purchase of the credit union software and licences which was paid in May 2019. Accruals relate to audit fees.

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 (Cont.)

for the year ended 30 September 2019

15b Interest rate risk disclosures

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

	2019		2018	
	Amount £	Average interest rate	Amount £	Average interest rate
Financial assets				
Loans to members - gross	340,263	7.39%	231,195	5.75%
Impairment losses	(14,302)		(3,428)	
Loans to members - net	<u>325,961</u>		<u>227,767</u>	
Financial liabilities				
Subscribed capital	<u>657,044</u>		<u>521,972</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 and liquid deposits

	2019 £	2018 £
Cash and bank deposits	91,564	74,110
One Month Term Account	50,357	-
95 Day Notice Account	207,620	225,628
Total	<u>349,541</u>	<u>299,738</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.

Manx Credit Union Limited
Notes to the financial statements (Cont.)

for the year ended 30 September 2019

19 Related party transactions

During the year, five members (2018, 3 members) of either the Board, staff and their close family members had loans with MCU granted for £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 £21,854.

The licence agreement for use of the ground floor at Nadine House, which covers the period to 31 December 2019, 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.

20 Subsequent Event

On 1 August 2019 Tynwald approved an order whereby a credit union can issue Deferred Shares. The purpose of Deferred Shares is to improve the capital base of the Manx Credit Union and is aimed at those members who have a long term interest in the wellbeing of the Manx Credit Union. As at the year end date there were no deferred shares in issue, however post year end to 26 November 2019 £26,900 Deferred Share applications had been received.

The Board have proposed a dividend of 0.5% which will be confirmed at the AGM.

Manx Credit Union Limited

Credit Committee Report

The Credit Committee, which to be quorate needs to comprise 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. 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 efficiently as possible. Reports are provided to the Board of Management on its 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 £327,026 (2018: £274,331) and were managing 154 (2018: 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, breakdown of a relationship or ill health. We encourage members under these circumstances to always make contact with the office, before payments are missed, so arrangements can be made to reflect the change in circumstances. The Committee however will contact 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 in an emergency or planned, is needed from time to time. Once a loan is in progress it can be topped-up rather than start a further agreement. There are several loan products available to members that can be discussed during the application process. As well as a basic and emergency loans, members can choose from:

Saver Loyalty Loan - Pay half the interest charge of a basic loan.
Save as you Borrow – Save the same amount as borrowed.
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.

Signed on behalf of Credit Committee

