Mallow Credit Union Limited

AGM 2018

Annual Report

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Notice of Elections

Elections will be held to fill the following vacancies:

- 5 vacancies on the Board of Directors
- 4 vacancies on the Board Oversight Committee
- The Position of Auditor

Amendments to Standard Rules Arising from League AGM 2018

That this Annual General Meeting amends the Standard Rules for Credit Unions (Republic of Ireland) by the deletion of Rule 109(8) (see below).

Rule 109(8)
Subject to the Act and any regulations made thereunder, the forms used by the credit union shall contain as a minimum the information as set out in the forms contained in the Appendices to these rules which forms may be amended from time to time by the Irish League of Credit Unions.

Standing Orders
for the AGM of Mallow Credit Union Ltd.

1. Voting
Each member shall be entitled to one vote irrespective of his/her shareholding, in accordance with Section 82(2) of the Credit Union Act.

2 - 4 Election Procedure.
2. Elections to the Board of Directors, to the Board Oversight Committee and the position of Auditor shall be by majority vote and by secret ballot.

3. When nominations are announced tellers shall be appointed by the chair and ballot papers shall be distributed. Nominations shall be in the following order: (a) nominations for auditor; (b) nominations for members of the Board Oversight Committee; (c) nominations for Directors. When voting is completed, the votes shall be taken and tallied by the tellers. Any ballot paper which contains votes for more than the number required to be elected shall be void. All elections shall be by secret ballot and by majority vote. When the votes have been counted by the tellers, the results shall be announced by the chair. In the event that all vacancies are not filled by the first ballot further ballots shall be taken as required. In the event of an equality of votes between candidates for the remaining vacancies not filled in accordance with the above procedure one further ballot shall be taken and should that ballot fail to determine the issue, the vacancies shall be filled by lot from among such candidates having an equality of votes.

4. A Ballot Paper for the election of the Board, the Board Oversight Committee and the Auditor where applicable, will be distributed to each member at the AGM.

5 - 10 Motions.
5. All motions from the floor of the AGM must be proposed and seconded by members present at the AGM and moved by the proposer. If the proposer is absent when the motion is called, the motion shall be deemed to have failed.

6. A proposer of a motion may speak for such period as shall be at the discretion of the Chair of the meeting and shall have the right of reply before the motion is put to the meeting for a vote.

7. In exercising his/her right of reply, a proposer may not introduce new material.

8. The seconder of a motion shall have such time as shall be allowed by the Chair to second the motion.

9. Members are entitled to speak on any such motion and must do so through the Chair. All speakers to any motion shall have such time as shall be at the discretion of the Chair.

10. The Chair shall have the absolute right to decide at any time when a motion has been sufficiently discussed and may put the motion to the meeting giving the proposer the right of reply before doing so.

11 - 16 Miscellaneous.
11. The Chair of the Board of Directors shall be the Chair of any general meeting, except where he/she is not available, in which case it shall be the Vice-Chair, except where he/she is not available, in which case the Board shall decide amongst themselves who shall act as Chair of any general meeting.

12. The Chair may at his/her discretion, extend the privilege of the floor to any person who is not a member.

13. Matters not covered by the Agenda may be introduced under "Other Business" at the discretion of the Chair.

14. The Chair's decision on any matter relating to these Standing Orders or interpretation of same shall be final.

15. No member shall have more than one vote on each question at any general meeting of the Credit Union or any adjournment thereof irrespective of his/her shareholding or the number of accounts in his/her name in the Credit Union provided, however, that except in voting at elections, the presiding member shall have a second or casting vote in the event of equality of voting. Voting by proxy shall be allowed only when a member other than a natural person votes through a representative, who is a member of the group, duly authorised in writing for that purpose and accepted as such by the Board of Directors.

16. Any matter to be decided upon by vote at the AGM shall, unless otherwise expressly provided for by law or the rules, be decided upon by simple majority.

17. Suspension of Standing Orders.
Any one of these Orders or all of these Standing Orders may be suspended on a motion to this effect receiving a two-thirds majority of those present and entitled to vote.

18. Alteration of Standing Orders.
Standing Orders may be amended or altered at a general meeting and only if a motion to this effect has received a two-thirds majority of those present and voting.

19. Adjournments.
Adjournments of the AGM shall take place only in accordance with Section 81(1) of the Credit Union Act.

Chairman's Address

On behalf of the Board of Directors I would like to welcome you to this our 55th Annual General Meeting.

The last number of years has seen significant changes to our credit union group and this year has been no different. At last year's AGM we asked for your permission to extend our common bond to include that of the former Charleville Credit Union. While the suddenness of the liquidation was unexpected we would like to thank you our members for the foresight in allowing us to act by giving us your approval.

As a result we were able to open an office in Charleville on 24th November 2017 and take the opportunity to further strengthen our credit union. In doing so we also gave the people living in the Charleville area the opportunity to continue to avail of credit union services, which is in keeping with our ethos. We were also able to offer roles to a large number of the former employees of Charleville Credit Union.

Please note that this has not been an easy task and has required a significant increase in workload from all those involved to ensure that we were able to open an office in such a short period of time. It meant that resources had to be re-allocated to staff, operate and back up this office at such short notice. We appreciate the patience all our members have shown while those changes were put in place.

In addition every aspect of the process had to undergo a tendering process because it was a liquidation. This included licence to operate a credit union from the building, purchase of the loan book and purchase of the building. I am happy to report that after much consideration and effort we were successful in all of the tendering processes.

We are confident that going forward our Charleville office has the potential to be a major part of our group and indications from the first year of trading are supporting this.

I am happy to report that it has been a year of strong growth in loans and savings, with the closing balance as at 30th September 2018 for Loans being €38,031,222 and Shares at €157,868,929. However the pressure on returns from our investments continues to adversely impact our surplus. These are areas outside of our control as deposit yields are at historic low levels and we are restricted by investment guidelines on the type of investments we can make.

In addition the cost of implementing change and regulations and the regulatory levies involved has impacted on our surplus. Despite these obstacles we have performed well generating a surplus of €1,998,328 and are in a position to pay a dividend and loan interest rebate. The CEO will expand on the numbers in his Financial Report.

The credit union model as we know it is undergoing significant change with smaller more rural credit unions coming under increasing pressures due to poor investment returns and higher costs. We as members of our credit union recognise the need to have a viable alternative to the banks and to have a financial institution which is owned and controlled by its members and not solely driven by making profits and will be in existence to support future generations to come.

Finally, I would like to thank my fellow Directors, Committee Members, Volunteers and Staff for the enormous effort that has to be put in to ensure the successful operation of our credit union group and to you our members for your loyalty and patience while we go through these changes.

David Browne
Chairman

Financial Report

On behalf of the Board of Directors I would like to present the 2018 Financial Report.

Charleville Branch

As mentioned by our Chairman in his report, we opened the Charleville branch on 24th November 2017 and we have successfully bid for the purchases of the old Charleville loan book and the former credit union premises, which have contributed positively to the performance of the group as a whole.

Loans

The loan book and the interest received from it has seen growth over the past year and the ability to replicate this going forward will be critical to the continued success of our credit union. In the financial year just passed we issued €22,114,574 in loans, an increase of 38% over the prior year. This includes the impact of loans transferring from the Charleville Credit Union loan book. Loan interest received was €2,748,300, an increase of 14%.

Our total loan book as at 30th September 2018 was €38,031,222 compared to €31,687,010 in 2017, an increase of €6,344,212 or 20%. This was due to a number of factors but principally the purchase of the old Charleville loan book.

Our Credit Control department has had another very strong performance in their role of recovering funds from loans that have been written off. A total of €429,644 was recovered during the year, broadly in line with the €429,895 recovered the prior year, which shows the commitment we have towards the recovery of our members money.

As can be seen from note 5 during the year we had to write off loans to a value of €378,453, down 67% on the prior year and which had already been provided for in our prudent bad debt provision.

Investments

Our investment returns for the year were €1,283,404 on an investment book of €142,254,744 at year end, compared to €1,383,248 on an investment book of €123,683,207 in 2017, a reduction of 7% despite an increase in funds invested. This illustrates the falling margins being experienced on our investments at the moment and which will continue as investments which mature have to be reinvested at significantly lower margins going forward. Average margin on our investments greater than 3 months maturity was 1% at year-end.

Financial Performance

Mallow Credit Union has produced a surplus of €1,998,328 for the current financial year. It should be noted however that this includes a once off capital contribution of €1,221,231 from the ILCU. This was received in recognition of the commitment made by Mallow Credit Union to Charleville and the impact that the influx of savings had on our reserves. Excluding this one off contribution the surplus for the year would be €777,097, down slightly on prior year. However we believe that we are in a position to grow our credit union in the years to come given the growth in common bond and membership experienced in recent years.

As a result of our now extensive common bond and branch network the Board has taken the decision to complete an organisational review and to overhaul our loans application process in order to create a fit for purpose loans function that can better fulfil the needs of our membership. We have appointed a Head of Lending and we are currently in the process of creating a centralised lending department which will deliver a much improved and more streamlined service for you our member. We have also introduced two new loan products, Cultivate Agricultural Loan and the Express Loan which we believe will add value to our loan proposition going forward.

Financial Report (continued)

The Board of Directors are proposing to our membership the following distribution of our surplus:

A dividend on shares of 0.10% €146,764

The Board are recommending a dividend of 0.10% on shares. This is in keeping with comparable rates for money on demand in other financial institutions. This also allows for reserves to be maintained as a protection to you our members in ensuring that the credit union is able to absorb any unforeseen shocks going forward, but also allowing us to invest in improvements and product innovations that will better service our membership.

A loan interest rebate of 2.5% €72,370

We are proposing a 2.5% loan interest rebate to our borrowing members in recognition of the important contribution they make to the financial performance of our credit union.

Transfer to the Regulatory Reserve

We are required by legislation to have in place as a minimum a reserve that is 10% of our total assets. It is good financial practice to exceed that limit in order to cope with any unforeseen events which could potentially erode that percentage. During the year, as savings levels grew, we needed to transfer funds to the Regulatory Reserve to maintain it above the minimum 10% level. During the year we transferred €3,004,499 to the reserve, and it now stands at €20,204,725, or 10.94% of Total Assets.

Transfer to Other Reserves of €1,779,194

It is prudent financial practice to maintain a general reserve to deal with any unforeseen events and to provide funds for future development. This transfer also replaces funds from transfers made to the Regulatory Reserve during the year.

Community Support Fund

Under Credit Union legislation we are also required to get approval from the membership at our AGM to establish a special fund to be used by the credit union to support social, cultural, charitable and community development. Mallow Credit Union has always been a supporter of the various voluntary organisations that provide vital support to our communities. This is achieved through sponsorship and grants to the wide range of organisations that operate in our community and we are proposing that a fund of €75,000 be establish for the coming year to cater for the extensive area and organisations within our common bond.

Rule Change

Before the membership tonight is a proposed change to the standard Irish League of Credit Unions rule 109(8) which states that;

"Subject to the Act and any regulations made thereunder, the forms used by the credit union shall contain as a minimum the information as set out in the forms contained in the Appendices to these rules, which forms may be amended from time to time by the Irish League of Credit Unions"

I would like to thank you our members for your continued loyalty, support and patience as we go through this period of considerable change and consolidation. I would also like to thank our staff for the considerable and often unseen efforts they have put in to ensure that we continue to provide an independent financial service to our members.

Tomas O'Neill
CEO

Directors' Report

For the Financial Year Ended 30 September 2018

The directors present their annual report and the audited financial statements for the financial year ended 30 September 2018.

Principal activity

The principal activity of the business continues to be the operation of a credit union.

Authorisation

The credit union is authorised as follows:

- Insurance/reinsurance intermediary under the European Communities (Insurance Mediation) Regulations, 2005 (as amended).
- Investment Intermediaries (Restricted Activity Investment Product Intermediary) pursuant to Section 26 of the Investment Intermediaries Act, 1995 (as amended)
- Service Providers holding appointments from IIA product producers, including intermediaries that may issue appointments, appearing in the register maintained under Section 31 of the Investment Intermediaries Act, 1995 (as amended)
- Entitled under the European Union (Payment Services) Regulations 2018 to provide payment services.

Business review

The directors are satisfied with the results for the year and the year-end financial position of the credit union. The directors expect to develop and expand the credit union's current activities and they are confident of its ability to continue to operate successfully in the future.

Dividends and loan interest rebates

The surplus for the financial year is set out in the Income and Expenditure Account on page 14. The directors are proposing a dividend in respect of the year ended 30 September 2018 of €146,764 (0.10%) (2017: €258,599 (0.20%)) and a loan interest rebate of €72,370 (2.50%) (2017: €134,623 (5.00%)) subject to agreement by the membership at the AGM.

Principal risks and uncertainties

The principle risks and uncertainties faced by the credit union are:

Credit risk

Credit risk is the risk that a borrower will default on their contractual obligations relating to repayments to the credit union, resulting in financial loss.

Lack of loan demand

Lending is the principle activity of the credit union and the credit union is reliant on it for generating income to cover costs and generate a surplus.

Market risk

Market risk is the risk that the value of an investment will decrease. This risk can arise from fluctuations in values of, or income from, assets or changes in interest rates.

Liquidity risk

Liquidity risk is the risk that the credit union will not have sufficient cash resources to meet day to day running costs and repay members' savings when demanded.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems of the credit union, any failure by persons connected with the credit union or from external events.

Directors' Report (continued)
For the Financial Year Ended 30 September 2018

These risks are managed by the board of directors as follows:

Credit risk
In order to manage this risk, the board of directors regularly reviews and approves the credit union's credit policy. All loan applications are assessed with reference to the credit policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed.

Lack of loan demand
The credit union provide lending products to its members and promote these products through various marketing initiatives.

Market risk
The board of directors regularly reviews and approves the credit union's investment policy and funds are invested in compliance with this policy and regulatory guidance.

Liquidity risk
The credit union'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.

Operational risk
The operational risk of the credit union is managed through the employment of suitably qualified staff to ensure appropriate processes, procedures and systems are implemented and are further supported with a robust reporting structure.

Accounting records
The directors believe that they comply with the requirements of Section 108 of the Credit Union Act, 1997 (as amended) with regard to books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the credit union are maintained at the credit union's premises at 135 Bank Place, Mallow Co. Cork.

Events after the end of the financial year
There have been no significant events affecting the credit union since the year end.

Auditors
In accordance with Section 115 of the Credit Union Act, 1997 (as amended), the auditors Grant Thornton offer themselves for re-election.

This report was approved by the board on 12 November 2018 and signed on its behalf by:

Chairperson of the Board of Directors: David Browne
Date: 12 November 2018

Member of the Board of Directors: Tom Cronin
Date: 12 November 2018

Directors' Responsibilities Statement

For the financial year ended 30 September 2018

The directors are responsible for preparing the financial statements in accordance with applicable Irish law and regulations. The directors are also responsible for preparing the other information included in the annual report. The Credit Union Act, 1997 (as amended) requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the credit union and of the income and expenditure of the credit union for that period.

In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and reason for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the credit union will continue in business.

The directors are responsible for ensuring that the credit union keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the credit union, enable at any time the assets, liabilities, financial position and income and expenditure of the credit union to be determined with reasonable accuracy, enable them to ensure that the financial statements comply with the Credit Union Act 1997 (as amended) and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the credit union and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the board on 12 November 2018 and signed on its behalf by:

Chairperson of the Board of Directors: David Browne
Date: 12 November 2018

Member of the Board of Directors: Tom Cronin
Date: 12 November 2018

Board Oversight Committee's Responsibilities Statement

For the Financial Year Ended 30 September 2018

The Credit Union Act, 1997 (as amended) requires the appointment of a board oversight committee to assess whether the board of directors has operated in accordance with part iv, part iv (a) and any regulations made for the purposes of part iv or part iv (a) of the Credit Union Act, 1997 (as amended) and any other matter prescribed by the Central Bank of Ireland in respect of which they are to have regard to in relation to the board of directors.

This statement was approved by the board oversight committee on 12 November 2018 and signed on its behalf by:

On behalf of the Board Oversight Committee:

Chairperson of the Board Oversight Committee: Edward Keane
Date: 12 November 2018

Independent Auditor's Report
to the members of Mallow Credit Union Limited

Opinion
We have audited the financial statements of Mallow Credit Union Limited, which comprise the income and expenditure account, the statement of comprehensive income, the balance sheet, the statement of changes in reserves and the statement of cash flows for the financial year ended 30 September 2018, and the related notes to the financial statements, including the summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law including the Credit Union Act, 1997 (as amended) and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (Generally Accepted Accounting Practice in Ireland).

In our opinion, Mallow Credit Union Limited's financial statements:
- give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland of the state of the credit union's affairs as at 30 September 2018 and of its income and expenditure and cash flows for the year then ended; and
- have been properly prepared so as to conform with the requirements of the Credit Union Act, 1997 (as amended).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (Ireland) ('ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the 'responsibilities of the auditor for the audit of the financial statements' section of our report. We are independent of the credit union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, namely the Irish Auditing and Accounting Supervisory Authority (IAASA) Ethical Standard concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by Chartered Accountants Ireland, applied as determined to be appropriate in the circumstances for the entity. 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 (Ireland) 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 credit union'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
Other information comprises information included in the annual report, other than the financial statements and our auditors' 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 on the other information, 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.

Independent Auditor's Report (continued)

to the members of Mallow Credit Union Limited

Matters on which we are required to report by the Credit Union Act, 1997 (as amended)

Based solely on the work undertaken in the course of the audit, we report that:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- in our opinion proper accounting records have been kept by the credit union;
- the financial statements are in agreement with the accounting records of the credit union;
- the financial statements contain all primary statements, notes and significant accounting policies required to be included in accordance with section 111(1)(c) of the Act.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements which give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland, including FRS 102, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the credit union'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 intends to liquidate the credit union or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor for the audit of the financial statements

The auditor's 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 auditors' report that includes their opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) 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.

As part of an audit in accordance with ISAs (Ireland), the auditor will exercise professional judgment and maintain professional scepticism throughout the audit. The auditor will also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the credit union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the credit union's ability to continue as a going concern. If they conclude that a material uncertainty exists, they are required to draw attention in the auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify their opinion. Their conclusions are based on the audit evidence obtained up to the date of the auditors' report. However, future events or conditions may cause the credit union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

Independent Auditor's Report (continued)

to the members of Mallow Credit Union Limited

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that may be identified during the audit.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the credit union's members, as a body, in accordance with section 120 of the Credit Union Act, 1997 (as amended). 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 auditors' 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.

Denise O'Connell FCA
for and on behalf of
Grant Thornton
Chartered Accountants
& Statutory Audit Firm
Mill House, Henry Street, Limerick

Date: 12 November 2018

Income and Expenditure Account

For the Financial Year Ended 30 September 2018

	Schedule	2018 €	2017 €
Income			
Interest on members' loans		2,748,300	2,417,590
Interest payable on members' deposits (note 22)		(433)	(3,150)
Other interest and similar income	1	1,283,404	1,383,248
Net interest income		**4,031,271**	**3,797,688**
Other income	2	1,497,007	230,384
Total income		**5,528,278**	**4,028,072**
Expenditure			
Employment costs		1,693,894	1,435,654
Other management expenses	3	2,316,238	1,867,025
Depreciation		142,134	128,858
Net impairment losses/(gains) on loans (note 5)		(622,316)	(274,808)
Total expenditure		**3,529,950**	**3,156,729**
Surplus for the financial year		**1,998,328**	**871,343**

The financial statements were approved and authorised for issue by the board on 12 November 2018 and signed on behalf of the credit union by:

CEO: Tomás O'Neill
Date: 12 November 2018

Member of the Board Oversight Committee: Edward Keane
Date: 12 November 2018

Member of the Board of Directors: David Browne
Date: 12 November 2018

The notes on pages 19 to 33 form part of these financial statements.

Statement of other comprehensive income

For the Financial Year Ended 30 September 2018

	2018	2017
	€	**€**
Surplus for the financial year	1,998,328	871,343
Other comprehensive income	–	–
Total comprehensive income for the financial year	**1,998,328**	**871,343**

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Balance sheet

As at 30 September 2018

	Notes	2018	2017
Assets		€	€
Cash and balances at bank		3,315,838	2,414,272
Deposits and investments – cash equivalents	7	21,357,046	31,473,455
Deposits and investments – other	7	120,897,698	92,209,752
Loans	8	38,031,222	31,687,010
Provision for bad debts	9	(4,415,825)	(4,814,122)
Tangible fixed assets	10	3,618,049	3,191,066
Debtors, prepayments and accrued income	11	1,887,866	204,261
Total assets		**184,691,894**	**156,365,694**
Liabilities			
Members' shares	12	157,868,929	131,316,522
Members' deposits	13	84,000	552,000
Other liabilities, creditors, accruals and charges	14	986,087	364,941
Other provisions	15	41,415	35,444
Total liabilities		**158,980,431**	**132,268,907**
Reserves			
Regulatory reserve	17	20,204,725	17,200,226
Operational risk reserve	17	1,051,072	651,072
Other reserves			
– Realised reserves	17	4,356,670	6,177,398
– Unrealised reserves	17	98,996	68,091
Total reserves		**25,711,463**	**24,096,787**
Total liabilities and reserves		**184,691,894**	**156,365,694**

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Date: 12 November 2018

The notes on pages 19 to 33 form part of these financial statements.

Statement of changes in reserves

For the Financial Year Ended 30 September 2018

	Regulatory reserve €	Operational risk reserve €	Realised reserves €	Unrealised reserves €	Total €
As at 1 October 2016	**16,791,208**	**681,709**	**6,048,062**	**84,802**	**23,605,781**
Surplus for the year	–	–	809,962	61,381	871,343
Dividends and loan interest rebates paid	–	–	(380,337)	–	(380,337)
Transfer to/(from) unrealised reserves	–	–	78,092	(78,092)	–
Transfer to the regulatory reserve	409,018	–	(409,018)	–	–
Transfer to the operational risk reserve	–	(30,637)	30,637	–	–
As at 1 October 2017	**17,200,226**	**651,072**	**6,177,398**	**68,091**	**24,096,787**
Surplus for the year	–	–	1,967,423	30,905	1,998,328
Dividends and loan interest rebates paid	–	–	(383,652)	–	(383,652)
Transfer to the regulatory reserve	3,004,499	–	(3,004,499)	–	–
Transfer to the operational risk reserve	–	400,000	(400,000)	–	–
As at 30 September 2018	**20,204,725**	**1,051,072**	**4,356,670**	**98,996**	**25,711,463**

- The regulatory reserve of the credit union as a percentage of total assets as at 30 September 2018 was 10.94% (2017: 11.00%).
- The operational risk reserve of the credit union as a percentage of total assets as at 30 September 2018 was 0.57% (2017: 0.42%).

The notes on pages 19 to 33 form part of these financial statements.

Statement of cash flows

For the Financial Year Ended 30 September 2018

	Notes	2018 €	2017 €
Opening cash and cash equivalents		**33,887,727**	**39,980,575**
Cash flows from operating activities			
Loans repaid by members	8	21,669,764	16,208,651
Loans granted to members	8	(22,114,574)	(15,990,886)
Loan interest		2,748,300	2,417,590
Deposit interest paid		(433)	(3,150)
Investment interest		1,283,404	1,383,248
Bad debts recovered and recoveries		602,472	683,594
Other receipts		1,497,007	230,384
Dividends paid		(256,557)	(245,237)
Loan interest rebates paid		(127,095)	(135,100)
Operating expenses		(4,010,132)	(3,302,679)
Movement in other assets and liabilities		(1,056,488)	139,332
Net cash flows from operating activities		**235,668**	**1,385,747**
Cash flows from investing activities			
Fixed asset purchases/disposals		(569,117)	(49,424)
Purchase of the Charleville loan book		(6,277,855)	–
Net cash flow from other investing activities		(28,687,946)	(10,745,591)
Net cash flows from investing activities		**(35,534,918)**	**(10,795,015)**
Cash flows from financing activities			
Members' shares received		103,781,853	72,984,134
Members' deposits withdrawn		(468,000)	(868,557)
Members' shares withdrawn		(77,229,446)	(68,799,157)
Net cash flow from financing activities		**26,084,407**	**3,316,420**
Net (decrease)/increase in cash and cash equivalents		**(9,214,843)**	**(6,092,848)**
Closing cash and cash equivalents	6	**24,672,884**	**33,887,727**

The notes on pages 19 to 33 form part of these financial statements.

Notes to the financial statements
For the Financial Year Ended 30 September 2018

1. Legal and regulatory framework
Mallow Credit Union Limited is registered with the Registry of Credit Unions and is regulated by the Central Bank of Ireland. The registered office of the credit union is located at 135 Bank Place, Mallow Co. Cork.

2. Accounting policies

2.1 Basis of preparation of financial statements
The financial statements have been prepared in accordance with applicable Irish accounting standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and Irish statute comprising of the Credit Union Act, 1997 (as amended). The financial statements have been prepared on the historical cost basis.

The financial statements are presented in Euro (€) which is also the functional currency of the credit union.

The following principal accounting policies have been applied:

2.2 Statement of compliance
The financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102).

2.3 Going concern
After reviewing the credit union's projections, the directors have reasonable expectation that the credit union has adequate resources to continue in operational existence for the foreseeable future. The credit union therefore continues to adopt the going concern basis in preparing its financial statements.

2.4 Income
Interest on members' loans
Interest on members' loans is recognised on an accruals basis using the effective interest method.

Deposit and investment income
Investment income is recognised on an accruals basis using the effective interest method.

Other income
Other income is recognised on an accruals basis.

2.5 Investments

The specific investment products held by the credit union are accounted for as follows:

Held at amortised cost
Investments designated on initial recognition as held at amortised cost are measured at amortised cost using the effective interest method less impairment. This means that the investment is measured at the amount paid for the investment, minus any repayments of the principal; plus or minus the cumulative amortisation using the effective interest method of any difference between the amount at initial recognition and the maturity amount, minus, in the case of a financial asset, any reduction for impairment or uncollectability.

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

2. Accounting policies (continued)

2.5 Investments (continued)

Central Bank Deposits
Credit unions are obliged to maintain certain deposits with the Central Bank. These deposits are technically assets of the credit union but to which the credit union has restricted access. The funds on deposit with the Central Bank attract nominal interest and will not ordinarily be returned to the credit union while it is a going concern. The amounts are stated at the amount deposited plus accrued income and are not subject to impairment reviews.

Investments at Fair Value
Investments held for trading and investment in stock market shares (i.e. non-convertible preference shares and non-puttable ordinary shares or preference shares) are included in this category. Financial assets at fair value are classified as held for trading if they are acquired for sale in the short term. They are valued at fair value (market value) at the year-end date and all gains and losses are taken to the income and expenditure account.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market these assets will be carried at cost less impairment.

2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The credit union adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the credit union. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the income and expenditure account during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following basis:

Premises	2% Straight Line
Fixtures & fittings	20% Straight Line
Computer & office equipment	25% Straight Line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains' or 'other losses' in the income and expenditure account.

2. Accounting policies (continued)

2.7 Impairment of tangible fixed assets

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in the income and expenditure account. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income and expenditure account.

2.8 Taxation

The credit union is not subject to income tax or corporation tax on its activities.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits and investments with a maturity of less than or equal to three months.

2.10 Financial assets – loans

Loans are financial assets with fixed or determinable payments. 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 has expired, usually when all amounts outstanding have been repaid by the member.

2.11 Provision for bad debts

The credit union assesses if there is objective evidence that any of its loans are impaired with due consideration of environmental factors. The loans are assessed collectively in groups that share similar credit risk characteristics. Individually significant loans are assessed on a loan by loan basis. In addition, if there is objective evidence that any individual loan is impaired, a specific loss will be recognised. Bad debt provisioning is monitored by the credit union, and the credit union assesses and approves its provisions and the adequacy of same on a regular basis.

Any bad debts/impairment losses are recognised in the income and expenditure account.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in the income and expenditure account.

2.12 Other receivables

Other receivables such as prepayments are initially measured at transaction price including transaction costs and are subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

2. Accounting policies (continued)

2.13 Financial liabilities – members' shares and members' deposits

Members' shares and members' deposits in Mallow Credit Union Limited are redeemable and therefore are classified as financial liabilities. They are initially recognised at the amount of cash deposited and subsequently measured at amortised cost.

2.14 Holiday pay

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

2.15 Pension costs

The Credit Union operates a defined contribution pension scheme. The assets of these schemes are held separately from those of the Credit Union in independently administered funds. Employer contributions to the pension scheme are charged to the income and expenditure account in the period to which they relate.

2.16 Other payables

Short term other liabilities, creditors, accruals and charges are measured at the transaction price.

2.17 Derecognition of financial liabilities

Financial liabilities are derecognised when the obligations of the credit union specified in the contract are discharged, cancelled or expired.

2.18 Distribution policy

Dividends and loan interest rebates are made from the current year's surplus or reserves set aside for that purpose. The board's proposed dividends and loan interest rebates to members each year is based on the distribution policy of the credit union.

The rate of dividends and loan interest rebates recommended by the board will reflect:

- the risk profile of the credit union, particularly in its loan and investments portfolios;
- the board's desire to maintain a stable rather than a volatile rate of dividend each year; and
- members' legitimate dividend and loan interest rebate expectations;

all dominated by prudence and the need to sustain the long-term welfare of the credit union.

For this reason the board will seek to build up its reserves to absorb unexpected shocks and still remain above minimum regulatory requirements.

The credit union accounts for dividends and loan interest rebates when members ratify such payments at the Annual General Meeting.

2.19 Regulatory Reserve

The Credit Union Act, 1997 (Regulatory Requirements) Regulations 2016 requires credit unions to establish and maintain a minimum regulatory reserve requirement of at least 10 per cent of the assets of the credit union. This Reserve is to be perpetual in nature, freely available to absorb losses, realised financial reserves that are unrestricted and non-distributable.

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

2. Accounting policies (continued)

2.20 Operational Risk Reserve

Section 45(5)(a) of the Credit Union Act, 1997 (as amended) requires each credit union to maintain an additional reserve that it has assessed is required for operational risk having regard to the nature, scale and complexity of the credit union. Credit unions are required to maintain a minimum operational risk reserve having due regard for the sophistication of the business model.

The Directors have considered the requirements of the Act and have considered an approach to the calculation of the operational risk reserve. Mallow Credit Union Limited uses the Basic Indicator Approach as set out in the operational risk measurements techniques proposed under Basel II capital adequacy rules for banking institutions in calculating the Operational Risk Reserve. Therefore Mallow Credit Union Limited will hold an operational risk reserve which will at a minimum equal 15% of the average positive gross income for the previous three years. For any year in which there was a deficit, this will be excluded from the calculation.

2.21 Other Reserves

Other reserves are the accumulated surpluses to date that have not been declared as dividends returnable to members and reserves arising on transfers of engagements. The other reserves are subdivided into realised and unrealised. In accordance with the Central Bank guidance note for credit unions on matters relating to accounting for investments and distribution policy, investment income that has been recognised but will not be received within 12 months of the balance sheet date is classified as “unrealised” and is not distributable. A reclassification between unrealised and realised is made as investments come to within 12 months of maturity date. The directors have deemed it appropriate that interest on loans receivable at the balance sheet date is also classified as “unrealised” and is not distributable. All other income is classified as “realised”.

3. Judgements in applying accounting policies and key source of estimation uncertainty

Preparation of the financial statements requires the directors to make significant judgements and estimates. The items in the financial statements where these judgments and estimates have been made include:

Determination of depreciation, useful economic life and residual value of tangible assets

The annual depreciation charge depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of residual values. The directors regularly review these useful lives and change them if necessary to reflect current conditions. In determining these useful lives management consider technological change, patterns of consumption, physical condition and expected economic utilisation of the assets. Changes in the useful lives can have a significant impact on the depreciation charge for the financial year. The net book value of tangible fixed assets subject to depreciation at the year end was €3,618,049 (2017: €3,191,066).

Provision for bad debts

Mallow Credit Union Limited’s accounting policy for impairment of loans is set out in the accounting policy in note 2.11. The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, credit risk characteristics in loan classes, local and international economic climates, conditions in various sectors of the economy to which the credit union is exposed, and, other external factors such as legal and regulatory requirements. The provision for bad debts in the financial statements at the year end was €4,415,825 (2017: €4,814,122) representing 11.61% (2017: 15.19%) of the total gross loan book.

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

3. Judgements in applying accounting policies and key source of estimation uncertainty (continued)

Operational risk reserve

The directors have considered the requirements of the Credit Union Act, 1997 (as amended) and have developed an approach to the calculation of the operational risk reserve. The operational risk reserve of the credit union at the year end was €1,051,072 (2017: €651,072).

Adoption of going concern basis for financial statements preparation

The directors have prepared projections and cash flows for a period of at least twelve months from the date of the approval of the financial statements which demonstrate that there is no material uncertainty regarding the credit union’s ability to meet its liabilities as they fall due, and to continue as a going concern. On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis. Accordingly, these financial statements do not include any adjustments to the carrying amounts and classification of assets and liabilities that may arise if the credit union was unable to continue as a going concern.

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

4 Key management personnel compensation

The directors of Mallow Credit Union Limited are all unpaid volunteers. The key management personnel compensation is as follows.

	2018 €	2017 €
Short term employee benefits paid to key management	300,444	290,828
Payments to pension schemes	24,254	23,428
Total key management personnel compensation	**324,698**	**314,256**

5. Net impairment losses/gains on loans to members

	2018 €	2017 €
Bad debts recovered	(429,644)	(429,895)
Impairment of loan interest reclassed as bad debt recoveries	(172,828)	(253,699)
Movement in bad debts provision during the year	(398,297)	(743,902)
Loans written off during the year	378,453	1,152,688
Net impairment losses/(gains) on loans	**(622,316)**	**(274,808)**

6. Cash and cash equivalents

	2018 €	2017 €
Cash and balances at bank	3,315,838	2,414,272
Deposits & investments (note 7)	142,254,744	123,683,207
Less: Deposit & investment amounts maturing after three months	(120,897,698)	(92,209,752)
Total cash and cash equivalents	**24,672,884**	**33,887,727**

7. Deposits and investments

	2018 €	2017 €
Deposits and investments – cash equivalents		
Accounts in authorised credit institutions	20,856,423	31,473,455
Other	500,623	–
Total deposits and investments – cash equivalents	**21,357,046**	**31,473,455**
Deposits and investments – other		
Accounts in authorised credit institutions	95,047,380	73,974,344
Irish and EEA state securities	1,865,176	1,892,319
Bank bonds	22,009,043	12,983,821
Central bank deposits	1,318,004	1,195,420
Other	658,095	2,163,848
Total deposits and investments – other	**120,897,698**	**92,209,752**
Total deposits and investments	**142,254,744**	**123,683,207**

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

8. Financial assets – loans to members

	2018	2017
	€	€
As at 1 October	31,687,010	33,057,463
Loans arising on purchase of loan book	6,277,855	–
Loans granted during the year	22,114,574	15,990,886
Loans repaid during the year	(21,669,764)	(16,208,651)
Gross loans and advances	**38,409,675**	**32,839,698**
Bad debts		
Loans written off during the year	(378,453)	(1,152,688)
As at 30 September	**38,031,222**	**31,687,010**

Loans are analysed as follows:

	2018	2017
Loans to members	36,545,437	31,687,010
Other loans	1,485,785	–
As at 30 September	**38,031,222**	**31,687,010**

9. Provision for bad debts

	2018	2017
	€	€
As at 1 October	4,814,122	5,558,024
Movement in bad debts provision during the year	(398,297)	(743,902)
As at 30 September	**4,415,825**	**4,814,122**

The provision for bad debts is analysed as follows:

	2018	2017
	€	€
Grouped assessed loans	4,415,825	4,814,122
Provision for bad debts	**4,415,825**	**4,814,122**

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

10. Tangible fixed assets

	Premises €	Fixtures & Fittings €	Computer & Office Equipment €	Total €
Cost				
1 October 2017	4,823,683	52,928	160,261	5,036,872
Additions	514,350	408	54,359	569,117
Disposals	–	–	(13,813)	(13,813)
At 30 September 2018	**5,338,033**	**53,336**	**200,807**	**5,592,176**
Depreciation				
1 October 2017	1,758,768	26,180	60,858	1,845,806
Charge for year	83,897	10,614	47,623	142,134
Disposals	–	–	(13,813)	(13,813)
At 30 September 2018	**1,842,665**	**36,794**	**94,668**	**1,974,127**
Net book value				
30 September 2018	**3,495,368**	**16,542**	**106,139**	**3,618,049**
30 September 2017	3,064,915	26,748	99,403	3,191,066

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

11. Prepayments and accrued income

	2018 €	2017 €
Prepayments	87,052	147,341
Other debtors	1,717,569	–
Loan interest receivable	83,245	56,920
	1,887,866	**204,261**

12. Members' shares

	2018 €	2017 €
As at 1 October	131,316,522	127,131,545
Received during the year	103,781,853	72,984,134
Withdrawn during the year	(77,229,446)	(68,799,157)
As at 30 September	**157,868,929**	**131,316,522**

13. Members' deposits

	2018 €	2017 €
As at 1 October	552,000	1,420,557
Withdrawn during the year	(468,000)	(868,557)
As at 30 September	**84,000**	**552,000**

14. Other liabilities, creditors accruals and charges

	2018 €	2017 €
Accruals	661,121	234,686
PAYE/PRSI	31,757	41,876
DIRT	12	36
Other liabilities and creditors	293,197	88,343
	986,087	**364,941**

Notes to the financial statements (continued)
For the Financial Year Ended 30 September 2018

15. Other provisions

Holiday pay accrual	**2018**	**2017**
	€	**€**
At 1 October	35,444	20,337
Charged to the income and expenditure account	5,971	15,107
At 30 September	**41,415**	**35,444**

16. Financial instruments

16a. Financial instruments – measured at amortised cost

Financial assets	**2018**	**2017**
	€	**€**
Financial assets measured at amortised cost	183,760,655	155,220,641

Financial liabilities	**2018**	**2017**
	€	**€**
Financial liabilities measured at amortised cost	158,980,431	132,268,907

Financial assets measured at amortised cost comprise cash and balances at bank, deposits and investments, loans and debtors.

Financial liabilities measured at amortised cost comprise member shares, creditors and accruals and provisions.

16b. Financial instruments – fair value measurements

FRS 102 requires fair value measurements to be disclosed by the source of inputs, using a three level hierarchy:

- Quoted prices for identical instruments in active market (level 1);
- Prices of recent transactions for identical instruments and valuation techniques using observable market data (level 2), and
- Valuation techniques using unobservable market data (level 3).

The table below sets out fair value measurements using the fair value hierarchy:

At 30 September 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
	€	**€**	**€**	**€**
Bank bonds	400,000	–	400,000	–
Other	1,158,718	–	1,158,718	–
Total	**1,558,718**	–	**1,558,718**	–

At 30 September 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
	€	**€**	**€**	**€**
Bank bonds	400,000	–	400,000	–
Other	2,163,848	–	2,163,848	–
Total	**2,563,848**	–	**2,563,848**	–

There were no fair value adjustments recognised in the income and expenditure account for the year ended 30 September 2018 (2017: €nil).

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

17. Reserves

	Balance 01/10/17 €	Payment of dividend & loan interest rebate €	Appropriation of current year surplus €	Transfers between reserves €	Balance 30/09/18 €
Regulatory reserve	**17,200,226**	**–**	**–**	**3,004,499**	**20,204,725**
Operational risk reserve	**651,072**	**–**	**–**	**400,000**	**1,051,072**
Other reserves					
Realised					
Special reserve – proposed dividends and loan interest rebates	393,222	(383,652)	219,134	(9,570)	219,134
Future dividend reserve	600,000	–	–	(400,000)	200,000
Reserves arising on transfer of engagements	875,116	–	–	–	875,116
General reserve	4,309,060	–	1,748,289	(2,994,929)	3,062,420
Total realised reserves	**6,177,398**	**(383,652)**	**1,967,423**	**(3,404,499)**	**4,356,670**
Unrealised					
Interest on loans reserve	56,920	–	26,325	–	83,245
Investment income reserve	11,171	–	4,580	–	15,751
Total unrealised reserves	**68,091**	**–**	**30,905**	**–**	**98,996**
Total reserves	**24,096,787**	**(383,652)**	**1,998,328**	**–**	**25,711,463**

18. Credit risk disclosures

The credit union complies with Section 12 of the Credit Union Act, 1997 (Regulatory Requirements) Regulations 2016. This regulation:

- restricts the concentration of lending by the credit union within certain sectors or to connected persons or groups (concentration limits);
- restricts the absolute amount of lending to certain sectors to a set percentages of the regulatory reserve (large exposure limit)
- restricts the loan duration of certain loans to specified limits (maturity limits)
- requires specified lending practices to be in place where loans are made to certain sectors such as commercial loans, community loans or loans to another credit union.

The carrying amount of the loans represents Mallow Credit Union Limited's maximum exposure to credit risk. The following provides information on the credit quality of loan repayments. Where loans are not impaired it is expected that the amounts repayable will be received in full.

	2018		2017	
	€	%	€	%
LOANS NOT IMPAIRED				
Total loans not impaired, not past due	27,411,292	72.08%	21,892,507	69.09%
IMPAIRED LOANS:				
Not past due	1,317,312	3.46%	1,045,005	3.30%
Up to 9 weeks past due	5,937,705	15.61%	5,050,792	15.94%
Between 10 and 18 weeks past due	931,515	2.45%	806,159	2.54%
Between 19 and 26 weeks past due	460,074	1.21%	479,274	1.51%
Between 27 and 39 weeks past due	444,701	1.17%	371,448	1.17%
Between 40 and 52 weeks past due	314,279	0.83%	239,945	0.76%
53 or more weeks past due	1,214,344	3.19%	1,801,880	5.69%
Total impaired loans	**10,619,930**	**27.92%**	**9,794,503**	**30.91%**
Total loans	**38,031,222**	**100.00%**	**31,687,010**	**100.00%**

19. Related party transactions

	2018		2017	
	No. of Loans	€	No. of Loans	€
Loans advanced to related parties during the year	9	118,951	11	171,229
Total loans outstanding to related parties at the year end	21	255,701	19	239,359
Total provisions for loans outstanding to related parties		21,341		48,833

The related party loans stated above comprise of loans of the board of directors, the management team and members of the family of members of the board of directors and the management team of Mallow Credit Union Limited.

Total loans outstanding to related parties represents 0.67% of the total loans outstanding at 30 September 2018 (2017: 0.76%).

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

20. Additional financial instruments disclosures

20a. Financial risk management

Mallow Credit Union Limited manages its members' shares and loans so that it earns income from the margin between interest receivable and interest payable. The main financial risks arising from Mallow Credit Union Limited's activities are credit risk, market risk, liquidity risk and interest rate risk. The board of directors 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 the credit union, resulting in financial loss. In order to manage this risk the board of directors regularly reviews and approves Mallow Credit Union Limited's credit policy. All loan applications are assessed with reference to the credit policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed.

Market risk: Market risk is the risk that the value of an investment will decrease. This risk can arise from fluctuations in values of, or income from, assets or changes in interest rates. The board of directors regularly reviews and approves the credit union's investment policy and funds are invested in compliance with this policy and regulatory guidance.

Liquidity risk: Liquidity risk is the risk that the credit union will not have sufficient cash resources to meet day to day running costs and repay members' savings when demanded. The credit union'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.

Interest rate risk: Mallow Credit Union Limited's main interest rate risk arises from adverse movements in interest rates receivable which would affect investment income. Mallow Credit Union Limited reviews any potential new investment product carefully to ensure that minimum funds are locked in low yielding long term investments yet at the same time maximising investment income receivable.

20b. Liquidity risk disclosures

The credit union'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 credit union adheres on an ongoing basis to the minimum liquidity ratio and minimum short term liquidity ratio as set out in regulatory requirements.

20c. Interest rate risk disclosures

The following shows the average interest rates applicable to relevant financial assets and financial liabilities.

	2018		2017	
	€	Average Interest Rate %	€	Average Interest Rate %
Gross loans	**38,031,222**	**8.08%**	**31,687,010**	**8.15%**

The dividend payable is at the discretion of the directors and is therefore not a financial liability of the credit union until declared and approved at the AGM.

Notes to the financial statements (continued)

For the Financial Year Ended 30 September 2018

21. Dividends and loan interest rebate

The following distributions were made during the year:

		2018		2017
		€		€
Dividend on shares	0.20%	256,557	0.20%	245,237
Loan interest rebate	5.00%	127,095	5.00%	135,100

The directors propose the following distributions in respect of the year:

		2018		2017
		€		€
Dividend on shares	0.10%	146,764	0.20%	258,599
Loan interest rebate	2.50%	72,370	5.00%	134,623

22. Rate of interest paid on members' deposit accounts

Interest payable for the year

		2018		2017
	%	€	%	€
Interest on deposits	0.20%	433	0.20%	3,150

23. Events after the end of the financial year

There have been no significant events affecting the credit union since the year end.

24. Insurance against fraud

The credit union has Insurance against fraud in the amount of €5,200,000 in compliance with Section 47 of the Credit Union Act, 1997 (as amended).

25. Capital commitments

There were no capital commitments at 30 September 2018.

26. Contingent liabilities

In September 2018, the Registry of Credit Unions advised all credit unions of a potential matter in relation to accrued interest outstanding on certain top-up loans which may have led to a potential over-collection of interest. The credit union has commenced a review to ascertain whether any top-up loans made to members might be impacted by these circumstances, and if so, to determine what actions may need to be taken. Consequently it is impracticable at this time to estimate the impact, financial or otherwise, if any, of this matter and whether any net amounts will become payable or not in the future.

27. Comparative information

Comparative information has been reclassified where necessary to conform to current year presentation.

28. Approval of financial statements

The board of directors approved these financial statements for issue on 12 November 2018.

Schedules to the income and expenditure account

For the Financial Year Ended 30 September 2018

The following Schedules do not form part of the Statutory Financial Statements which are the subject of the Independent Auditor's Report on pages 11 – 13.

Schedule 1 – Other Interest Income And Similar Income

	2018	2017
	€	€
Investment income and gains received/receivable within 1 year	1,278,824	1,378,787
Investment income receivable outside of 1 year	4,580	4,461
Total per income and expenditure account	**1,283,404**	**1,383,248**

Schedule 2 – Other Income

	2018	2017
	€	€
Rent receivable	60,000	60,000
Commission	21,248	20,468
Business lodgements charges	23,739	24,059
LP & LS rebate	149,611	109,416
ReBo rebate	–	16,441
Administration charges	21,178	–
ILCU capital contribution	1,221,231	–
Total per income and expenditure account	**1,497,007**	**230,384**

Schedules to the income and expenditure account

For the Financial Year Ended 30 September 2018

Schedule 3 – Other Management Expenses

	2018	2017
	€	€
Rent and rates	67,841	39,706
Light, heating and cleaning	42,646	35,246
Employers pension	56,629	56,636
Print, stationery and office supplies	90,218	82,031
Postage and telephone	37,282	49,123
Promotion and development	93,244	75,838
AGM expenses	31,784	32,096
ECCU insurance	474,043	523,920
Professional fees	599,834	125,576
General insurance	43,863	43,115
Repairs and computer maintenance	264,011	218,282
Travel expenses	23,405	24,906
Chapter expenses and convention costs	4,560	4,368
ILCU affiliation and SPS contribution	80,423	142,307
Audit fee	33,825	33,825
Legal fees	21,294	26,996
EFT/ATM set up charges	1,639	3,089
Miscellaneous expenses	1,506	19,837
Bank charges	74,346	51,209
Regulatory levies and charges	273,845	278,919
Total per income and expenditure account	**2,316,238**	**1,867,025**

Report of the Credit Committee

The Credit Committee is appointed annually by the Board of Directors following the Annual General Meeting.

It is responsible for the oversight of lending within Mallow Credit Union Limited and to ensure that the approval and issuing of loans complies with regulations laid down by the Credit Union Act 1997, Central Bank guidelines and Mallow's own policy and procedures.

This includes ensuring that loan applications are correctly underwritten and we are required to get all relevant information from our members when they apply for a loan. This is to verify that the member has got the capacity to repay the loan.

It should be noted that credit unions are subject to regular inspections from the Central Bank and failure to comply with regulations can lead to sanctions and restrictions which can effect the finances of the credit union.

In addition this year has seen the introduction of the Central Credit Registrar which will mean that every person who borrows in excess of €2,000 from any financial institution will have their loan recorded on the register. It is of the utmost importance therefore that when borrowing you ensure that your repayments are made in accordance with the terms of your agreement as failure to do so will adversely affect your credit rating.

Lending is one of the main pillars of a credit union and the income received from this activity is a major contributor to the finances of your credit union, enabling it to provide services and reserves as well as pay dividends and rebates.

With the decline of investment returns, loans and the income derived have taken on an even more important role for credit unions.

Report of the Credit Committee (continued)

The successful extension to our common bond last year and the purchase of the Charleville Loan Book has been of major benefit to our credit union, as can be seen by the 20% increase in our loan book and the subsequent income we will receive going forward as well as the potential for future growth. At year end our loan book stood at €38 million, an increase of €6.3 million.

With our credit union group now operating eight branches across a large geographical area and the increase in loan activity it has been decided that it is the appropriate time to conduct a review of our lending practices and procedures with a view to streamlining and improving the loan application process and experience for our members.

This will involve creating a lending department with a dedicated Head of Lending to oversee a centralised lending service for you our member. We are confident that this will deliver a service that will cater for your borrowing needs, whether this will be done in branch, on the phone or online and we would ask that you would bear with us while we implement these changes.

Loans issued for the year amounted to €22.1 million compared with €16 million for the prior year and as stated earlier our total outstanding loan book at year end was €38 million.

Since Mallow's foundation in 1963 we have loaned out to you our members €333.8 million for use within our community for productive purposes such as Education, Home Improvements, Car Purchases, Holidays etc…

We believe that we offer some of the most competitive lending rates available for the personal lending market and for a wide variety of purposes. When one considers that your credit union also endeavours to give a loan interest rebate at the end of each year this further reduces the cost of borrowing to you.

2018 saw the introduction of the "Cultivate" agricultural loan to cater for the growing number of farmers within our extensive common bond and we also introduced the "Express Loan" to cater for emergency short term borrowings.

Information on these loans and our range of rates are available in our branches or on our web site www.mallowcu.ie where you can use the loan calculator to estimate the repayment amount.

We would urge you our members that when you are considering a loan please look at your credit union first. We offer competitive rates with flexible loan repayments, no fees, balloon payments or early redemption penalties as well as additional free life loan insurance cover for all qualifying members.

Finally I would like to thank all my fellow committee members and staff as well as you our members for your commitment to the credit union ideals and your invaluable contribution to the success of our credit union.

Credit Committee

Report of the Board Oversight Committee

The Board Oversight Committee is pleased to report to you the members of Mallow Credit Union. Following last year's AGM the first task was for the Board Oversight Chairman to preside over a meeting of the newly elected Board of Directors in order to facilitate the election of a Chairperson and Secretary. During the past year the Board Oversight Committee:

- has met its obligation to meet at least monthly
- had representation at all Board of Directors meetings, including a number of special meetings
- met separately with the Board of Directors on 4 occasions
- attended a number of committee meetings
- met with members of the Central Bank's PRISM team.

Regulatory changes during the year saw the introduction of the General Data Protection Regulation (GDPR), new investment guidelines, new fitness and probity requirements and the introduction of the Central Credit Register, which will eventually replace the current Irish Credit Bureau.

It is our opinion that the Board and Management have taken appropriate steps to ensure that Mallow Credit Union is prepared for the existing and emerging challenges that are facing the Credit Union and the financial environment in the coming years. We wish to assure you that your money is safe and secure and it is good news that payment of a dividend and a loan interest rebate is being proposed.

You will have noted from the accounts that there has been quite an increase in member shares with a consequential increase in the regulatory reserve figure. The low interest rate environment continues to have a negative effect on investments. While there has been an increase in the number of members borrowing from our credit union we would still encourage any other members who may need additional finance to engage with your local branch who will guide you and arrange that you get appropriate advice on how your needs can be facilitated. Also you may bear in mind the online facility for loan enquiries. Of vital importance for each and every member who borrows from our Credit Union is that repayments are kept up to date and in line with the terms agreed.

During the year two Board Oversight Committee positions became vacant. In July, our secretary, Anne Van der Molen, resigned and took up a vacant position on the Board of Directors. Joseph Brennan, former Board member and previously a member of the Supervisory Committee, was co-opted to fill the position. In late October, Mark Roche resigned owing to a change in his work circumstances which resulted in his transfer to Co Limerick. Jackie Healy, former Chairman and Board member of Buttevant Credit Union was co-opted in this instance. We welcome both Joseph and Jackie to our ranks and express our thanks to Anne and Mark for their valuable contributions and wish them well for the future.

On behalf of the Board Oversight Committee may I express thanks to the Board Members, Management, Staff and Volunteers for their co-operation throughout the year and to thank you the members for your continued support.

Edward Keane - Board Oversight Chairman

Report of the Membership Committee

The Membership Committee is appointed by the Board of Directors following each AGM.

Its duty is to encourage potential members to join and to ensure that all prospective membership applications are completed correctly and are eligible to become members.

The criteria for becoming a member is as follows:

- A person resides within the common bond of the credit union
- A person is employed within the common bond
- A person attends school or college within the common bond
- A person resides with a family member who satisfies any of the above.

The common bond or area is what determines the eligibility of a person to become a member of the credit union.

Following last year's extension to our common bond to cover the Charleville area, we are delighted and honoured to welcome all our new members to Mallow Credit Union. Our registered common bond now includes the following areas:

A seven mile radius of Mallow or the parishes of Ballyclough, Castlemagner, Glantane, Mourneabbey, Killavullen, Castletownroche, Grenagh, Donoughmore, Dromahane, Derragh, Skagh, Coolclogh, Rosnalee, Banteer, Tincoora, Nad, Mountrivers, Kilberrihert, Rahalisk, Clondrohid, Coomlogane, Caherbarnagh, Cullen, Drishane, Keale, Rathcoole, Kilcorney, Crinaloo, Buttevant, Doneraile, Shanballymore, Liscarroll, Churchtown, Lisgriffin, Dromcollogher, Broadford, Feenagh, Milford, Tullylease, Kilmeedy, Feoghanagh, a four mile radius of Charleville town and includes the villages of Ballyhea, Newtownshandrum, Dromina, Ballyagran and Effin.

We do hope that our new potential members will take the opportunity to open an account with us, to avail of the financial services on offer and to be a part of our exciting future.

To open an account a potential member must provide proof of identification, PPS number and address.

These are requirements of the Criminal Justice Act 2010 and further legislation regarding the 4th EU Directive on Money Laundering and the newer General Data Protection Regulations which means that we are required on a continual basis to verify and update our members identification and address.

We apologise for the inconvenience caused when we request this information but these are regulatory requirements and we have no discretion in this matter. Failure from our members to provide accurate and up to date proof will mean that your credit union will be unable to transact business with you as the credit union will be in breach of these regulations and will be open to fines and restrictions.

We would like to thank all those members who have and continue to cooperate with us.

Unfortunately due to increased regulation regarding money laundering we will have to discontinue the sale of savings stamps from the 31st March 2019. This is a regretful decision that we have to take but it is one that is outside of our control. We do offer members a number of sub accounts as part of their main savings account which they can use to save for specific purposes. Please enquire at your local branch for more details or consult our web page at www.mallowcu.ie.

It is never too early to start savings and we would recommend that you our members would encourage a culture of savings among the younger members of the common bond as we do have a juvenile accounts section on offer.

During the year there were 3,552 accounts opened and we now have 31,631 active members on our books.

There were 499 accounts closed and regrettably 82 members passed away.

We would like to thank all those who assisted us in our work over the course of the year.

Membership Committee

Report of the Credit Control Committee

The Credit Control Committee's role, in conjunction with the credit control staff, is to monitor the repayments of all loans taken out by our members so as to ensure that loans are repaid in accordance with their individual agreements.

It is also responsible for overseeing that the credit control policy as approved by the Board of Directors is adhered to as well as the various regulations and guidelines from the Central Bank. The Committee is elected each year by the Board of Directors following the completion of the AGM and it is obliged to report monthly to the Board.

Non payment of loans and the interest that is accrued is a drain on the credit union's resources and finances and therefore early detection of repayment problems and intervention is of vital importance.

With the extension to our common bond following the liquidation of Charleville Credit Union I can confirm that our credit control department has been centralised and has been given the necessary resources both from a staff and IT perspective in order to be able to give an accurate picture of the state of our loan book at any given time.

Equally we have excellent coordination between each branch to provide the local knowledge aspect which is so important to credit control.

The following is a summary of how our credit union performed during the year under review.

- Loan issued €22.1 million
- Loans repaid €21.7 million
- Interest received on loans €2.7 million
- Loans written off €378,453
- Bad Debts recovered €429,644
- Doubtful Debts recovered €349,895
- Total Loan Book 30/9/2018 €38 million
- Provision for Bad Debt Reserve €4.4 million

Please note that we are obliged by regulations to write off non-performing loans but we can reassure you our members that we continue to pursue repayment of these loans which is evidenced by the net impairment gain of €622,316 for the financial year. This is our members money and we take seriously our responsibilities with regard to this and the repayment of all outstanding amounts. Equally from an early detection perspective doubtful debts are those loans that have been identified by the credit control department as having repayment issues and are classified as doubtful and given special attention.

The €349,895 recovered from this section is proof that our procedures are working and we are always looking at ways to improve this.

While the majority of our members honour their agreements and repay their loans as per the terms of their credit agreement we do acknowledge that some members will experience difficulties due to unexpected circumstances such as unemployment or illness. We would like to state that we are here to help those members and it is of the utmost importance to contact us as soon as this happens so that we can work together to ensure that loan repayment pressures don't add to existing problems. We will endeavour to find a repayment solution that works for the member.

We would like to thank all our members who repay their loans and who work with us to resolve any financial issues they may have.

We would like to thank our staff and volunteers in all of our branches for their help and assistance throughout the year.

Credit Control Committee

Report of The Local Area Groups

Following the mergers in 2016 the Board decided that any of the merging credit unions volunteers who wished to continue to have an involvement in the credit union could do so through the establishment of Local Area Groups.

These groups would have responsibility for the promotion and development of the credit union in their own local area while working in tandem with the overall strategic objectives of the credit union as a whole and in furthering the successful integration of the group.

The local area groups would be responsible for contributing to the successful implementation of the Strategic Plan's objectives and to ensure that there is continued volunteer involvement as part of our ethos and operating principles.

In addition each group would market and develop their branch and in particular support youth development.

This can be assisted by supporting local organisations, events and charities through sponsorship and grants from our Community Support Fund which is approved annually by our members at the Annual General Meeting.

The Local Area Groups report regularly to the Board of Directors on their progress.

Local Area Group Committees

Notes

Notes

Offices in:

Buttevant	Tel. 022 23427
Charleville	Tel. 063 50171
Dromcollogher	Tel. 063 83328
Mallow	Tel. 022 21121
Millstreet	Tel. 029 70764

Web:	www.mallowcu.ie
Email:	info@mallowcu.ie

Mallow Credit Union Limited is regulated by the Central Bank of Ireland.