Annual Report
2015 - 2016

North London Credit Union

Ethical – Fair – Secure

Introduction

This report reflects on the performance of the North London Credit Union (NLCU) for the financial year which ended on the 30th September 2016 (the financial year in the credit union sector runs from 1st October to 30th September) and to look forward to the rest of this financial year.

Glossary:

Credit union: a financial co-operative, which is owned and run by its members. UK credit unions are governed by very strict legislation and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) & the Prudential Regulation Authority (PRA). Savings are covered by the Financial Services Compensation Scheme (FSCS).

In simple terms, a credit union uses the money that is saved with it by members to lend to other members. It uses the interest received from those loans to cover its running costs (e.g. the building, utilities, staffing, etc. etc.)

Board of Directors: an independent (voluntary) Board are elected or re-elected each year at the Annual General Meeting. The Board are responsible for the running of the credit union on behalf of its members. Although any credit union member can apply to become a Board Director, NLCU must follow strict procedures to ensure that only 'fit and proper persons' can be appointed to directorships. These have recently changed and for newly appointed Board members, will include a DBS check and a credit search.

Supervisory Committee: are non-executive members of the Board, meaning that they can attend Board meetings, but not vote. They are not allowed to have any other role in the Credit Union. They carry out regular scheduled and 'surprise' checks to ensure that the Credit Union is run legally and in the best interests of its members.

Financial inclusion: put simply, financial inclusion is the delivery of financial services at affordable cost to sections of disadvantaged and low-income segments of society. Although credit unions offer products for everyone, they traditionally provide services to those who have no access to or no appetite for mainstream institutions. Many would have to turn to illegal or very high-cost lenders. NLCU sees financial inclusion as an integral part of its purpose within the community it serves and constantly seeks new ways and partners to deliver it.

<u>Acknowledgements:</u>

As ever, the Board would like to place on record its thanks to a number of people who have supported NLCU over the last year:

To the membership, for their continued support. The majority of new members still come via you telling your friends, family and colleagues about our services (read more in our Marketing Report).

It is important to note that, unlike many credit unions, we are self-sustaining, receiving no third party funding towards running costs. The entirety of the money lent out comes from the savings entrusted to us by you, our members. This means that we do not face uncertainty over cuts to our future funding, but that we stand or fall by our own efforts, without an external safety net.

We continue to work with Enfield Council and we are very grateful to the officers and councillors who do what they can to support us. For example, allowing us free use of space in their premises to run our service points, which have now been running for over two years, as well as maintaining our substantial discretionary reduction in the business rates we pay, which we particularly appreciate given the current pressures on local authority funding and recent national changes.

To Nick, Salome and all at the Revive Centre, who have again been generous with their support, in particular allowing us free use of the premises for our Board meetings and, for the fourth year running, our Annual General Meeting.

Our payroll partners continue to be a vital source of new members and lending opportunities and we are very grateful for the enthusiasm and efforts they've shown in supporting their schemes.

We work closely with our local Citizen's Advice offices, especially the Enfield branch. We are fortunate to have such a pro-active source of advice and help for residents available and are able to signpost many enquiries to them with complete confidence in the service that they will receive.

We are also lucky enough to have a number of local Vice Presidents, an honorary role for those who wish to show public support of our work, but are unable to commit to a Director role. In particular we thank The Right Honourable Joan Ryan MP and The Right Reverend Rob Wickham, Church of England Bishop of Edmonton, for the support they have given us this year.

NLCU has been a member of ABCUL, the Association of British Credit Unions, since its very earliest days. We greatly value our membership, and that of the London and South East Forum (branch) of ABCUL, on which our own Chief Executive has served as Treasurer for several years. We are members of a number of other organisations, both local and national and are grateful for the practical advice and assistance we receive.

This year we were the recipients of a grant from Lloyds Bank's programme of credit union support. We are grateful to Lloyds and to the Credit Union Foundation for their support during the process.

The Chair notes his personal thanks to his fellow Board Directors for their time and enthusiasm. He also thanks the NLCU and staff and volunteers, for their continued hard work and dedication.

The credit union's Chief Executive would in turn like to thank our new Chair, The Reverend Doctor Gordon Giles for his support since his election to the role.

Highlights from the Chair of NLCU, the Reverend Dr Gordon Giles

A Year of Change

We cannot talk about 2016 with a mention of the event that has already had a massive impact on our nation and which will continue to shape the context within which we operate for the foreseeable future – the Brexit vote. Whatever the merits of that debate and decision, Brexit will form the background to much of the legislative and economic agenda over the next few years.

At a UK-wide gathering of credit unions in March 2017, spokespeople from the Treasury, the Financial Conduct Authority and the Prudential Regulation Authority all said within their speeches that their organisations will spend the foreseeable future absorbed in the implications of the exit from the European Union.

We are all affected by it, at every level and in every corner of public, indeed even private life. As yet, we don’t know what the effect of Brexit will be on the financial markets, in London and Hertfordshire or on our individual members. Like all businesses, however, we will keep a careful eye on events and do our best to mitigate any negative repercussions and as and when new opportunities arise, we intend to act on them.

A Year of Consolidation

The 2015-16 financial year, although a tough year, could have been very difficult indeed for us.

All, but very new members, will remember that last year we were unable to pay a dividend for the first time in many years. We were unsure if that would lead to large numbers of members deciding to move their money elsewhere. Some did, but the vast majority have kept faith with us.

This past year, we have deliberately chosen to concentrate on reviewing our products, policies and procedures, making sure that we are in good shape for the move to electronic banking (see below).

We have tightened our lending criteria, been consistent in aiming to retrieve late payments and taken further action as necessary.

We have continued to work with existing partners to increase membership, although we have not invested in any major marketing initiatives.

Last year we notified members of a change to Individual Savings Accounts (ISAs) and in autumn those of you who are trustees of a child account received notice of major changes to our Junior Savers accounts. After a thorough review, we have decided to continue offering children’s accounts, but to reduce the maximum deposit limit and to introduce a cap on the withdrawals permissible within a twelve-month period. These changes make the product more sustainable for the Credit Union (reducing the money invested to run them), whilst still providing an incentive to members to save for their younger relatives, paying a market-leading AER.

The credit union continues to grow its membership each month, although at a slower rate than previous years. This is not unexpected, as we didn’t launch any major new partnerships during the year and most new members found us from word-of-mouth.

Our loan book now sits at just under £1.7million and we're entrusted with over £900,000 of shareholders' money (an increase of over £100,000 on last year), plus £1.8million-worth held in ISAs.

Amounts held in our Junior Savers grew again by just under 10%, to £103,000 (although it yet remains to be seen if the recent changes to our children's accounts will affect this next year).

Bad debt unfortunately continues to be a significant issue for us, as it is for every lender.

Whilst we have a strong, consistent process in place which, combined with a stricter credit policy, means that we have reduced the risk of lending as far as possible, it can never entirely be risk-free, or we would never lend anything to anyone!

Sometimes even lending which looks safe in principle can go wrong. A borrower can be the victim of circumstances which mean that they become unable to continue to meet their obligations. Some of the larger bad debts reported this year have been from loans that have been performing well previously. On the other hand, through persistence, hard work and member commitment, we have managed to get some loans that have not been repaying for some time back on track.

We are a serious lending concern, but we try to keep personal contact and compassion at the heart of what we do, in a properly mutual way, which means we always work with members who are experiencing difficulty making repayments.

This gives another opportunity to emphasise how important it is to keep in regular touch with us so that we can help however we can – even if we haven't heard from you for some time, it's not too late to get in touch on 020 8366 8244 or via accounts @ northlondoncu.org (remove the spaces when copying the address).

Having said all this, the *vast* majority of our borrowers pay off their whole loan and continue saving with us, sometimes borrowing again. A good repayment history is vital to be considered for another loan from us in the future (we will consider applications six months after the last application) and, because we report repayments to Experian, it can help build your credit score too.

Social Goals

One of the many differences between us and some of our competitors in the lending sector, is that the main principle driving our activities are our social goals.

It is good to be reminded of the following extract from our rules from time to time:

"The Credit Union may, by resolution of its Board of Directors, adopt one or both of the following additional social goals within its policies:

a. To contribute towards the alleviation of poverty within the community; and
b. To contribute towards the economic regeneration of the community,
provided that these social goals are only pursued within the scope of the objects of the Credit Union."

I suspect that you won't find these statements in the articles of many high-street banks, or pay day lenders!

This is the 'unique selling point' or 'USP' of credit unions: we have continued, and shall continue to have, a policy of serving financially excluded individuals, businesses that cannot get funding from elsewhere, and encouraging young people to save.

We have also pursued activities outside our core business of providing savings and loans, where we feel that there is a real benefit to the community. For example, thanks to funding from Money Saving Expert's charitable foundation, we have carried out money management sessions for parents in local primary schools. We have begun offering financial mentoring to those finding it difficult to make their loan repayments and those already in payment arrangements with us.

We are an active member of a variety of local community forums and strategy groups, as well as national campaigns, like the Funeral Poverty Alliance.

We have even ventured into a financial education day for young people at a local secondary school – although that may well prove to have been a one-off!

There is always a balance to be struck here. We are a small organisation with limited resources, but we are proud to serve local people and we must not lose sight of the main reason that many of our members come to a credit union in the first place.

New Developments

This year, after an extensive application and bidding process, we were the recipients of a 'large grant' of £50,000 from Lloyds Bank's programme of credit union support. This will go into 2016 – 2017's reserves and will help to shore up our capital position, i.e. it cannot be used towards our running costs.

We remain committed to the Credit Union Expansion Programme (CUEP), which, as you may recall from previous communications, is a government-funded project to improve the sector's infrastructure and capacity over the long-term.

As part of this, we will move onto a new banking platform, which will allow members to join and manage their accounts online. It has been much delayed, but the signs are hopeful that we will be 'going live' in autumn this year.

This will be a huge change for staff and for members, as one senior manager commented, it will take us from the Stone Age to the 21st Century all at once! We are already working with our partners to make it as smooth as possible, and we will, of course, be in touch with more details regarding this over the next few weeks and months, as we move towards implementation. We are confident that the change will be a very positive, convenient and helpful step forward for us all. Obviously, for those who prefer to speak to us by phone, email and face-to-face, those options will still be available, but we know that others will be pleased by the opportunity to manage their account on their computer or smartphone.

Working with Employers – 'offering a great deal for your staff'

It is well-documented that financial distress can cause employees to be absent from work, can reduce their productivity and increase staff turnover, at a huge cost to employers.

The Credit Union are able to offer free schemes to help staff to build up savings or repay low-cost loans through deductions made straight from their wages. This helps them to improve their financial resilience.

We continue to speak to employers, both large and small, about setting up this free valuable staff benefit and if you know of any organisations that would like to take advantage, please do feel free to put them in touch with us on manager @ northlondoncu.org or by phone to Julia on 020 8366 8244.

Employers currently offering such a scheme to their staff include:

- **Barnet and Southgate College**
- **Citizen's Advice Enfield**
- **Enfield Council, including any organisation whose payroll is processed by Enfield Council**
- **Enfield Schools, including any school whose payroll is carried out on their behalf by Enfield Council**
- **Enfield Voluntary Action**
- **Enterprise Enfield**
- **London Waste**
- **North Middlesex University Hospital**
- **Reynolds Foods**

Member's story: "It made me feel I could get back in control."

Credit union member Jane (not her real name) has a well-paying job, but was struggling to reduce the debt that she'd built up on various store cards, credit cards and catalogues. She heard about the new payroll deduction scheme and decided to get help to improve her situation.

Jane wasn't having problems making repayments, but she wasn't anywhere near paying off the original amounts, as the interest she was paying each month was very high. It was really getting her down, as she couldn't see an end in sight and most of her monthly income was going on repaying her debts.

North London Credit Union lent her just over £3000 to repay three of her creditors directly and helped her to plan how she could tackle the rest. As her monthly outgoings are lower, she has been able to repay more on the other debts and to save for emergencies.

She said: "…the best thing was how non-judgemental and professional everyone was. That made you feel less of a failure, as although it is partly circumstances, it's also choices, bad choices, to get in a situation like this and it can happen to anyone. It made me feel I could get back in control."

If you are involved in a company or organisation that has staff (paid or voluntary) and would like to find out what benefits a free payroll deduction partnership could offer, please get in touch with us at manager @ northlondoncu.org or on 020 8366 8244.

Treasurer's Report

2015/16 has been another tough year for North London Credit Union, but I'm pleased to report that we ended the year with a small profit.

All credit unions are required by the PRA to maintain a capital asset ratio to be considered a going concern. Last year in order to strengthen the credit union's financial position and meet this minimum requirement we did not pay a dividend. We had hoped to resume paying a dividend of 1% this year, but on the surplus generated feel it prudent to recommend 0.25 per cent. We obviously hope to increase this dividend next year, but this does depend on the level of bad debts we see in the year.

We have concentrated this year on the recovery of debts due to the credit union, always conscious that the money we are lending is the property of our members, and that we have a moral as well as a legal duty to recover as much as we can as quickly as we can. We use all legal means open to us to recover money lent and will continue to do so, whilst maintaining a sympathetic approach to those who encounter difficulties and tell us about them.

Lending has been lower in 2015/16 than for the previous year. This is mostly due to the tightening of our lending criteria, making us more risk-adverse in our lending, as well as a lower maximum loan size – applications continue to grow. Longer-term, we need to ensure that performing loans that are coming to the end of their repayment period are replaced with the same to avoid a drop in income.

The drop is even lower than it might seem by reference to the accounts. In the preparation of these, our accountants have had to conform to new accounting standards known as FRS 102. Apart from this change making the full accounts very much longer, it has also meant we have had to write back a number of accounts from previous years where recovery action is still on-going, whilst at the same time making full provision for the amounts brought back.

Income

Net interest income held up well, with a small (2.4%) increase, mainly as a result of lower ISA interest being paid than previously.

Fees and commissions were very much lower. During 2014 – 2015, we received substantial fees paid by Cornerstone Mutual Services, as part of the Credit Union Expansion Programme.

This left overall income down 6.5% on the previous year.

Expenditure

We were successful in containing administrative expenditure, which was down around £10,000 (8.1%) over the previous year. **Staff costs** decreased slightly.

Other **operating expenses** were more or less as previously. Whilst **impairment losses** (previously called 'provisions') were lower than last year's figure of almost £100k, they remain a serious concern.

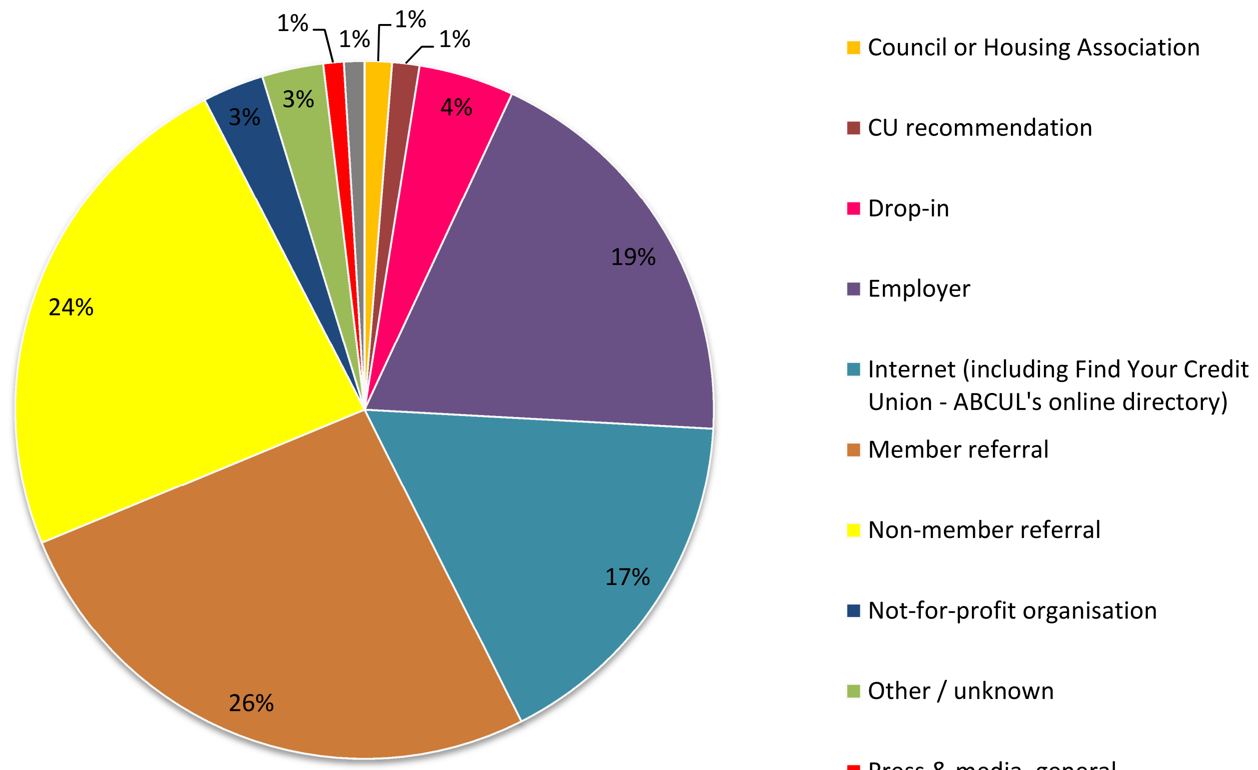
We can take some comfort in that almost £50,000 of the £74,496 provisions relates to one group of accounts. Here we had lent to a business owned by four directors some time ago, which subsequently failed. We expect to get some of our money back on three of the loans (the fourth borrower has been declared bankrupt), but it will not be until later this year that it is received. In the meantime we have had to make full provision. We have now reviewed our risk policy to limit this type of exposure in the future.

Balance Sheet

Cash at bank decreased by 36.7%, in sympathy with the decrease in **ISA accounts**. This fall is both planned and welcome.

The slight fall in **loan balances** has already been mentioned, whilst the fall in **tangible fixed assets** is due to depreciation (the writing down of equipment over its useful life).

Marketing Report



Sources of New Members 2015 - 2016

The most interesting change from previous years has been the redistribution of sources of new members generally.

During previous years member referrals were by far the most common source of new members. In 2014-2015, they were nearly double the next highest source. During 2015-2016, member referrals were still the most common way for members to hear about us, but the percentage dropped considerably as a proportion of the total.

One reason for this has been the increase in introductions from employers, up from under 5%, now nearly a fifth of all new members are referred to us by their employer. This reflects the excellent relationship that we enjoy with our newest partners and the investment that all parties have made into the schemes.

Increased awareness of credit unions in general is probably at the heart of this year's large proportion of non-member referrals, which is what we've categorised 'friends', 'family' and names that don't appear to refer to existing members.

The number of people finding us via the internet also continues to increase steadily each month. Although overall numbers didn't reach the levels that we saw a couple of years ago, (after heavy news coverage of, amongst other things, the Archbishop's speech), NLCU reflects the wider world, where a strong online presence and smooth customer journey are key to gaining new members. Our move to online banking and the accompanying website will, we anticipate, help us to make the most of this growing trend.