

Chief Executive's Report 2016/2017

In 2016, the Board set our three year strategic Business Plan, and in 2017 they took the opportunity to look further down the line and set out a long term "vision" for Scotwest:

Delivering better financial lives through caring about individual members and their happiness: growing together to be the leading credit union in Britain.

Underpinning that vision, are the values which we apply to everything we do:

Care

We care: our values are what we do when no one is looking

Openness and Honesty

We can be open and honest with everyone because we do the right things for the right reasons

Respect

We treat everyone as individuals and value their individuality

As a mutually owned financial institution, we believe that the vision and values, put members at the centre of everything we do and deliver an organisation which you can be proud to be part of.

In addition to our transparent and ethical business practices towards our members and staff, Scotwest is an active co-operator with other Credit Unions, partner organisations and local and national governments.

Financial Results for the Year Ended 30th September 2017

The audited Financial Statements for 2016/17, which follow, are produced under the FRS 102 accounting standard and this replaces the "profit and loss account" with a Statement of Comprehensive Income. One result of the standard is that all financial services organisations are required to show their "cost of deposits" as Interest Payable at the top of the Statement of Comprehensive Income. For credit unions, where the cost of deposits is the (retrospective) member dividend, we don't believe that this disclosure shows a clear view of how we are performing. As with last year, we have therefore decided to provide the following alternative presentation in order to help members understand the trading results for 2016/17.

	2016/17 £000	2015/16 £000
OPERATING INCOME		
Loan Interest	2,252,000	2,047,000
Investment Interest (net of fees & tax)	226,000	262,000
Other Income	94,000	76,000
Total Income	2,572,000	2,385,000
OPERATING EXPENDITURE		
Staff Costs	1,008,000	1,065,000
IT Costs	238,000	220,000
Marketing / Communications	110,000	103,000
Other Expenditure	273,000	316,000
Total Expenditure	1,629,000	1,704,000
OPERATING SURPLUS	943,000	681,000
EXCEPTIONAL ITEMS		
Release of Bad Debt Provision	-	488,000
Release of Pension Provision	54,000	-
Surplus After Exceptional Items	997,000	1,169,000
MEMBER COSTS, BENEFITS & DISTRIBUTIONS		
Bad Debts (net of recoveries)	216,000	106,000
LP/LS Insurance	206,000	189,000
Dividend	147,000	254,000
Total Member Costs, Benefits & Distributions	569,000	549,000
Surplus transferred to general reserves	428,000	620,000

Please note that the above statement does not form part of the audited Financial Statements.

Reflecting members' continued desire to save, deposits have again risen significantly (5%) but there has also been an 11% increase in our loan book, which has helped balance our trading position (there has been a 10% increase in interest generate from loans).

Overall income is up by 8% whilst operating expenditure is down 4% leading to an operating surplus of £943,000 which is 38% higher than the previous year.

The prior year's accounts benefited from a £488,000 release from the bad debt reserves (arising from the implementation of FRS 102), hence this year's surplus prior to member costs, benefits and distributions of £997,000 is down 15% on the prior year.

Bad debt costs have increased by more than 100%. This increase does not arise from any changes to our lending risk appetite, nor directly from in the increased size of the loan book, but is instead down to the requirement to fully provide for a mortgage which is in arrears. Given the forecasted economic environment, however, it should be noted that increased bad debt costs is a trend which we unfortunately expect to continue.

Loan Protection and Life Savings are provided by Scotwest as free member benefits. The costs of providing these benefits have risen in line with the total value of members' deposits and loans.

Despite the increased profitability, the Directors maintained the standard dividend rate at 0.25% during 2016/17 in order to deliver the strategy noted above. As savings grow, Scotwest needs to grow its loan book in order to generate profits and the Board needs to set aside some of those profits to build adequate capital reserves. As previously reported, Credit Unions are tightly restricted on what they can do with members' money and therefore we need a vibrant mix of savers and borrowers in order to thrive. Our drive is therefore to ensure that if you are going to borrow, you do so from us. Borrowing from Scotwest doesn't only make good business sense for your credit union but our mission means that we are confident that our service and rates will give you the best financial outcome.

Remember each and every one of us owns an equal share of Scotwest Credit Union so its success is our success too.

Kenny MacLeod,
November 2017