

## Chief Executive's Report 2017/2018

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

I am delighted to report that Scotwest Credit Union has had another good year as once again we report a sound increase in assets and a healthy net surplus. It was a year that saw lending reach its highest level yet at £36 million and member savings reach £61 million at a time when we continue to see very low interest rates in the wider financial market. Added to this, we have seen another healthy rise in our membership base demonstrating a real vote of confidence in our performance and ethos.

I am also pleased to report that we have once again delivered a record breaking Christmas Savings pay out of almost £2.5m with over 3,300 members benefiting from saving regularly over the year and easing the financial burden of Christmas.

The team have been kept busy, answering 94,000 telephone calls and processing a massive 15,000 loan applications this year, our highest levels yet, as we continue to assist members on a daily basis with the important things in life like buying a car, taking a holiday, improving their home or, indeed, buying their own home through the provision of mortgage lending.

Technology continues to play a key role in delivering quality financial services to members and I am happy to report to you that Scotwest successfully upgraded its banking platform this year. We are delighted that this upgrade had very little impact on our members and was delivered through excellent planning, hard work and dedication from the staff in general and the IT team in particular.

Another significant event this year has been the launch of our new brand which, I hope you will agree, gives us a fresh modern look that will help us to grow and strengthen our position as one of the leading credit unions in Britain. There is a strong sense of pride within Scotwest that we care about people and put their welfare and happiness at the centre of everything we do and we feel that our strapline 'Where People Count' really illustrates this.

Looking to the future, there is little doubt that the political events of 2019 will have an impact on the UK economy and the financial services sector in years to come. Concerns over rate changes, market confidence and of course, the impact of Brexit could affect members in the coming months. The Board is well informed and well prepared and will continue to consider all possible scenarios as events unfold in order for Scotwest to continue to flourish and provide quality financial services to its members.

### Financial Results for the Year Ended 30 September 2018

The audited Financial Statements for 2017/18, which follow, are produced under the FRS 102 accounting standard. This standard requires that all financial services organisations 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 believe that this disclosure does not show a clear view of how we are performing. As with previous years, we have therefore decided to provide the following alternative presentation in order to help members understand the trading results for 2017/18.

	<b>2017/18</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
<b>OPERATING INCOME</b>		
Loan interest	2,491	2,252
Investment interest (net of fees & tax)	243	226
Other income	86	94
<b>Total Income</b>	<b><u>2,820</u></b>	<b><u>2,572</u></b>
 <b>OPERATING EXPENDITURE</b>		
Staff Costs	1,051	1,008
IT Costs	328	238
Marketing/Communication	140	110
Other Expenditure	172	273
<b>Total Expenditure</b>	<b><u>1,691</u></b>	<b><u>1,629</u></b>
 <b>OPERATING SURPLUS</b>	<b><u>1,129</u></b>	<b><u>943</u></b>
 <b>EXCEPTIONAL ITEMS</b>		
Release of Pension Provision		54
<b>Surplus After Exceptional Items</b>	<b><u>1,129</u></b>	<b><u>997</u></b>
 <b>MEMBER COSTS, BENEFITS &amp; DISTRIBUTIONS</b>		
Bad Debts	444	216
LP/LS Insurance	222	206
Dividend	149	147
<b>Total Member Costs, Benefits &amp; Distributions</b>	<b><u>815</u></b>	<b><u>569</u></b>
 <b>SURPLUS TRANSFERRED TO GENERAL RESERVES</b>	<b><u>314</u></b>	<b><u>428</u></b>

Reflecting members' continued desire to save, deposits have risen again (4%); however, continuing the trend from last year, our loan book has increased by 12% which flows through to an 11% annual increase in income from members' loans.

- Overall income is up 9.6% compared to last year's 8%
- Operating expenditure is up 4%
- Operating surplus of £1,129,000 is 20% higher than last year

The results for the current year have benefited from a £71,000 release of prior year accruals as a result of the delay in the implementation of the updated back office system and the reduction in anticipated FSA default levy fees. Excluding these adjustments, operational surplus is up 6% year on year.

The 106% increase in bad debt costs does not arise from any changes to our lending risk appetite nor in the increased size of the loan book, but is instead driven primarily by the economic environment and as a result a noticeable increase in the number of trust deeds entered into by members. As previously observed last year, given the economic environment we unfortunately expect bad debt costs to continue to increase.

Frances McCann  
Acting Chief Executive Officer