

**North Lanarkshire Municipal Bank
Limited**

Report and Financial Statements

Year Ended

31 March 2017

Company Number: SC013128

North Lanarkshire Municipal Bank Limited

Annual report and financial statements for the year ended 31 March 2017

Directors

Councillor J Hume
Councillor T Castles (appointed 18 May 2017)
Councillor P Hogg (appointed 18 May 2017)
Councillor J Ashraf (appointed 18 May 2017)
Councillor I McNeil (appointed 18 May 2017)
Councillor T Fisher (appointed 18 May 2017)
Councillor S Watson (appointed 18 May 2017)

Secretary and registered office

Paul Hughes, Head of Business for Financial Solutions, Civic Centre
Windmillhill Street, Motherwell ML1 1AB

Company number

SC013128

Auditor

BDO LLP, 4 Atlantic Quay, 70 York Street, Glasgow, G2 8JX

Clearing Bank

Clydesdale Bank PLC

Branches

10 Bank Street, Airdrie
26 Motherwell Road, Bellshill
Buchanan Centre, 126 - 130 Main Street, Coatbridge
2 Tryst Road, Cumbernauld
9 Parkfoot Street, Kilsyth
Blackwoods Crescent, Moodiesburn
Dalziel Building, 7 Scott Street, Motherwell
162 Station Road, Shotts
135 Burnhead Street, Viewpark
Houldsworth Centre, Kenilworth Avenue, Wishaw

Bank hours

Monday - Thursday	9am to 4.30pm
Friday	9am to 4.00pm

North Lanarkshire Municipal Bank Limited

Annual report and financial statements for the year ended 31 March 2017

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Introduction

The directors are pleased to report that the company has had a successful performance during the 2017 financial year.

Business review

During 2017, the Municipal Bank continued to monitor its investment strategy within its existing banking structure and operations, to ensure adequate protection against interest rate risk.

A periodic review of the level of customer balances, comparative interest rates and movements in the Bank of England base rate was undertaken, providing the bank with a firm base to establish its own interest rate policy for interest payable to customers. An interest rate reduction was approved by the board of Directors at a meeting held on 26 October 2016, effective from 1 January 2017.

The directors intend to continue with the company's existing activities, to continue to promote the current services offered and to achieve natural growth by continuing to offer competitive interest rates.

Principal risks and uncertainties

The principal risks and uncertainties facing the company are:

- Competition from high street banks
- Loss of key financial and administrative staff
- Legislative and Regulatory changes

These principal risks and uncertainties are mitigated by the following review processes:

The company maintains its competitive advantage meeting the challenge from its high street competitors by offering a competitive interest rate which is usually a small margin above the interest rates offered by its competitors. To ensure this margin is maintained, interest rates offered by competitors are continually monitored with regular interest rate review reports presented to directors at their meetings which will also take into account the outlook for interest rates based on the latest economic forecasts. A monthly analysis of depositor balances is also undertaken which informs whether there are any potential issues with the interest rates being offered, in particular if balances are falling significantly, providing an early indicator that the interest rate environment may have changed and the company's competitive position altered.

The company currently utilise key financial and administrative staff under an agreement with its controlling local authority, the company benefiting from highly qualified and experienced staff, its IT infrastructure and risk control arrangements. In the event that the current key point of contacts were no longer available the Council has a significant staff resource of accountants and reconciliation staff that would enable it to provide the same level of support with many of the current tasks procedural in nature.

The company also benefit from accessing the most up to date information affecting the banking sector and the legal and regulatory framework as the management and administrative functions are carried out, primarily by the Councils Treasury Management team. This team receive daily /weekly /monthly updates on all matters which affect the banking, legal and regulatory framework from their Treasury Management advisors and other networking partners, including banking service providers, money market brokers and other local authority and government partners.

North Lanarkshire Municipal Bank Limited

Strategic report for the year ended 31 March 2017

Key performance indicators

Balance due to customers has decreased from £44.102m to £43.283m.

The amount of temporary loans repayable on demand is £43.304m (2016: £44.124m).

Interest received from monies advanced to the Council has decreased to £0.406m (2016: £0.526m)

Interest paid to customers has decreased to £0.237m (2016: £0.432m)

Accounts

Customer accounts repayable on demand

During the year, there was a decrease of £632,874 (2016: £1,013,614 decrease) in net deposits taken from customers. The following is a summary of business transacted during the year:

	2017 £	2016 £
Balance due to customers at start of year	44,102,264	45,129,425
Interest accrued at start of year	(383,450)	(396,997)
Interest accrued at end of year	196,861	383,450
	<u>43,915,675</u>	<u>45,115,878</u>
Net decrease in deposits during the year	(632,874)	(1,013,614)
Balance due to customers at year end	<u>43,282,801</u>	<u>44,102,264</u>

The opening accrued interest was settled in the period with the closing balance sheet accrual being outstanding and included within creditors, 'customer accounts repayable on demand' as at 31 March 2017.

Number of accounts

The number of active customer accounts at 31 March 2017 was 6,416

The table below indicates the number of accounts since the year ended 31 March 2007:

	Customers
31 March 2007	9,037
31 March 2008	8,709
31 March 2009	8,442
31 March 2010	8,307
31 March 2011	8,144
31 March 2012	7,925
31 March 2013	7,702
31 March 2014	7,476
31 March 2015	7,142
31 March 2016	6,821
31 March 2017	6,416

North Lanarkshire Municipal Bank Limited

Strategic report for the year ended 31 March 2017

Key performance indicators (*continued*)

Accounts (*continued*)

Interest on deposits

The rates of interest paid to customers during the year were as follows:

From 1 February 2016 - 31 December 2016

£1+	0.60%
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From 1 January 2017

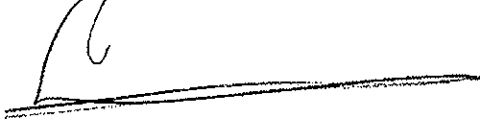
£1+	0.30%
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This rate is paid on sums deposited for a minimum of one calendar month. The minimum deposit is £1 and fourteen days' notice of withdrawal may be required. All customers have interest paid gross.

Future Developments

The directors intend to continue with the company's existing activities and have no plans to enter into new business activities.

By order of the board



J Hume
Director

25 October 2017

North Lanarkshire Municipal Bank Limited

Report of the directors for the year ended 31 March 2017

The directors present their report together with the audited financial statements for the year ended 31 March 2017.

Results and dividends

The Statement of Comprehensive Income is set out on page 11 and shows the result for the year of £nil (2016: £nil). The directors did not recommend a dividend payment in the year.

Principal activities

The company's principal activities are the accepting of deposits and the investing of those funds (with the exception of working balances) with North Lanarkshire Council.

Directors

The directors of the company during the current year were as follows:

Councillor R Burrows (resigned 18 May 2017)

Councillor S Farooq (resigned 18 May 2017)

Councillor J Jones (resigned 18 May 2017)

Councillor P O'Rourke (resigned 18 May 2017)

Councillor A Spowart (resigned 18 May 2017)

Councillor P Sullivan (appointed 8 March 2016) (resigned 30 June 2016)

Councillor J Hume

Councillor T Castles (appointed 18 May 2017)

Councillor P Hogg (appointed 18 May 2017)

Councillor S Ashraf (appointed 18 May 2017)

Councillor I McNeil (appointed 18 May 2017)

Councillor T Fisher (appointed 18 May 2017)

Councillor S Watson (appointed 18 May 2017)

Each director is required to hold one Ordinary share of 5p. This Ordinary share must be relinquished on retirement as a director. The remaining shares are held by councillors that make up the North Lanarkshire Council.

Status of the company

The company is a municipal bank as defined by Part 1, Section 3 of the Payment Services Regulation 2009 and as such is exempt from the prohibition comprised in Section 19 of the Financial Services and Markets Act 2000 ("the Act"), by means of Exemption Order (SI 2001/1201) issued in accordance with Section 38 of the Act. It is not a banking company for the purposes of the Companies Act 2006.

Going concern

The directors have prepared the financial statements on a going concern basis and are aware of the current financial position of the bank. With the intended continued financial support from North Lanarkshire Council, the bank intend to continue with the company's existing activities.

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

Each of the persons who are directors at the time when the directors' report is approved has confirmed that:

- so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware, and
- that directors have taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

BDO LLP has expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board


J Hume
Director

25 October 2017

North Lanarkshire Municipal Bank Limited

Independent auditor's report to the members of North Lanarkshire Municipal Bank Limited

We have audited the financial statements of North Lanarkshire Municipal Bank Limited for the year ended 31 March 2017 which comprise the statement of comprehensive income, the balance sheet, statement of changes of equity, the statement of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

North Lanarkshire Municipal Bank Limited

Independent auditor's report to the members of North Lanarkshire Municipal Bank Limited

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

*Barbara Southern (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Glasgow
United Kingdom*

Date: *26 OCTOBER 2017*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

North Lanarkshire Municipal Bank Limited

Statement of comprehensive income for the year ended 31 March 2017

	Note	2017 £	2016 £
Interest receivable:			
North Lanarkshire Council - short term advances		406,082	153,695
North Lanarkshire Council - mortgages		-	371,875
		<hr/>	<hr/>
	4	406,082	525,570
		<hr/>	<hr/>
Interest paid to customers	5	236,825	431,516
		<hr/>	<hr/>
Net interest income		169,257	94,054
		<hr/>	<hr/>
Administrative expenses:			
Management expenses		3,754	3,841
Audit fee and expenses		7,980	7,074
Printing and stationery		5,833	3,829
Payment to Agencies and Other Bodies		124,600	52,008
Publicity campaign		7,090	7,302
Rental of premises		20,000	20,000
		<hr/>	<hr/>
		169,257	94,054
		<hr/>	<hr/>
Profit on ordinary activities before taxation		-	-
Taxation on profit on ordinary activities		-	-
		<hr/>	<hr/>
Profit for the financial year		-	-
		<hr/>	<hr/>
Total comprehensive income for the year		-	-
		<hr/>	<hr/>

All amounts relate to continuing activities for the current and prior year.

There were no items of other comprehensive income for the current and prior year.

The notes on pages 15 - 19 form part of these financial statements.

North Lanarkshire Municipal Bank Limited

Balance sheet as at 31 March 2017

Company number: SC013128

	Note	2017 £	2016 £
<u>Assets</u>			
Loans and advances to North Lanarkshire Council:			
Short term advances repayable on demand	7	43,304,276	44,124,063
		_____	_____
Total assets		43,304,276	44,124,063
		=====	=====
<u>Liabilities</u>			
Customer accounts repayable on demand	8	43,282,801	44,102,264
Other liabilities	9	-	872
Accruals and deferred income	9	21,472	20,924
		_____	_____
Total liabilities		43,304,273	44,124,060
<u>Equity</u>			
Called up share capital	11	3	3
		_____	_____
Total liabilities and equity		43,304,276	44,124,063
		=====	=====

The financial statements were approved by the Board and authorised for issue on its behalf on 25 October 2017.


James Hume
Director

The notes on pages 15 to 19 form part of these financial statements.

North Lanarkshire Municipal Bank Limited

Statement of changes in equity for the year ended 31 March 2017 and 31 March 2016

	Share Capital £	Retained earnings £	Total equity £
At 1 April 2015	3	-	3
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2016	<u>3</u>	<u>-</u>	<u>3</u>
	<hr/>	<hr/>	<hr/>
At 1 April 2016	3	-	3
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2017	<u>3</u>	<u>-</u>	<u>3</u>
	<hr/>	<hr/>	<hr/>

The notes on pages 15 - 19 form part of these financial statements.

North Lanarkshire Municipal Bank Limited

Statement of cash flow for the year ended 31 March 2017

	Note	2017 £	2016 £
Cash flows from operating activities			
Profit for the financial year		-	-
Adjustments for:			
Interest receivable	4	(406,082)	(525,570)
Interest payable	5	236,825	431,516
Decrease/(increase) in trade and other debtors		-	-
Increase/(decrease) in trade and other creditors		(324)	(41,206)
Increase / (decrease) in deposits by customers		(632,874)	(1,027,161)
(Increase) / decrease in loans advanced to NLC		819,787	1,068,367
Net cash generated from operating activities		17,332	(94,054)
Cash flows from investing activities			
Interest paid		(423,414)	(431,516)
Interest received		406,082	525,570
Net increase/(decrease) in cash and cash equivalents		-	-

The notes on pages 15 - 19 form part of these financial statements.

1 Accounting policies

North Lanarkshire Municipal Bank Limited (SC013128) is a private company registered in Scotland under the Companies Act 2006. The address of the registered office is given on page 2 and the nature of the company's principal activities is set out in the directors' report on page 7.

The financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and with Companies Act 2006.

The preparation of the financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement and estimation in applying the Company's accounting policies. Details of the judgement and estimates are disclosed in note 2 below.

The presentational currency is GBP and no level of rounding has been applied to the figures within the financial statements.

The following principal accounting policies have been applied:

Interest receivable

Interest is charged on short term advances provided to North Lanarkshire Council and is recognised by the bank in the period in which the interest is earned.

Interest payable

Interest is paid on customer accounts based on the minimum monthly deposit held by the customer throughout the year. Interest payable is recognised on an accruals basis and applies only to those customer accounts with greater than £1 in their deposit account. Interest rate is set based on Bank of England Base Rate plus an additional nominal rate to allow the bank to remain competitive.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits and other short term highly liquid investments, that are readily convertible to a known amount of cash and are subject to an insignificant risk in change of value.

Creditors

Short term creditors are measured at transaction price.

Financial instruments

The company enters into basic financial transactions that result in the recognition of financial assets and liabilities such as other liabilities and accruals and deferred income.

In respect of financial liabilities represented by customer deposits repayable on demand, interest is paid on customer accounts based on the minimum monthly deposit held by the customers throughout the year. Interest payable is recognised on an accruals basis and applies only to those customer accounts with greater than £1 in their deposit account.

Financial assets, represented by short term advances provided to North Lanarkshire Council are repayable on demand, are measured at cost which is considered to be equal to its fair value and are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income. Interest is charged on these advances and recognised by the Bank in the period in which the interest is earned.

For the financial assets, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet date.

Going concern

These financial statements have been prepared on a going concern basis. It is the directors' view that the company will be able to continue as a going concern for at least a period of 12 months from the date that these financial statements are approved.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key sources of estimation are based around the setting of interest rates. Interest received from North Lanarkshire Council (from the temporary loans) is generated at such a rate to ensure the profit and loss account reaches a £nil net position. The interest paid to customers aims to offer a stronger return than high street banks in order to retain customers. The high street interest rate is considered by North Lanarkshire Municipal Bank whose aim is to offer a stronger rate.

3 Staff costs

The Bank's staff are employees of North Lanarkshire Council and their remuneration is incorporated into the staff costs of that Council. North Lanarkshire Council recharged an amount of £124,600 (2016: £52,008) in respect of staff costs.

North Lanarkshire Municipal Bank limited employs no employees (2016: nil).

The directors received no fees or other emoluments in respect of their services during the year (2016: £nil).

4 Interest receivable

	2017 £	2016 £
Short term advance interest	406,082	525,570

North Lanarkshire Municipal Bank Limited

Notes forming part of the financial statements for the year ended 31 March 2017

5 Interest payable and similar charges

	2017 £	2016 £
Interest payable on customer deposits	<u>236,825</u>	<u>431,516</u>

Interest payable for 31 March 2017 £196,861 was accrued at the end of the year and interest accrued for 31 March 2016 £283,450 was accrued in the prior year.

6 Auditor's remuneration

	2017 £	2016 £
Auditor's remuneration - audit services	7,980	7,024
Auditor's remuneration - non-audit services	<u>2,214</u>	<u>1,050</u>

7 Short term advances repayable on demand

	2017 £	2016 £
Short term advances repayable on demand	<u>43,304,276</u>	<u>44,124,063</u>

Short term advances represent amounts cash advanced to the related party and ultimate controlling party, North Lanarkshire Council, which are repayable on demand.

8 Customer deposits

	2017 £	2016 £
Customer deposits repayable on demand	<u>43,282,801</u>	<u>44,102,264</u>

At 31 March 2017, the company's principal financial liabilities comprise customer deposits repayable on demand. All customer account balances are guaranteed by North Lanarkshire Council.

North Lanarkshire Municipal Bank Limited

Notes forming part of the financial statements for the year ended 31 March 2017

9 Other creditors

	2017 £	2016 £
Accruals and deferred income	21,472	20,924
Other creditors	-	872
	<u>21,472</u>	<u>21,796</u>

10 Financial instruments

As at 31 March 2017, the company's principal financial instruments comprise short term advances and the receipt of monies held on deposit from account holders. The main purpose of the bank is to provide finance to North Lanarkshire Council at favourable interest rates.

The main risk arising to the company is interest rate risk. The company holds funds on behalf of its customer account holders which are subject to interest at predetermined interest rates set by the directors. The interest rates applicable on customer account balances held during the year ended 31 March 2017 are as follows:

From 1 February 2016 - 31 December 2016

£1+ 0.60%

From 1 January 2017

£1+ 0.30%

Throughout 2016/17 the relationship for investing funds with North Lanarkshire Council remained prudent and met the requirements of the Financial Services and Markets Act 2000 (Exemption) Order 2001.

	2017 £	2016 £
Financial Assets		
Financial assets measured at amortised cost	43,304,276	44,124,063
Financial Liabilities		
Financial liabilities measured at amortised cost	43,304,273	44,124,060

Financial assets measured at amortised cost comprise short term advances repayable on demand and mortgages repayable after more than one year. Note, this is considered by the directors to have a fair value equivalent to the treatment under amortised cost.

Financial liabilities measured at amortised cost comprise customer accounts repayable on demand, accruals and other creditors. Customer accounts repayable on demand are considered by the directors to have a fair value equivalent to the treatment under amortised cost. Customer accounts are recognised at sterling value at the reporting date and include interest accrued in the period from 1 April to 31 March. All accounts must have at least £1 deposit, otherwise the account is closed automatically by the bank and no interest is accrued.

Financial liabilities measured at amortised cost comprise accruals and other creditors.

11 Called up share capital

	Allotted, called up and fully paid	
	2017	2016
	£	£
70 Ordinary shares of 5p	3	3
	<u> </u>	<u> </u>

12 Related party transactions

During the year one director (2016: one director) had deposits held within North Lanarkshire Municipal Bank Limited. In total, £nil was lodged and £190 withdrawn from his accounts in the year and a total balance of £7 was held within the bank at 31 March 2017.

North Lanarkshire Municipal Bank was charged £124,600 (2016: £52,008) by North Lanarkshire Council in the form of a management charge in relation to staffing and support costs. North Lanarkshire Municipal Bank received £406,082 (2016: £525,570) in the form of interest from North Lanarkshire Council due to the temporary loan balance to North Lanarkshire Council. Expenses and repayments of customer deposits of £677,855 were incurred by North Lanarkshire Council on behalf of North Lanarkshire Municipal Bank Limited consisting of interest on customer deposits and admin expense payments. The balance owed by North Lanarkshire Council to North Lanarkshire Municipal Bank Limited at 31 March 2017 amounted to £43,304,276 (2016 - £44,124,063) and is included within note 7 to these financial statements.

13 Financial risk management

A periodic review of the level of customer balances, comparative interest rates and movements in the Bank of England base rate was undertaken, providing the bank with a firm base to establish its own interest rate policy for interest payable to customers. An interest rate reduction was approved by the board of Directors at a meeting held on 26 October 2016, effective from 1 January 2017.

14 Ultimate controlling party

The directors, who are all elected Councillors of North Lanarkshire Council, regard North Lanarkshire Council as the ultimate controlling party.