

Manx Credit Union Ltd.

DEFERRED SHARES

We are pleased to make available a new form of holding in the Manx Credit Union known as a deferred share. In the application form at the end of this document there is a suggested minimum application of 1,000 deferred shares at £1.00 each with no upper limit, which contrasts with the maximum you can save with ordinary shares of £5,000.

The application form also indicates how you might remit your funds to purchase deferred shares either by cheque or on-line. Alternatively, the form provides for an instruction from yourself to withdraw funds from savings in your ordinary share account to make the purchase. Share certificates will be issued to successful applicants.

Holders of deferred shares have the same rights as ordinary shares in that they will share in any dividend declared but should note the exceptions as stated in the Statutory Risk Warning that follows.

Please read carefully this proposal. Prospective holders of deferred shares should not construe that this document represents legal, tax or financial advice but should consult their own professional advisors as to the suitability of deferred shares to a person's own circumstances.

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What are deferred shares?

Deferred shares are those shares held by an individual or corporate body to help boost the reserves of the credit union. A deferred share may best suit a person or entity who has a philanthropic interest in the wellbeing of the credit union but does not wish to donate as such. A corporate member can hold the value of a deferred share as an asset on their balance sheet. The proceeds of a deferred share issue will be transferred to the credit union's reserves. A member cannot use their deferred shares in support of a loan application or to be used as a guarantee in support of another member's loan application.

What is the authority whereby Manx Credit Union may issue deferred shares?

Under the 1993 CU Act (as amended) Section 7 (1A): the Financial Services Authority may by order prescribe that credit unions may issue deferred shares in addition to ordinary shares, and such an order may provide in respect of a specified credit union or group of credit unions that deferred shares may be issued subject to such conditions as the Financial Services Authority may on a case by case basis determine and impose. Where the Financial Services Authority exercises its power to impose conditions on the ability to issue deferred shares, it must specify such conditions in writing to the credit union or group of credit unions on which the conditions are imposed.

Why does the Manx Credit Union want to use the facility of issuing deferred shares?

Deferred shares are the backbone of a credit union. The main purpose of issuing deferred shares, to an individual or corporate body, is to broaden the capital foundation for present and future member services.

It also provides extra security to ordinary shareholders as deferred shares:

- can't be redeemed before all other liabilities have been paid in a liquidation.
- strengthens the guarantee scheme which does not include deferred shares
- contributes to the capital ratio calculation.

Declaration by Manx Credit Union to a member who wishes to apply for a deferred share

Manx Credit Union is obliged to issue a Statutory Risk Warning as follows:

The credit union wishes to draw your attention to the following Statutory Risk Warning, for your consideration prior to making any decision to purchase deferred shares.

The share to which this communication relates is a deferred share. Direct purchase of deferred shares can be high risk and is very different to holding other savings products. In particular you should note that:

- the amount you pay for the deferred share is at risk should the credit union become insolvent;
- the sum you pay is only repayable to you in limited circumstances, specifically if:
 - (1) the credit union has obtained regulatory permission to make the repayment. (The regulator will want to know that by allowing repayments that the credit union has adequate reserves to continue with its operations).
 - (2) the credit union is wound up, and there are funds remaining after all creditors, including savers and holders of subordinated debt if any, have been repaid;
- the sum you pay for deferred shares is not covered by the guarantee arrangement for ordinary shares;
- a deferred share is transferable to a person or entity on the Isle of Man, who would have to become a member of the credit union if they were not already, but it may be difficult to sell on;
- Holding more than 10% of your savings or net investment portfolio in deferred shares issued by a credit union, credit union subordinated debt and mutual society shares is unlikely to be in your best interests.

Member's declaration to be attached to an application for deferred shares

I make this statement in connection with my proposed holding in deferred shares issued by the Manx Credit Union.

I have been made aware that by holding more than 10% of my net assets in deferred shares issued by a credit union, credit union subordinated debt and mutual society shares is unlikely to be in my best interests. I declare that the proposed holding would not result in more than 10% of my net assets being held in deferred shares issued by a credit union, credit union subordinated debt and mutual society shares.

Net assets for these purposes mean my financial assets after deduction of any debts I have. My debts for these purposes do not include the outstanding balance of any mortgage I have on my home, unless this is more than the current value of my home, in which case the debts include the amount above the current value.

My financial assets for these purposes do not include:

- the property which is my primary residence, or any money raised through a loan secured on that property;*
- any rights of mine under a contract of insurance; or*
- any benefits (in the form of pensions or otherwise) which are payable on the termination of my service or on my death or retirement and to which I am (or my dependants are) or may be entitled.*

I accept that the shares to which this statement relates will expose me to a significant risk of losing all or part of the money used to purchase deferred shares should the Manx Credit Union become insolvent.

Signature:

Date:

Application form for deferred shares

Please note that the applicant must be either an individual or corporate member of Manx Credit Union Limited. (Details of membership requirements can be found at www.mcu.im.)

Applicant details:

- a) Individual Applicant Name:Member Number..... Or
 b) Corporate Member Applicant: Organisation:Member Number

Details of order

I/we, the undersigned, agree to purchase.....(number) of deferred shares of £1.00 each in Manx Credit Union Limited by remittance of funds or by transfer from my Ordinary Shares held in my Savings Account or a combination of both. (Please note the minimum subscription is for 1,000 shares)

Method of payment for deferred shares

Remittance of funds

- 1) I/we attach our cheque value £.....in settlement or
- 2) I/we have transferred the sum of £..... to the account of Manx Credit Union Limited, Lloyds Bank International Ltd. Sort Code 30-12-80, Account Number 38578960 in settlement (please include your member number as a reference)

Transfer from my Ordinary Share Account

- 3) (individual members only) I/we request that the sum of £.....be transferred from my ordinary share account
- 4) (corporate members only) We request that the sum of £..... be converted into deferred shares from the amount held on the balance sheet of the credit union as a liability to the above named corporate body

I/we confirm that I/we have read, understand and accept the terms of the deferred shares provided with this Deferred Shares Application Form.

Signed: (individual member) Date

Signed on behalf of: (Corporate members only)Date.....