

SCOTWEST CREDIT UNION

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

FIRM REFERENCE NUMBER: 213616

SCOTWEST CREDIT UNION

CREDIT UNION INFORMATION

Directors

Mr D McRiner	Chair
Mr S Wood	Vice Chair
Mrs C Jamieson	
Mrs C McMichael	Secretary
Mr I Turner	
Mr S Frame	
Mr A Ibe	
Mr P McGowan	
Mr J Begg	(appointed from November 2018)

Interim Chief Executive Officer

Frances McCann

Registered Office

13 Elmbank Street
Glasgow
G2 4PB

Auditor

Scott-Moncrieff
25 Bothwell Street
Glasgow
G2 6NL

Solicitor

Kilpatrick Walker
4 Wellington Square
Ayr
KA7 1EN

Miller Samuel Hill Brown
RWF House
5 Renfield House
Glasgow
G2 5EZ

Bankers

Bank of Scotland
110 St Vincent Street
Glasgow
G2 5ER

SCOTWEST CREDIT UNION

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SCOTWEST CREDIT UNION

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2019

The Directors present their report and the financial statements for the year ended 30 September 2019.

Principal activity

The Credit Union's activity during the year continued to be that as defined in the Credit Union Act 1979, with membership being open to anyone who lives or works in the West of Scotland (an area defined by the boundaries of the twelve unitary council authorities: Argyll & Bute, East Ayrshire, East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire, South Ayrshire, South Lanarkshire and West Dunbartonshire).

Review of business and future developments

The environment of low interest rates and consumer caution, which has prevailed since the financial crisis of 2007/08, continues to pose the challenge of balancing incoming savings with the increased lending required in order to generate a return on those savings. Our strategy is to continue to increase the loan book through the provision of attractive products at market leading rates and increasing the convenience of access to those products.

Statement of directors' responsibilities

Credit Union law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Credit Union and of the income and expenditure of the Credit Union for the year ended on that date. In preparing those financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Credit Union will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Credit Union's transactions and disclose with reasonable accuracy at any time the financial position of the Credit Union and to enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Credit Union Act 1979. They are also responsible for safeguarding the assets of the Credit Union and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results and dividends

Deposits have risen this year by 7% and, continuing the trend from last year, our loan book has increased by 15% which flows through to an 12% annual increase in income from members' loans.

Operational expenditure is up 12.6% year on year. The £308k increase in like for like operational costs is primarily down to an increase of £129k in bad debt costs, the £47k increase in regulatory costs driven by the release to the accounts in 2018, and the £32k increase in insurance costs. The 29% increase in bad debt costs is not due to 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 the continuing increase in the number of trust deeds entered into by members. We are currently working with other Credit Unions and engaging with both the UK and the Scottish governments to address this issue. As previously observed, given the economic environment and the uncertainty of Brexit, we unfortunately expect bad debt costs to continue to increase.

The above has resulted in a pre-dividend surplus of £475,824 (2018 - £463,315) and a post dividend retained surplus of £332,687 (2018 - £314,188).

SCOTWEST CREDIT UNION

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

Financial risk management objectives and policies

Our key financial risk remains our ability to lend members money at levels and rates which provide an appropriate dividend return and maintains appropriate capital reserves. Our objective is therefore to provide competitive loan products and to encourage any member who wishes to borrow to do so from the Credit Union rather than an alternative provider.

Disclosure of information to the auditor

To the knowledge and belief of each of the persons who are directors at the time the report is approved:

- So far as the directors are aware, there is no relevant information of which the Credit Union's auditor is unaware; and
- The directors have taken all the steps that they ought to have taken to make themselves aware of any relevant information, and to establish that the Credit Union's auditor is aware of the information.

Auditor

A resolution to re-appoint Scott-Moncrieff, Chartered Accountants, as auditor will be put to the directors at the forthcoming Annual General Meeting.

This report was approved by the board on 4 November 2019 and signed on its behalf by:



**D McRiner
Chairperson**



**S Wood
Vice Chair**

SCOTWEST CREDIT UNION

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SCOTWEST CREDIT UNION FOR THE YEAR ENDED 30 SEPTEMBER 2019

Opinion

We have audited the financial statements of Scotwest Credit Union for the year ended 30 September 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Capital and Reserves, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Credit Union's affairs as at 30 September 2019 and of its surplus 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 Co-operative and Community Benefit Societies Act 2014 and the Credit Union Act 1979.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Credit Union's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

SCOTWEST CREDIT UNION

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SCOTWEST CREDIT UNION FOR THE YEAR ENDED 30 SEPTEMBER 2019

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs(UK) will always detect a material misstatement when it exists.

SCOTWEST CREDIT UNION

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SCOTWEST CREDIT UNION FOR THE YEAR ENDED 30 SEPTEMBER 2019

Auditor's responsibilities for the audit of the financial statements (continued)

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Councils website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Credit Union's members and directors, as a body, in accordance with the Co-operative and Community Benefit Societies Act 2014 and the Credit Union Act 1979. Our audit work has been undertaken so that we might state to the Credit Union's members and directors 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 Credit Union and the Credit Union's directors as a body, for our audit work, for this report, or for the opinions we have formed.



Jennifer Alexander, Senior Statutory Auditor
For and on behalf of Scott Moncrieff, Statutory Auditor
Allan House
25 Bothwell Street
Glasgow
G2 6NL

Date: 4 November 2019

SCOTWEST CREDIT UNION**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

	Note	2019 £	2018 £
Income			
Loan interest received and similar income			
– Members loans		2,793,512	2,490,846
– Bank interest received		404,797	400,525
Interest payable	4	(143,137)	(149,127)
Net interest income		3,055,172	2,742,244
Fees and commissions receivable		13,187	11,763
Fees and commissions payable		(6,381)	(6,878)
Net fees and commissions receivable		6,806	4,885
Other income		89,225	74,070
Administrative expenses		(2,134,646)	(1,944,481)
Depreciation		(33,290)	(44,339)
Bad debt and provision movement		(573,344)	(444,330)
Surplus before taxation		409,923	388,049
Taxation	6	(77,236)	(73,861)
Total comprehensive income for the year		332,687	314,188

Continuing operations

None of the Credit Union's activities were acquired or discontinued during the current and previous years. The notes on pages 10 to 19 form part of these financial statements.

SCOTWEST CREDIT UNION**STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 30 SEPTEMBER 2019**

	General reserve £	Non- distributable reserve £	Total £
At 1 October 2018	7,815,098	110,000	7,925,098
Surplus for the year	332,687	-	332,687
Transfer	(60,000)	60,000	-
	<hr/>	<hr/>	<hr/>
At 30 September 2019	<u>8,087,785</u>	<u>170,000</u>	<u>8,257,785</u>

**STATEMENT OF CHANGES IN EQUITY CAPITAL AND RESERVES
AS AT 30 SEPTEMBER 2018**

	General reserve £	Non- distributable reserve £	Total £
At 1 October 2017	7,510,910	100,000	7,610,910
Surplus for the year	314,188	-	314,188
Transfer	(10,000)	10,000	-
	<hr/>	<hr/>	<hr/>
At 30 September 2018	<u>7,815,098</u>	<u>110,000</u>	<u>7,925,098</u>

The notes on pages 10 to 19 form part of these financial statements.

SCOTWEST CREDIT UNION

**BALANCE SHEET
AS AT 30 SEPTEMBER 2019**

	Note	2019 £	2018 £
ASSETS			
Cash, cash equivalents and liquid deposits			
Cash on hand	7	91	65
Cash in bank and liquid deposits	7	32,270,000	33,024,892
		<u>32,270,091</u>	<u>33,024,957</u>
Loans to members	8	42,689,840	36,786,126
Bad debt reserve	9	(1,261,170)	(899,572)
Tangible fixed assets	10	469,436	502,726
Other debtors	11	348,204	508,837
		<u>74,516,401</u>	<u>69,923,074</u>
LIABILITIES			
Members' shares	13	65,846,500	61,478,428
Juvenile deposits		60,925	55,659
Other payables	14	351,191	463,889
		<u>66,258,616</u>	<u>61,997,976</u>
General reserve	15	8,087,785	7,815,098
Non-distributable reserves	16	170,000	110,000
		<u>74,516,401</u>	<u>69,923,074</u>

These financial statements were approved by the Board of Directors on 4 November 2019 and were signed on its behalf by:



**D McRiner
Chairperson**



**S Wood
Vice Chair**



**C McMichael
Secretary**

The notes on pages 10 to 19 form part of these financial statements.

SCOTWEST CREDIT UNION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

	Note	2019 £	2018 £
Cash flows from operating activities			
Surplus for the financial year		332,687	314,188
Adjustments for:			
Depreciation charge		33,290	44,339
Tax charge for the year		77,236	73,861
Finance cost		62,093	38,479
Interest received		(404,797)	(400,525)
Gain on disposal of fixed assets		-	(6,600)
Increase in debtors		(5,381,483)	(3,942,435)
Increase in creditors		(108,585)	23,013
Corporation tax paid		(76,083)	(75,804)
Net cash used from operating activities		<u>(5,465,642)</u>	<u>(3,931,484)</u>
Cash flow from investing activities			
Purchase of tangible fixed assets		-	(35,218)
Proceeds from disposal of fixed assets		-	14,500
Net cash used in investing activities		<u>-</u>	<u>(20,718)</u>
Cash flow from financing activities			
Finance cost		(62,093)	(38,479)
Interest received		404,797	400,525
Increase in members shares		4,368,072	2,187,398
Net cash provided by financing activities		<u>4,710,776</u>	<u>2,549,444</u>
Net (decrease) in cash and cash equivalents		<u>(754,866)</u>	<u>(1,402,758)</u>
Cash and cash equivalents at beginning of year		33,024,957	34,427,715
Cash and cash equivalents at end of year		<u>32,270,091</u>	<u>33,024,957</u>
Components of cash and cash equivalents			
Cash equivalents and liquid deposits	7	<u>32,270,091</u>	<u>33,024,957</u>

The notes on pages 10 to 19 form part of these financial statements.

1. Accounting Policies

General information

The Credit Union is incorporated in the UK and domiciled in Scotland. The address of its registered office is 13 Elmbank Street, Glasgow, G2 4PB. It is defined as a public benefit entity and thus complies with all disclosure requirements relating to public benefit entities. The Credit Union's functional and presentation currency is pounds sterling (GBP).

The Credit Union's activity during the year continued to be that as defined in the Credit Union Act 1979, with membership being open to anyone who lives or works in the West of Scotland (an area defined by the boundaries of the twelve unitary council authorities: Argyll & Bute, East Ayrshire, East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire, South Ayrshire, South Lanarkshire and West Dunbartonshire).

Summary of significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in compliance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" issued by the Financial Reporting Council.

Going concern

The Credit Union has a healthy cash and net assets position and thus the Directors are satisfied that there are sufficient resources in place to continue operating for the foreseeable future. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Interest receivable

Interest receivable is recognised as amounts fall due on loans to members and bank deposits.

Dividends

Dividends are paid to members based on the actual deposits held with the Credit Union.

Fees and commissions receivable

Income represents interest and fees received on the products provided by the Credit Union. Interest and fees are recognised as they fall due.

Bad and doubtful debts

Specific provisions are made for loans which are recognised to be bad or doubtful. A general provision to cover loans which are bad or doubtful but not yet identified as such is also maintained for use in appropriate circumstances. Movements in bad debt provisions during the year are charged to the Statement of Comprehensive Income.

Taxation

Current taxation is the expected tax payable for the year, using tax rates in force during the year. The Credit Union is not liable for corporation tax payable on its activities of making loans to members. Corporation tax is payable on investment income. As a result of the limited activities of the Credit Union from which profits are chargeable to corporation tax, it is unlikely that deferred tax will arise.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Bank overdrafts, where applicable, are shown within current liabilities.

SCOTWEST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

1. Accounting Policies (continued)

Loans to members

Loans are recognised at their principal amount less any specific and general provisions.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write-off each asset over its estimated useful life:

Property	-	2.5% straight line
Fixtures and fittings	-	5% - 50% straight line
Computer software	-	33.33% straight line
Motor vehicles	-	33.33% on cost less estimated residual value

Debtors

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

Creditors

Short term creditors are measured at the transaction price.

Impairment of non-financial assets

At each reporting date, the Credit Union reviews the carrying amounts of its non-financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

The Credit Union has entered into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable.

Loans to members are a financial asset recognised when cash is advanced to members and measured at amortised cost using effective interest rate. Loans to members are derecognised when all rights to receive cashflow have expired, usually on repayment of all outstanding balances. Loans are assessed each balance sheet date, for objective evidence that any of its loans to members are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics, because no loans are individually significant. In addition, if, during the course of the year, there is objective evidence that any individual loan is impaired, a specific loss will be recognised. Any impairment losses are recognised in the revenue account, as the difference between the carrying value of the loan and the net present value of the expected cash flows.

Shares are redeemable and therefore are classed as financial liabilities. They are initially recognised at the amount of cash deposited and subsequently at amortised cost.

1. Accounting Policies (continued)

Financial instruments (continued)

Other financial assets recognised when the Credit Union becomes entitled to funds from another party and are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Financial assets that are measured at cost and amortised cost 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.

Other financial liabilities are recognised when the Credit Union becomes liable for amounts due to another party and are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cashflows from the asset expire, or when the Credit Union has transferred substantially all the risks and rewards of ownership, usually on the repayment of outstanding balances.

Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

Pension scheme

Defined contribution scheme

The Credit Union operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Credit Union pays fixed contributions into a separate entity. Once the contributions have been paid the Credit Union has no further payments obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Credit Union in independently administered funds

Revenue commitments

Revenue commitments are charged to the Statement of Comprehensive Income account on a straight line basis over the term of the lease.

2. Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Credit Union's accounting policies.

The directors are satisfied that accounting policies are appropriate and applied consistently. Key sources of accounting estimation have been applied to the depreciation rates, bad debt provisions and impairment of loans to members, which are deemed to be appropriate for the class of assets.

SCOTWEST CREDIT UNION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

3. Operating Surplus	2019	2018
Operating surplus for the year is stated after:	£	£
Depreciation	33,290	44,339
Auditor's remuneration		
- external audit	9,120	8,880
- taxation services	444	350
	<u> </u>	<u> </u>

4. Dividends	2019	2018
	£	£
Dividend paid on members' shares in the year	143,137	149,127
	<u> </u>	<u> </u>

The distributions on member's shares represents distributions paid in the year.

Dividends paid during the year	2019	2018
	%	%
Juvenile member dividend	0.25	0.25
Ordinary member dividend	0.25	0.25
Notice Account dividend	0.26	0.26
	<u> </u>	<u> </u>

Proposed dividend	2019	2018
	%	%
Juvenile member dividend	0.25	0.25
Ordinary member dividend	0.25	0.25
Notice Account dividend	0.26	0.26
	<u> </u>	<u> </u>

5. Staff Costs	2019	2018
	£	£
Wages and salaries	901,777	880,991
Social security costs	85,934	78,514
Pension costs	56,418	58,369
	<u> </u>	<u> </u>
	<u>1,044,129</u>	<u>1,017,874</u>

Average staff numbers during the year were 37 (2018 - 35).

No remuneration was paid to any of the directors in the year (2018 - £nil). The key management personnel are the Chief Executive Officer, the interim Chief Executive Officer, the Chief Operating Officer, the Finance Manager and the IT Manager. Remuneration for key management personnel was £208,807 (2018 - £228,908).

At the year-end pension contributions outstanding were £5,452 (2018 - £5,457).

SCOTWEST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

6. Taxation	2019 £	2018 £
Taxation charged through the Statement of Comprehensive Income was as follows:		
Corporation tax	<u>77,236</u>	<u>73,861</u>

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2018 – same as) the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below.

	2019 £	2018 £
Profit on ordinary activities before tax	<u>409,923</u>	<u>388,049</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 – 19%)	77,885	73,729
Effects of:		
Revenues exempt from taxation	<u>(649)</u>	<u>132</u>
	<u>77,236</u>	<u>73,861</u>

7. Cash & Cash Equivalents	2019 £	2018 £
Cash in hand	91	65
Current accounts	4,711,700	4,359,006
Deposit accounts	795,610	962,512
Investments in bonds	26,762,690	27,703,374
	<u>32,270,091</u>	<u>33,024,957</u>

The Credit Union has ring fenced an amount of £100,000 for fixed rate mortgages as shown in note 16. The £100,000 is included within the balance of cash at bank.

8. Loans to Members	2019 £	2018 £
Balance forward	36,786,126	32,536,572
Advanced in year	36,917,762	29,227,092
Repaid in year	(30,792,302)	(24,746,163)
Written off in year	(221,746)	(231,375)
	<u>42,689,840</u>	<u>36,786,126</u>
Loans due within one year	15,349,352	13,281,889
Loans due after more than one year	27,340,488	23,504,237
	<u>42,689,840</u>	<u>36,786,126</u>

SCOTWEST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

9. Bad Debt Reserve						2019	2018
						£	£
Opening provision						899,572	686,617
Charge to Statement of comprehensive income						361,598	212,955
						<u>1,261,170</u>	<u>899,572</u>
10. Tangible Fixed Assets							
	Property	Fixtures & fittings	Computer software	Motor vehicles	Totals		
	£	£	£	£	£		
Cost							
As at 1 October 2018	475,000	257,042	139,113	35,218	906,373		
Additions	-	-	-	-	-		
Disposals	-	-	-	-	-		
As at 30 September 2019	<u>475,000</u>	<u>257,042</u>	<u>139,113</u>	<u>35,218</u>	<u>906,373</u>		
Depreciation							
As at 1 October 2018	35,625	220,879	139,113	8,030	403,647		
Charge for the year	11,875	12,655	-	8,760	33,290		
Eliminated on disposal	-	-	-	-	-		
At 30 September 2019	<u>47,500</u>	<u>233,534</u>	<u>139,113</u>	<u>16,790</u>	<u>436,937</u>		
Net Book Value							
30 September 2019	<u>427,500</u>	<u>23,508</u>	<u>-</u>	<u>18,428</u>	<u>469,436</u>		
30 September 2018	<u>439,375</u>	<u>36,163</u>	<u>-</u>	<u>27,188</u>	<u>502,726</u>		
11. Other Debtors						2019	2018
						£	£
Bond interest						325,857	495,716
Sundry debtors						-	303
Prepayments and accrued income						22,347	12,818
						<u>348,204</u>	<u>508,837</u>
12. Loans to other Credit Unions						2019	2018
						£	£
Balance at 1 October						-	30,000
Repaid in year						-	(30,000)
Balance 30 September						<u>-</u>	<u>-</u>

The above loan was sub-ordinated and redeemed in September 2018.

SCOTWEST CREDIT UNION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

13. Members' Shares	2019	2018
	£	£
Balance forward	61,478,428	59,291,030
Received in year	45,618,231	40,573,749
Withdrawn in year	(41,250,159)	(38,386,351)
	<u>65,846,500</u>	<u>61,478,428</u>

14. Other Payables	2019	2018
	£	£
Trade creditors	28,870	15,507
Accruals	194,419	242,011
Other creditors	27,198	102,805
Other tax and social security	23,793	27,808
Corporation tax	76,911	75,758
	<u>351,191</u>	<u>463,889</u>

15. General Reserve

The general reserve includes the current and prior year retained surpluses and deficits.

16. Non-distributable Reserves

The Credit Union has a portfolio of fixed rate mortgage loans in respect of which there exists an interest rate risk in the event of an increase in base rate or other rises in the cost of funding, which cannot be matched by an equivalent rise in interest income from this portfolio.

The Credit Union carried out a stress test to gauge the impact of a rise in the cost of funding and used this calculation to establish a part of the general reserve which is treated as non-distributable, and which reflects the resources set aside to mitigate the interest rate risk in the mortgage loan book.

17. Revenue Commitments

The Credit Union's annual commitments for rental and non-cancellable revenue commitment at 30 September 2019 were as set out below:

	2019	2018
	£	£
Leases which expire:		
within one year	172,310	164,400
between two and five years	472,382	616,500
	<u>644,692</u>	<u>780,900</u>

SCOTWEST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

18. Financial Risk Management

Scotwest Credit Union manages its shares and loans so that it earns income from the margin between interest receivable and interest payable.

The main financial risks arising from Scotwest Credit Union's activities are credit risk, liquidity risk and market risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

Credit risk: Credit risk is the risk that a borrower will default on their contractual obligations relating to repayments to Scotwest Credit Union, resulting in financial loss to the Credit Union. In order to manage this risk the Board approves Scotwest Credit Union's lending policy, and all changes to it. All loan applications are assessed with reference to the lending policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed.

Liquidity risk: Scotwest Credit Union's policy is to maintain sufficient funds in liquid form at all times to ensure that it can meet its liabilities as they fall due. The objective of Scotwest Credit Union's liquidity policy is to smooth the mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected developments that may arise.

Market risk: Market risk is generally comprised of interest rate risk, currency risk and other price risk. Scotwest Credit Union conducts all its transactions in sterling and does not deal in derivatives or commodity markets. Therefore Scotwest Credit Union is not exposed to any form of currency risk or other price risk. Scotwest Credit Union's main interest rate risk arises from differences between the interest rate exposures on the receivables and payables that form an integral part of the Credit Union's operations. Scotwest Credit Union considers rates of interest receivable when deciding on the dividend rate payable on shares. Scotwest Credit Union does not use interest rate options to hedge its own positions.

19 Credit Risk Disclosures

Scotwest Credit Union holds £32,270,091 in bank accounts, deposits and investments. In order to deal with the credit risk of banking institutions, the Credit Union spreads its bank accounts between a number of different UK financial institutions. At the year-end bank funds were held between 5 different Banks and Building Societies. The Credit Union believes the full amount is recoverable and no provision against the bank balance is required.

The Credit Union holds the following security against its loans to members:

Security for loans	2019 £	2018 £
Attached Shares	1,688,825	1,623,983
Property (at time loan was issued)	16,920,985	16,613,985
	<u>18,609,810</u>	<u>18,237,968</u>

SCOTWEST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

19. Credit Risk Disclosures (continued)

The total amount of loans represents the Credit Union's maximum exposure to credit risk from lending to members. The following table provides information on the credit quality of loan repayments. Where loans are not impaired it is expected that the amounts repayable will be received in full. The status 'past due' includes any loan where payments are in arrears. The amount included is the entire loan amount and not just the overdue amount. The amounts relating to individually impaired and written off for internal purposes are loans which the Board have written off but which under FRS 102 can only be provided for and are not derecognised.

	2019 £	2018 £
Loans not impaired		
Not past due	34,865,111	31,085,707
Up to 3 months past due	6,506,725	4,647,568
	<u>41,371,836</u>	<u>35,733,275</u>
Loans which are impaired		
Between 3 months and 6 months due	202,530	299,428
Between 6 months and 1 year past due	230,901	17,675
Over 1 year past due	7,669	-
Individually provided and written off for internal purposes	876,904	735,748
	<u>42,689,840</u>	<u>36,786,126</u>

20. Liquidity risk disclosures

Excluding short-term other payables, as noted in the balance sheet, Scotwest Credit Union's financial liabilities, and the members shares, are repayable on demand.

21. Interest Rate Risk Disclosures

The following table shows the interest received during the year divided by the closing loan balance and the dividend paid during the year divided by the closing share balance:

	2019		2018	
	Amount £	Average Interest Rate £	Amount £	Average Interest Rate £
Financial assets				
Loans to members	<u>42,689,840</u>	<u>7.23%</u>	<u>36,786,126</u>	<u>7.27%</u>
Financial liabilities				
Members shares	<u>65,907,425</u>	<u>0.25%</u>	<u>61,534,087</u>	<u>0.25%</u>

SCOTWEST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

22. Related Parties

All of the directors are members of the Credit Union and one director (*2018 - one*) has taken out a loan on normal business terms. During the year, two close family members of the directors had loans on normal business terms (*2018 - two*). The directors cannot use their positions to their advantage.

Scotwest Lottery is a related party of Scotwest Credit Union as the Credit Union is the ultimate beneficiary.

During the year Scotwest Credit Union received £82,246 (*2018 - £70,462*) from Scotwest Lottery. At the year-end £nil (*2018 - £nil*) is outstanding.

Affordable Lending Limited is a related party of Scotwest Credit Union as the CEO is also a director of this company. Scotwest Credit Union's costs of being a part of Affordable Lending Limited were £82 (*2018 - £5,866*). No balances exist at the year-end (*2018 - £nil*).

23. Contingent Liabilities

Following the outcome of the Judicial Review into FSA Policy Statement PS10/12: 'the assessment and redress of Payment Protection Insurance complaints', Scotwest Credit Union undertook a review of its processes for dealing with PPI. No significant issues were raised in this review and Scotwest Credit Union continues to review complaints in the normal way.

No provision has therefore been made in these accounts in respect of claims in relation to any previous sales of PPI.

SCOTWEST CREDIT UNION

**DETAILED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

		2019		2018
	£	£	£	£
Income				
Interest received				
– members loans		2,793,512		2,490,846
– bank interest received gross		404,797		400,525
Fee income		12,607		10,771
Insurance commission		580		992
Other income		89,225		74,070
Total income		3,300,721		2,977,204
Expenditure				
Governance costs	43,908		20,382	
Staff wages and salaries	1,044,129		1,017,874	
Other staff costs	28,598		32,972	
Property costs	88,908		69,336	
Insurance	272,110		248,273	
Information technology	304,831		328,311	
Communications	84,431		88,762	
Marketing	83,772		51,281	
Finance costs	62,093		38,479	
Regulation	16,351		(31,025)	
Depreciation	33,290		44,339	
Professional fees	9,878		(8,706)	
Audit fee	7,752		11,988	
Management fees	87,818		82,940	
Bad debts and provision movement	573,344		444,330	
Gain on disposal of fixed assets	-		(6,600)	
Sundry expenses	6,448		7,092	
Total expenditure		(2,747,661)		(2,440,028)
Operating surplus		553,060		537,176
Provision for taxation		(77,236)		(73,861)
Dividend		475,824		463,315
		(143,137)		(149,127)
Surplus in the year		332,687		314,188

This page does not form part of the financial statements.