

SCOTWEST CREDIT UNION LIMITED

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 30 SEPTEMBER 2020

FIRM REFERENCE NUMBER: 213616

SCOTWEST CREDIT UNION LIMITED

CREDIT UNION INFORMATION

Directors

Mr D McRiner	Chair
Mr S Wood	Vice Chair
Mrs C Jamieson	
Mrs C McMichael	Secretary
Mr I Turner	
Mr A Ibe	
Mr P McGowan	
Mr J Begg	

Chief Executive Officer

Frances McCann

Registered office

13 Elmbank Street
Glasgow
G2 4PB

Auditor

Johnston Carmichael LLP
7 – 11 Melville Street
Edinburgh
EH3 7PE

Solicitors

Law at Work
Kintyre House
205 West George Street
Glasgow
G2 2LW

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 LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Directors' responsibilities statement	3
Independent auditor's report	4 - 6
Statement of comprehensive income	7
Balance sheet	8
Statement of changes in capital and reserves	9
Statement of cash flows	10
Notes to the financial statements	11 - 22

SCOTWEST CREDIT UNION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2020

The directors present their annual report and financial statements for the year ended 30 September 2020.

Principal activity

The principal activity of the Credit Union continued to be that as defined in the Credit Unions 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 authorities: Argyll & Bute, East Ayrshire, East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire, South Ayrshire, South Lanarkshire and West Dunbartonshire).

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr D McRiner (Chair)
Mr S Wood (Vice Chair)
Mrs C Jamieson
Mrs C McMichael (Secretary)
Mr I Turner
Mr S Frame (resigned on 21 October 2019)
Mr A Ibe
Mr P McGowan
Mr J Begg

Review of business and future developments

The impact of the ongoing pandemic continues to pose the challenge of generating enough income to provide a return on savings whilst retaining sufficient reserves to meet our regulatory obligations. Extremely low interest rates, reduced demand for borrowing and increased levels of savings, are all having an impact on our income generation. However, despite these challenges, the directors are confident that Scotwest remains in a strong position and will continue to provide services to members whilst maintaining our capital position.

The directors' ongoing strategy is to maintain the prudential balance between savings, loans and dividends, providing fair financial products to members, whilst making access to these more convenient through the continued development of our digital services.

Results and dividends

Deposits have risen this year by 18% and, lending has increased by a small margin of 2% following a significant contraction during the months of March to June. This flows through to an 9% annual increase in income from members' loans. Operational expenditure is up 5.5% year on year. The £151k increase in like for like operational costs is primarily down to an increase of £86k in bad debt and provision costs and the £49k increase in insurance costs. The 15% increase in bad debts expense was driven primarily by the economic environment offset partially by the payment holidays introduced by the Financial Conduct Authority in response to the Covid-19 pandemic.

As previously observed, given the current uncertain economic environment and the potential impact of Brexit, we expect bad debts to continue to increase. The above has resulted in a pre-dividend surplus of £588,145 (2019: £475,824) and a post dividend retained surplus of £469,694 (2019: 332,687).

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.

The Credit Union utilises financial instruments, comprising cash, bonds, loans and various other items such as receivables and payables that arise directly from its operations. The main risks arising from the Credit Union's financial instruments relate to credit risk, liquidity risk and market risk. The directors review and agree policies for managing each of these risks, which are described and evaluated in more detail in notes 19 to 22.

SCOTWEST CREDIT UNION LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

Covid-19

The directors acknowledge that the Credit Union is exposed to the Covid-19 risk as a result of the inherent uncertainty around the impact of the pandemic on the UK society and economy. We moved to mainly remote working at the start of lockdown and this continues, with no significant impact to our service delivery. Further, the directors performed a review of its impact on the business in the future by:

- analysing the potential impact on business models and strategies;
- verifying forward-looking assumptions in respect of financial instruments and cash receipts on a prudent basis;
- reviewing forecasts including appropriate sensitivity analysis; and
- reviewing the projected regulatory capital position based on the forecasts and sensitivities.

The directors have considered the impact of Covid-19 and are satisfied that it will not impact the Credit Union's ability to meet its liabilities as they fall due over the next twelve months and it will continue to maintain appropriate capital reserves.

Brexit

There is also the additional challenges that Brexit may bring to all businesses in the coming months. At this stage, the Directors do not believe that Brexit will have a significant impact on the Credit Union.

Auditor

Johnston Carmichael LLP was appointed as auditor to the Credit Union and in accordance with the Co-operative and Community Benefit Societies Act 2014, a resolution proposing that they be re-appointed will be put to the forthcoming Annual General Meeting.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the Credit Union's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Credit Union's auditor is aware of that information.


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D McRiner
Chairperson

Date: 13/11/20


.....
S Wood
Vice Chair

Date: 13/11/20


.....
C McMichael
Secretary

Date: 13/11/20

SCOTWEST CREDIT UNION LIMITED
DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Credit Union 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. Under Credit Union law the directors must not approve financial statements unless they are satisfied that they give a true and fair view of the state of affairs on the Credit Union and of the surplus or deficit of the Credit Union 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 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 enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Credit Unions 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.

SCOTWEST CREDIT UNION LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SCOTWEST CREDIT UNION LIMITED

Opinion

We have audited the financial statements of Scotwest Credit Union Limited (the 'Credit Union') for the year ended 30 September 2020 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in capital and reserves, 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 2020 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 requirements of the Co-operative and Community Benefit Societies Act 2014.

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 other 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 opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to 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.

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.

SCOTWEST CREDIT UNION LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF SCOTWEST CREDIT UNION LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Credit Union and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

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
- 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, 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

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. 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.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

SCOTWEST CREDIT UNION LIMITED
INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF SCOTWEST CREDIT UNION LIMITED

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

This report is made solely to the Credit Union's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Credit Union'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 Credit Union and the Credit Union's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Johnston Carmichael LLP

Johnston Carmichael LLP, Statutory Auditor

13 November 2020
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**7-11 Melville Street
Edinburgh
EH3 7PE**

SCOTWEST CREDIT UNION LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Notes	2020 £	2019 £
Income			
Loan interest received and similar income	3	3,439,440	3,198,309
Interest payable	5	<u>(118,451)</u>	<u>(143,137)</u>
Net interest income		3,320,989	3,055,172
Fees and commissions receivable	3	7,058	13,187
Fees and commission payable		<u>(5,488)</u>	<u>(6,381)</u>
Net fees and commissions receivable		1,570	6,806
Other income	3	113,019	89,225
Administrative expenses		(2,200,085)	(2,134,646)
Depreciation	12	(32,546)	(33,290)
Bad debts and provision movement		<u>(659,810)</u>	<u>(573,344)</u>
Surplus before taxation	4	543,137	409,923
Taxation	7	<u>(73,443)</u>	<u>(77,236)</u>
Total comprehensive income for the year		<u>469,694</u>	<u>332,687</u>

Continued operations

The above results are derived from continuing operations. The notes on pages 11 to 22 form part of these financial statements.

SCOTWEST CREDIT UNION LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 2020

	Notes	2020 £	2019 (Restated) £
Assets			
Cash, cash equivalents and liquid deposits			
Cash on hand	8	175	91
Cash in bank and liquid deposits	8	19,240,114	10,365,449
Investments in corporate bonds	9	25,178,643	22,230,408
		<u>44,418,932</u>	<u>32,595,948</u>
Loans to members	10	43,578,830	42,689,840
Bad debt reserve	11	(1,603,542)	(1,261,170)
Tangible fixed assets	12	436,890	469,436
Other debtors	13	34,527	22,347
		<u>86,865,637</u>	<u>74,516,401</u>
Liabilities			
Members shares	14	77,706,843	65,846,500
Juvenile deposits		64,460	60,925
Other payables	15	313,105	351,191
Provisions for liabilities	25	53,750	-
		<u>78,138,158</u>	<u>66,258,616</u>
General reserves	16	8,557,479	8,087,785
Non-distributable reserves	17	170,000	170,000
		<u>86,865,637</u>	<u>74,516,401</u>

The financial statements were approved by the board of directors and authorised for issue on 13/11/20 and are signed on its behalf by:


D McRiner
Chairperson


S Wood
Vice Chair


C McMichael
Secretary

The notes on pages 11 to 22 form part of these financial statements.

SCOTWEST CREDIT UNION LIMITED

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

AS AT 30 SEPTEMBER 2020

	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:	8,087,785	170,000	8,257,785
	<hr/>	<hr/>	<hr/>
At 1 October 2019	8,087,785	170,000	8,257,785
Surplus for the year	469,694	-	469,694
	<hr/>	<hr/>	<hr/>
At 30 September 2020:	8,557,479	170,000	8,727,479
	<hr/>	<hr/>	<hr/>

SCOTWEST CREDIT UNION LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020	2019 (Restated)
	Notes	£	£
Cash flows from operating activities			
Surplus for the year		469,694	332,687
Adjustments for:			
Depreciation	12	32,546	33,290
Taxation	7	73,443	77,236
Finance costs		118,451	143,137
Interest received		(388,234)	(404,797)
Amortisation related to investments in corporate bonds	9	112,322	305,822
Increase in debtors		(558,798)	(5,551,342)
Increase/(decrease) in creditors		22,992	(108,585)
Corporation tax paid		(77,236)	(76,083)
Net cash used in operating activities		(194,820)	(5,248,635)
Cash flows from investing activities			
Purchase of investments in corporate bonds	9	(23,120,751)	(17,022,363)
Disposals and maturities of investments in corporate bonds	9	20,400,650	18,280,268
Interest received		47,778	78,940
Net cash (used in)/from investing activities		(2,672,323)	1,336,845
Cash flows from financing activities			
Finance costs paid		(118,451)	(143,137)
Net increase in members shares		11,860,343	4,368,072
Net cash from financing activities		11,741,892	4,224,935
Net increase in cash and cash equivalents		8,874,749	313,145
Cash and cash equivalents at beginning of year		10,365,540	10,052,395
Cash and cash equivalents at end of year		19,240,289	10,365,540

The notes on pages 11 to 22 form part of these financial statements.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

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 activity during the year continued to be that as defined in the Credit Unions 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).

The Credit Union is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Co-operative and Community Benefit Societies Act 2014.

The financial statements are prepared in Sterling, which is the Credit Union's functional currency. Monetary amounts in the financial statements are rounded to the nearest £. The principal accounting policies are set out below.

1.2 Going concern

These financial statements have been prepared on a going concern basis.

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 and for at least twelve months from the date of these financial statements. For these reasons, the directors continue to adopt the going concern basis of accounting in preparing the Credit Union's financial statements.

In assessing the Credit Union's ability to continue as a going concern the directors have considered the impact of Covid-19 and Brexit as described in the Directors' Report.

1.3 Income

Loan interest receivable and similar income: Interest on both loans to members and cash and cash equivalents held on deposit with banks and other financial institutions is recognised using the effective interest method, and is calculated and accrued on a daily basis.

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.

1.4 Dividends

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

1.5 Bad and doubtful debts

Specific provisions are made for loans which are recognised to be bad or doubtful. Movements in bad debt provisions during the year are charged to the statement of comprehensive income.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

1 Accounting policies (continued)

1.6 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.

1.7 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 of change in value.

1.8 Investment in corporate bonds

The Credit Union maintains a portfolio of listed corporate bonds which are measured at amortised cost using the effective interest rate method, with maturities ranging from 0 – 60 months. The balance sheet disclosure of corporate bonds has been restated in the prior year, see note 9.

1.9 Tangible fixed assets

Tangible fixed assets are measured at cost, or deemed cost net of depreciation and any impairment losses.

On transition to FRS 102 on 1 October 2014, the Credit Union elected to recognise freehold land and buildings at valuation and took the option to use these revalued amounts at the date of transition as deemed cost.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on a straight line basis as follows:

Freehold land and buildings	2.5% straight line
Fixtures and fittings	5% - 50% straight line
Computers	33.33% straight line
Motor vehicles	33.33% on cost less estimated residual value

1.10 Debtors

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

1.11 Creditors

Short term creditors are measured at the transaction price.

1.12 Impairment of fixed 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 decreased 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.

1.13 Loans to members

Loans are recognised at the principal amount less any specific provisions.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

1 Accounting policies (continued)

1.14 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 the effective interest rate. Loans to members are derecognised when all rights to receive cash flow 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.

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 rate 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 rate 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 cash flows 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.

1.15 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.

1.16 Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met, and the grants will be received.

A grant that specifies performance conditions is recognised in income when the performance conditions are met. Where a grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable. A grant received before the recognition criteria are satisfied is recognised as a liability.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

2 Judgements 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. The key source of accounting estimation is the bad debt provisions on impairment of loans to members.

3 Income and other income

	2020	2019
	£	£
Income:		
Interest received on members loans	3,051,206	2,793,512
Bond income	339,461	351,372
Bank interest received	48,773	53,425
	<u>3,439,440</u>	<u>3,198,309</u>
Other income:		
Fees and commissions receivable	7,058	13,187
Government grants	63,885	-
Distribution from Lottery	46,619	82,246
Other income	2,515	6,979
	<u>3,559,517</u>	<u>3,330,721</u>

The government grants are amounts received in relation to furlough grant claims submitted under the government's Coronavirus Job Retention Scheme.

4 Operating surplus

	2020	2019
	£	£
Operating surplus for the year is stated after charging:		
Depreciation	32,546	33,290
Auditors remuneration		
- Audit of the financial statements	21,500	9,120
- Corporation tax compliance	<u>1,750</u>	<u>444</u>

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5 Dividends

	2020 £	2019 £
Dividends paid on members' shares in the year	118,451	143,137

	2020 %	2019 %
Average dividends paid during the year		
Juvenile member dividend	0.19	0.25
Ordinary member dividend	0.19	0.25
Notice account dividend	0.19	0.26

Proposed dividend

Juvenile member dividend	0.00	0.25
Ordinary member dividend	0.00	0.25
Notice account dividend	0.00	0.26

6 Staff costs

	2020 £	2019 £
Wages and salaries	921,989	901,777
Social security costs	83,085	85,934
Pension costs	58,157	56,418
	1,063,231	1,044,129

Average staff numbers during the year were 39 (2019: 37).

No remuneration was paid to any of the directors during the year (2019: £nil). The key management personnel are the Chief Executive Officer, The IT Manager, the Finance Manager and the Communications and Brand Manager. Remuneration for key management personnel was £210,222 (2019: £208,807).

At the year-end pension contributions outstanding were £5,886 (2019: £5,452).

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

7 Taxation

	2020	2019
	£	£
Taxation charged through the statement of comprehensive income was as follows:		
UK corporation tax	73,764	77,236
Adjustment to prior year	(321)	-
	<u>73,443</u>	<u>77,236</u>

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2019: same as) the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below.

	2020	2019
	£	£
Surplus on ordinary activities before tax	<u>543,137</u>	<u>409,923</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	103,196	77,885
Effects of:		
Revenue exempt from taxation	<u>(29,753)</u>	<u>(649)</u>
	<u>73,443</u>	<u>77,236</u>

8 Cash and cash equivalents

	2020	2019
	£	(Restated) £
Cash in hand	175	91
Current accounts	7,328,299	5,068,019
Deposit accounts	<u>11,911,815</u>	<u>5,297,430</u>
	<u>19,240,289</u>	<u>10,365,540</u>

The Credit Union has ring fenced an amount of £100,000 (2019: £100,000) for fixed rate mortgages as shown in note 17. The £100,000 is included within the balance of cash at bank.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

9 Investments in corporate bonds

	2020	2019
	£	(Restated) £
Balance forward	22,230,408	23,468,278
Additions	23,120,751	17,022,363
Disposals and maturities	(20,400,650)	(18,280,268)
Accrued interest	340,456	325,857
Amortisation	(112,322)	(305,822)
	<u>25,178,643</u>	<u>22,230,408</u>

Investment in corporate bonds have remaining maturities as follows:

Accrued interest	340,456	325,857
Within one year	7,468,980	14,438,957
In more than one year	17,369,207	7,465,594
	<u>25,178,643</u>	<u>22,230,408</u>

All of the above investments are in listed corporate bonds.

In the current year the directors have re-assessed the classification of investments in corporate bonds under FRS 102 (revised 2018). As a result the comparative figures have been restated for consistency, with the effect that investments in corporate bonds previously designated as cash equivalents are now included as investments. At 30 September 2019, this reduced cash and cash equivalents by £21,904,551 and other debtors by £325,857, and increased investments in corporate bonds by £22,230,408.

10 Loans to members

	2020	2019
	£	£
Balance forward	42,689,840	36,786,126
Advanced in year	29,627,296	36,917,762
Repaid in year	(28,654,584)	(30,792,302)
Written off in year	(83,722)	(221,746)
	<u>43,578,830</u>	<u>42,689,840</u>
Loans due within one year	16,253,750	15,349,352
Loans due after more than one year	27,325,080	27,340,488
	<u>43,578,830</u>	<u>42,689,840</u>

SCOTWEST CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020

11 Bad debt reserve

	2020	2019
	£	£
Opening provision	1,261,170	899,572
Charge to statement of comprehensive income	342,372	361,598
	<u>1,603,542</u>	<u>1,261,170</u>

12 Tangible fixed assets

	Freehold land and buildings	Fixtures and fittings	Computers	Motor vehicles	Total
	£	£	£	£	£
Cost or deemed cost					
At 1 October 2019 and 30 September 2020	475,000	257,042	139,113	35,218	906,373
Depreciation and impairment					
At 1 October 2019	47,500	233,534	139,113	16,790	436,937
Charge for the year	11,875	11,911	-	8,760	32,546
As at 30 September 2020	<u>59,375</u>	<u>245,445</u>	<u>139,113</u>	<u>25,550</u>	<u>469,483</u>
Carrying amount					
At 30 September 2020	<u>415,625</u>	<u>11,597</u>	<u>-</u>	<u>9,668</u>	<u>436,890</u>
At 30 September 2019	<u>427,500</u>	<u>23,508</u>	<u>-</u>	<u>18,428</u>	<u>469,436</u>

The freehold land and buildings are held at deemed cost, which is their valuation when the Credit Union transitioned to FRS 102 in 2014.

13 Other debtors

	2020	2019
	£	(Restated) £
Prepayments and accrued income	34,527	22,347
	<u>34,527</u>	<u>22,347</u>

14 Members shares

	2020	2019
	£	£
Balance forward	65,846,500	61,478,428
Received in year	49,640,419	45,618,231
Withdrawn in year	(37,780,076)	(41,250,159)
	<u>77,706,843</u>	<u>65,846,500</u>

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

15 Other payables

	2020	2019
	£	£
Trade creditors	8,234	28,870
Accruals	176,268	194,419
Other creditors	36,870	27,198
Other tax and social security	18,290	23,793
Corporation tax	73,443	76,911
	<u>313,105</u>	<u>351,191</u>

16 General reserve

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

17 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.

18 Lease commitments

The Credit Union's annual commitments for rental and non-cancellable revenue commitment at 30 September 2020 were as set out below:

	2020	2019
	£	£
Leases which expire:		
Within one year	172,405	172,310
Between two and five years	365,701	472,382
	<u>538,106</u>	<u>644,692</u>

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

19 Financial risk management

The 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 the Credit Union's activities are credit risk, liquidity risk and market risk. The directors review and agree 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 the Credit Union, resulting in financial loss to the Credit Union. In order to manage the risk the directors approve the 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: The 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 the 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. The Credit Union conducts all its transactions in Sterling and does not deal in derivatives or commodity markets. Therefore, the Credit Union is not exposed to any form of currency risk or other price risk. The 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. The Credit Union considers rates of interest receivable when deciding on the dividend rate payable on shares. The Credit Union does not use interest rate options to hedge its own positions.

20 Credit risk disclosures

The Credit Union holds £19,240,289 (2019: £10,365,540) 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 6 (2019: 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 also holds bonds of £25,178,643 (2019: 22,230,408), which are listed corporate bonds with composite ratings ranging between AAA and A-.

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

	2020	2019
	£	£
Attached shares	1,517,293	1,688,825
Property (at time loan was issued)	15,776,985	16,920,985
	<u>17,294,278</u>	<u>18,609,810</u>

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 directors have written off but which under FRS 102 can only be provided for and are not derecognised.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 Credit risk disclosures (continued)

	2020	2019
	£	£
Loans not impaired		
Not past due	37,243,851	34,865,111
Up to 3 months past due	4,777,987	6,506,725
	<u>42,021,838</u>	<u>41,371,836</u>
Loans which are impaired	2020	2019
	£	£
Loans which are impaired		
Between 3 months and 6 months due	237,880	202,530
Between 6 months and 1 year past due	106,624	230,901
Over 1 year past due	14,487	7,669
Individually provided and written off for internal purposes	1,198,001	876,904
	<u>43,578,830</u>	<u>42,689,840</u>

21 Liquidity risk disclosures

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

22 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.

	2020	2020	2019	2019
	Amount	Average	Amount	Average
	£	Interest	£	Interest
		Rate		Rate
		%		%
Financial assets				
Loans to members	43,578,830	7.35%	42,689,840	7.23%
Financial liabilities				
Members shares	77,771,303	0.19%	65,907,425	0.25%

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2020

23 Related parties

All of the directors are members of the Credit Union and two directors (2019: one) and one member of key management personnel (2019: Nil) have taken out a loan on normal business terms. During the year two close family members of directors took out loans on normal business terms with the Credit Union (2019: two related parties of directors took out loans). The directors cannot use their positions to their advantage.

The Scotwest Lottery is a related party of the Credit Union as the Credit Union is the ultimate beneficiary. During the year the Credit Union received £46,621 (2019: £82,246) from The Scotwest Lottery. At the year-end £nil was outstanding (2019: £nil).

Affordable Lending Limited is a related party of the Credit Union as the CEO is also a director of this company. The Credit Union's costs of being a part of Affordable Lending Limited were £426 (2019: £82). No balances exist at the year-end (2019: £nil).

Cussco Limited is a related party of the Credit Union as the CEO and two directors of the Credit Union are directors of this company. Cussco Limited provides IT services and total charges to the Credit Union for the year were £210,159 (2019: £247,082). No balances exist at the year-end (2019: £nil).

24 Contingent liabilities

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

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

25 Provisions

	2020	2019
	£	£
Balance forward	-	-
Addition during the year	53,750	-
	<u>53,750</u>	<u>-</u>

The above relates to provisions for ongoing claims, details of which are not disclosed in the financial statements as it would be prejudicial to the ongoing disputes.

26 Analysis of changes in net debt

	1 October 2019	Cashflows	30 September 2020
	£	£	£
Cash in hand	91	84	175
Current accounts	5,068,019	2,260,280	7,328,299
Deposit accounts	5,297,430	6,614,385	11,911,815
	<u>10,365,540</u>	<u>8,874,749</u>	<u>19,240,289</u>
Members' shares	(65,907,425)	(11,863,878)	(77,771,303)
	<u>(55,541,885)</u>	<u>(2,989,129)</u>	<u>(58,531,014)</u>

SCOTWEST CREDIT UNION

DETAILED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	2020	2019
	£	£
Income		
Interest received		
- members loans	3,051,206	2,793,512
- bond income	339,461	351,372
- bank interest received	48,773	53,425
Fee income	6,756	12,607
Insurance commission	302	580
Other income	113,019	89,225
Total Income	3,559,517	3,300,721
Expenditure		
Governance costs	47,188	43,908
Staff wages and salaries	1,063,231	1,044,129
Other staff costs	37,195	28,598
Property costs	28,079	88,908
Insurance	320,857	272,110
Information technology	338,125	304,831
Communications	89,706	84,431
Marketing	58,427	83,772
Finance costs	64,643	62,093
Regulation	(14,841)	16,351
Depreciation	32,546	33,290
Professional fees	52,418	9,878
Audit fee	26,945	7,752
Management fees	81,539	87,818
Bad debts and provision movement	659,810	573,344
Sundry expenses	6,573	6,448
Total expenditure	(2,892,441)	(2,747,661)
Operating profit	667,076	553,060
Interest payable and similar expenses		
Dividend	(118,451)	(143,137)
Fees & commissions payable	(5,488)	-
Surplus before taxation	543,137	409,923
Taxation	(73,443)	(77,236)
Surplus after taxation	469,694	332,687

This page does not form part of the financial statements.