

SCOTWEST CREDIT UNION LIMITED

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 30 SEPTEMBER 2021

FIRM REFERENCE NUMBER: 213616

SCOTWEST CREDIT UNION LIMITED

CREDIT UNION INFORMATION

Directors

Mr D McRiner	Chair
Mrs C McMichael	Vice Chair
Mrs C Jamieson	Secretary
Mr I Turner	
Mr A Ibe	
Mr P McGowan	
Mr J Begg	
Ms J King	
Mr B Douglas	

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

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 - 23

SCOTWEST CREDIT UNION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2021

The directors present their annual report and financial statements for the year ended 30 September 2021.

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)

Mrs C McMichael (Vice Chair)

Mrs C Jamieson (Secretary)

Mr I Turner

Mr S Wood (resigned on 31 January 2021)

Mr A Ibe

Mr P McGowan

Mr J Begg

Ms J King (co-opted on 9 November 2020 and formally appointed on 1 February 2021)

Mr B Douglas (appointed on 1 February 2021)

Review of business and future developments

The impact of the pandemic has carried on throughout this financial year and continued to pose a good deal of uncertainty regarding the two main drivers of the Credit Union's finances – savings and loans.

In the first quarter of the year, the Credit Union experienced a return towards normal for lending, however, following a second lockdown in January 2021, the Credit Union again experienced a drop in demand for loans. As the year progressed and in line with the reduction of restrictions, the Credit Union saw a trend back to the normal levels of lending towards the end of the year. Meanwhile, savings have continued to grow on average about three times higher than the normal rate we would expect.

Looking forward, in the short term we will employ tactics focussing on our capital and regulatory requirements, controlling deposits and lending, as well as costs. Longer term, the plan focusses on our prudential objectives; Social Responsibility Promise; tech roadmap, and social enterprise loan funding projects. At the heart of everything, however, is a commitment to ensuring the Credit Union's continued sustainability, both in financial and ethical terms.

Results and dividends

Deposits have risen this year by 14.5% and lending has increased by 12.3% which has resulted in £3.2m in income from members' loans. This is an increase of approx. 4% on last year. Operational expenditure is up 2% year on year. The increase in year on year operational costs is primarily due to increases in IT, salaries, property and marketing costs and is offset by a 28% reduction in bad debt and provision movement, mostly made up of the release of a provision made last year to mitigate the impact of Covid-19 and subsequent payment breaks for borrowers.

The above has resulted in a pre-dividend surplus of £1,427,441 (2020: £588,145) and a post dividend retained surplus of £1,387,002 (2020: 469,694).

It is important to note that the end of year results have been positively affected by the government grant of £800k which was received during the year from Social Investment Scotland in relation to the Scottish Community Lenders Fund. These funds have been fully included in this year's income with some initial spending also reflected in the year's costs.

SCOTWEST CREDIT UNION LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

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.

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 ongoing impact of the pandemic on the UK society and economy. The Credit Union moved to mainly remote working during each of the lockdowns and has since adopted a more permanent hybrid model of working. Homeworking has had no significant impact to the Credit Union's 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; and
- verifying forward-looking assumptions in respect of financial instruments and cash receipts on a prudent basis.

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 challenge that Brexit may bring that may impact on the Credit Union. The Trade and Cooperation Agreement between EU and UK was signed on 30 December 2020, was applied provisionally from 1 January 2021 and entered into force on 1 May 2021. As at the date of this report, the economic impacts of Brexit and of the Trade and Cooperation Agreement remain uncertain and indications are that some businesses are experiencing issues with supply chains and some sectors have shortages of skilled workers. However, the directors do not believe that Brexit will have a significant impact on the Credit Union due to the nature of the common bond.

Auditor

A resolution to re-appoint Johnston Carmichael LLP as auditor will be put to the directors at the forthcoming Annual General Meeting.

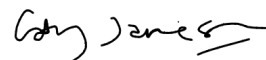
Statement of disclosure to auditor

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.




.....
D McRiner
Chairperson

Date: 23 / 11 / 2021



.....
C Jamieson
Secretary

Date: 23 / 11 / 2021



.....
J Begg
Director

Date: 23 / 11 / 2021

SCOTWEST CREDIT UNION LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2021

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 of 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 2021 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 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 2021 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Credit Union's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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

TO THE MEMBERS OF SCOTWEST CREDIT UNION LIMITED (CONTINUED)

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 on page 3, 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.

Extent to which the audit is considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

We assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations by considering their experience, past performance and support available.

All engagement team members were briefed on relevant identified laws and regulations and potential fraud risks at the planning stage of the audit. Engagement team members were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Credit Union, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The most relevant frameworks we identified include:

- the Prudential Regulation Authority (PRA) Credit Union Rulebook;
- the Financial Conduct Authority (FCA) Credit Union Sourcebook;
- Co-operative and Community Benefit Societies Act 2014;
- Credit Unions Act 1979;
- The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2010;
- UK Generally Accepted Accounting Practice; and
- UK Corporation taxes legislation.

SCOTWEST CREDIT UNION LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SCOTWEST CREDIT UNION LIMITED (CONTINUED)

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

Extent to which the audit is considered capable of detecting irregularities, including fraud (continued)

We gained an understanding of how the Credit Union is complying with these laws and regulations by making enquiries of management. We corroborated these enquiries through our review of submitted returns, relevant correspondence with regulatory bodies, the Credit Union's breaches register and board meeting minutes.

We assessed the susceptibility of the Credit Union's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management oversee the implementation and operation of controls. In areas of the financial statements where the risks were considered to be higher, we performed procedures to address each identified risk.

The following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- Reviewing minutes of meetings of those charged with governance;
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias; and
- Reviewing latest available post year-end management accounts for any unexpected activity that may indicate management override in the Credit Union's financial statements.

Our audit procedures were designed to respond to the risk of material misstatements in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve intentional concealment, forgery, collusion, omission or misrepresentation. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. This description forms part of our auditor's report.

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

23 / 11 / 2021

Johnston Carmichael LLP, Statutory Auditor

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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 2021

	Notes	2021 £	2020 £
Income			
Loan interest received and similar income	3	3,521,969	3,439,440
Interest payable	5	(40,439)	(118,451)
		<hr/>	<hr/>
Net interest income		3,481,530	3,320,989
Fees and commissions receivable	3	21,191	7,058
Fees and commission payable		(8,960)	(5,488)
		<hr/>	<hr/>
Net fees and commissions receivable		12,231	1,570
Other income	3	906,706	113,019
Administrative expenses		(2,441,283)	(2,200,085)
Depreciation		(31,802)	(32,546)
Bad debts and provision movement		(476,659)	(659,810)
		<hr/>	<hr/>
Surplus before taxation	4	1,450,723	543,137
Taxation	7	(63,721)	(73,443)
		<hr/>	<hr/>
Total comprehensive income for the year		<u>1,387,002</u>	<u>469,694</u>

Continued operations

The above results are derived from continuing operations. The notes on pages 11 to 23 form part of these financial statements.

SCOTWEST CREDIT UNION LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 2021

	Notes	2021 £	2020 £
ASSETS			
Cash, cash equivalents and liquid deposits			
Cash on hand	8	103	175
Cash in bank and liquid deposits	8	28,572,658	19,240,114
Investments in corporate bonds	9	23,481,971	25,178,643
		<u>52,054,732</u>	<u>44,418,932</u>
Loans to members	10	48,953,126	43,578,830
Bad debt reserve	11	(1,917,468)	(1,603,542)
Tangible fixed assets	12	405,088	436,890
Other debtors	13	78,913	34,527
		<u>99,574,391</u>	<u>86,865,637</u>
LIABILITIES			
Members shares	14	89,004,235	77,706,843
Juvenile deposits		59,202	64,460
Other payables	15	396,473	313,105
Provisions for liabilities	25	-	53,750
		<u>89,459,910</u>	<u>78,138,158</u>
RESERVES			
General reserves	16	9,844,481	8,557,479
Non-distributable reserves	17	270,000	170,000
		<u>10,114,481</u>	<u>8,727,479</u>
Total liabilities and reserves		<u>99,574,391</u>	<u>86,865,637</u>

The financial statements were approved by the board of directors and authorised for issue on ^{23 / 11 / 2021} and are signed on its behalf by:



.....
D McRiner
Chairperson



.....
C Jamieson
Secretary



.....
J Begg
Director

The notes on pages 11 to 23 form part of these financial statements.

SCOTWEST CREDIT UNION LIMITED

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

AS AT 30 SEPTEMBER 2021

	General Reserve	Non-distributable reserve	Total
	£	£	£
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/>
At 1 October 2020	8,557,479	170,000	8,727,479
Surplus for the year	1,387,002	-	1,387,002
Transfer	(100,000)	100,000	-
	<hr/>	<hr/>	<hr/>
At 30 September 2021:	9,844,481	270,000	10,114,481
	<hr/>	<hr/>	<hr/>

The notes on pages 11 to 23 form part of these financial statements.

SCOTWEST CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Notes	2021 £	2020 £
Cash flows from operating activities			
Surplus for the year		1,387,002	469,694
Adjustments for:			
Depreciation	12	31,802	32,546
Taxation	7	63,721	73,443
Dividends payable	5	40,439	118,451
Interest receivable		(335,272)	(388,234)
Amortisation on bonds	9	250,387	112,322
Impairment on loans to members	10, 11	476,659	606,060
		<u>1,914,738</u>	<u>1,024,282</u>
Changes in operating assets and liabilities:			
Increase in debtors		(219,797)	(12,180)
Increase in creditors		34,339	22,992
New loans to members	10	(36,417,599)	(29,627,296)
Repayment of loans by members	10	30,880,570	28,474,618
Cash inflow from subscribed shares	14	45,517,197	49,640,419
Cash outflow from repayment of shares	14	(34,219,805)	(37,780,076)
Dividends paid		(40,439)	(118,451)
Corporation tax paid		(73,700)	(77,236)
		<u>7,375,504</u>	<u>11,547,072</u>
Net cash inflow from operating activities			
Cash flows from investing activities			
Purchase of investments in corporate bonds	9	(6,673,175)	(23,120,751)
Sale and maturity of investments in corporate bonds	9	8,497,947	20,400,650
Interest received		132,196	47,778
		<u>1,956,968</u>	<u>(2,672,323)</u>
Net cash used in investing activities			
Net increase in cash and cash equivalents		9,332,472	8,874,749
Cash and cash equivalents at beginning of year		<u>19,240,289</u>	<u>10,365,540</u>
Cash and cash equivalents at end of year		<u><u>28,572,761</u></u>	<u><u>19,240,289</u></u>

The notes on pages 11 to 23 form part of these financial statements.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2021

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

The directors prepare a business plan which sets out the Credit Union's strategic and prudential objectives and its forecasted key performance indicators. The plan takes account of the continued economic uncertainty as well as the challenging outlook for the cost of living and sets out in some detail short term tactical options as well as the longer term ongoing strategic development of the Credit Union. The main objective of the directors is for the Credit Union to maintain a healthy balance between savings and loans, whilst meeting its regulatory capital requirements and delivering the strategic objectives. The directors then develop a budget in support of the business plan and interrogate the assumptions made in the budget through stress testing on a worst-case basis scenario. The conclusion of the directors is that, even if the worst-case scenario assumed occurs in relation to the budget, the Credit Union will continue to generate a surplus and meet its capital requirements.

After making appropriate enquiries the directors of the Credit Union have reasonable expectation that the Credit Union will have adequate resources to continue in operational existence 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 on members' shares are paid to members based on the actual deposits held with the Credit Union and are recognised in the financial statements when formally approved at board meetings of the Credit Union.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

1 Accounting policies (continued)

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.

Under FRS 102, the criteria for derecognising (writing-off) a loan is different from when the Credit Union would write off the loan for internal purposes. Under FRS 102, loans can be written off only when the Credit Union doesn't have the legal right to enforce payment. Loans written off by the Credit Union which do not meet the criteria for derecognition under FRS 102 remain part of the gross loans to members balance in these financial statements and are fully provided for in the bad debt provision.

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 held to maturity and are therefore measured at amortised cost using the effective interest rate method, with maturities ranging from 0 – 60 months.

1.9 Tangible fixed assets

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

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).

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

1 Accounting policies (continued)

1.12 Impairment of fixed assets (continued)

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 to members are financial assets with fixed to determinable payments and are not quoted in active markets. Loans are recognised when cash is advanced to members and measured at amortised cost using the effective interest method.

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.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

1 Accounting policies (continued)

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.

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 provision on impairment of loans to members.

The Credit Union reviews its loans to members portfolio regularly to assess impairment. In determining whether an impairment loss should be recorded, the Credit Union is required to exercise a degree of judgement. Impairment provisions are calculated using arrears experience and applying specific percentages on the arrears amounts in accordance with the guidance issued by the PRA and FCA. The Credit Union further looks at credit risk characteristics and expected cashflows and if deemed reasonable will provide further impairment provisions.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

3 Income and other income

	2021 £	2020 £
Income:		
Interest received on members loans	3,186,597	3,051,206
Bond income	260,296	339,461
Bank interest received	75,076	48,773
	<u>3,521,969</u>	<u>3,439,440</u>
Other income:		
Fees and commissions receivable	21,191	7,058
Government grants	800,000	63,885
Distribution from Lottery	86,447	46,619
Other income	20,259	2,515
	<u>927,897</u>	<u>120,077</u>
	<u>4,449,866</u>	<u>3,559,517</u>

The government grant in the current year of £800,000 pertains to an amount received from Social Investment Scotland in relation to the Scottish Community Lenders Fund grant, provided to promote the availability of affordable credit and strengthen the balance sheet of affordable credit providers. The government grant in the prior year of £63,885 pertains to amounts received in relation to furlough grant claims submitted under the government's Coronavirus Job Retention Scheme.

4 Operating surplus

	2021 £	2020 £
Operating surplus for the year is stated after charging:		
Depreciation	31,802	32,546
Auditor's remuneration		
- Audit of the financial statements	22,000	21,500
- Corporation tax compliance	2,000	1,750
	<u>2,000</u>	<u>1,750</u>

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

5 Dividends

	2021 £	2020 £
Dividends paid on members' shares in the year	40,439	118,451

	2021 %	2020 %
Average dividend rate:		
Juvenile member dividend	0.05	0.19
Ordinary member dividend	0.05	0.19
Notice account dividend	0.05	0.19

Proposed dividend

Juvenile member dividend	0.00	0.00
Ordinary member dividend	0.00	0.00
Notice account dividend	0.00	0.00

6 Staff costs

	2021 £	2020 £
Wages and salaries	999,046	921,989
Social security costs	89,485	83,085
Pension costs	56,723	58,157
	1,145,254	1,063,231

Average staff numbers during the year were 40 (2020: 39).

No remuneration was paid to any of the directors during the year (2020: £nil).

The key management personnel are the Chief Executive Officer, the Chief Operating Officer (IT Manager in the prior year), the Finance Manager, the Communications and Brand Manager and the Compliance and Risk Manager. The Compliance and Risk Manager has only been part of the key management personnel in the current year. Remuneration for key management personnel was £281,537 (2020: £210,222).

At the year-end pension contributions outstanding were £nil (2020: £5,886).

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

7 Taxation

	2021 £	2020 £
Taxation charged through the statement of comprehensive income was as follows:		
UK corporation tax	63,721	73,764
Adjustments to prior year	-	(321)
	<u>63,721</u>	<u>73,443</u>

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2020: same as) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below.

	2021 £	2020 £
Surplus on ordinary activities before tax	<u>1,450,723</u>	<u>543,137</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	275,637	103,196
Effects of:		
Revenue exempt from taxation	<u>(211,916)</u>	<u>(29,753)</u>
	<u>63,721</u>	<u>73,443</u>

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020 and this change was substantively enacted on 17 March 2020. In the Spring Budget 2021, the government announced that from 1 April 2023 the corporation tax rate will increase to 25% and this change was substantively enacted on 24 May 2021.

8 Cash and cash equivalents

	2021 £	2020 £
Cash in hand	103	175
Current accounts	8,980,005	7,328,299
Deposit accounts	19,592,653	11,911,816
	<u>28,572,761</u>	<u>19,240,289</u>

The Credit Union has calculated an amount of £270,000 (2020: £170,000) to cover the interest rate risk attached to the Credit Union's fixed interest mortgage portfolio as shown in note 17. The £270,000 (2020: £170,000) 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 2021

9 Investments in corporate bonds

	2021 £	2020 £
Balance forward	25,178,643	22,230,408
Additions	6,673,175	23,120,751
Disposals and maturities	(8,497,947)	(20,400,650)
Accrued interest	378,487	340,456
Amortisation	(250,387)	(112,322)
	<u>23,481,971</u>	<u>25,178,643</u>

Investment in corporate bonds have remaining maturities as follows:

Accrued interest	378,487	340,456
Within one year	13,380,607	7,468,980
In more than one year	9,722,877	17,369,207
	<u>23,481,971</u>	<u>25,178,643</u>

All of the above investments are in listed corporate bonds.

10 Loans to members

	2021 £	2020 £
Balance forward	43,578,830	42,689,840
Advanced in year	36,417,599	29,627,296
Repaid in year	(30,880,570)	(28,474,618)
Written off in year	(162,733)	(263,688)
	<u>48,953,126</u>	<u>43,578,830</u>
Loans due within one year	15,873,240	16,253,750
Loans due after more than one year	33,079,886	27,325,080
	<u>48,953,126</u>	<u>43,578,830</u>

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

11 Bad debt reserve

	2021 £	2020 £
Opening provision	1,603,542	1,261,170
Charge to statement of comprehensive income	313,926	342,372
	<u>1,917,468</u>	<u>1,603,542</u>

12 Tangible fixed assets

	Freehold land and buildings £	Fixtures and fittings £	Computers £	Motor vehicles £	Total £
Cost or deemed cost					
At 1 October 2020 and 30 September 2021	475,000	257,042	139,113	35,218	906,373
Depreciation					
At 1 October 2020	59,375	245,445	139,113	25,550	469,483
Charge for the year	11,875	11,167	-	8,760	31,802
As at 30 September 2021	71,250	256,612	139,113	34,310	501,285
Carrying amount					
At 30 September 2021	403,750	430	-	908	405,088
At 30 September 2020	415,625	11,597	-	9,668	436,890

The freehold land and buildings are held at deemed cost, which is their valuation when the Credit Union transitioned to FRS102 in 2014.

13 Other debtors

	2021 £	2020 £
Prepayments and accrued income	78,913	34,527

14 Members shares

	2021 £	2020 £
Balance forward	77,706,843	65,846,500
Received in year	45,517,197	49,640,419
Withdrawn in year	(34,219,805)	(37,780,076)
	<u>89,004,235</u>	<u>77,706,843</u>

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

15 Other payables

	2021	2020
	£	£
Trade creditors	68,635	8,234
Accruals	199,797	176,268
Other creditors	43,165	36,870
Other tax and social security	21,412	18,290
Corporation tax	63,464	73,443
	<u>396,473</u>	<u>313,105</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 2021 were as set out below:

	2021	2020
	£	£
Leases which expire:		
Within one year	172,405	172,405
Between two and five years	193,295	365,701
	<u>365,700</u>	<u>538,106</u>

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.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

19 Financial risk management (continued)

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. There is also the risk that the Credit Union's surplus cash held as deposits may be lost due to financial institution failure. The Credit Union mitigates this risk by holding deposits in a range of financial institutions and undertaking regular due diligence on the financial stability of these institutions. There is also the risk that the counterparties on the Credit Union's corporate bond investments will default on bond repayments. The Credit Union mitigates this risk by buying and holding corporate bond investments that are within a suitable risk profile monitored by the directors and carefully choosing counterparties making sure these are approved by the directors as acceptable counterparties.

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 and the other price risk associated with the Credit Union's investments in corporate bonds is considered insignificant. 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. A ring-fenced amount is held in reserves to cover the interest rate risk attached to the Credit Union's fixed interest mortgage portfolio.

20 Credit risk disclosures

The Credit Union holds £28,572,658 (2020: £19,240,289) in bank account and deposits. 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 (2020: 6) 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 £23,481,971 (2020: £25,178,643), 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:

	2021	2020
	£	£
Attached shares	1,480,497	1,517,293
Property (at time loan was issued)	17,854,969	15,776,985
	<hr/>	<hr/>
	19,335,466	17,294,278
	<hr/>	<hr/>

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. 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 2021

20 Credit risk disclosures (continued)

	2021	2020
	£	£
Loans not impaired		
Not past due	42,843,537	37,243,851
Up to 3 months past due	4,176,538	4,777,987
	<u>47,020,075</u>	<u>42,021,838</u>
Loans which are impaired		
Between 3 months and 6 months due	205,376	237,880
Between 6 months and 1 year past due	83,338	106,624
Over 1 year past due	21,378	14,487
Individually provided and written off for internal purposes	1,622,959	1,198,001
	<u>1,933,051</u>	<u>1,556,992</u>
	<u>48,953,126</u>	<u>43,578,830</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.

	2021	2021	2020	2020
	Amount	Average interest rate	Amount	Average interest rate
	£	%	£	%
Financial assets				
Loans to members	48,953,126	6.96%	43,578,830	7.35%
Financial liabilities				
Members shares (including juvenile deposits)	89,063,437	0.05%	77,771,303	0.19%

23 Related parties

All of the directors are members of the Credit Union and two directors (2020: two) and one member of key management personnel (2020: one) have taken out a loan on normal business terms. During the year no close family members of directors took out loans on normal business terms with the Credit Union (2020: two close family members of directors took out loans). The directors cannot use their positions to their advantage.

SCOTWEST CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2021

23 Related parties (continued)

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 £86,447 (2020: £46,621) from The Scotwest Lottery. At the year-end £nil was outstanding (2020: £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. Cuscco Limited provides IT services and total charges to the Credit Union for the year were £238,972 (2020: £210,159). No balances exist at the year-end (2020: £nil)

The remuneration of key management personnel is disclosed in note 6.

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

	2021	2020
	£	£
Balance forward	53,750	-
Addition during the year	-	53,750
Utilised during the year	(48,600)	-
Reversed during the year	(5,150)	-
	<u>-</u>	<u>53,750</u>

The amount in the prior year 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. At 30 September 2021 there are no ongoing or expected disputes.

26 Analysis of net debt

	1 October 2020	Cashflows	30 September 2021
	£	£	£
Cash in hand	175	(72)	103
Current accounts	7,328,299	1,651,706	8,980,005
Deposit accounts	11,911,815	7,680,838	19,592,653
	<u>19,240,289</u>	<u>9,332,472</u>	<u>28,572,761</u>
Members' shares (including juvenile deposits)	(77,771,303)	(11,292,134)	(89,063,437)
	<u>(58,531,014)</u>	<u>(1,959,662)</u>	<u>(60,490,676)</u>

SCOTWEST CREDIT UNION

DETAILED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2021

	2021		2020	
	£	£	£	£
Income				
Interest received				
- members loans		3,186,597		3,051,207
- bond income		260,296		339,461
- bank interest received		75,075		48,773
Fee income		21,191		6,755
Insurance commission		-		302
Other income		906,706		113,019
		<hr/>		<hr/>
Total Income		4,449,865		3,559,517
Expenditure				
Governance costs	49,470		47,188	
Staff wages and salaries	1,145,254		1,063,231	
Other staff costs	26,975		37,195	
Property costs	67,955		28,079	
Insurance	318,177		320,857	
Information technology	378,893		338,125	
Communications	58,798		89,706	
Marketing	116,758		58,427	
Finance costs	72,759		64,643	
Regulation	(592)		(14,841)	
Depreciation	31,802		32,546	
Professional fees	23,463		52,418	
Audit fee	30,120		26,945	
Management fees	96,432		81,539	
Bad debts and provision movement	476,659		659,810	
Sundry expenses	56,820		6,573	
		<hr/>		<hr/>
Total expenditure		(2,949,743)		(2,892,441)
Operating profit		1,500,122		667,076
Interest payable and similar expenses				
Dividend		(40,439)		(118,451)
Fees & commissions payable		(8,960)		(5,488)
		<hr/>		<hr/>
Surplus before taxation		1,450,723		543,137
Taxation		(63,721)		(73,443)
		<hr/>		<hr/>
Surplus after taxation		1,387,002		469,694
		<hr/> <hr/>		<hr/> <hr/>

This page does not form part of the financial statements.
