

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020

1 Legal and regulatory framework

The Credit Union is a society established under the Co-operative and Community Benefit Societies Act 2014, whose principal activity is to operate as a credit union, within the meaning of the Credit Unions Act 1979. The Credit Union has registered with the Financial Conduct Authority and is regulated by the Prudential Regulation Authority under the provisions of the Financial Services and Markets Act 2000.

In accordance with the regulatory environment for credit unions, deposits from members can be made by subscription for redeemable shares, deferred shares and interest - bearing shares. At present the Credit Union has only issued redeemable share and deferred shares.

2 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with FRS 102 - the Financial Reporting Standard applicable in the UK and Ireland.

The financial statements are prepared on the historical cost basis.

Going concern

The directors of the Credit Union believe that it is appropriate to prepare the financial statements on the going concern basis. In accordance with PRA Rulebook Guidelines outlined in Section 8.5 (1), the credit union must maintain a minimum Capital-To-Total assets ratio of 3%.

	2020	2019
The relevant ratios are:-	8.04%	9.28%

Income

Loan interest receivable and similar income: Interest on both loans to members and loans to banks (i.e. cash and cash equivalents held on deposit with other financial institutions) is recognised using the effective interest method, and is calculated and accrued on a daily basis. Exempt interest on members loans is not recognised.

Fees and commissions receivable: Fees and charges either arise in connection with a specific transaction, or accrue evenly over the year. Income relating to individual transactions is recognised when the transaction is completed.

Other income: Other income is recognised either evenly over the period to which it relates or when the transaction is complete.

Taxation

The tax charge for the year reflects current tax payable. Current tax is the expected corporation tax payable for the year, using tax rates in force for the year. The Credit Union is not liable to corporation tax payable on its activities of making loans to members, and investing surplus funds, as these are not classified as a trade. However, 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.

Deferred grants and funding / revenue contributions

Deferred grants in respect of capital expenditure are credited to the income and expenditure account over the estimated useful life of the relevant fixed assets. Deferred grants and funding in respect of revenue items are credited to the income and expenditure account over the period to which they relate or to match the relevant expenditure. The grants / funding shown in the balance sheet represent the grants / funding receivable to date less the amount so far credited to the income and expenditure account.

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

2 Accounting policies (cont.)**Tangible fixed assets**

Tangible fixed assets comprises items of property, plant and equipment, which are stated at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is provided to write off the cost of each item of property, plant and equipment, less its estimated residual value, on a straight line basis over its estimated useful life. The categories of property, plant and equipment are depreciated as follows:

Office equipment & furniture	4 years
Computers, software and hardware	3 years
Building alterations	10 years

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and with the Bank of England and loans and advances to banks (i.e. cash deposited with banks) with maturity of less than or equal to three months.

Financial assets – loans and advances to members

Loans to members are financial assets with fixed or determinable payments. Loans are made to members for provident or productive purposes on such security (or without security) and terms as the rules of the Credit Union provide. Loans are recognised when cash is advanced to members and measured at amortised cost using the effective interest method.

Loans are derecognised when the right to receive cash flows from the asset have expired, usually when all amounts outstanding have been repaid by the member.

Impairment of financial assets

The Credit Union assesses, at each balance sheet date, if there is 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.

Financial liabilities – subscribed capital

Members' shareholdings in the Credit Union are redeemable and therefore are classified as financial liabilities, and described as subscribed capital. They are initially recognised at the amount of cash deposited and subsequently measured at amortised cost.

Employee benefits

Defined contribution plans: The amounts charged as expenditure for the defined contribution plan are the contributions payable by the Credit Union for the relevant period.

Other employee benefits: Other short and long term employee benefits, including holiday pay, are recognised as an expense over the period they are earned.

Reserves

Retained earnings are the accumulation of surplus and deficits to date.

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

3 Use of estimates and judgements

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Directors to exercise judgement in applying the Credit Union's accounting policies. The areas requiring a higher degree of judgement, or complexity, and areas where assumptions or estimates are most significant to the financial statements, are disclosed below:

Impairment losses on loans to members

Impaired losses are stated after specifically reviewing all loans in arrears. The criteria used is whether the loan will be repaid within the term of the loan based upon the current regular pattern of repayments.

4 Loan interest receivable and similar income	2020	2019
	£	£
Loan interest receivable from members	153,157	143,452
Bank interest receivable from cash and liquid deposits	6,601	8,445
Total loan interest receivable and similar income	159,758	151,897

5 Interest expense

The adult and corporate members interest expense is paid for the prior year. The interest is agreed by the Board of Directors after the year end. As a result it does not represent a liability at the balance sheet date.

	2020	2019
	£	£
Junior Interest paid during the year	1,810	1,636
Interest rate	2.00%	2.00%
Adult and corporate members interest proposed, but not recognised	0	3,121
Junior Interest	1,112	1,843
Adult and corporate members interest rate	0.00%	0.25%
Junior interest rate	1.00%	2.00%

6 Fees and commissions receivable	2020	2019
	£	£
Entrance fees	1,980	2,434
Member service charges	30,363	31,861
Other fees	8,417	7,619
Total fees and commissions receivable	40,760	41,914

7 Other Income	2020	2019
	£	£
Grants released	43,316	38,521
Restricted funding	0	30,000
Service level agreement income	41,201	38,843
Donations and other income	200	6,336
Furlough reclaim	4,003	0
	88,720	113,700

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

8	Expenses	Note	2020	2019
			£	£
	Administrative expenses	8a	159,650	169,873
	Depreciation and amortisation	11	5,124	3,925
	Other operating expenses	8b	32,006	36,974
			<u>196,780</u>	<u>210,772</u>
8a	Administrative Expenses	Note	2020	2019
			£	£
	Employment costs	9b	116,810	112,819
	Training and Conference		530	495
	Advertising and Publicity		9,167	8,741
	Directors & Volunteers expenses		87	2,056
	Auditors remuneration	8c	6,000	6,000
	Telephone		3,376	4,312
	Computer costs		12,730	20,969
	General expenses		3,054	6,330
	Printing, Postage and Stationery		5,649	5,823
	Loan fees		2,000	2,000
	Other insurances		247	328
	Total Administrative Expenses		<u>159,650</u>	<u>169,873</u>
8b	Other Operating Expenses		2020	2019
	Cost of occupying offices (excluding depreciation)		£	£
	Rents and Rates		5,768	7,481
	Cleaning		82	200
	Repairs and Maintenance		635	239
	Heating and Lighting		2,261	25
			<u>8,746</u>	<u>7,945</u>
	Regulatory and financial management costs			
	Financial Conduct Authority and Prudential Regulation Authority Fees and FSCS fee		296	197
	National Body Dues		3,361	3,427
	Fidelity Insurance		1,272	2,571
	Loan Protection and life savings insurance		8,636	8,553
	Debt recovery fees & credit checks		9,695	14,281
			<u>23,260</u>	<u>29,029</u>
	Total Other operating Expenses		<u>32,006</u>	<u>36,974</u>

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

8c Auditors remuneration

The Credit Union voluntarily presents an analysis of its auditors' remuneration in accordance with Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008.

	2020	2019
	£	£
Fees payable for the audit of the Credit Union's annual accounts	5,910	5,910
Fees payable to the Credit Union's Auditor for other services:		
Services relating to taxation	90	90
Total Auditors remuneration	6,000	6,000

9 Employees and employment costs**9a Number of employees**

The average monthly number of employees during the year were:

	2020	2019
	Number	Number
Office staff	8	8

9b Employment costs

	2020	2019
	£	£
Wages and salaries	111,699	108,010
Social security costs	3,371	3,405
Payments to defined contribution pension schemes	1,740	1,404
Total employment costs	116,810	112,819

9c Directors remuneration

The Directors of the Credit Union are all unpaid volunteers. The key management team for the Credit Union includes the credit union manager and 1 senior staff member.

	2020	2019
	£	£
Short term employee benefits	51,977	51,008
Payments to defined contribution pension schemes	1,067	869
Total key management personnel compensation	53,044	51,877

Short-term employee benefits include wages, salaries, social security contributions and paid annual leave.

10 Taxation**10a Recognised in the Revenue Account**

The taxation charge for the year, based on the small profits rate of Corporation Tax of 19% (2019 19%) comprised:

	Note	2020	2019
		£	£
Current tax			
UK Corporation tax	10b	1,254	1,605
Total current tax and total taxation expense recognised in the Revenue Account		1,254	1,605

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

10b Reconciliation of taxation expense

The Credit Union is not liable to corporation tax payable on its activities of making loans to members, and investing surplus funds, as these are not classified as a trade. However, corporation is payable on investment income. As a result, tax charge for the year differs from the standard rate of corporation tax. The differences are explained below:

	2020	2019
	£	£
Deficit Before Taxation	<u>(2,091)</u>	<u>38,173</u>
Surplus (Deficit) before taxation multiplied by small profits rate of corporation tax in the UK of 19% (2019 19%)	(397)	7,253
Effects of:		
Non-taxable surplus/(deficit) on transactions with members	<u>1,651</u>	<u>(5,648)</u>
Total tax charge for the year	<u>1,254</u>	<u>1,605</u>

11 Tangible Fixed Assets

Tangible Fixed Assets comprise the following property, plant and equipment:

	Office equip & furniture	Building alterations	Computers, software and hardware	Total
Cost	£	£	£	
As at 1 October 2019	4,711	51,681	26,450	82,842
Additions	0	0	5,970	5,970
Disposals	0	0	0	0
As at 30 September 2020	4,711	51,681	32,420	88,812
Depreciation				
As at 1 October 2019	4,711	49,048	24,137	77,896
Charge for the year	0	2,633	2,491	5,124
Charge on disposal	0	0	0	0
As at 30 September 2020	4,711	51,681	26,628	83,020
Net Book Value				
As at 30 September 2020	0	0	5,792	5,792
As at 30 September 2019	0	2,633	2,313	4,946

12 Loans and advances to members**12a Loans and advances to members**

Note	2020	2019
	£	£
As at 1 October 2019	1,134,067	1,012,026
Advanced during the year	687,810	863,416
Interest receivable	153,157	143,452
Repaid during the year	<u>(889,650)</u>	<u>(878,061)</u>
Gross loans and advances to members	1,085,384	1,140,833
Impairment losses:		
Individual financial assets	(8,515)	(6,766)
Groups of financial assets	<u>(397,021)</u>	<u>(321,115)</u>
	(405,536)	(327,881)
As at 30 September 2020	679,848	812,952

12b Memorandum - Total loan assets regulatory purposes

Note	2020	2019
	£	£
Gross loans and advances to members	1,085,384	1,140,833
Impairment of individual financial assets	<u>(8,515)</u>	<u>(6,766)</u>
Total loan assets for regulatory purposes	1,076,869	1,134,067

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

12c Credit risk disclosures

The credit union does not offer mortgages and as a result all loans to members are unsecured, except where there are restrictions on the extent to which borrowers may withdraw their savings whilst loans are outstanding. In addition to this, the following group of loans are secured by loan guarantee funds (total £71,536, 2019: £52,259):

Breckland £4,904 (2019 £6,586), Broadland £50,799 (2019 £37,471), Freebridge £0 (2019 £25), Suffolk Coastal District Council £15,492 (2019 £7,755), Broadland Housing Association £177 (2019 £212) and Victory Housing Association £164 (2019 £210).

The carrying amount of the loans to members represents the credit union's maximum exposure to credit risk. 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.

	2020		2019	
Not impaired:	Amount	Proportion	Amount	Proportion
Neither past due nor impaired	574,301	52.91%	716,406	62.80%
Up to 3 months past due	63,441	5.85%	72,366	6.34%
Between 3 and 6 months past due	0	0.00%	0	0.00%
Between 6 and 9 months past due	0	0.00%	0	0.00%
Between 9 months and 1 year past due	0	0.00%	0	0.00%
Over 1 year past due	0	0.00%	0	0.00%
Sub-total: loans not impaired	637,742	58.76%	788,772	69.14%
Individually impaired:				
Not yet past due, but impaired	0	0.00%	0	0.00%
Up to 3 months past due	0	0.00%	0	0.00%
Between 3 and 6 months past due	44,871	4.13%	19,521	1.71%
Between 6 and 9 months past due	22,590	2.08%	19,728	1.73%
Between 9 months and 1 year past due	13,533	1.25%	15,191	1.33%
Over 1 year past due	366,648	33.78%	297,621	26.09%
Total loans	1,085,384	41.24%	1,140,833	30.86%
Impairment allowance	(405,536)		(327,881)	
Total carrying value	679,848		812,952	

Factors that are considered in determining whether loans are impaired are discussed in note 3.

12d Allowance account for impairment losses	Note	2020	2019
		£	£
As at 1 October 2019		321,115	276,975
Allowance for losses made during the year		90,351	88,056
Allowances reversed during the year		(14,445)	(43,916)
Increase in allowance during the year	12e	75,906	44,140
As at 30 September 2020		397,021	321,115
12e Impairment losses recognised for the year		2020	2019
		£	£
Impairment of individual financial assets		8,515	6,766
Increase in impairment allowances during the year		75,906	44,140
		84,421	50,906
Reversal of impairment where debts recovered		(5,499)	(7,993)
Total impairment losses recognised for the year		78,922	42,913

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

13 Subscribed capital - financial liabilities	2020	2019
	£	£
As at 1 October 2019	1,430,424	1,375,048
Received during the year	10,559,297	10,912,875
Interest paid during the year	1,810	1,636
Repaid during the year	(10,287,838)	(10,859,135)
As at 30 September 2020	<u>1,703,693</u>	<u>1,430,424</u>

Deposits from members made by way of subscription for shares. The balance includes deposits made by juvenile depositors - £118,257 (2019 - £106,906).

14 Other payables	2020	2019
	£	£
UK Corporation tax	1,296	1,646
Creditors and accruals	32,093	36,944
Subordinated loans	4,000	0
Loan Guarantee Funds	113,757	178,140
Rent Deposit Scheme	28,521	28,521
Home Improvement Scheme	33,668	33,668
Grants carried forward: Revenue	7,775	7,430
	<u>221,110</u>	<u>286,349</u>

15 Additional financial instruments disclosures

15a Financial risk management

The Credit Union manages its subscribed capital and loans to members 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 interest rate risk. The board reviews and agrees policies for managing each of these risks, which are summarised below.

Credit risk: Credit risk is the risk that a borrower will default on their contractual obligations relating to repayments to the Credit Union, resulting in financial loss to the Credit Union. In order to manage the risk the Board approves 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 payment has changed. The Credit Union also monitors its banking arrangements closely in light of the current banking situation.

Liquidity risk: The Credit Union's policy is to maintain sufficient funds in liquid form at all times to ensure that it meets 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. Note 2 provides further details about the impact of the maturity mismatch on the going concern status of the Credit Union.

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*.

Interest rate 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 a credit union's operations. The Credit Union considers rates of interest receivable when deciding on the dividend rate payable on subscribed capital. The Credit Union does not use interest rate options to hedge its own positions.

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

15b Interest rate risk disclosures

The following table shows the average interest rates applicable to relevant financial assets and financial liabilities.

	2020		2019	
	Amount	Average Interest Rate	Amount	Average Interest Rate
Financial assets	£	%	£	%
Loans to members	1,085,384	13.76%	1,140,833	13.62%

The interest rates applicable to loans to members are fixed and range from 6% (6.17% APR) to 36% (42.58% APR).

15c Liquidity risk disclosures

Excluding short-term other payables, as noted on the balance sheet, the Credit Union's financial liabilities, the subscribed capital, are repayable on demand.

15d Fair value of financial instruments

The Credit Union does not hold any financial instruments at fair value.

16 Cash and cash equivalents

	2020	2019
	£	£
Loans and advances to banks	1,381,615	1,045,878
Less: amounts maturing after three months	0	0
Total cash and cash equivalents	1,381,615	1,045,878

17 Post balance sheet events

There are no material events after the balance sheet date to disclose.

18 Contingent liabilities

The Credit Union participates in the Financial Services Compensation Scheme (FSCS) and therefore has a contingent liability, which cannot be quantified, in respect of contributions to the FSCS, as required by the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) has provided details of how the calculation of next year's contribution towards the FSCS will be calculated and full provision has been included for this liability. However this is subject to future changes in interest rates and levels of deposits held by UK deposit takers. Therefore there is inherent uncertainty regarding the totality of the levy that the Credit Union will have to pay.

19 Related Party Transactions

During the year, 25 members of the board, staff, volunteers, their close family members and connected corporate members held shares with the credit union (2019 - 27 members). No members from the board, staff, volunteers or their close family members, had loans with the Credit Union (2019 0 member). A director of the credit union, is also a director of Rainbow Saver Anglia Credit Union Ltd and has significant influence over both entities. Rainbow Saver Anglia Credit Union Ltd has a corporate share account with the credit union, the balance at 30 September 2020 is £969 (2019 £969).

20 Subordinated Loan

The credit union has two subordinated debts totalling £65,000 to strengthen the credit unions regulatory capital. The debt of £45,000 has a maturity date of 31.03.2025 whilst the second debt of £20,000 matures on 31.07.2024. These are presented in accordance with the PRA rulebook, rule 8.2 (5). The loans are written down from capital by 20% over the final four years to maturity, the impact on regulatory capital is set out below:

		2020	2019
		£	£
Regulatory capital is made up of:	Retained earnings	107,336	110,681
	Subordinated loan	61,000	65,000
	CAPITAL	A 168,336	175,681
This is divided by:		B 2,093,139	1,892,454
CAPITAL TO TOTAL ASSETS RATIO (A / B x 100):		8.04%	9.28%

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2020 (continued)

21 Lloyds Banking Group Credit Union Development Fund

In 2014, the credit union was awarded £70,000 from the Lloyds Banking Foundation to support its reserves. In 2018, these restricted funds were transferred into the credit union reserves.

In December 2018, the credit union received a further £30,000 from the Lloyds Banking Group Credit Union Development Fund. The restricted funding was awarded to add to the credit unions reserves, this was included in the Revenue account under Other Income and transferred to the Lloyds Development Reserve in full in 2018/19.

22 Operating Lease Agreements

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2020	2019
	£	£
Within one year	7,000	7,000
Within two and five years	21,000	28,000
More than five years	0	0
	<u>28,000</u>	<u>35,000</u>

23 Financial Commitments

The credit union's only financial commitments are the operating lease payments.

	2020	2019
	£	£
Contracted but not provided for in the financial statements	<u>28,000</u>	<u>35,000</u>

24 Non-audit services

In common with many other Credit Unions of our size and nature we use our auditors to prepare and submit returns to the tax authorities and assist us with the preparation of the financial statements.