

Directors' Report and
Financial Statements for the Year Ended 30 September 2021
for
1ST CLASS CREDIT UNION LIMITED

1ST CLASS CREDIT UNION LIMITED

Contents of the Financial Statements
for the Year Ended 30 September 2021

	Page
Credit Union Information	1
Directors' Report	2
Report of the Independent Auditors	4
Revenue Account	7
Balance Sheet	8
Statement of Changes in Reserves	9
Cash Flow Statement	10
Notes to the Cash Flow Statement	11
Notes to the Financial Statements	12
Detailed Revenue Account	20

1ST CLASS CREDIT UNION LIMITED

Credit union Information
for the Year Ended 30 September 2021

DIRECTORS:

J Coventry
S McLarty
G McClure
G Green
B Devenport
J McNicholls
T Higgins
P Edwards
P Kelly
P Selby

SECRETARY:

S McLarty

REGISTERED OFFICE:

105 Bell Street
Glasgow
G4 0TQ

REGISTERED NUMBER:

213700

AUDITORS:

Sharles Audit Limited
Statutory Auditor
29 Brandon Street
Hamilton
ML3 6DA

1ST CLASS CREDIT UNION LIMITED

Directors' Report for the Year Ended 30 September 2021

The directors present their report with the financial statements of the Credit Union for the year ended 30 September 2021.

PRINCIPAL ACTIVITY

The principal activity of the credit union in the year under review was that of a credit union.

REVIEW OF BUSINESS

The directors are satisfied with the results for the year under review. Some financial KPI's are set out in the table below to show the performance of the Credit Union over the trading year.

	Year to 30 September 2021	Year to 30 September 2020
Loan interest receivable	£1,184,335	£1,234,915
Surplus after taxation	£432,678	£223,000
Capital Asset Ratio	11.10%	11.80%
Liquidity	45%	37%

Reserves amount to £2,328,077 (2020 - £2,157,659). The directors are confident that the Credit Union has sufficient reserves to finance the anticipated levels of activity in the future.

DIVIDENDS

At the AGM the Credit Union is expected to propose a dividend on members shares of 1.50% on balances up to £1,500 and 0.50% on all further balances.

If agreed, this would result in a total dividend being paid of approximately £171,283 In accordance with general accounting practice, this has not been adjusted in the accounts.

FUTURE DEVELOPMENTS

The directors have considered the impact that the Covid-19 pandemic could have on the ongoing activities of the Credit Union.

This includes the potential impact of reduced levels of income for a period of time, the effect of a short-term shut-down and the availability of government assistance to businesses during this difficult period. The directors expect the Credit Union to experience a reduction in surpluses while the impact of the virus persists but with the cumulative reserves and the availability of government assistance they are confident that the Credit Union can continue operating as a going concern.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 October 2020 to the date of this report.

J Coventry
S McLarty
G McClure
G Green
B Devenport
J McNicholls
T Higgins
P Edwards
P Kelly
P Selby

1ST CLASS CREDIT UNION LIMITED

Directors' Report
for the Year Ended 30 September 2021

COMPLIANCE STATEMENT

The Credit Union is required to maintain and test a single customer view (SCV) file for submission to the FSCS in the event that the Credit Union is wound up. The directors confirm that SCV records have been tested and comply with regulatory authority depositor protection rules

The directors also confirm the following as required by Section 10.1 of the PRA Credit Union Rulebook:

- the Credit Union carried out lending activity within the PRA Credit union rulebook and we can confirm that we meet the requirements for carrying out this activity.
- the Credit Union had sufficient fidelity bond insurance throughout the year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors and committee of management are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Credit Union at the end of the financial year, and of the income and expenditure of the Credit Union for that year.

In preparing these financial statements they are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; state whether accounting standards have been followed, and give details of any departures; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Credit Union will continue in business.

They are also responsible for:

- ensuring that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Credit Union Act 1979; keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the credit union; and
- comply with the rules set out within the Prudential Regulatory Authority Credit Union Rulebook; safeguarding the Credit Union's assets; and maintaining a satisfactory system of control over the accounting records and transactions;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information of which the Credit Union's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the credit union's auditors are aware of that information.

AUDITORS

The auditors, Sharles Audit Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

Stephen McLarty
Stephen McLarty (Jan 6, 2022 15:05 GMT)
.....
S McLarty - Secretary

Date: Jan 6, 2022
.....

Report of the Independent Auditors to the Members of
1st Class Credit Union Limited

Opinion

We have audited the financial statements of 1st Class Credit Union Limited (the 'Credit Union') for the year ended 30 September 2021 which comprise the Revenue Account, Balance Sheet, Cashflow Statement, Statement of Changes in Retained Earnings and Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Credit Union Act 1979 and the Co-operative and Community Benefits Society 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 Auditors' 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 Boards' 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 twelve months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information in the Directors' report, other than the financial statements and our Report of the Auditors thereon. The Board is responsible for the other information.

Our opinion on the financial statements does not cover the other information and 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefits Society Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of controls over transactions has not been maintained; or
- the credit union has not kept proper accounting records; or
- the rules set out within the Prudential Regulatory Authority Credit Union Rulebook have not been complied with; 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.

Report of the Independent Auditors to the Members of
1st Class Credit Union Limited

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages two and three, the Board is 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 Board determines 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 Board is 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 Board either intend to liquidate the Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditors 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 a Report of the Auditors 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.

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 extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

The aims of our audit are to identify and assess the risks of material misstatement of the financial statements as a result of fraud or error, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement as a result of fraud or error and to respond appropriately to those risks. As a result of the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures include the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Credit Union and the sector in which it operates. We determined that the following laws and regulations were most significant: the Co-operative and Community Benefits Society Act 2014 and the Prudential Regulatory Authority Credit Union Rulebook
- We obtained an understanding of how the Credit Union complies with those legal and regulatory frameworks by making inquiries of management. We undertook a review of legal fees for any evidence of non-compliance.
- We assessed the susceptibility of the Credit Union's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the audit team included:
 - identifying and documenting the controls management has in place to prevent and detect fraud and error;
 - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - challenging assumptions and judgements made by management in its significant accounting estimates;
 - identifying and testing journal entries, in particular any journal entries posted for large or unusual amounts;
 - assessing the extent of compliance with relevant laws and regulations; and
 - sample testing of transactions and balances.

Report of the Independent Auditors to the Members of
1st Class Credit Union Limited

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

Use of our report

This report is made solely to the Credit Union's members, as a body, in accordance with Co-operative and Community Benefits Society 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 a Report of the Auditors 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.

Sharles Audit Ltd
Sharles Audit Ltd (Jan 6, 2022 15:48 GMT)

Sharles Audit Limited
Statutory Auditor
29 Brandon Street
Hamilton
ML3 6DA

Date: Jan 6, 2022
Date:

1ST CLASS CREDIT UNION LIMITED

Revenue Account
for the Year Ended 30 September 2021

	Notes	2021 £	2020 £
LOAN INTEREST RECEIVABLE		1,184,335	1,234,915
Administrative expenses		<u>804,739</u>	<u>1,049,598</u>
		379,596	185,317
Other operating income		<u>37,756</u>	<u>34,358</u>
OPERATING SURPLUS	5	417,352	219,675
Interest receivable and similar income		<u>19,367</u>	<u>9,700</u>
SURPLUS BEFORE TAXATION		436,719	229,375
Tax on surplus	6	<u>4,041</u>	<u>6,375</u>
SURPLUS FOR THE FINANCIAL YEAR		432,678	223,000
OTHER COMPREHENSIVE INCOME			
Dividends paid		(122,531)	(183,092)
Subordinated loan		<u>(140,000)</u>	<u>140,000</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		<u>(262,531)</u>	<u>(43,092)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>170,147</u></u>	<u><u>179,908</u></u>

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED (REGISTERED NUMBER: 213700)

Balance Sheet
30 September 2021

	Notes	2021	2020
		£	£
FIXED ASSETS			
Tangible assets	7	210,915	215,534
CURRENT ASSETS			
Members loans and other assets	8	12,077,169	12,597,540
Investments	9	1,974,250	1,976,150
Cash at bank	10	8,632,998	5,467,663
		22,684,417	20,041,353
CREDITORS			
Members shares and other liabilities	11	20,300,588	18,098,957
NET CURRENT ASSETS		<u>2,383,829</u>	<u>1,942,396</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,594,744	2,157,930
ACCRUALS AND DEFERRED INCOME 13		<u>266,667</u>	-
NET ASSETS		<u><u>2,328,077</u></u>	<u><u>2,157,930</u></u>
RESERVES			
Sub Ordinated Loan	14	-	140,000
Revenue reserve	14	391,068	391,068
Distribution reserve	14	171,283	123,000
Credit Union Foundation Reserve	14	100,000	100,000
Retained earnings	14	1,665,726	1,403,862
		<u><u>2,328,077</u></u>	<u><u>2,157,930</u></u>

The financial statements were approved by the Board of Directors and authorised for issue on Jan 6, 2022..... and were signed on its behalf by:


James Coventry (Dec 23, 2021 15:17 GMT)
.....
J Coventry - Director


Stephen McLarty (Jan 6, 2022 15:05 GMT)
.....
S McLarty - Director


Bruce Devenport (Dec 20, 2021 21:22 GMT)
.....
B Devenport - Director

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED

Statement of Changes in Reserves
for the Year Ended 30 September 2021

	Retained earnings £	Sub Ordinated Loan £	Revenue reserve £
Balance at 1 October 2019	1,400,401	-	291,068
Changes in reserves			
Total comprehensive income	3,461	140,000	100,000
Balance at 30 September 2020	1,403,862	140,000	391,068
Changes in equity			
Total comprehensive income	261,864	(140,000)	-
Balance at 30 September 2021	1,665,726	-	391,068
		Credit Union	
	Distribution reserve £	Foundation Reserve £	Total reserves £
Balance at 1 October 2019	186,553	-	1,878,022
Changes in reserves			
Total comprehensive income	(63,553)	100,000	279,908
Balance at 30 September 2020	123,000	100,000	2,157,930
Changes in reserve			
Total comprehensive income	48,283	-	170,147
Balance at 30 September 2021	171,283	100,000	2,328,077

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED

Cash Flow Statement
for the Year Ended 30 September 2021

	Notes	2021 £	2020 £
Cash flows from operating activities			
Cash generated from operations	1	1,225,577	(1,269,455)
Tax paid		<u>(6,375)</u>	<u>(6,946)</u>
Net cash from operating activities		<u>1,219,202</u>	<u>(1,276,401)</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		(6,428)	-
Interest received		<u>19,367</u>	<u>9,700</u>
Net cash from investing activities		<u>12,939</u>	<u>9,700</u>
Cash flows from financing activities			
Amount introduced by members		17,931,403	16,926,285
Amount withdrawn by members		(15,735,678)	(14,715,237)
Dividends paid		(122,531)	(183,092)
Subordinated loan & CU Foundation Grant		<u>(140,000)</u>	<u>240,000</u>
Net cash from financing activities		<u>1,933,194</u>	<u>2,267,956</u>
		<hr/>	<hr/>
Increase in cash and cash equivalents		3,165,335	1,001,255
Cash and cash equivalents at beginning of year	2	5,467,663	4,466,408
		<hr/>	<hr/>
Cash and cash equivalents at end of year	2	<u>8,632,998</u>	<u>5,467,663</u>

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED

Notes to the Cash Flow Statement
for the Year Ended 30 September 2021

1. **RECONCILIATION OF SURPLUS BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

	2021	2020
	£	£
Surplus before taxation	436,719	229,375
Depreciation charges	11,047	11,152
Impairment losses	(114,949)	206,501
Current asset investment	1,900	(1,976,150)
Finance income	<u>(19,367)</u>	<u>(9,700)</u>
	315,350	(1,538,822)
Decrease in members loans and other assets	635,320	268,489
Increase in members shares and other liabilities	<u>274,907</u>	<u>878</u>
Cash generated from operations	<u>1,225,577</u>	<u>(1,269,455)</u>

2. **CASH AND CASH EQUIVALENTS**

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 30 September 2021

	30.9.21	1.10.20
	£	£
Cash and cash equivalents	<u>8,632,998</u>	<u>5,467,663</u>

Year ended 30 September 2020

	30.9.20	1.10.19
	£	£
Cash and cash equivalents	<u>5,467,663</u>	<u>4,466,408</u>

3. **ANALYSIS OF CHANGES IN NET FUNDS**

	At 1.10.20	Cash flow	At 30.9.21
	£	£	£
Net cash			
Cash at bank	<u>5,467,663</u>	<u>3,165,335</u>	<u>8,632,998</u>
	<u>5,467,663</u>	<u>3,165,335</u>	<u>8,632,998</u>
Liquid resources			
Current asset investments	<u>1,976,150</u>	<u>(1,900)</u>	<u>1,974,250</u>
	<u>1,976,150</u>	<u>(1,900)</u>	<u>1,974,250</u>
Total	<u>7,443,813</u>	<u>3,163,435</u>	<u>10,607,248</u>

The notes form part of these financial statements

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements for the Year Ended 30 September 2021

1. **STATUTORY INFORMATION**

The Credit Union is registered under the Co-operative and Community Benefit Societies Act 2014 and operates as a Credit Union within the meaning of the Credit Union Act 1979. The Credit Union has registered with the Financial Conduct Authority and Prudential Regulatory Authority under the provisions of the Financial Services and Markets Act 2000.

The presentational currency of the financial statements is the Pound Sterling (£).

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 redeemable shares.

2. **STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Any departures from the standard are detailed in the accounting policies.

3. **ACCOUNTING POLICIES**

Basis of preparing the financial statements

The financial statements have been prepared, in accordance with the Co-operative and Community Benefit Societies Act 2014, Credit Unions Act 1979 and prepared on the historical cost basis.

Going concern

The financial statements are prepared on the going concern basis. The directors of the Credit Union believe this is appropriate despite a mismatch in the maturity analysis of subscribed capital and loans to members.

In the opinion of the directors this is due to a significant amount of subscribed capital not being redeemable at short notice unless loans with the same member have been repaid.

As explained in the directors report the Credit Union's ongoing activity is facing an impact from the Covid-19 pandemic. At this stage it is not possible to say how significant this impact will be or for how long it will be experienced. As a result of the potential fall in income the directors have taken steps to reduce costs in the short term and intend to make full use of any government assistance that is available as and when required so that the Credit Union can continue as a going concern.

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 at fair value using the effective interest rate method, and is calculated and accrued on a daily basis.

Where the loan interest rate for members loans has been reduced to zero, the credit union does not account for any loan interest on these loans, as the credit union will not seek to recover this loan interest. This policy does not meet with the requirements of FRS102. However, as a result of this policy, there is no net effect on the surplus or deficit for the year nor net assets of the credit union as an equal and opposite impairment provision would be required should this loan interest be included.

Other operating income: fees, charges and other operating income 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.

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued
for the Year Ended 30 September 2021

3. **ACCOUNTING POLICIES - continued**

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Freehold property	- 2% & 10% straight line
Fixtures and fittings	- Straight line over 10 years
Computer equipment	- 25% on straight line

Tangible fixed assets 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.

Land value within freehold property is not depreciated.

Freehold Property improvements and refurbishment cost is not depreciated until the work is completed.

At each balance sheet date, the directors of the credit union review the carrying amounts of its tangible fixed assets to determine whether there is any indication that any item has suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of the asset, the credit union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Expenditure of £500 or more on individual tangible fixed assets is capitalised at cost. Expenditure on assets below this threshold is charged directly to the revenue account in the period it is incurred.

Government grants

The accounting treatment of grants received are determined by the grant conditions and the reasons why the grant was applied for to determine whether they are treated as capital or revenue in nature.

Grants of a capital nature are reflected as deferred income in the balance sheet and released to the Revenue account over the estimated useful life of the assets to which they relate. Grants which are considered to be revenue are credited to the Revenue account in the period to which they relate.

The accounting treatment of grants with no conditions attached are reviewed by the directors to determine if the financial statements would be misleading, and therefore not provide a true and fair view, by releasing the grant received directly to Revenue and whether it would be more appropriate to treat the grant as capital in nature. Where this happens, the treatment of the grant does not meet the requirements of FRS102. The effect that this departure from FRS102 had in the current financial year was to reduce the net surplus for the year by £266,667 and the net assets of the credit union at 30 September 2021 by £266,667.

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 any surplus would be chargeable to corporation tax, it is unlikely that deferred tax will arise.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

3. **ACCOUNTING POLICIES - continued**

Impairment losses and provision

Impairment losses on loans to members are provided in accordance with the guidelines issued by the Prudential Regulatory Authority. 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.

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.

Impaired loans written off and recovered

In accordance with FRS102, the policy of the Credit Union and the requirements of the standard for impaired losses written off differ. The credit union writes off impaired loans when all methods of the recovery have been exhausted. Therefore, the impaired losses written off in the financial statements do not meet the requirements of FRS102. As a result of the above there is no net effect on the surplus or net assets of the Credit Union.

Current asset investments

Investments held as current assets are valued at fair value. Any gain or loss on revaluation is recognised in the Revenue account.

Financial Assets - Members loans

Loans to members are financial assets with fixed or determinable payments and are not quoted in an active market. 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 flow from the asset have expired, usually when all the amounts outstanding have been repaid by the member. The credit union does not transfer loans to third parties.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand along with bank and building society deposits. The credit union has access to these funds and they are readily convertible to cash.

Deferred Costs

Costs relating to software development are deferred until the development has been completed and the software is in use by the credit union.

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 as 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 under review.

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 accumulated surpluses to date that have not been declared as dividends returnable to members.

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 existing accounting policies. The area requiring the highest degree of judgement or complexity and the area where significant assumptions required is impairment losses on loans to members. The directors regularly conduct impairment reviews by analysing arrears reports, credit control data and the reports from debt collecting companies.

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued
for the Year Ended 30 September 2021

3. **ACCOUNTING POLICIES - continued**

Dividend

The dividend is formally proposed by the directors after the year end and is confirmed at the following AGM. As a result, it does not represent a liability at the balance sheet date.

Juvenile depositors

The amount received by the Credit Union for juvenile depositors are held in trust for those depositors.

4. **SENIOR MANAGEMENT**

The average number of employees during the year was 12 (2020 - 12).

Salaries of £140,614 were paid to senior management (for four positions) during the year (2020 - £146,203 for four positions).

Expenses totalling £21,949 were paid to the directors (2020 - £20,669).

5. **OPERATING SURPLUS**

The operating surplus is stated after charging:

	2021	2020
	£	£
Hire of plant and machinery	1,775	1,786
Depreciation - owned assets	11,047	11,152
Auditors' remuneration	<u>5,700</u>	<u>5,620</u>

6. **TAXATION**

Analysis of the tax charge

The payable on the surplus for the year was as follows:

	2021	2020
	£	£
Current tax:		
UK corporation tax	<u>4,041</u>	<u>6,375</u>
Tax on surplus	<u>4,041</u>	<u>6,375</u>

Tax effects relating to effects of other comprehensive income

	Gross	2021	Net
	£	Tax	£
		£	
Dividends paid	(122,531)	-	(122,531)
Subordinated loan	<u>(140,000)</u>	-	<u>(140,000)</u>
	<u>(262,531)</u>	-	<u>(262,531)</u>

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued
for the Year Ended 30 September 2021

6. **TAXATION - continued**

	Gross £	2020 Tax £	Net £
Dividends paid	(183,092)	-	(183,092)
Subordinated loan	140,000	-	140,000
Credit Union Foundation Grant	<u>100,000</u>	-	<u>100,000</u>
	<u>56,908</u>	-	<u>56,908</u>

7. **TANGIBLE FIXED ASSETS**

	Freehold property £	Fixtures and fittings £	Computer equipment £	Totals £
COST				
At 1 October 2020	233,209	73,516	71,931	378,656
Additions	<u>-</u>	<u>-</u>	<u>6,428</u>	<u>6,428</u>
At 30 September 2021	<u>233,209</u>	<u>73,516</u>	<u>78,359</u>	<u>385,084</u>
DEPRECIATION				
At 1 October 2020	28,820	62,371	71,931	163,122
Charge for year	<u>7,919</u>	<u>1,521</u>	<u>1,607</u>	<u>11,047</u>
At 30 September 2021	<u>36,739</u>	<u>63,892</u>	<u>73,538</u>	<u>174,169</u>
NET BOOK VALUE				
At 30 September 2021	<u>196,470</u>	<u>9,624</u>	<u>4,821</u>	<u>210,915</u>
At 30 September 2020	<u>204,389</u>	<u>11,145</u>	<u>-</u>	<u>215,534</u>

Included in cost of land and buildings is freehold land of £36,672 (2020 - £36,672) which is not depreciated.

8. **MEMBERS LOANS AND OTHER ASSETS**

	2021 £	2020 £
Unsecured members loans	12,870,369	13,519,592
General impairment provision	(72,790)	(116,240)
Specific impairment provision	(891,391)	(962,890)
Prepayments	<u>170,981</u>	<u>157,078</u>
	<u>12,077,169</u>	<u>12,597,540</u>

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued
for the Year Ended 30 September 2021

8. **MEMBERS LOANS AND OTHER ASSETS - continued**

Loans to members

	2021	2020
	£	£
As at 30 September 2020	13,591,592	13,850,661
Advanced during the year	6,302,658	7,238,000
Interest on members loans	1,184,335	1,235,515
Repaid during the year	(7,989,105)	(8,578,269)
Impaired loans written off	<u>(219,111)</u>	<u>(154,315)</u>
As at 30 September 2021	<u><u>12,870,369</u></u>	<u><u>13,591,592</u></u>

Impaired losses on member's loans - Changes in the year

	General	Specific	Total
	£	£	£
As at 30 September 2020	116,240	962,890	1,079,130
(Decrease)/Increase in impairment losses	<u>(43,450)</u>	<u>(71,499)</u>	<u>(114,949)</u>
As at 30 September 2021	<u><u>72,790</u></u>	<u><u>891,391</u></u>	<u><u>964,181</u></u>

Credit risk disclosures

The credit union does not offer mortgages and as a result all loans to members are unsecured, except that there are restrictions on the extent to which borrowers may withdraw their savings whilst loans are outstanding. Subject to the credit union's own maximum loan policy, the credit union's maximum loan limit is approximately £20,000. This complies with the credit union's internal policy and by the Prudential Regulatory Authority.

9. **CURRENT ASSET INVESTMENTS**

	2021	2020
	£	£
Securities	<u><u>1,974,250</u></u>	<u><u>1,976,150</u></u>

10. **CASH AT BANK**

	2021	2020
	£	£
Cash and bank balances	<u><u>8,632,998</u></u>	<u><u>5,467,663</u></u>

11. **MEMBERS SHARES AND OTHER CREDITORS**

	2021	2020
	£	£
Corporation tax	4,040	6,374
Juvenile deposits	83,064	73,491
Members shares	20,192,487	17,996,762
Accrued expenses	<u>20,997</u>	<u>22,330</u>
	<u><u>20,300,588</u></u>	<u><u>18,098,957</u></u>

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued
for the Year Ended 30 September 2021

12. **FINANCIAL INSTRUMENTS**

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 this risk the board approves the credit union 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. Note 3 provides further details about the impact of the maturity mismatch on the going concern status of the credit union. Excluding short term other payables, as noted in the balance sheet, the credit union's financial liabilities, the subscribed capital, are repayable on demand.

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 the 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 subscribed capital. The credit union does not use interest rate options to hedge its own positions. The interest rate risk is regularly monitored by the board with interest rates on members loans and interest receivable on bank deposits being regularly reviewed to ensure risk exposure is minimised.

Interest rate risk disclosures

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

	2021		2020	
	Amount £	Average Int %	Amount £	Average Int %
Financial Assets				
Loans to members	<u>12,870,369</u>	<u>9.13</u>	<u>13,519,592</u>	<u>9.13</u>
Financial liabilities				
Subscribed capital				
Share account 1	19,896,784		17,693,803	
Share account 3	199,527		191,807	
Share account 4	6,488		5,236	
Share account 7	89,688		105,917	
	<u>20,192,487</u>		<u>17,996,762</u>	

Fair value of financial instruments

The credit union does not hold any financial instruments at fair value.

1ST CLASS CREDIT UNION LIMITED

Notes to the Financial Statements - continued
for the Year Ended 30 September 2021

13. **ACCRUALS AND DEFERRED INCOME**

	2021 £	2020 £
Deferred government grants	<u>266,667</u>	<u>-</u>

14. **RESERVES**

	Retained earnings £	Sub Ordinated Loan £	Revenue reserve £
At 1 October 2020	1,403,862	140,000	391,068
Surplus for the year	432,678		
Application	(170,814)	-	-
Transfer	<u>-</u>	<u>(140,000)</u>	<u>-</u>
At 30 September 2021	<u>1,665,726</u>	<u>-</u>	<u>391,068</u>
	Distribution reserve £	Credit Union Foundation Reserve £	Totals £
At 1 October 2020	123,000	100,000	2,157,930
Surplus for the year			432,678
Application	170,814	-	-
Dividend paid	(122,531)	-	(122,531)
Transfer	<u>-</u>	<u>-</u>	<u>(140,000)</u>
At 30 September 2021	<u>171,283</u>	<u>100,000</u>	<u>2,328,077</u>

15. **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) had provided details of how the calculation of next year's contribution towards the FSCS will be calculated and provision has been included for this liability. However, this is subject to future changes in interest rates and levels of deposits held by deposit takers. Therefore, there is inherent uncertainty regarding the totality of the levy that the credit union will have to pay.

16. **RELATED PARTY DISCLOSURES**

During the year, 12 members of the Board and their close family members (2020: 12 members) had loans with the credit union. These loans were approved on the same basis as loans to other members of the credit union. None of the directors or their close family members, have any preferential terms on their loans.

1ST CLASS CREDIT UNION LIMITED

Detailed Revenue Account
for the Year Ended 30 September 2021

	2021		2020	
	£	£	£	£
Loan interest receivable		1,184,335		1,234,915
Other income				
Sundry receipts	132		630	
Annual membership fees	28,553		28,952	
Grant Income	-		392	
Impaired loans recovered	9,071		4,384	
Investment income	21,267		33,550	
Profit/Loss on current asset investment	<u>(1,900)</u>		<u>(23,850)</u>	
		<u>57,123</u>		<u>44,058</u>
		1,241,458		1,278,973
Expenditure				
Rates and water	2,299		2,230	
Insurance	101,560		99,298	
Light and heat	6,980		5,259	
Management expenses	6,556		8,617	
Directors' expenses	16,946		21,949	
Wages	282,208		259,116	
Social security	20,413		20,076	
Pension & critical illness	20,658		19,823	
Equipment leasing	1,775		1,786	
Telephone	17,674		14,559	
Printing, postage & stationery	26,465		30,160	
Office assist	1,748		975	
Computer maintenance & software	78,549		55,208	
Conference & training	3,754		14,097	
Affiliation dues	9,552		8,407	
Cornerstone affiliated costs	-		12,994	
Repairs and renewals	4,764		9,264	
Sundry expenses	6,676		4,780	
Regulatory fees	1,510		1,070	
Professional fees	57,899		64,969	
Auditors' remuneration	5,700		5,620	
Impaired loans written off	219,111		154,315	
Impaired loan provision	<u>(114,949)</u>		<u>206,501</u>	
		<u>777,848</u>		<u>1,021,073</u>
		463,610		257,900
Finance costs				
Bank interest & charges		<u>15,844</u>		<u>17,373</u>
Carried forward		447,766		240,527

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1ST CLASS CREDIT UNION LIMITED

Detailed Revenue Account
for the Year Ended 30 September 2021

	2021		2020	
	£	£	£	£
Brought forward		447,766		240,527
Depreciation				
Freehold property	7,919		7,634	
Fixtures and fittings	1,521		1,717	
Computer equipment	<u>1,607</u>		<u>1,801</u>	
		<u>11,047</u>		<u>11,152</u>
NET SURPLUS		<u>436,719</u>		<u>229,375</u>

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