

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2022

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%.

	2022	2021
The relevant ratios are:-	9.41%	7.94%

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 2022 (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.

Operating lease commitments

Rentals paid under operating leases are charged to the Revenue Account on a straight line basis over the period of the lease.

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2022 (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	2022	2021
	£	£
Loan interest receivable from members	162,564	153,079
Bank interest receivable from cash and liquid deposits	6,841	4,749
Total loan interest receivable and similar income	169,405	157,828

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.

	2022	2021
	£	£
Adult and corporate interest paid	2,075	0
Junior interest paid during the year	1,244	1,094
Adult and corporate interest rate	0.15%	-
Junior interest rate	1.00%	1.00%
Adult and corporate members interest proposed, but not recognised	7,257	2,166
Junior interest	2,008	1,260
Adult and corporate members interest rate	0.50%	0.15%
Junior interest rate	1.50%	1.00%

6 Fees and commissions receivable	2022	2021
	£	£
Entrance fees	2,453	2,076
Member service charges	31,824	30,049
Other fees	6,522	6,690
Total fees and commissions receivable	40,799	38,815

7 Other Income	2022	2021
	£	£
Grants released	16,668	20,236
Service level agreement income	35,070	37,553
Donations and other income	10,571	0
Furlough reclaim	0	208
	62,309	57,997

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2022 (continued)

8	Expenses	Note	2022	2021
			£	£
	Administrative expenses	8a	161,056	168,306
	Depreciation and amortisation	11	3,026	3,194
	Other operating expenses	8b	37,847	37,292
			<u>201,929</u>	<u>208,792</u>
8a	Administrative Expenses	Note	2022	2021
			£	£
	Employment costs	9b	108,980	118,369
	Training and Conference		360	480
	Advertising and Publicity		17,712	17,181
	Directors & Volunteers expenses		748	315
	Auditors remuneration	8c	6,300	6,000
	Telephone		3,127	3,217
	Computer costs		15,013	13,142
	General expenses		1,917	3,312
	Printing, Postage and Stationery		4,640	4,041
	Loan fees		2,030	2,000
	Other insurances		229	249
	Total Administrative Expenses		<u>161,056</u>	<u>168,306</u>
8b	Other Operating Expenses		2022	2021
	Cost of occupying offices (excluding depreciation)		£	£
	Rents and Rates		9,215	7,401
	Cleaning		146	75
	Repairs and Maintenance		471	837
	Heating and Lighting		1,872	2,363
			<u>11,704</u>	<u>10,676</u>
	Regulatory and financial management costs			
	Financial Conduct Authority and Prudential Regulation Authority Fees and FSCS fee		308	296
	National Body Dues		3,540	3,363
	Fidelity Insurance		1,787	1,496
	Loan Protection and life savings insurance		9,029	8,815
	Debt recovery fees & credit checks		11,479	12,646
			<u>26,143</u>	<u>26,616</u>
	Total Other operating Expenses		<u>37,847</u>	<u>37,292</u>

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2022 (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.

	2022	2021
	£	£
Fees payable for the audit of the Credit Union's annual accounts	6,210	5,910
Fees payable to the Credit Union's Auditor for other services:		
Services relating to taxation	90	90
Total Auditors remuneration	6,300	6,000

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

The average monthly number of employees during the year were:

	2022	2021
	Number	Number
Office staff	7	8

9b Employment costs

	2022	2021
	£	£
Wages and salaries	104,413	113,810
Social security costs	2,943	2,833
Payments to defined contribution pension schemes	1,624	1,726
Total employment costs	108,980	118,369

9c Key Management 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.

	2022	2021
	£	£
Short term employee benefits	57,730	53,725
Payments to defined contribution pension schemes	1,176	1,107
Total key management personnel compensation	58,906	54,832

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% (2021 19%) comprised:

	Note	2022	2021
		£	£
Current tax			
UK Corporation tax	10b	1,300	861
Total current tax and total taxation expense recognised in the Revenue Account		1,300	861

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2022 (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:

	2022 £	2021 £
Surplus Before Taxation	<u>42,993</u>	<u>9,180</u>
Surplus before taxation multiplied by small profits rate of corporation tax in the UK of 19% (2021 19%)	8,169	1,744
Effects of:		
Non-taxable surplus on transactions with members	<u>(6,869)</u>	<u>(883)</u>
Total tax charge for the year	<u>1,300</u>	<u>861</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 2021	4,118	54,705	30,548	89,371
Additions	0	0	0	0
Disposals	0	0	0	0
As at 30 September 2022	<u>4,118</u>	<u>54,705</u>	<u>30,548</u>	<u>89,371</u>
Depreciation				
As at 1 October 2021	4,118	52,085	27,546	83,749
Charge for the year	0	605	2,421	3,026
Charge on disposal	0	0	0	0
As at 30 September 2022	<u>4,118</u>	<u>52,690</u>	<u>29,967</u>	<u>86,775</u>
Net Book Value				
As at 30 September 2022	<u>0</u>	<u>2,015</u>	<u>581</u>	<u>2,596</u>
As at 30 September 2021	<u>0</u>	<u>2,620</u>	<u>3,002</u>	<u>5,622</u>

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

	2022 £	2021 £
As at 1 October 2021	935,086	1,076,869
Advanced during the year	682,819	660,281
Interest receivable	162,564	153,079
Repaid during the year	<u>(880,137)</u>	<u>(859,079)</u>
Gross loans and advances to members	<u>900,332</u>	<u>1,031,150</u>
Impairment losses:		
Individual financial assets	(62,059)	(96,064)
Groups of financial assets	<u>(284,163)</u>	<u>(329,546)</u>
	<u>(346,222)</u>	<u>(425,610)</u>
As at 30 September 2022	<u>554,110</u>	<u>605,540</u>

12b Memorandum - Total loan assets regulatory purposes

	2022 £	2021 £
Gross loans and advances to members	900,332	1,031,150
Impairment of individual financial assets	<u>(62,059)</u>	<u>(96,064)</u>
Total loan assets for regulatory purposes	<u>838,273</u>	<u>935,086</u>

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2022 (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 £72,367, 2021: £70,985):

Breckland £2,878 (2021 £3,969), Broadland £37,463 (2021 £39,707), Suffolk Coastal District Council £31,849 (2021 £27,052), Broadland Housing Association £177 (2021 £177) and Victory Housing Association £0 (2021 £80).

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.

	2022		2021	
	Amount	Proportion	Amount	Proportion
Not impaired:				
Neither past due nor impaired	511,037	56.77%	532,270	51.61%
Up to 3 months past due	36,141	4.01%	56,765	5.51%
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	547,178	60.78%	589,035	57.12%
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	8,387	0.93%	14,591	1.42%
Between 6 and 9 months past due	3,953	0.44%	7,938	0.77%
Between 9 months and 1 year past due	17,029	1.89%	16,946	1.64%
Over 1 year past due	323,785	35.96%	402,640	39.05%
Sub-total: loans individually impaired	353,154	39.22%	442,115	42.88%
Total loans	900,332	100.00%	1,031,150	100.00%
Impairment allowance	(346,222)		(425,610)	
Total carrying value	554,110		605,540	

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

12d Allowance account for impairment losses	Note	2022	2021
		£	£
As at 1 October 2021		329,546	397,021
Allowance for losses made during the year		50,277	49,856
Allowances reversed during the year		(95,660)	(117,331)
Decrease in allowance during the year	12e	(45,383)	(67,475)
As at 30 September 2022		284,163	329,546
12e Impairment losses recognised for the year		2022	2021
		£	£
Impairment of individual financial assets		62,059	96,064
Decrease in impairment allowances during the year		(45,383)	(67,475)
		16,676	28,589
Reversal of impairment where debts recovered		(2,367)	(2,945)
Total impairment losses recognised for the year		14,309	25,644

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2022 (continued)

13 Subscribed capital - financial liabilities	2022	2021
	£	£
As at 1 October 2021	1,745,827	1,703,693
Received during the year	9,786,837	9,445,358
Interest paid during the year	3,305	1,094
Repaid during the year	(9,846,795)	(9,404,318)
As at 30 September 2022	<u>1,689,174</u>	<u>1,745,827</u>

Deposits from members made by way of subscription for shares. The balance includes deposits made by juvenile depositors - £145,092 (2021 - £127,313).

14 Other payables	2022	2021
	£	£
UK Corporation tax	1,300	902
Creditors and accruals	19,146	21,709
Subordinated loan	30,000	17,000
Loan Guarantee Funds	105,143	105,412
Grants carried forward: Revenue	7,125	7,430
	<u>162,714</u>	<u>152,453</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 2022 (continued)

15b Interest rate risk disclosures

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

	2022		2021	
	Amount	Average Interest Rate	Amount	Average Interest Rate
Financial assets	£	%	£	%
Loans to members	900,332	16.83%	1,031,150	14.47%

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

	2022	2021
	£	£
Loans and advances to banks	1,475,212	1,433,976
Less: amounts maturing after three months	(502,100)	0
Total cash and cash equivalents	973,112	1,433,976

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, 22 members of the board, staff, volunteers, their close family members and connected corporate members held shares with the credit union (2021 - 24 members). No members from the board, staff, volunteers or their close family members, had loans with the Credit Union (2021 0 member).

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:

		2022	2021
		£	£
Regulatory capital is made up of:	Retained earnings	157,348	115,655
	Subordinated loan	35,000	48,000
	CAPITAL	192,348	163,655
		A	
This is divided by:	TOTAL ASSETS	2,044,236	2,061,935
	B		
CAPITAL TO TOTAL ASSETS RATIO (A / B x 100):		9.41%	7.94%

EASTERN SAVINGS AND LOANS CREDIT UNION LTD

Notes to the Financial Statements for the year ended 30 September 2022 (continued)

21 Operating Lease Agreements

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

	2022	2021
	£	£
Within one year	12,500	7,000
Within two and five years	20,833	14,000
More than five years	0	0
	<u>33,333</u>	<u>21,000</u>

22 Financial Commitments

The credit unions only financial commitments are the operating lease payments.

	2022	2021
	£	£
Contracted but not provided for in the financial statements	<u>33,333</u>	<u>21,000</u>

23 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.