



Alexander Sloan

Accountants and Business Advisers

CAPITAL CREDIT UNION LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Registration No. 213575

CAPITAL CREDIT UNION LTD

CREDIT UNION INFORMATION

FCA number	213575
Directors	D Urquhart S Johnston R Clark J Gregory A Spence A Forrest M Willis J Suddon Y Guven S Brown
Secretary	J Gregory
Registered office	Credit Union House 62 Hamilton Place Edinburgh EH3 5AZ
Auditor	Alexander Sloan 180 St Vincent Street Glasgow G2 5SG

CAPITAL CREDIT UNION LTD

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CAPITAL CREDIT UNION LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

The Directors present their annual report and financial statements for the year ended 30 September 2019.

Principal activity

The principal activity of the credit union continued to be defined in the Credit Union Act 1979. The Credit Union's common bond covers everyone living or working in Edinburgh, the Lothians, Scottish Borders, Falkirk, Clackmannanshire, Fife and Angus and anyone who is a member of Community Trade Union.

The credit union is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Results and dividends

The results for the year are set out on page 6.

Fair review of the business

The Directors are pleased to report that overall Capital Credit Union has returned a surplus for the year, after taxation of £118,948 (2018: £257,557).

Capital Credit Union has continued to grow during 2019 and is pleased that it has been able to welcome 2,331 new members from its common bond during the year.

The Credit Union continues to be a member of the National Credit Union Forum.

Capital Credit Union's reserves have increased by £118,948 from £4,462,027 in 2017-2018 to £4,580,975 in 2018-2019.

Directors

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

D Urquhart
S Johnston
R Clark
J Gregory
A Spence
A Forrest
M Willis
J Suddon
Y Guven
S Brown
S Buczyn
N Blake

(Resigned 10 December 2018)

(Resigned 18 December 2018)

CAPITAL CREDIT UNION LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Compliance statement

Under the Prudential Regulation Authority rulebook the Board of Directors must report to the members at the Annual General Meeting on certain areas of compliance within the credit union. The credit union is therefore pleased to report that during the year the credit union has been in compliance with:

Depositor Protection Rules 11, 12, 14 and the requirements of rule 15 that relate to rule 11; and

PRA Credit Union Rule 2.10 (fidelity bond insurance requirements); and:

The requirements of compliance under the PRA "additional activities".

Principal risks and uncertainties

The main financial risks of the credit union are set out in the notes to the financial statements.

Statement of Directors responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Legislation 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 (United Kingdom Accounting Standards and applicable law). Under the Credit Union Act 1979 and the Co-operative and Community Benefit Societies Act 2014 the Directors must not approve the 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 Credit Union Act 1979 and the Co-operative and Community Benefit Societies Act 2014. Directors 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.

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.

CAPITAL CREDIT UNION LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Auditor

The Credit Union will ask firms to tender for the role of external auditor for the financial year 2019/20.

By order of the board

J Gregory

Secretary

26 November 2019

CAPITAL CREDIT UNION LTD

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITAL CREDIT UNION LTD

Opinion

We have audited the financial statements of Capital Credit Union Ltd (the 'credit union') for the year ended 30 September 2019 which comprise the revenue account, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the credit union's affairs as at 30 September 2019 and of its surplus or deficit 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 Credit Union Act 1979 and the Co-operative and Community Benefit Societies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the credit union in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the credit union's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

CAPITAL CREDIT UNION LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF CAPITAL CREDIT UNION LTD

Matters on which we are required to report by exception

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:

- proper books of account have not been kept by the credit union in accordance with the requirements of the legislation; or
- a satisfactory system of control over transactions has not been kept by the credit union in accordance with the requirements of the legislation; or
- the Revenue Account and Balance Sheet are not in agreement with the books of account of the credit union; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the credit union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the credit union or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

This report is made solely to the credit union's members, as a body, in accordance with 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.

Alexander Sloan
Accountants and Business Advisers
Statutory Auditor
26 November 2019

180 St Vincent Street
Glasgow
G2 5SG

CAPITAL CREDIT UNION LTD

REVENUE ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £	2018 £
Loan interest receivable and similar income	3	2,027,490	1,803,069
Interest payable and similar charges	4	(134,772)	(169,404)
Net interest receivable		<u>1,892,718</u>	<u>1,633,665</u>
Fees and commissions receivable	5	1,416	1,569
Fees and commissions payable	6	(20,728)	(19,308)
Net fees and commissions		<u>(19,312)</u>	<u>(17,739)</u>
Other operating income	7	94,887	103,400
Administrative expenses	8	(1,172,981)	(1,048,946)
Depreciation and amortisation		(32,066)	(15,272)
Other operating expenses	9	(210,139)	(203,621)
Impairment on loans for bad and doubtful debts	16	(417,891)	(182,151)
Surplus before taxation		<u>135,216</u>	<u>269,336</u>
Corporation tax	13	(16,268)	(11,779)
Surplus for the year		<u><u>118,948</u></u>	<u><u>257,557</u></u>

The Revenue Account has been prepared on the basis that all operations are continuing operations.
The notes on pages 11 to 30 form an integral part of these financial statements.

CAPITAL CREDIT UNION LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £	2018 £
Surplus for the year		118,948	257,557
Other comprehensive income		-	-
Total comprehensive income for the year		<u>118,948</u>	<u>257,557</u>

The notes on pages 11 to 30 form an integral part of these financial statements.

CAPITAL CREDIT UNION LTD

BALANCE SHEET

AS AT 30 SEPTEMBER 2019

	Notes	2019 £	2018 £
Assets			
Cash and balances at central banks	14	2,197	1,581
Loans and advances to banks	14	10,780,290	11,027,920
Loans and advances to customers	15	23,358,092	21,354,809
Fixed asset investments	17	1,219,719	1,210,492
Intangible assets	19	85,484	96,238
Tangible assets	20	11,634	18,951
Prepayments		47,533	23,859
Total assets		35,504,949	33,733,850
Liabilities and reserves			
Customer accounts	21	30,709,486	28,963,084
Other liabilities	22	214,488	306,474
Deferred income	23	-	2,265
		30,923,974	29,271,823
General reserve	30	4,430,975	4,351,731
Other reserves	30	150,000	110,296
Total reserves		4,580,975	4,462,027
Total liabilities and reserves		35,504,949	33,733,850

The financial statements were approved by the Board of Directors and authorised for issue on 26 November 2019 and are signed on its behalf by:

D Urquhart
Director

R Clark
Director

J Gregory
Secretary

The notes on pages 11 to 30 form an integral part of these financial statements.

CAPITAL CREDIT UNION LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Other Reserve £	Growth & Efficiency £	General Reserve £	Total £
Balance at 1 October 2017	14,750	43,228	4,146,492	4,204,470
Year ended 30 September 2018:				
Surplus and total comprehensive income for the year	-	-	257,557	257,557
Other movements	(14,750)	67,068	(52,318)	-
Balance at 30 September 2018	<u>-</u>	<u>110,296</u>	<u>4,351,731</u>	<u>4,462,027</u>
Year ended 30 September 2019:				
Surplus and total comprehensive income for the year	-	-	118,948	118,948
Other movements	-	39,704	(39,704)	-
Balance at 30 September 2019	<u>-</u>	<u>150,000</u>	<u>4,430,975</u>	<u>4,580,975</u>

The notes on pages 11 to 30 form an integral part of these financial statements.

CAPITAL CREDIT UNION LTD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	£	2019 £	£	2018 £
Cash flows from operating activities					
Surplus for the period			118,948		257,557
Depreciation and amortisation	11	32,066		15,272	
Corporation tax expenses	13	16,268		11,779	
Provision movement	16	424,584		188,852	
Interest income on loans	3	(1,931,073)		(1,733,492)	
Distribution on members shares	4	134,772		169,404	
			<u>(1,323,383)</u>		<u>(1,348,185)</u>
Working capital adjustments					
Change in other receivables and prepayments		(23,674)		(2,540)	
Change in other liabilities		(94,444)		153,745	
Change in deferred income		(2,265)		(1,155)	
			<u>(120,383)</u>		<u>150,050</u>
Cash flows from changes in operating assets and liabilities					
Loans (advanced) less loans repaid	15	(496,794)		1,231,051	
Customer balance cash movement		1,611,630		2,240,010	
Movement on funds in investments	14	(9,227)		(396,091)	
Movement on funds on deposit	14	(10,639)		(7,402)	
			<u>1,094,970</u>		<u>3,067,568</u>
Corporation tax paid			(13,810)		(11,218)
			<u>(243,658)</u>		<u>2,115,772</u>
Net cash flow from operating activities					
Investing activities					
Purchase of intangible assets	19	(8,486)		(101,350)	
Purchase of tangible fixed assets	20	(5,509)		(7,950)	
Proceeds on disposal of joint ventures		-		338,593	
			<u>(13,995)</u>		<u>229,293</u>
Net cash (used in)/generated from investing activities					
Net cash used in financing activities					
			<u>-</u>		<u>-</u>
Net (decrease)/increase in cash and cash equivalents					
			<u>(257,653)</u>		<u>2,345,065</u>
Cash and cash equivalents at beginning of year			7,369,264		5,024,199
			<u>7,111,611</u>		<u>7,369,264</u>
Cash and cash equivalents at end of year	14		<u><u>7,111,611</u></u>		<u><u>7,369,264</u></u>

The notes on pages 11 to 30 form an integral part of these financial statements.

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

Background information

Capital Credit Union Ltd is registered in the UK as a society 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 Union Act 1979. 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 functional currency of the credit union. Monetary amounts in these financial statements are rounded to the nearest pound.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Income

Fees and charges receivable 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 complete.

Interest receivable on loans to members and bank interest are recognised using the effective interest rate basis and are calculated and accrued on a daily basis.

1.3 Intangible fixed assets

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	20-33.33% straight line
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1.4 Tangible fixed assets

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

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	Over the shorter of life of asset and the term of the lease
Fixtures and fittings	20% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.5 Impairment of fixed assets

At each reporting period end date, the credit union reviews the carrying amounts of its tangible and intangible 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). Where it is not possible to estimate the recoverable amount of an individual asset, the credit union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the revenue account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the revenue account, 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.

1.6 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of less than 8 days.

1.7 Financial instruments

The credit union has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments. Financial instruments are recognised in the credit union's balance sheet when the credit union becomes party to the contractual provisions of the instrument.

Basic financial assets

Basic financial assets, which include loans to members and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the revenue account, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

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 expected cash flows.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the credit union transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Basic financial liabilities

Basic financial liabilities, including members deposits are classified as debt and are initially recognised at transaction price. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through the revenue account. Debt instruments may be designated as being measured at fair value through the revenue account to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the credit union's contractual obligations expire or are discharged or cancelled.

1.8 Taxation

The tax expense for the period comprises current tax. Tax is recognised in the revenue account, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax

The tax currently payable is based on taxable surplus for the year. Taxable surplus differs from the surplus as reported in the revenue account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The credit union's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.9 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense. The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received. Termination benefits are recognised immediately as an expense when the credit union is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.10 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.11 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

1.12 Government grants

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. Grants relating to turnover are recognised as income over the periods when the related costs are incurred. Grants relating to an asset are recognised in income systematically over the asset's expected useful life. If part of such a grant is deferred it is recognised as deferred income rather than being deducted from the asset's carrying amount.

2 Judgements and key sources of estimation uncertainty

In the application of the credit union's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Loan Impairment

The credit union assesses, at each reporting date, if there is objective evidence that any of its loans to customers are impaired. The loans are assessed collectively in groups that share similar credit-risk characteristics. 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.

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

3 Interest receivable and similar income

	2019 £	2018 £
Interest income on loans	1,931,073	1,733,492
Interest income on bank deposits	79,683	53,700
Income from investments	16,734	15,877
	<u>2,027,490</u>	<u>1,803,069</u>

4 Interest payable and similar charges

As shares are classed as a liability the dividend on these shares is classed as interest for accounting purposes under FRS 102:

	2019 £	2018 £
Interest and similar charges paid during the period		
Dividend on dividend bearing shares	117,126	159,141
Interest paid on interest bearing shares	16,410	8,724
Distributions to juvenile members	1,236	1,539
	<u>134,772</u>	<u>169,404</u>

The distributions on member's shares represents distributions paid in the year which were approved at the last Annual General Meeting. The dividend rates approved at the previous AGM were:

	2019 %	2018 %
Dividend rates paid during year		
Ordinary share dividend	0.50	0.75
Juvenile dividend	0.50	0.75
Average return on interest bearing shares	0.75	0.40

At the forthcoming Annual General Meeting the Directors will propose the following dividends based on the results for the current year. If approved these dividends will be included as a cost in next year's financial accounts once they have been paid.

	2019 %	2018 %
Dividend rates to be proposed at the Annual General Meeting		
Ordinary share dividend	0.40	0.50
Juvenile dividend	0.40	0.50

5 Fees and commissions receivable

	2019 £	2018 £
Insurance commission	<u>1,416</u>	<u>1,569</u>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

6 Fees and commissions payable

	2019 £	2018 £
Bank charges	20,728	19,308

7 Other operating income

	2019 £	2018 £
Other income	25,043	44,054
Grant income	2,265	1,155
Donations received	67,579	58,191
	<u>94,887</u>	<u>103,400</u>

8 Administrative expenses

	Notes	2019 £	2018 £
Staff costs	12	666,649	629,423
External auditor's remuneration		10,203	9,000
Member communication and advertising		102,322	98,946
Legal, professional and credit control costs		128,196	81,424
Computer and software expenses		236,700	194,748
Travel costs		3,624	4,617
General administration costs		25,287	30,788
		<u>1,172,981</u>	<u>1,048,946</u>

9 Other operating expenses

	2019 £	2018 £
Regulatory costs	15,029	18,179
Death benefit insurance	90,388	84,095
Costs of occupying offices	104,722	101,347
	<u>210,139</u>	<u>203,621</u>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

10 Growth Fund

The income, expenditure and assets of the Growth Fund shown below are incorporated in the financial results of the Credit Union. The Credit Union formerly took part in the Growth Fund project. Growth Fund assets at 30 September 2019 are £1,799,358 (2018: £1,889,578).

	2019 £	2018 £
Income		
Interest on Growth Fund loans	202,114	189,242
	<u> </u>	<u> </u>
Expenditure		
Growth Fund loans derecognised	51,612	41,399
Growth Fund bad debts recovered	(75)	(698)
Growth Fund loan provision	9,220	4,787
Growth Fund admin costs	51,137	45,620
	<u> </u>	<u> </u>
	111,894	91,108
	<u> </u>	<u> </u>
Growth Fund Surplus/(Deficit)	<u><u>(90,220)</u></u>	<u><u>(98,134)</u></u>

11 Operating surplus

	2019 £	2018 £
Operating surplus for the year is stated after charging:		
Research and development costs	4,575	5,084
Fees payable to the credit union's external auditor for the audit of the financial statements	10,203	9,000
Depreciation of owned tangible fixed assets	12,826	10,160
Amortisation of intangible assets	19,240	5,112
Operating lease charges	50,012	75,474
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

12 Employees

The average monthly number of persons (including Directors) employed by the credit union during the year was:

	2019	2018
	Number	Number
Admin and support	7	7
Marketing	2	3
Customer service	15	13
	<u>24</u>	<u>23</u>

Their aggregate remuneration comprised:

	2019	2018
	£	£
Wages and salaries	582,208	550,440
Social security costs	48,750	45,794
Pension costs	35,691	33,189
	<u>666,649</u>	<u>629,423</u>

13 Corporation tax

	2019	2018
	£	£
Current tax		
UK corporation tax on taxable surplus for the current period	16,268	13,810
Adjustments in respect of prior periods	-	(2,031)
	<u>16,268</u>	<u>11,779</u>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

The actual charge for the year can be reconciled to the expected charge for the year based on the surplus or deficit and the standard rate of tax as follows:

	2019 £	2018 £
Surplus before taxation	135,216	269,336
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	25,691	51,174
Tax effect of income/expenditure not taxable in determining taxable surplus	(9,423)	(37,364)
Adjustments in respect of prior years	-	(2,031)
Taxation charge for the year	16,268	11,779

14 Loans and advances to banks

	2019 £	2018 £
Cash held at banks	7,109,414	7,367,683
Bank deposits	3,670,876	3,660,237
Loans and advances to banks	10,780,290	11,027,920
Cash in hand	2,197	1,581
Total cash and bank balances	10,782,487	11,029,501
Loans split by repayment period		
Cash and cash equivalents	7,111,611	7,369,264
Amounts maturing in over 8 days	3,670,876	3,660,237
	10,782,487	11,029,501

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

15 Loans and advances to customers

	Notes	2019 £	2018 £
Loan movement			
Opening balances		22,032,884	21,595,660
Interest on loans		1,931,073	1,733,492
Loans advanced during the period		11,665,403	10,362,346
Loans repaid during the period		(11,168,609)	(11,593,397)
Loans derecognised		(166,738)	(65,217)
		<u>24,294,013</u>	<u>22,032,884</u>
Loan impairment provisions	16	(935,921)	(678,075)
		<u>23,358,092</u>	<u>21,354,809</u>
Loans split by repayment period			
Capital repayments due within 1 year		6,816,875	7,075,756
Capital repayments due after 1 year		17,477,138	14,957,128
Loan impairment provisions	16	(935,921)	(678,075)
		<u>23,358,092</u>	<u>21,354,809</u>
Loans split by type			
Loans to members		14,939,634	13,699,328
Mortgages to members		9,354,379	8,333,556
Loan impairment provisions	16	(935,921)	(678,075)
		<u>23,358,092</u>	<u>21,354,809</u>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

16 Loan impairment

	Write off Provision £	Arrears Provision £	Total Provisions £
Loan impairment provision			
Opening balances	360,489	317,586	678,075
Provision movement	139,414	118,432	257,846
Closing balances	<u>499,903</u>	<u>436,018</u>	<u>935,921</u>

Under Financial Reporting Standard 102 (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. Loans written off by the Board that do not meet the criteria in FRS 102 for being derecognised are not written off in these financial statements. The loans the credit union feel should be written off but which do not meet the criteria in FRS 102 for being derecognised are fully provided in the write off provision which is shown above. As a result there is no net effect on the surplus or net assets of the credit union from this requirement of FRS 102.

	Notes	2019 £	2018 £
Impairment revenue account charge			
Impairment provision movement		257,846	123,635
Bad debts derecognised	15	166,738	65,217
Bad debts recovered		(6,693)	(6,701)
		<u>417,891</u>	<u>182,151</u>

17 Fixed asset investments

	2019 £	2018 £
Investments in UK debt securities	<u>1,219,719</u>	<u>1,210,492</u>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

17 Fixed asset investments (Continued)

Movements in fixed asset investments

	Debt securities £	Joint ventures £	Total £
Cost or valuation			
At 1 October 2018	1,210,492	338,593	1,549,085
Movement	9,227	-	9,227
At 30 September 2019	1,219,719	338,593	1,558,312
Impairment			
At 1 October 2018 & 30 September 2019	-	338,593	338,593
Carrying amount			
At 30 September 2019	1,219,719	-	1,219,719
At 30 September 2018	1,210,492	-	1,210,492

18 Joint ventures

Details of the credit union's joint ventures at 30 September 2019 are as follows:

Name of undertaking	Registered office	Nature of business	Form of control	% Held	
				Shares	Voting rights
CUSSCO Limited	Scotland	Developing bespoke Credit Union IT platform	Voting rights		50.00

The Credit Union's share of the joint ventures unaudited financial results are shown below. A prior year adjustment was made in the joint venture's financial statements relating to capitalisation of software.

Total assets: £112,164 (2018: £150,169)
 Total liabilities: £16,859 (2018: 43,506)
 Net assets: £95,305 (2018: £106,664)
 Revenues: £170,244 (2018: £193,825)
 Profit or loss: Deficit £11,358 (2018: Surplus £76,927)

The software capitalised within CUSSCO Limited is licenced to Capital Credit Union Limited. The Credit Union's share of the capitalised software in CUSSCO Limited is £66,154. The Credit Union has included the cost of software from CUSSCO in its intangible fixed assets.

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

19 Intangible fixed assets

	Software £
Cost	
At 1 October 2018	161,337
Additions - internally developed	8,486
	<hr/>
At 30 September 2019	169,823
	<hr/>
Amortisation and impairment	
At 1 October 2018	65,099
Amortisation charged for the year	19,240
	<hr/>
At 30 September 2019	84,339
	<hr/>
Carrying amount	
At 30 September 2019	85,484
	<hr/> <hr/>
At 30 September 2018	96,238
	<hr/> <hr/>

20 Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Total £
Cost			
At 1 October 2018	198,863	270,683	469,546
Additions	-	5,509	5,509
	<hr/>	<hr/>	<hr/>
At 30 September 2019	198,863	276,192	475,055
	<hr/>	<hr/>	<hr/>
Depreciation and impairment			
At 1 October 2018	191,491	259,104	450,595
Depreciation charged in the year	3,085	9,741	12,826
	<hr/>	<hr/>	<hr/>
At 30 September 2019	194,576	268,845	463,421
	<hr/>	<hr/>	<hr/>
Carrying amount			
At 30 September 2019	4,287	7,347	11,634
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 September 2018	7,372	11,579	18,951
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

21 Customer accounts

	2019 £	2018 £
Deposit movement		
Opening balances	28,963,084	26,553,670
Deposited during the period	40,427,939	39,506,025
Withdrawn during the period	(38,681,537)	(37,096,611)
	<u>30,709,486</u>	<u>28,963,084</u>
Deposits split by type		
Standard dividend bearing member shares	28,000,888	26,551,649
Standard interest bearing member shares	2,403,299	2,164,158
Juvenile member deposits	305,299	247,277
	<u>30,709,486</u>	<u>28,963,084</u>

22 Other liabilities

	2019 £	2018 £
Corporation tax	16,268	13,810
Other taxation and social security	16,908	14,511
Other creditors	31,660	35,159
Accruals and deferred income	149,652	242,994
	<u>214,488</u>	<u>306,474</u>

23 Deferred income

	2019 £	2018 £
Opening balance	2,265	3,420
Release in period	(2,265)	(1,155)
	<u>-</u>	<u>2,265</u>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

24 Retirement benefit schemes

	2019	2018
Defined contribution schemes	£	£
Charge to revenue account in respect of defined contribution schemes	35,691	33,189
	<u> </u>	<u> </u>

The credit union operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the credit union in an independently administered fund.

25 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 (including dividends paid).

The main financial risks arising from the activities of the credit union are credit risk, liquidity risk and market 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 repayment to the credit union, resulting in financial loss to the credit union. In order to manage this risk the Board approves the 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 the likelihood of repayment has changed. The credit union also monitors its banking arrangements for credit risk.

Liquidity risk

The policy of the credit union is to maintain sufficient funds in liquid form at any time to ensure that it can meet its liabilities as they fall due and meet the liquidity ratios set by the regulators. The objective of the policy is to provide a degree of protection against any unexpected developments that may arise.

Market risk

Market risk generally comprises of interest rate risk, foreign currency risk and other price risk. The main risks impacting the credit union are set out below:

Interest rate risk: The main interest rate risk for the credit union arises between the interest rate exposure on loans, bank deposits and shares that form an integral part of a credit union's operations. The credit union considers rates of interest receivable when deciding on proposed dividend rates. Dividend rates are based on the historical results of the credit union and the credit union's strategic plans. The credit union does not use interest rate options to hedge its own positions.

Foreign Currency Risk: All transactions are carried out in sterling and therefore the credit union is not exposed to any form of foreign currency risk.

Other price risk: The credit union only holds investments in government securities and those with credit institutions that meet the criteria of Chapter 6 of the PRA rulebook. The credit union monitors the investments throughout the year.

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

26 Credit risk on lending

The credit union holds the following security against its loans to members:

	2019 £	2018 £
Security for loans		
Attached shares	4,302,623	4,037,776
Property	19,355,586	17,219,797
	<u>23,658,209</u>	<u>21,257,573</u>

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. 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.

	2019 £	2018 £
Loans not individually impaired		
Not past due	23,165,603	21,179,395
Up to 3 months past due	249,866	326,766
	<u>23,415,469</u>	<u>21,506,161</u>
Loans individually impaired		
Between 3 and 6 months past due	131,451	71,007
Between 6 months and 1 year past due	218,517	90,802
Over 1 year past due	28,673	4,425
Individually impaired and written off for internal purposes	499,903	360,489
	<u>878,544</u>	<u>526,723</u>
Total loans	24,294,013	22,032,884
Impairment allowance	(935,921)	(678,075)
	<u>23,358,092</u>	<u>21,354,809</u>

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

27 Interest rate risk

The credit union's primary source of net income arises from the management of the differences in the exposures arising from financial instruments and the margins earned on them. The credit union does not use interest rate options to hedge its own positions. The Interest rate repricing table set out below is based on the earlier of the loan maturity date and the next interest rate repricing date. The loan maturity date is subject to a number of factors.

	0-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	£	£	£	£	£	£	£
Assets							
Cash and balances at central banks	-	-	-	-	-	2,197	2,197
Loans and advances to banks	10,780,290	-	-	-	-	-	10,780,290
Loans and advances to customers	10,102,876	278,560	1,266,499	12,426,737	219,341	(935,921)	23,358,092
Investments	336,025	-	99,088	784,606	-	-	1,219,719
Intangible assets	-	-	-	-	-	85,484	85,484
Property, plant and equipment	-	-	-	-	-	11,634	11,634
Prepayments	-	-	-	-	-	47,533	47,533
Total assets	21,219,191	278,560	1,365,587	13,211,343	219,341	(789,073)	35,504,949
Liabilities and reserves							
Customer accounts	30,709,486	-	-	-	-	-	30,709,486
Other liabilities	-	-	-	-	-	214,488	214,488
Reserves	-	-	-	-	-	4,580,975	4,580,975
Total liabilities and reserves	30,709,486	-	-	-	-	4,795,463	35,504,949
Difference	9,490,295	(278,560)	(1,365,587)	(13,211,343)	(219,341)	5,584,536	-
Culmulative	9,490,295	9,211,735	7,846,148	(5,365,195)	(5,584,536)	-	-

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

28 Credit risk on bank and investments

The credit union invests funds not yet actively deployed in the following investments:

	2019	2018
	£	£
Bank accounts	7,109,414	7,367,683
Bank term deposits	3,670,876	3,660,237
Investments	1,219,719	1,210,492
	<u>12,000,009</u>	<u>12,238,412</u>

The credit union believes the full amount of these investments is recoverable.

29 Interest rates on financial instruments

The following table shows the interest earned during the year divided by the average loan balance and the dividend/interest paid during the year divided by the average share balance. The average balance is taken as the average of the opening and closing balances.

	2019		2018	
	Amount	Rates received in year	Amount	Rates received in year
	£	%	£	%
Financial assets				
Loans to members	14,939,634	11.26%	13,699,328	8.11%
Mortgages	9,354,379	3.60%	8,333,556	7.24%
Investments	1,219,719	1.38%	1,210,492	1.57%
Loans and advances to banks	10,780,290	0.73%	11,027,920	0.55%
	<u>36,294,022</u>		<u>34,271,296</u>	
Financial liabilities				
Juvenile deposits	(305,299)	0.45%	(247,277)	0.64%
Dividend bearing shares	(28,000,888)	0.41%	(26,551,649)	0.44%
Interest bearing shares	(2,403,299)	0.72%	(2,164,158)	0.73%
	<u>(30,709,486)</u>		<u>(28,963,084)</u>	

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

30 Reserves

General Reserve

The general reserve represents the base capital of the credit union and is the retained surpluses and deficits which have not been allocated to another specific reserve.

The credit union has the following other reserves:

Growth & Efficiency Reserve

The Growth and Efficiency Reserve represents funds the Board have allocated towards investment in new technology to improve the growth and efficiency of the Credit Union.

31 Capital

The credit union classes all of its reserves as capital. The credit union manages its reserves through its financial and budgeting policies and procedures. The Prudential Regulation Authority sets out requirements for the capital ratio that the credit union must maintain. The ratio is calculated after proposed dividends. The credit union's compliance with the ratio at the year end is set out below:

	2019	2018
	%	%
Actual capital to asset ratio	12.61%	12.83%
	<u> </u>	<u> </u>
Regulatory requirement		
Base capital requirement	8.00%	8.00%
Capital buffer	2.00%	2.00%
	<u> </u>	<u> </u>
Total capital requirement	10.00%	10.00%
	<u> </u>	<u> </u>

32 Financial commitments, guarantees and contingent liabilities

Contingent Liabilities

The credit union participates in the Financial Services Compensation Scheme (FSCS) which provides protection for its members up to the level of protection offered by the FSCS. As a result of the credit union's participation it has a contingent liability, which cannot be quantified, in respect of future contributions to the FSCS, as required by the Financial Services and Markets Act 2000.

CAPITAL CREDIT UNION LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

33 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £	2018 £
Within one year	60,000	88,428
Between two and five years	120,000	180,000
	<u>180,000</u>	<u>268,428</u>
Total lessee operating lease commitment	<u>180,000</u>	<u>268,428</u>

34 Related party transactions

The credit union classes the Directors and members of the senior management team as key management.

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2019 £	2018 £
Wages and salaries	225,610	212,502
Pension expense	17,519	18,167
	<u>243,129</u>	<u>230,669</u>
Aggregate compensation	<u>243,129</u>	<u>230,669</u>

Transactions with key management

Members of the key management of the Credit Union are also Committee members of CCU Members' Society Lottery. During the year, the Lottery donated £67,579 (2018: £58,691) to Capital Credit Union Ltd. At the year end the Lottery is due £1,320 (2018: £1,284) from Capital Credit Union. The Credit Union provides staff resources to the lottery free of charge.

Balances held by members of key management and their close family members in the credit union are set out below. Loans to key management and their close family members are on standard terms and conditions.

	2019 £	2018 £
Loans to key management and their close family	133,783	117,582
Shares held by key management and their close family	102,679	70,462
	<u>236,462</u>	<u>188,044</u>

Other related party transactions

CUSSCO Limited is a joint venture of Capital Credit Union. CUSSCO charged the Credit Union £161,120 (2018: £108,545) in service fees during the year. In the previous year the Credit Union purchased software at a cost of £93,370 from CUSSCO.