

**Croydon, Merton and Sutton Credit Union Limited**

**Report of the Directors and**

**Audited Financial Statements**

**For the Year Ended 30 September 2016**

# Croydon, Merton and Sutton Credit Union Limited

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For the Year ended 30 September 2016

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# Croydon, Merton and Sutton Credit Union Limited

## Administrative Information

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**Status:** Co-operative and Community Benefit Society and Credit Union

**Directors:**

Cllr Manju Shahul-Hameed	Chair
Russell Makin	
Clive Fraser	Honorary Secretary
Maria Organ	Treasurer
John Tooze	
Naomi Martin	
Mark Fowler	
Graham Cadle	

**Registered Office:** Bernard Weatherill House  
8 Mint Walk  
Croydon  
CRO 1EA

### Credit Union

**Registration Number:** 569C

### Financial Services Authority

**Registration Number:** 213603

**Auditors:** Hartley Fowler LLP  
4th Floor Tuition House  
27-37 St Georges Road  
Wimbledon  
London SW19 4EU

**Bankers:** The Co-operative Bank  
Santander UK Plc  
Metro Bank Plc

**Report of the Chair**

**For the Year ended 30 September 2016**

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I am pleased to present to you our Annual Report and Accounts for 2016.

This has been a very busy twelve months for the Credit Union. We started our financial year in the knowledge that we were in deficit. Open discussion and negotiation with the PRA, with intense operational scrutiny allowed us to negotiate sub-ordinated loans to meet our capital requirements.

Our financial performance was an indication of the need for wider changes. We started the process of recruiting a full time manager, knowing that this would support some of the changes we want to introduce. We've also looked to improve services launching a new website and online account services for members.

We have grounds for optimism as we believe the impact of the changes are beginning to emerge, but know we have to be careful with that optimism.

We have seen a steady increase in our membership. We also saw an increase in the number and total value of loans to our members. However, the average loan size fell and, as one of our members pointed out at last year's AGM, we need to have a mixed loan book if we are to be successful. We also need members to repay those loans so we're increasing our focus on credit control.

We know that the Credit Union relies heavily on our operational team and volunteers. We're working hard to improve conditions for our staff and part of this has been through working better with volunteers. In return for providing opportunities for work experience and skills development, we have been fortunate to have some highly qualified and able volunteers working in our team.

Since the last AGM, we have seen many changes in our personnel. We were all shocked by the death of Andrew Wakefield. His energy and creativity were a force for good at the Credit Union.

As Andrew made clear, we need to develop the capacity of the Credit Union on all levels. As volunteers themselves, the Directors are aware of the contribution our volunteers make. We are looking for more people who can give a few hours of their time to help develop the skills and capacity of our various committees. If you think you can help, please get in touch.

As the current Chair, I would like to thank the team in the office for their hard work, and our volunteers and members for continuing to support us. I'd also like to thank all the Directors that have supported the Credit Union over the last year and those that continue to do so. Together, we are looking forward to growth in the coming and future years.

Manju Shahul-Hameed  
Chair of Croydon *Plus*

## **Croydon, Merton and Sutton Credit Union Limited**

### **Report of the Directors**

#### **For the Year ended 30 September 2016**

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The Directors present their report and financial statements of the Credit Union for the year ended 30 September 2016.

#### **Principal Activities**

The principal activity of the credit union is the provision of savings and loans facilities.

#### **Results and Dividends**

The surplus for the year ended 30 September 2016 was £44,907 (2015 £56,988 deficit). The General Reserves are stated at £51,302 (2015 £6,395).

Dividends will be voted upon at the Annual General Meeting. In 2015 there was no dividend recommended.

#### **Directors**

The directors shown below have held office during the whole of the period from 1 October 2015 to the date of this report.

Russell Makin  
Clive Fraser  
John Tooze

During the year Lara Osilaja and Malcolm McGregor resigned as directors.

Reverend Andrew Wakefield passed away 26 October 2016.

The following directors were elected to the board at the AGM in March 2016:

Naomi Martin  
Mark Fowler (corporate director)  
Cllr Manju Shahul-Hameed (corporate director)  
Graham Cadle (corporate director)

Maria Organ was appointed in August 2016 to replace Malcolm McGregor as Treasurer.

The Board met monthly throughout the year (with the exception of August 2016).

Following the death of Andrew Wakefield, the directors agreed in November 2016 that Russell Makin would be Interim Chair. Manju Shahul-Hameed was appointed as Chair to the Board of Directors in February 2017.

**Report of the Directors**

**For the Year ended 30 September 2016**

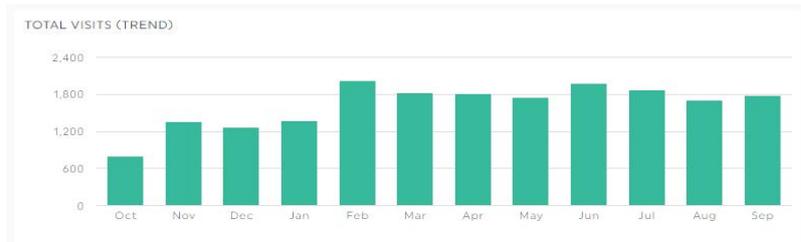
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**Review of the Year**

October 2015 to September 2016 has seen a great deal of change at Croydon Plus. A prior year deficit of £56,988 meant action was required. Financial restructuring secured a sub-ordinated loan from Croydon Council to supplement sub-ordinated loans from two Directors. Organisational restructuring began in early 2016 with the search for a full time manager.

Operational staff, with support from interim management, focused on improving the performance of the Credit Union. The basis for the improvement was achieved by:

- Launch of new website: a step-change in visitors using the online information available to our members and potential members.



- Introduction of Online Membership Services: Accessed through the new website, supporting members that are able to self-serve requirements. 838 members – around a quarter of our membership – had registered for online access by the end of September 2016.

Improved financial monitoring supported more informed management decisions and profitable business.

At the first Board Meeting after the end of our financial year, we reported a surplus. The following day, our Chair Reverend Doctor Andrew Wakefield died from a heart attack.

Andrew's loss had a significant impact on the organisation as we looked to restructure the Board and continued with the induction of our new General Manager.

The year began and ended with immense but very different challenges.

**Performance**

Over the year, we have looked to balance the need to grow the organisation, while also laying the foundations for growth in the coming years. Headline figures improved in many areas:

- Net (Deficit)/Surplus for the year improved from a deficit of -£56,998 to a surplus of £44,907.
- General reserves stated have increased from £6,395 to £51,203.
- Membership increased from 3,229 to 3,665 (13.5% increase)
- Members shares increased from £2,126,297 to £2,359,836 (11% increase)
- Number of loans increased from 793 to 824 (3.9% increase)
- Value of loans to members increased from £1,296,444 to £1,381,889 (6.6% increase).
- Interest from loans issued increased from £183,107 to £241,433 (increase of 31.9%).
- Annual income increased from £258,117 to £282,525 (9.5% increase)
- Annual expenditure decreased from £342,465 to £323,050 (5.7% decrease)
- Bad debts recovered increased from £10,978 to £15,836 (44.3% increase)
- Bad debt provisioning (Impairment allowance) reduced to £57,276 from £93,075 (reduction of 38.5%).

In light of the sub-ordinated loans, no dividend is recommended.

**Report of the Directors**

**For the Year ended 30 September 2016**

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**Governance and Operations**

Historically the governance of the Credit Union have not been as strong as ideal. The situation we found ourselves in last year along with increased regulation have heightened the importance of giving this more attention.

We strengthened the Board in the last year. Moving forward, we will be looking to develop further the skills and knowledge of the Board in their roles as Directors. We are looking to re-activate the Loans Committee to review our products and make recommendations. We also need to bolster the activities of our Supervisory Committee.

Operations, too, have been overlooked. An organisation is its people – both staff and volunteers – and we need to focus on this as we look to grow the Credit Union. In addition to recognising the contribution the team have made in the past 12 months, we are looking to improve working conditions and training and have recently introduced staff training through the newly launched ABCUL Academy.

**Supporters, Stakeholders, Partners and Funding**

As a credit union, our ethos is based on being a co-operative: an organisation run by our members for our members. We know we are stronger and have greater impact when we work with others for both support and opportunities to grow.

We have very real evidence of the support that credit unions provide for each other across the sector. Facing the challenges at the beginning of the year, we put out a call for assistance – we continue to benefit from the responses we received today. Thank you to all those involved, in particular to Paul Treece and the team at Lewisham Plus.

As we grow, we will continue to develop services for our stakeholders – including Croydon, Merton and Sutton Councils – because the communities they serve are the same as the community that we serve and want to serve in greater numbers.

Similarly, we are looking to open up our network of partners – social organisations, businesses, employers and community support organisations throughout our common bond area – that can help to share information about the services the Credit Union provides.

**Foundation for Growth**

Our business plan sets out goals to increase membership by promoting our services and responding to the requirements of our communities, increasing the number and average size of loans and improvements to our credit control. This plan requires investment in time and resources.

We have set aside resources to work towards these goals, but they are challenging. To help we applied for a grant from the Lloyds Banking Group's Credit Union Development Fund which was successful.

With these funds we will be working to deliver against our business plan by investing in IT, developing greater outreach work and developing services that support members of our communities that are on benefits.

**Report of the Directors**

**For the Year ended 30 September 2016**

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**Statement of Directors' Responsibilities**

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

Co-Operative and Community Benefit Society law requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (Financial Reporting Standard 102 and applicable law). Under that law 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 income and expenditure 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Credit Union will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Credit Union's transactions and disclose with reasonable accuracy at any time the financial position of the Credit Union and enable them to ensure that the financial statements comply with the Co-Operative and Community Benefit Societies Act 2014. They are also responsible for safeguarding the assets of the Credit Union and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to auditors**

Each person who was a director at the time this report was approved confirms that:

- so far as he/she is aware, there is no relevant audit information of which the Credit Union's auditor is unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the Credit Union's auditor is aware of that information.

This report was approved by the Board of Directors on 28 February 2017 and signed on its behalf.

.....  
Manju Shahul-Hameed (Chair)

.....  
Maria Organ (Treasurer)

.....  
Clive Fraser (Secretary)

## **Report of the Independent Auditors to the Members of**

### **Croydon, Merton and Sutton Credit Union Limited**

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We have audited the financial statements of Croydon, Merton and Sutton Credit Union Limited for the year ended 30 September 2016 which comprise the Revenue Account, the Balance Sheet, the Statement of Reserves, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Credit Union's members, as a body, in accordance with the Credit Unions Act 1979. 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 auditors' 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.

#### ***Respective responsibilities of directors and auditors***

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for the being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### ***Scope of the audit of the financial statements***

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/auditscopeukprivate.cfm](http://www.frc.org.uk/auditscopeukprivate.cfm).

#### ***Opinion on financial statements***

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 2016 and of its surplus for the year ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been properly prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014 and the Credit Unions Act 1979.

#### ***Opinion on other matters prescribed by the Co-operative and Community Benefit Societies Act 2014***

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### ***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:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosure of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Jonathan Askew (Senior Statutory Auditor)  
for and on behalf of Hartley Fowler LLP  
Statutory Auditors & Chartered Accountants  
4th Floor Tuition House  
27/37 St George's Road  
London  
SW19 4EU

28 February 2017

# Croydon, Merton and Sutton Credit Union Limited

## Revenue Account

For the Year ended 30 September 2016

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	Note	2016 Total £	2015 Total £
Loan interest receivable	4	241,433	183,017
Fees receivable		<u>3,001</u>	<u>5,196</u>
		244,434	188,213
Other operating income	5	41,092	75,100
Administrative expenses	7.1	(151,923)	(162,408)
Other operating expenses	7.2	(19,204)	(17,649)
Impairment losses on loans to members	11.4	<u>(68,018)</u>	<u>(139,424)</u>
Surplus / (Deficit) before taxation		46,381	(56,168)
Taxation	9	<u>(1,474)</u>	<u>(830)</u>
Surplus / (Deficit) for the financial year		44,907	(56,998)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income	20	<u><u>44,907</u></u>	<u><u>(56,998)</u></u>

# Croydon, Merton and Sutton Credit Union Limited

## Balance sheet

As at 30 September 2016

	Note	2016 £	2015 £
<b>ASSETS</b>			
Tangible Fixed Assets	10	955	7,881
Loans to members	11	1,381,889	1,296,444
Other debtors		9,618	25,516
Cash, cash equivalents and liquid deposits	16	<u>1,160,572</u>	<u>857,486</u>
<b>Total assets</b>		<b><u>2,553,034</u></b>	<b><u>2,187,327</u></b>
<b>LIABILITIES</b>			
Members' Share Capital	14	2,359,836	2,126,297
Subordinated Loans	13	110,000	-
Other creditors	12	<u>31,896</u>	<u>54,635</u>
		2,501,732	2,180,932
<b>RESERVES</b>			
Retained earnings	20	<u>51,302</u>	<u>6,395</u>
<b>Total liabilities</b>		<b><u>2,553,034</u></b>	<b><u>2,187,327</u></b>

The financial statements were approved, and authorised for issue, by the board on 28 February 2017 and signed on its behalf by:

.....  
Manju Shahul-Hameed (Chair)

.....  
Maria Organ (Treasurer)

.....  
Clive Fraser (Secretary)

## Croydon, Merton and Sutton Credit Union Limited

### Statement of changes in retained earnings

#### As at 30 September 2016

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	<b>2016</b>	2015
	<b>£</b>	£
As at 1 October 2015	6,395	63,393
Total comprehensive income for the year	44,907	(56,998)
As at 30 September 2016	<u>51,302</u>	<u>6,395</u>

# Croydon, Merton and Sutton Credit Union Limited

## Statement of Cash Flows

For the Year ended 30 September 2016

	Note	2016 £	2015 £
<b>Cash flows from operating activities</b>			
Surplus/(deficit) before taxation		<b>46,381</b>	(56,168)
Adjustments for non-cash items:			
Add: Depreciation	10	7,219	7,210
Provision for impairment losses	11.4	68,018	139,424
Less: Impairment of individual financial assets	11.4	<u>(103,817)</u>	<u>(94,671)</u>
		<b>(28,580)</b>	51,963
Movements in:			
Debtors		15,898	(24,486)
Creditors		<u>22,095</u>	<u>8,866</u>
		<b>37,993</b>	(15,620)
<b>Cash flows from changes in operating assets and liabilities</b>			
Cash inflow from members' deposits	14	1,946,125	1,766,516
Cash outflow from repaid members' deposits	14	(1,712,586)	(1,419,197)
New loans to members	11.1	(1,129,566)	(1,108,617)
Repayment of loans by members	11.1	1,079,920	870,452
Cash inflow from subordinated loans	13	<u>110,000</u>	<u>-</u>
		<b>293,893</b>	109,154
Corporation tax paid	9	<b>(830)</b>	(766)
<b>Net cash flows from operating activities</b>		<b>348,857</b>	88,563
<b>Net cash flows from investing activities</b>			
Purchase of office equipment	10	<b>(293)</b>	-
Cash and cash equivalents at 1 October		<u>857,486</u>	768,923
Cash and cash equivalents at 30 September		<u><b>1,206,050</b></u>	<u>857,486</u>

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### 1. Legal and regulatory framework

Croydon, Merton and Sutton Credit Union Limited is an organisation established under the Co-operative and Community Benefit Societies Act 2014 whose principal activity of the society is to operate as a credit union within the meaning of the Credit Unions Act 1979. Croydon, Merton and Sutton Credit Union Limited 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 Croydon, Merton and Sutton Credit Union Limited has only issued redeemable shares.

#### 2. Accounting Policies

##### **Basis of preparation**

The financial statements have been prepared in accordance with FRS102 The Financial Reporting Standard applicable in the UK and Republic Ireland. The financial statements are prepared on the historical cost basis.

##### **First-time adoption of FRS102**

These are Croydon, Merton and Sutton Credit Union Limited's first financial statements to comply with FRS102. The date of transition to FRS102 is 1st October 2014.

The transition to FRS102 has resulted in a small number of accounting policy changes compared to those applied previously. Note 20 to the financial statements describes the differences between the retained earnings and surplus or deficit presented previously, and the amounts as restated to comply with the accounting policies selected in accordance with FRS102. for the reporting period at 30 September 2015 (ie comparative information), as well as the retained earnings presented in the opening balance sheet (ie at 1 October 2014). It also describes all the required changes in accounting policies made on first-time adoption of FRS102.

##### **Going Concern**

The financial statements are prepared on a going concern basis.

##### **Income recognition**

###### *Interest on members' loans*

Interest on loans to members is recognised on an accrual basis using the effective interest method

###### *Fee receivable*

Fees receivable comprise entrance fees.

###### *Grant income*

Revenue Grant income is recognised in the Revenue account in the period to which it relates. Grant income relating to future periods is credited to deferred income.

###### *Investment income*

Investment income comprises interest on funds held on deposit and is included when receivable and the amount can be measured reliably; this is normally upon notification of the interest paid or payable by the bank.

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### *Other income*

Other income predominately comprises bad debts recovered. Other income is recognised when the criteria have been performed that enable the credit union to claim the income concerned.

#### **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. Croydon, Merton and Sutton Credit Union Limited is not liable to corporation tax payable on its activities of makings 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 Croydon, Merton and Sutton Credit Union Limited from which profits are chargeable to corporation tax, it is unlikely that deferred tax will arise.

#### **Tangible fixed assets**

Tangible fixed assets comprises items of office 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 the office equipment, less its estimated residual value, on a straight line basis over its estimated useful. Office equipment is depreciated over 3 years.

#### **Cash and cash equivalents**

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

#### **Financial assets - loans to members**

Loans to members are financial assets with fixed to 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 flows from the asset have expired, usually when all amounts outstanding have been repaid by the member.

#### **Impairment of financial assets**

Croydon, Merton and Sutton Credit Union Limited 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.

#### **Financial liabilities - members deposits**

Members' shareholdings in Croydon, Merton and Sutton Credit Union Limited are redeemable and therefore are classified as financial liabilities. They are recognised at the amount of cash deposited.

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### Creditors

Short term creditors are measured at transaction price (which is usually the invoice price).

#### Employee Benefits

Defined contribution plans: The amounts charged as expenditure for the defined contribution plan are the contributions payable by Croydon, Merton and Sutton Credit Union Limited 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

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

#### Pensions

Contributions to defined contribution plans are charged in the period to which they relate.

### 3. Critical accounting 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 Croydon, Merton and Sutton Credit Union Limited'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*

Croydon, Merton and Sutton Credit Union Limited reviews arrears reports to identify impairment losses on loans to members.

4. Loan interest receivable	2016	2015
	£	£
Loan interest receivable from members	<u>241,433</u>	<u>183,017</u>

The loan interest receivable from members is derived from the area within its common bond

5. Other operating income	2016	2015
	£	£
Investment income	5,838	2,520
Bank interest received	637	1,627
Bad debts recovered	15,836	10,978
Revenue Grants	15,000	54,074
Other income	3,781	5,901
	<u>41,092</u>	<u>75,100</u>

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# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

6. Operating surplus/(deficit)		2016	2015
		£	£
This is stated after charging:			
Depreciation of owned assets		7,219	7,210
Auditors' remuneration for audit services		<u>4,000</u>	<u>3,900</u>
7. Expenses		2016	2015
	Note	£	£
Administrative expenses	7.1	151,923	162,408
Other operating expenses	7.2	19,204	17,649
		<u>171,127</u>	<u>180,057</u>
7.1 Administrative expenses			
Employment costs	8.2	71,195	75,301
Temporary staff		39,105	37,477
Funded work (Santander)		-	15,000
Travel and meetings		440	1,522
Auditors' fees		4,000	3,900
Accountancy		2,600	780
Volunteer expenses		541	89
Training costs		-	71
Computer maintenance		10,018	2,809
Advertising and promotion		300	754
Printing, stationery and postage		6,025	7,522
Bank charges		2,637	2,234
Depreciation		7,219	7,210
Telephone and internet		2,867	2,145
Recruitment		-	687
Legal and professional fees		1,884	696
Honoraria - treasurer		-	500
Restructuring		-	2,612
Directors' and officers' insurance		778	-
Office expenses		1,467	1,099
Interest on subordinated loans		847	-
		<u>151,923</u>	<u>162,408</u>

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### 7.2 Other operating expenses

Other operating expenses comprise regulatory and financial management costs.

	2016	2015
	£	£
<b>Regulatory and financial management costs</b>		
Financial Conduct Authority and Prudential Regulation Authority fees and Financial Services Compensation Scheme levy	2,323	2,223
Association of British Credit Unions Limited dues	3,900	4,208
Loans and savings insurance	7,809	6,204
Fidelity bond insurance	2,690	2,109
Credit agency fees	2,482	2,905
	<u>19,204</u>	<u>17,649</u>

#### 8. Employees and employment costs

##### 8.1 Number of employees

The average monthly number of employees during the year were:

	2016	2015
	Number	Number
Office staff	<u>5</u>	<u>5</u>

##### 8.2 Employment costs

	2016	2015
	£	£
Wages and salaries	68,465	72,613
Social security costs	1,938	1,725
Payments to defined contribution pension schemes	<u>792</u>	<u>963</u>
Total employment costs	<u>71,195</u>	<u>75,301</u>

##### 8.3 Key Management Remuneration

The Directors of Croydon, Merton and Sutton Credit Union Limited do not receive any remuneration.

Total remuneration paid to key management during the year was £51,876 (2015: £20,538). Included in the key management remuneration for 2016 is a termination payment of £3,682.

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### 9. Taxation

##### 9.1 Recognised in the Revenue Account

The taxation charge for the year, based on the small profits rate of Corporation tax of 20% (2015: 20.5%) comprised:

	Note	2016 £	2015 £
Current tax			
UK Corporation tax	9.2	1,474	830
Total current tax and total taxation expense recognised in the Revenue Account		<u>1,474</u>	<u>830</u>

##### 9.2 Reconciliation of taxation expense

Croydon, Merton and Sutton Credit Union Limited 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 trade. However, corporation tax is payable on investment income. As a result, the tax charge for the year differs from the standard rate of Corporation tax. The differences are explained below:

	2016 £	2015 £
Surplus / (deficit) before taxation	<u>44,907</u>	<u>(56,998)</u>
Surplus / (deficit) before taxation multiplied by small profits rate of corporation tax in the UK of 20% (2015: 20.5%)	8,981	(11,685)
<b>Effects of:</b>		
Non-taxable adjustment re holiday pay	-	820
Non-taxable surplus / (deficit) on transactions with members	(7,507)	11,695
Total tax charge for the year	<u>1,474</u>	<u>830</u>

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### 10. Tangible fixed assets

Tangible fixed assets comprise office equipment:

	<b>Office Equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>
<b>Cost</b>		
At 1 October 2015	31,083	31,083
Additions	293	293
At 30 September 2016	<u>31,376</u>	<u>31,376</u>
<b>Depreciation</b>		
At 1 October 2015	23,202	23,202
Charge for the year	7,219	7,219
At 30 September 2016	<u>30,421</u>	<u>30,421</u>
Net book value		
At 30 September 2016	<u>955</u>	<u>955</u>
At 30 September 2015	<u>7,881</u>	<u>7,881</u>

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

#### 11. Loans to members - financial assets

##### 11.1 Loans to members

	Note	£	£
As at 1 October 2015		1,389,519	1,151,354
Advanced during the year		1,129,566	1,108,617
Repaid during the year		<u>(1,079,920)</u>	<u>(870,452)</u>
<b>Gross loans to members</b>	<b>11.2</b>	1,439,165	1,389,519
Impairment losses			
Individual financial assets		(42,759)	(79,825)
Groups of financial assets		<u>(14,517)</u>	<u>(13,250)</u>
	<b>11.2</b>	<u>(57,276)</u>	<u>(93,075)</u>
<b>As at 30 September 2016</b>	<b>11.2</b>	<u>1,381,889</u>	<u>1,296,444</u>

Memorandum - Total loan assets for regulatory purposes	2016		2015
	£		£
Gross loans to members	1,439,165		1,389,519
Impairment of individual financial assets	<u>(42,759)</u>		<u>(79,825)</u>
Total loan assets for regulatory purposes	<u>1,396,406</u>	<b>15.2</b>	<u>1,309,694</u>

##### 11.2 Credit risk disclosures

Croydon, Merton and Sutton Credit Union Limited 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.

	2016	2015
	£	£
<b>Not impaired:</b>		
Neither past due nor impaired	626,420	586,063
Up to 3 months past due	<u>705,719</u>	<u>662,509</u>
	1,332,139	1,248,572
<b>Individually impaired:</b>		
Between 3 and 6 months past due	33,771	54,676
Between 6 and 9 months past due	31,763	48,703
Between 9 and 12 months past due	33,771	30,510
Over 12 months past due	<u>7,721</u>	<u>7,058</u>
	1,439,165	1,389,519
<b>Impairment allowance</b>	<u>(57,276)</u>	<u>(93,075)</u>
<b>Total carrying value as at 30 September 2016</b>	<u>1,381,889</u>	<u>1,296,444</u>

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### 11.3 Allowance account for impairment losses

Note	2016 £	2015 £
As at 1 October 2015	93,075	48,322
Allowances (reversed) / made during the year	<u>(35,799)</u>	<u>44,753</u>
As at 30 September 2016	<u><u>57,276</u></u>	<u><u>93,075</u></u>

#### 11.4 Impairment losses recognised for the year

	2016 £	2015 £
Impairment of individual financial assets	103,817	94,671
Allowances (reversed) / made during the year	<u>(35,799)</u>	<u>44,753</u>
Total impairment losses recognised for the year	<u><u>68,018</u></u>	<u><u>139,424</u></u>

#### 12. Other creditors

	2016 £	2015 £
UK Corporation tax	1,263	830
Grants	10,000	10,000
PAYE and National Insurance	629	864
Sundry Creditors	<u>20,004</u>	<u>42,941</u>
	<u><u>31,896</u></u>	<u><u>54,635</u></u>

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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13. Subordinated loans	Note	2016 £	2015 £
London Borough of Croydon subordinated loans	13.1	100,000	-
Related party subordinated loans	13.2	10,000	-
		<u>110,000</u>	<u>-</u>

13.1 During the year the credit union received an unsecured subordinated loan from London Borough of Croydon of £100,000. The rate of interest on this loan is 1% per annum.

The loan will be repaid in the following instalments:

	£
Year ended 30 September 2021	20,000
Year ended 30 September 2022	20,000
Year ended 30 September 2023	20,000
Year ended 30 September 2024	20,000
Year ended 30 September 2025	20,000
	<u>100,000</u>

13.2 During the year the credit union received two unsecured subordinated loans from two directors. Both loans were for £5,000 with a rate of interest of 2% per annum.

The loans will be repaid in the following instalments:

	£
Year ended 30 September 2021	2,000
Year ended 30 September 2022	2,000
Year ended 30 September 2023	2,000
Year ended 30 September 2024	2,000
Year ended 30 September 2025	2,000
	<u>10,000</u>

14. Members' deposits	2016 £	2015 £
As at 1 October 2015	2,126,297	1,778,978
Received during the year	1,946,125	1,766,516
Repaid during the year	<u>(1,712,586)</u>	<u>(1,419,197)</u>
<b>As at 30 September 2016</b>	<u>2,359,836</u>	<u>2,126,297</u>

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### 15. Additional financial instruments disclosures

##### 15.1 Financial risk management

Croydon, Merton and Sutton Credit Union Limited manages its members' deposits and loans to members so that it earns income which is adequate to meet the overheads of the credit union and to provide a reasonable return to members on shares.

The main financial risks arising from Croydon, Merton and Sutton Credit Union Limited'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 Croydon, Merton and Sutton Credit Union Limited, resulting in financial loss to the credit union. In order to manage this 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 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.

##### **Market risk:**

Market risk is generally comprised of interest rate risk, currency risk and other price risk. Croydon, Merton and Sutton Credit Union Limited 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:**

Croydon, Merton and Sutton Credit Union Limited'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. Croydon, Merton and Sutton Credit Union Limited maintains its members shares in non-interest bearing accounts. The credit union considers rates of interest receivable when deciding on the dividend rate payable on member's deposits. Croydon, Merton and Sutton Credit Union Limited does not use interest rate options to hedge its own positions.

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### 15.2 Interest rate risk disclosures

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

	2016	Average	2015	Average
	Amount	Interest	Amount	Interest
	£	rate	£	rate
<b>Financial assets</b>				
Loans to members	<u>1,396,406</u>	<u>17.3%</u>	<u>1,309,694</u>	<u>14.0%</u>
<b>Financial liabilities</b>				
Members shares	<u>2,359,836</u>	<u>0%</u>	<u>2,126,297</u>	<u>0%</u>

The interest rates applicable to loans to members are fixed and range from 5% to 24%.

Any interest payable in the form of dividends is determined after the end of the relevant financial year, as a result, the surplus or deficit for the year is not particularly sensitive to interest rate risk and no sensitivity analysis is presented.

#### 15.3 Liquidity risk disclosures

Excluding short-term other creditors, Croydon, Merton and Sutton Credit Union Limited's financial liabilities are mainly repayable on demand.

#### 15.4 Fair value of financial instruments

Croydon, Merton and Sutton Credit Union Limited does not hold any financial instruments at fair value.

#### 16. Cash and cash equivalents

	2016	2015
	£	£
Loans and advances to banks	1,160,572	857,486
Less: amounts maturing after three months	<u>(128,985)</u>	<u>(85,697)</u>
Total cash and cash equivalents	<u>1,031,587</u>	<u>771,789</u>

#### 17. Post balance sheet events

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

# Croydon, Merton and Sutton Credit Union Limited

## Notes to the financial statements

### For the Year ended 30 September 2016

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#### 18. Contingent liabilities

Croydon, Merton and Sutton Credit Union Limited 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 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 Croydon, Merton and Sutton Credit Union Limited will have to pay.

#### 19. Related party transactions

During the year one member of the board, staff and their close family members (2015 one member) had loans from Croydon, Merton and Sutton Credit Union Limited.

Loans are issued to the directors on the same terms as those on offer to other members.

During the year the credit union received two unsecured subordinated loans from two directors. Both loans were for £5,000 with a rate of interest of 2% per annum.

Paid Employees are eligible to apply for at 25% of the prevailing interest rate. Normal eligibility criteria are applied and if a loan is granted, the interest is charged at a reduced rate. An honoraria of £nil (2015 £500) was payable to the treasurer.

#### 20. Transition to FRS 102

Croydon, Merton and Sutton Credit Union Limited has adopted FRS 102 for the first time in these financial statements for the year ended 30 September 2016. The reconciliations below highlight the key impacts on both the surplus/(deficit) for the financial year and the retained earnings.

##### Reconciliation of surplus/(deficit) from previous UK accounting standards to FRS 102

	2016	2015
	£	£
Surplus/(deficit) as previously reported	44,907	52,998
Short term employee benefits	<u>-</u>	<u>(4,000)</u>
Surplus (in accordance with FRS 102)	<u>44,907</u>	<u>56,998</u>

##### Reconciliation of retained earnings from previous UK accounting standards to FRS 102

	2016	2015
	£	£
Retained earnings as previously reported	55,302	10,395
Short term employee benefits	<u>(4,000)</u>	<u>(4,000)</u>
Retained earnings (in accordance with FRS 102)	<u>51,302</u>	<u>6,395</u>

# **Croydon, Merton and Sutton Credit Union Limited**

## **Notes to the financial statements**

### **For the Year ended 30 September 2016**

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#### **20.1 Employee benefits**

Under UK accounting standards, Croydon, Merton and Sutton Credit Union Limited did not make a provision for holiday pay, ie holiday earned but not taken prior to the year end. In contrast, FRS 102 requires the cost of short-term compensated absences to be recognised when employees render the service that increases their entitlement. As a result an additional accrual has been made to reflect this.