

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
30 SEPTEMBER 2021

SHAREDINTEREST 
INVESTING IN A FAIRER WORLD



SHARED INTEREST SOCIETY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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REPORT OF THE DIRECTORS

Welcome to the financial statements of Shared Interest Society Limited for the year to 30 September 2021.

OBJECT AND PRINCIPAL ACTIVITIES

The Object of the Society is “to carry on the business of providing financial services, especially for production and trade, in a manner which reflects the principles of love, justice and stewardship which are fundamental to the faith of the Christian Church and are accepted by many other people of goodwill and compassion and in order to promote wholesome, dignified and sustainable employment for the benefit of people in need in any part of the world, particularly in poor countries”.

Our mission is to provide financial services and business support to make livelihoods and living standards better for people as they trade their way out of poverty. We work collaboratively and innovatively with those who share our commitment to fair and just trade. With a community of investors and the support of donors and volunteers, we seek to contribute to a world where justice is at the heart of trade finance.

Shared Interest Society Limited provides loans and short-term working capital facilities to organisations in the fair trade supply chain, principally producers in the developing world. Recent strategic reviews have extended this to include some lending to organisations who conduct their businesses with similar values to fair trade. Shared Interest Foundation, the wholly owned charitable subsidiary of the Society, works mainly through training and capacity building work with producer organisations in the developing world.

CORPORATE STATUS

The Society, founded in 1990, is incorporated with limited liability as a Registered Society under the Co-operative and Community Benefit Societies Act 2014, registration number 27093R. Net profits after interest on the share capital may ultimately be distributed, not to members, but either as a rebate on charges to customers or applied for charitable purposes.

MEMBERS AND CAPITAL

	2020/21	2019/20
New members	496	426
Accounts closed	(275)	(212)
Total membership accounts	10,456	10,223
Amount invested	£7.1m	£5.3m
Amount withdrawn	(£2.5m)	(£2.3m)
Net investment	£4.6m	£3.0m
Total share capital	£50.7m	£46.1m
Average (mean) share account balance	£4,854	£4,509

The Society still holds £91k (2020: £151k) in unclaimed loan stock from former issues and for which investors have not given instructions regarding repayment or conversion to share capital. This is sometimes because we have lost contact with the investor. This is held in short-term creditors in the Statement of Financial Position but relates to bonds which were issued between 2002 and 2005 and were due for repayment five years' after those dates. Every reasonable effort is made to regain contact with investors from whom we have not heard.

BUSINESS REVIEW

A full report on the Society's affairs and business during the year and its future prospects is contained in the Annual Review which is available on request in hard copy to all members of the Society and is published on the Society website.

CHARITABLE DONATIONS

There are no charitable donations being proposed in this year's financial statements.

RESULTS AND APPROPRIATIONS

The financial statements of the Society for the year ended 30 September 2021 follow this report.

The profit for the year before doubtful debt provisions, tax and interest to members was £1.2m (2020: £1.2m). After charges for doubtful debts, tax and members' interest, the profit for the year was £61k (2020: Loss £82k). The budgeted result for the year was a profit of £51k after interest to members.

The Directors set the rate of interest on share capital at 0.25% throughout the financial year. These results therefore include provision for interest on share capital for the financial year to 30 September 2021 amounting to £93k (2020: £83k). Share interest is calculated on the daily balance at a rate fixed in advance by the Directors and notified to members. [See the website (www.shared-interest.com) and the FAQ section under “INVEST” for the latest position on interest at any time].

The greater part of the Society's lending is in foreign currency, with about 66% on average across the year (2020: same) denominated in US Dollars, about 30% (2020: 27%) in Euros and the balance of 4% in Pounds Sterling (2020: 7%). Customer interest rates denominated in Euros and Pounds Sterling were unchanged in 2020/21 compared with the previous year, but the rate on lending in US Dollars reduced by 0.5%, following a reduction in the US base rate. The impact of elections in West Africa, which caused some delays in lending, another year without the ability to travel due to the Covid-19 pandemic, and a generally tough lending environment, have led to a reduction in credit charge income including fees, of £209k. Note 19 to these financial statements shows that we made payments of about £59m (2020: £49m) to producers directly and on behalf of buyers during the year. The volume of payments was also affected by the global economic slowdown caused by the pandemic with some facilities drawn later than usual by customers or not utilised at normal levels. The Society has however continued to lend where necessary, developing some extra checks to seek to reduce financial risk. We see continuing demand for the Society's funding, through and beyond the pandemic, given the nature of our customers and the fact that about two thirds of lending is to organisations growing or selling coffee and cocoa.

OUR BANKING RELATIONSHIPS

We continue to work with Santander as our principal banker but maintain a current account relationship with the Co-operative Bank and members can continue to invest through that route.

Deposit income for the Society has reduced marginally to £50k in 2021. Under the banking arrangement with Santander the Society earns a very low rate of credit interest overall from its deposits with the Bank but also pays a lower margin to

REPORT OF THE DIRECTORS

borrow the currency that it needs for its lending, than it did under the former banking relationship with the Co-operative Bank. Taking account of all channels the total reduction in income for the Society is £216k compared with the year to September 2020.

We lend funds to our customers in foreign currency (we offer facilities in Pounds Sterling, US Dollars and Euros). During the year, we again converted part of our share capital into foreign currency (Euros and US Dollars) at a fixed rate using foreign exchange swap deals to convert back into Pounds Sterling at the financial year-end. This allowed us to fix an element of our borrowing costs providing a saving compared to using larger currency overdrafts. The rest of our lending was facilitated by foreign currency overdrafts secured against the remaining share capital deposited at Santander. This approach means that we can avoid speculative gains and losses being created through exchange rate movements but is dependent on a borrowing facility from the Bank. The increased share capital during the year, for which the Directors would like to thank all the Society's members – existing and new – means that we can continue to grow the work of the Society. Your ongoing support and increased future investment remain very important as we seek to continue this growth. Interest payable and similar charges include the cost of the temporary conversion of a proportion of capital discussed above. In the 2019/20 year there was also a gain of £83k described in Note 3 as "gain on derivatives". This represents a technical accounting adjustment ("mark-to-market") related to the hedging of currency requirements, details of which are set out in Note 22. It was a notional rather than real gain which simply reversed an equal and opposite charge from the 2018/19 year.

ADMINISTRATIVE EXPENSES AND BAD DEBT PROVISIONS

A breakdown of Administrative expenses is shown at Note 4 on page 16, showing that these have reduced by £158k from the previous year. The full-year effect of no travel, reduced rental costs during the pandemic and lower marketing costs with more digital activity, are the main reasons for this reduction.

An explanation of the bad debt charge in the Statement of Comprehensive Income, including an analysis of the movement in the provision, is shown in Note 11 on page 18. The charge for the year is reduced from the unusually high figure in the previous year but at £1,012k (2020: £1,166k), is still higher than budgeted. The charge reflects the difficult trading circumstances for many of our customers and the fact that lending to fair trade businesses – especially those who are more marginalised – has its risks. Regrettably, we have had to make an increased provision for a partial loss in regards to a loan to a fair trade business in a formal insolvency which is still to be completed. This case was mentioned in the financial statements in the last two years and whilst we have made some recovery of funds now, this has been at a lower level than expected and we have increased the provision on this account still further by £224k. There will be no further significant adjustment relating to this account from this point. We have also had to make partial provisions against 19 customer accounts and full provision against two others, for the first time. The major global effects

of the Covid-19 pandemic have again certainly influenced this position. A number of customers who were already facing challenges, have been further restricted in their desire to trade successfully and in a number of arrears cases where we had hoped to progress repayments, this has been delayed, leading to increased concerns of non-recovery.

RESERVES AND LENDING RISK

The result leaves the Society with accumulated reserves of £1.66m over and above the share capital of almost £51m. In addition, specific bad debt provisions are in place in relation to debts where we do not believe that the full sum is recoverable, as explained in Note 11. The role of the Society, as it has stated over the years, is to "take and share risk", rather than pass on as much risk as possible to the borrower as many commercial lenders would try to do. This means that we must expect to experience some bad debts and indeed we know that our members see it as important that we are prepared to do so in order to achieve our mission. Whilst the provision for bad debts that we have made this year has been at a higher level than normal due to the cases mentioned above, the Board continues to ensure that we learn and develop from bad debt experiences – seeking to manage the financial risk to the Society whilst staying true to our purpose of supporting vulnerable producer groups where possible. These changes include increased vigilance around larger exposures, higher levels of information required in the due diligence around fixed term loan lending and a requirement for greater use of cashflow forecasts for larger export credit facilities. The recent member survey indicated that almost 84% of members would be prepared to see the Society take some more credit risk with almost 16% happy with the current profile and only 1% indicating that they would like to see less risk. Translating this into concrete decisions across more than 200 customers is, of course, complicated. The Board is very aware that members are typically prepared to see greater risk for greater social impact but is also conscious that reserves are currently at the lower end of the range that the Board has set (see detail in the Reserves Policy section on page 9) and the Society will proceed carefully in terms of deliberately taking greater credit risks with members' capital.

INVESTMENT POLICY

The Society continues to deposit most of its capital and reserves in cash deposits with its main banker, Santander UK plc. As noted above, during the year to 30 September 2021, a large proportion of this was used to temporarily purchase the currency required for our lending. Some of the deposit was also used to back the residual currency borrowing that was also needed. The balance remained on deposit at Santander and earned credit interest for the Society. The deposits referred to above are to be distinguished from our residual deposits with social banks, which directly further the Society's object (see Note 1 Accounting Policies).

COUNCIL

The Council is appointed from members and may require the Directors to give a report to it on the progress of the Society's business and to answer questions on the Society's business. Four members are chosen randomly from the membership, with the remaining four places filled by contested elections. The following members served on the Council during the year:

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	Year first appointed
Martin Canning (retired AGM 2021)	2015
Kate Roberts	2015
Katarina Diss	2017
Geoff Shearn	2017
Andy Normandale	2018
Stephen Thomas	2019
Anjum Misbahudin	2020
Katherine Wyatt	2020
Shelagh Baird-Smith	2021

Kate Roberts concludes her term of office at the AGM in 2022 and Andy Normandale is retiring by rotation but has decided not to stand for re-election. There will therefore be two new randomly-chosen members of Council for election by members at the AGM but these are not contested. Stephen Thomas, a non-randomly chosen member, is retiring by rotation at the AGM in 2022 and is standing for re-election. This election can be contested but there are no other candidates this time round.

DIRECTORS

The following members served as Directors during the year and to the date of signing of these financial statements unless stated:

	£1 shares held 30/9/21	Year first appointed
Patricia Alexander	14,028	2006
Tim Morgan	500	2010
David Bowman (retired Dec 2020)	N/A	2012
Martin Kyndt	17,401	2012
Paul Chandler	1,698	2013
Mary Coyle (Chair)	2,009	2015
Yvonne Gale	1,100	2019
Cristina Talens	2,431	2019
Richard Anderson (appointed 14/10/20)	520	2020

Paul Chandler and Martin Kyndt will come to the end of their terms of office at the AGM in 2022. Melissa Duncan and Paul Valentin have been selected to replace Paul and Martin and will stand for election by the members at the AGM in 2022. Attendance at Board meetings has again been high with all Directors attending each of the Board meetings during their term of office. As permitted by the Rules of the Society, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

ELECTIONS

The elections will be by postal ballot. The results will be announced at the Annual General Meeting on 11 March 2022.

OTHER EXTERNAL APPOINTMENTS

Below are shown the external directorships/trusteeships of the members of the Board of Directors and Senior Management Team.

Patricia Alexander **	Newcastle High School for Girls (Chair of Governors), St Oswald's Primary School, South Shields (Governor), Newcastle Business School Advisory Board
Tim Morgan **	Ecology Building Society, Northern Dance
Martin Kyndt	Fitzroy Support (Chair), Sussex Wildlife Trust
Paul Chandler	The Co-operative Group, CBF Funds Trustee Ltd, Durham Cathedral Council (Chair), County Durham Community Foundation (Vice Chair), Bible Society, St Chad's College Durham (Vice Chair), Fair Trade Advocacy Office, North East Ambulance Service
Mary Coyle	North Tyneside CCG, Newcastle University Retirement Benefits Plan, Northumbrian Water Forum (member)
Yvonne Gale	NEL Fund Managers Ltd (Director) (The appointments below in italics are dormant or semi-dormant entities linked to the above appointment). <i>NE Growth (ERDF) General Partner Ltd (Director), NE Growth (ERDF) Carried Interest Partner Ltd (Director), NE Small Loan (ERDF) General Partner Ltd (Director), NEGF General Partner Ltd (Director), NEL EOT Ltd (Director), Northern Enterprise Limited (Director), NEGF Carried interest LLP (Designated Member)</i> Northern Society of Chartered Accountants (Deputy President), Millfield House Foundation (Trustee and Chair of Investment Committee), North East Local Enterprise Partnership - Business Growth Board (Member), Durham University MBA Advisory Board (Member), Office of the Small Business Commissioner (Non-Executive Director)
Cristina Talens	Source Sustainable Supply Chains Ltd, Leek Gears Limited, Director of Business Risk Assessments at the Wilberforce Institute (University of Hull)
Richard Anderson	Marston (Holdings) Limited, (The following appointments in italics are all linked to the main role above) <i>Marston Legal Services Limited, Moreton Smith Receivables Limited, Rossendales Collect Limited, Rossendales Limited, Swift Credit Services Limited, Task Enforcement Limited, Collectica Limited, Field Services Investment Limited, Gasworks UK Ltd, Future Energy Metering Limited, Smartworks Metering Limited, Engage Services (ESL) Limited</i>
Kerrey Baker *	Millin Trust

** Member of Senior Management Team and Board

* Member of Senior Management Team

REPORT OF THE DIRECTORS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

The law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Section 1A, and applicable law). Under 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 Society and of the profit or loss of the Society for that year. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable United Kingdom Accounting Standards, comprising FRS 102 Section 1A, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014.

The Directors are responsible for the maintenance and integrity of the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Shared Interest Society Limited is a "small organisation" as defined within Company Law and is reporting under Section 1A of FRS 102 (small entities) meaning that no consolidation of the Society's results with those of the Shared Interest Foundation is included and we have also chosen not to present the cashflow statement because this was not useful to most readers of the Society's financial statements. The Directors have also taken advantage of the small company exemptions and have not prepared a strategic report.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Society's auditors are unaware; and
- He/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

GOING CONCERN

The Board has again prepared the financial statements on the basis that the Society is a going concern. In assessing this the Directors have looked beyond the simple criteria of holding adequate cash resources and have taken the following into account in determining that this assertion is robust: a three-year business plan and detailed one-year budget, cashflow projections and agreed bank facilities, the risk management strategy of the organisation together with the long-standing support of members and the accumulated reserves of the Society.

CORPORATE GOVERNANCE

The Society has regard to an appropriate governance code, and has opted for the Charity Governance Code, as the most appropriate. Whilst this is aimed primarily at charities, the foreword notes: "Much of it will also apply to other not-for-profit organisations that deliver public or community benefit and those with a social purpose...". There are seven key provisions contained in the Code – all centred round the way in which an effective Board will provide good governance and leadership. After carefully reviewing the provisions of the Code we believe that we are compliant but recognise that we can always make improvements and see this as a continuing journey of better governance. We have reported against each of the seven provisions below:

Organisational purpose

The Board ensures that the organisation delivers its stated purpose by developing and agreeing a long-term strategy, agreeing and monitoring delivery of operational plans and budgets, evaluating results through financial and social accounts (available on our website) and by being subject to oversight by the Council of Shared Interest. The strategy was refreshed after considerable consultation with stakeholders during 2018 and a new strategic review is underway at the date of these financial statements.

Leadership

Members of the Board understand their role and responsibilities collectively and individually and are assisted in this by training and induction, a qualified Company Secretary, involvement through their other work experience in areas relevant to the Society and through good governance processes such as a schedule of matters reserved to the Board. The Directors set and safeguard the mission, values and reputation of the organisation. During the financial year, the exigencies of the Covid-19 pandemic have again meant that the Board has not received any specialist external training, but at three of its meetings the Directors have benefited from presentations given by knowledgeable colleagues from the Lending Team. These provide detailed updates of the lending performance and issues affecting the main areas of Shared Interest's lending. In May 2021 the experienced and long-term Head of Lending, Malcolm Curtis, retired from Shared Interest and a subsequent restructuring of the Lending Team meant that two colleagues moved into the Senior Management Team. We see this as a demonstration of resilience within the wider leadership team at Shared Interest. The Lending Team key areas of business are now defined as East Africa, West Africa, South America, Central & North America and Europe & Asia.

Integrity

The Board guards and promotes the reputation of the organisation and acts according to high ethical standards. This area is carefully assessed in any recruitment process with the Nominations Committee testing the alignment of candidates to Shared Interest's approach as a community

REPORT OF THE DIRECTORS

benefit society acting co-operatively. A register of Directors' interests is maintained and published in these financial statements to help ensure that any conflicts are managed properly and transparently. The Society has adopted a Code of Conduct and Safeguarding Policy to which all colleagues and Board members must subscribe and for which training is provided periodically.

Decision making, risk and control

The Board has established processes for seeking to ensure that the organisation understands and complies with all relevant legal requirements. A strong control environment is maintained and elements of this are subject to periodic internal audit (carried out through an outsourced arrangement as the Society is not large enough to support retaining its own internal auditors). The Board regularly identifies and reviews the major risks to which the organisation is exposed and has systems to manage those risks. Delegated authority to appropriate committees of the Board or the Management Team is carefully controlled. The Society maintains a schedule of matters reserved to the Board which was refreshed in December 2018.

Board effectiveness

Each year Board members contribute to a self-assessed evaluation of the performance of the Board and the Chair and individual objectives are agreed for each member of the Board. Individual performance against objectives and overall contribution to the Board is discussed annually in a meeting with the Chair. The Board has not used a triennial external evaluation of its performance and will consider whether this is appropriate to implement.

Diversity

The Board understands the value of diversity and that it is more effective if it includes a variety of backgrounds, perspectives, experiences and skills and ensures that the organisation follows principles of equality and diversity at all levels. The Society Board has succeeded in obtaining a good gender balance over recent years and comprised four women and four men at the 30 September 2021. It has done less well in other areas of diversity at Board level and will consider how to redress this as vacancies arise.

Openness and accountability

The process of choosing Directors for the Board is conducted openly with a search amongst members of the Society, in the first instance, based on a needs-assessment at the time. A member of Council is part of the Nominations Committee and any Director co-opted to the Board must retire and offer themselves for election (or rejection) by the entire membership at the next AGM. Accountability from the Board is in the form of annual financial statements and social accounts, both of which are subject to audit, the AGM and – normally – a series of four further membership events held around the country and attended by the Managing Director, the Finance Director and at least one other member of the Board and a member of Council. During 2021 it was not possible to hold these separate member events physically due to the Covid-19 pandemic, but they were instead held online which both facilitated involvement of our overseas' teams and increased membership participation. Auditing arrangements are reviewed periodically to ensure that independence remains (see Audit Committee report below).

THE MANAGEMENT OF RISK

The Directors are responsible for the management of risk and ensuring that the Society has a sound system of internal control to safeguard its assets and funds. The system of internal control is intended to manage rather than eliminate risks, and to give reasonable rather than absolute assurance. The Society operates a system of internal controls which are

designed to mitigate these risks and employs a member of the Senior Management Team with a key risk focus (Head of Risk & Compliance). The procedures used by the Directors to monitor the Society and its internal control system include:

- A strategic plan covering a number of years, which is used as the basis for annual planning;
- Annual plans and budgets;
- Regular reporting of actual performance against these plans and budgets;
- Review of the major risks to which the Society is exposed and the steps taken by management to mitigate those risks;
- Compilation and publication of annual social accounts which are approved by the Directors;
- Review and discussion with the external auditors of their audit plans and of the findings arising from their audit;
- Periodic Internal Audit of elements of the control environment.

As noted above, at least twice a year the Directors review the major risks to which the organisation is exposed, and the measures taken to mitigate those risks. The Directors' most recent annual review of major business risks identified a total of 22 significant risks. The following four of these were categorised as most significant, with the first – Credit Risk, ranked as the highest, and the other three ranked equally but likely to be less significant financially. Key mitigations are noted for each risk area:

- **Serious lending loss, caused for instance by the failure of one or more major customers (Credit Risk)**
A detailed credit proposal enables each new lending risk to be assessed and the credit policy sets prudential limits to spread risk by limiting exposure to certain commodities and countries. Annual reviews of each facility which has been granted then take place. Regular arrears' reviews take place and lead to appropriate support/recovery action. The process for assessing provisions is rigorous and is based on a monthly review of accounts involving the Head of Risk & Compliance, the Head of Lending and the Finance Director, with the Board taking a final decision as to year-end provisioning following detailed scrutiny by the Audit Committee. The Board continues to keep under review the appropriateness and effectiveness of taking security for lending in certain circumstances and with high visibility through Key Performance Indicator reporting is encouraging greater pro-active management of poor-performing accounts.
- **Competition**
Competition can come from other lenders offering different products and rates to potential or existing customers as well as from UK deposit takers (banks, building societies etc.) who may offer rates which diminish the level of investment into the Society. Whilst the former can present positive opportunities for customers and is therefore generally a positive development, the Society has to retain its delicate balance of raising capital at an appropriate cost and lending to a portfolio of customers, which works as far as possible with the most vulnerable without taking excessive risks. In recent years we have adopted an approach with our bank, Santander, which allows us to fix a proportion of the cost of borrowing the funds that we lend (in US Dollar and Euro). This gives the Society some latitude in terms of managing increases to borrowing costs for our customers so that we do not have to follow every rate rise or fall for the US Dollar or Euro.

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- **Loss caused by environmental impact on a customer**
Many of the Society's customers operate in countries and regions which are most exposed to the negative effects of global climate change. The major commodity to which the Society lends is coffee, followed by cocoa. Farmers growing these crops are increasingly being affected by climate change, be that due to pests caused by warming temperatures and wetter climates or unpredictable weather patterns. We see an increasing risk of such issues damaging the ability of our customers to run their organisations as expected, with consequent negative effects on cashflow and impaired ability to repay creditors such as Shared Interest. Whilst Shared Interest is not a climate change expert, we are working with customers to understand and support their climate change adaptation and mitigation plans where possible. Diversification of our lending in terms of geography and products is also a key part of mitigating this risk for the Society. A 2019 addition to the Board, Cristina Talens, brings considerable experience in regards to climate change and its effect on smallholder farmers in the developing world.
- **Economic recession**
Whilst the UK economy is gradually returning to pre-pandemic levels, it is clear that there will be long-term costs and negative economic effects from Covid-19 and it is very likely that these will disproportionately affect people living in the developing world. This risk therefore covers both the potential impact in the UK (members being more cautious with their investments, inflation and skills shortages) and also potential increased credit risk as customers find it harder to trade successfully and more are unable to meet their obligations.

The Directors exercise their responsibilities for risk management primarily through receiving and considering at their regular Board meetings reports from management, together with the system of internal controls.

RESERVES POLICY

The Board has set a reserves policy for the Society, which it will report against at each year-end. This has been set as a range and reflects the fact that as a not-for-profit Society the aim should be to hold sufficient but not excess reserves (the "Profit and loss account" figure at the bottom of the Statement of Financial Position on page 14 of the document this year). The Management of Risk section above, refers to a six-monthly review of the top risks facing the Society, by the Board, and these are compiled in a Risk Register which applies a standard 'likelihood multiplied by impact', scoring system to rank these. It also assigns a potential value to each of the risks occurring and an aggregate total, which is not simply the addition of each of the risks because, statistically, they are unlikely all to occur at the same time. The Board has agreed to seek to hold reserves (that is a balance in the Profit & Loss account) with:

- A minimum desired level of reserves as being three months running costs plus one and a half times the total risk cost on the latest Risk Register;
- A maximum desired level of reserves as being six months running costs plus three times the total risk cost on the latest Risk Register.

At the time of these financial statements this would give a range of £1.55m to £3.1m, with the actual figure of about £1.66m being within this range but at the lower end. Building reserves to be solidly within the desired range is a key priority of the Board and both budgeting and the risk appetite of the Society are designed to support this going forward. The budget for the 2021/22 year is to make a net profit of £150k

after interest to members, as we seek to gradually build reserves to be nearer the centre of the defined range.

AUDIT COMMITTEE

The Directors have established an Audit Committee. Membership of the Committee during the year comprised David Bowman (Chair, until retirement), Paul Chandler, Yvonne Gale (who took over from David as Chair), and Richard Anderson, all independent Non-Executive Directors. The role and main responsibilities of the Audit Committee are set out in its terms of reference, which are available on request and on the Society's website. They include:

- Monitoring the integrity of the financial statements;
- Reviewing the operation of the internal financial control and risk management systems including recommending whether to undertake specific internal audit work;
- Reviewing the independence of the internal and external auditors, and any provision of non-audit services by them;
- Overseeing the internal and external audit process and assessing its effectiveness; and
- Making recommendations to the Board on the appointment of auditors.

The Committee normally meets three times each year including space during one meeting with external auditors when management do not attend. During the year, all members of the Committee have attended its meetings. The Committee recently recommended an internal audit of data protection under its rotational focus on important areas of governance, and is pleased to report that following last year's IT security audit the Society has achieved certification under the Government backed Cyber Essentials scheme.

A full tender was held in 2021 to review the provision of external audit services and, following recommendation from the Committee, the Society has replaced PricewaterhouseCoopers LLP (PwC), its auditors for the last 10 years, with the firm of Armstrong Watson Audit Limited. Whilst the likelihood of a change was signalled at the AGM in 2021, PwC were reappointed pending completion of the tender, as the Society has a legal obligation to have an appointed auditor. Members should be aware that a short General Meeting was then held on 29 September, the result of which was to support the appointment of Armstrong Watson Audit Limited, with a resolution also passed to remove PwC as a formality (PwC chose not to participate in the audit tender and willingly stepped down).

To enable it to carry out its work, the Committee receives written reports from management, from the external auditors and, occasionally from internal audit work. These are considered by the Committee and discussed with management and the auditors as appropriate.

REMUNERATION COMMITTEE

The Directors have established a Remuneration Committee. Membership of the Committee during the year comprised Martin Kyndt (Chair), Mary Coyle and Cristina Talens, all independent Non-Executive Directors. (The Chair of the Board withdraws for any business considering their remuneration). The role of the Remuneration Committee is:

- To consider and recommend to the Board the policy for the remuneration of Executive Directors but it is not the remit of this Committee to set the remuneration for Non-Executive Directors other than for the Chair of the Board;
- To consider and determine all matters relating to the remuneration package, including terms and conditions of employment, of Executive Directors;

- To consider and determine the remuneration of the Chair of the Board in the light of policy for the remuneration of Non-Executive Directors;
- To monitor the level and structure of the remuneration package of senior staff below the level of Executive Directors;
- To discuss and recommend proposed average percentage increases for all staff in advance of the Business Plan being submitted to the Board;
- To approve the design of the parameters for performance related pay for Directors and senior management including the total annual payments made under such schemes. There is no such scheme at present;
- To consider any other appropriate matters referred to it by the Board;
- To periodically review the Remuneration Policy and recommend any changes it deems appropriate to the Board for approval.

The total remuneration of Executive Directors, including pension and national insurance payable by the Society, is set out in Note 6.

NOMINATIONS COMMITTEE

The Directors have established a Nominations Committee. Membership normally consists of Mary Coyle (Chair), Patricia Alexander (Managing Director), Martin Kyndt (a Non-Executive Director and Vice-Chair), and one member of the Shared Interest Council (Martin Canning until retirement and then Kate Roberts). Membership is temporarily varied if the work of the Committee renders involvement of any of the Directors inappropriate for a period of time. This Committee conducted the search for two new Non-Executive Directors of the Board, ahead of the planned retirement of Martin Kyndt and Paul Chandler at the March 2022 AGM. Melissa Duncan and Paul Valentin have been selected, leading to a short overlap with Paul and Martin.

CREDIT COMMITTEE

The Board has also established a Credit Committee, with a membership consisting of five Directors. These are Mary Coyle, who Chairs the Committee, Paul Chandler, Cristina Talens (all Non-Executive Directors), Patricia Alexander (Managing Director) and Tim Morgan (Finance Director). The Committee meets when major lending decisions are required between formal Board meetings and considers proposals to extend lending to existing customers or grant new facilities. It has not been necessary to hold any meetings during the year.

INDEPENDENT AUDITORS

A resolution to reappoint Armstrong Watson Audit Limited as external auditors to the Society will be put before the AGM on 11 March 2022.

By Order of the Board

December 2021

Tim Morgan
Company Secretary

Registered Office:

Pearl Assurance House
7 New Bridge Street West
Newcastle upon Tyne
NE1 8AQ

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SHARED INTEREST SOCIETY LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Shared Interest Society Limited (the 'Society') for the period ended 30 September 2021, which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the related notes, 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 Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 30 September 2021 and of its profit for the period 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 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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 Society'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 Auditors' 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

We have nothing to report in respect of the following matters in relation to which 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 disclosures of Directors remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Report of the Directors and from the requirement to prepare a Strategic report.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement on page 7, 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 Society'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 Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and

to issue an Auditors' 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.

Irregularities, including fraud are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected or alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud (including the consideration of internal controls in place to mitigate the risk of the inappropriate distribution or lending of funds) and non-compliance with laws and regulations.

In addressing the risk of fraud through management bias and override of controls, we:

- performed analytical procedures as a risk assessment tool to identify any unusual or unexpected relationships; and
- tested journal entries to identify unusual transactions; and
- tested the operating effectiveness over quarterly reporting controls on the performance of the Society's loan book; and
- tested the operating effectiveness of due diligence work on loan recipients; and
- reviewed a sample of provisions against loans and advances to customers and supporting management information; and

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation; and
- enquiring of management as to actual and potential litigation and claims.

Due to inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls. We are not responsible for preventing fraud or non-compliance with laws and regulations and cannot be expected to detect all fraud and non-compliance with laws and regulations.

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

Use of our report

This report is made solely to the Society's members 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 Society'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 Society and the Society's members for our audit work, for this report, or for the opinions we have formed.

Simon Turner (Senior statutory auditor)

Armstrong Watson Audit Limited

Chartered Accountants
Statutory Auditors

Suite 15 & 17
11 Waterloo Street
Newcastle upon Tyne
NE1 4DP

Date:

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 £'000	2020 £'000
Income receivable and similar income	2	3,315	3,531
Interest payable and similar charges	3	(120)	(177)
Net interest income		3,195	3,354
Administrative expenses	4	(2,029)	(2,187)
Profit before provisions and interest		1,166	1,167
Charge for doubtful debts	11	(1,012)	(1,166)
Profit before taxation		154	1
Taxation	7	-	-
Profit for the financial year		154	1
Interest on share capital	8	(93)	(83)
Total comprehensive income / (expense) for the year		61	(82)

The Society's income and expenditure all relate to continuing operations.

The accompanying notes on pages 15 to 21 form an integral part of these financial statements.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Tangible assets	9	111	118
Investments	10	118	123
		<u>229</u>	<u>241</u>
Loans and advances to customers	11	31,776	29,660
(Including non-current assets of £7,402k (2020: £7,789k))			
Current assets			
Cash at bank and in hand		5,389	35,069
Deposits with credit institutions	12	46,662	11,891
Other debtors	13	126	64
		<u>52,177</u>	<u>47,024</u>
Creditors falling due within one year			
Amounts owed to credit institutions	14	31,313	28,485
Other creditors due within one year	15	388	373
		<u>31,701</u>	<u>28,858</u>
Net current assets		<u>20,476</u>	<u>18,166</u>
Total assets less current liabilities		<u>52,481</u>	<u>48,067</u>
Creditors falling due after one year		-	238
Net assets		<u>52,481</u>	<u>47,829</u>
Share capital and reserves			
Share capital	16	50,730	46,148
Proposed share interest	8	91	82
Profit and loss account	17	1,660	1,599
Total reserves	18	<u>52,481</u>	<u>47,829</u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with the provisions of FRS 102 Section 1A – small entities.

The financial statements on pages 13 to 21 were approved by the Board of Directors on 15 December 2021 and signed on its behalf by:

Mary Coyle, Chair

Patricia Alexander, Managing Director

Tim Morgan, Company Secretary

The accompanying notes on pages 15 to 21 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2021

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

- a. The financial statements have been prepared under the historic cost convention and under the UK accounting policies set out below. The financial statements have been prepared under the going concern basis using consistently applied accounting policies. The preparation of the financial statements requires the Society to make judgements estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
- b. Recognition of income policy: interest on advances is recognised from the date each advance is drawn until the date it is repaid or until the Board of Directors decide that the loan and interest are likely to be, or at risk of being, irrecoverable. In practice this means that if a provision for bad debts has been made against a customer account in excess of 25% of the balance, further interest income will not be accrued in the Statement of Comprehensive Income. Whilst interest will normally still be added to the customer's account this will be taken straight to the Statement of Financial Position as an increase in the provision against that customer – meaning that there will be no effect on either the income or bad debt charge for the year in the Statement of Comprehensive Income. The Directors periodically review the provisions and especially at year-end and occasionally decide that a balance should be totally written off if there is conclusive evidence that it will not be recoverable. Fee income charged for the arrangement of lending facilities is credited to the Statement of Comprehensive Income in the year in which the facility is granted. The effective interest rate for the facilities granted to customers is not adjusted to take account of such fees as 80% of our facilities are repayable within one year and the effect of such an adjustment would be immaterial. This ratio will be kept under review and the policy would be reconsidered in the event of this position changing.
- c. Interest on loans and bank balances is credited to the Statement of Comprehensive Income as it accrues.
- d. Producer rebates recognition policy: at the discretion of the Directors, any risk premium charged to producers may be refunded annually, if that producer has operated their account satisfactorily. If a decision is made to refund risk premium, a provision is made within the accounting period during which the refund accrued.
- e. Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Depreciation has been provided to write off fixed assets on a straight-line basis over their anticipated useful life (3 to 5 years).
- f. Functional and presentation currency: The Society's functional and presentation currency is the pound sterling.
- g. Exchange rates: Monetary assets and liabilities denominated in foreign currencies are stated in the Statement of Financial Position at the equivalent value in sterling at the exchange rate prevailing at the date of the Statement of Financial Position. Transactions during the year denominated in foreign currencies are stated at their equivalent value in sterling at the exchange rate prevailing at the date of the transaction.
- h. Derivatives, including forward foreign exchange and option-based contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in Interest receivable and similar income or Interest payable and similar charges as appropriate, where the amounts are material and to do so would mean that the accounts still give a true and fair view.
- i. A "social bank" is a deposit-taking institution that employs monies deposited by the Society wholly or mainly in activities which are compatible with the Society's object, in addition to providing a return on investment.
- j. Interest on share capital is treated as an appropriation of profits in accordance with the Society's rules.
- k. Rentals payable under operating leases are charged on a straight-line basis over the term of the lease.
- l. Pension contributions: The Society makes payments to a defined contribution pension scheme on behalf of each of its employees who opt in. Pension costs charged in the financial statements represent the contributions payable by the Society during the year.
- m. Investments are stated at cost less provisions for any permanent diminution in value. Impairment reviews are performed where there has been an indication of impairment.
- n. Exemptions for qualifying entities under FRS 102: FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with. The Society has taken advantage of 2 such exemptions and no cashflow statement or strategic report is included in these financial statements.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 £'000	2020 £'000
Credit charges	3,153	3,362
Transmission charges	16	17
Deposit interest	50	54
Donations	48	76
Gain on derivatives (income)	-	7
Other income	48	15
	<u>3,315</u>	<u>3,531</u>

NOTES TO THE FINANCIAL STATEMENTS

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £'000	2020 £'000
Bank interest payable	(94)	(233)
Transmission costs	(25)	(26)
Net exchange losses	(1)	(1)
Gain on derivatives (borrowing)	-	83
	<u>(120)</u>	<u>(177)</u>

4. ADMINISTRATIVE EXPENSES

	2021 £'000	2020 £'000
Wages and salaries	1,142	1,184
Social security costs	99	92
Pension costs	95	97
	<u>1,336</u>	<u>1,373</u>
Other administrative expenses:		
Other personnel costs *	35	45
Occupancy costs	146	156
Depreciation (see Note 9)	44	60
Directors' fees	23	25
Auditors' remuneration (Armstrong Watson Audit Limited as auditors 2021, PwC LLP 2020)	22	27
Other professional fees	92	88
Marketing costs	247	274
Other operating expenses	84	139
	<u>2,029</u>	<u>2,187</u>

* Other personnel costs includes other associated costs such as training.

5. EMPLOYEE NUMBERS

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

	2021 Number	2020 Number
Full-time	32	34
Part-time	2	2

6. DIRECTORS' REMUNERATION

	2021 £'000	2020 £'000
Executive:		
Patricia Alexander	83	81
Tim Morgan (based on 3.5 days a week employment)	52	51
Non-Executive:		
Mary Coyle (Chair)	5	5
Pauline Radcliffe (retired March 2020)	-	2
Keith Sadler (retired March 2020)	-	2
David Bowman (retired December 2020)	1	3
Martin Kyndt	3	3
Paul Chandler	3	3
Cristina Talens	3	3
Yvonne Gale	3	3
Richard Anderson (appointed October 2020)	3	-
Total costs are as follows:		
Salaries (after recharge to Shared Interest Foundation for Company Secretarial time)	131	128
Non-Executive Directors' fees (as detailed above) and after rounding	23	25
Social security costs	16	16
Pension costs	12	12
Total remuneration	<u>182</u>	<u>181</u>

The process for determining the amount of remuneration for Directors is explained in the Remuneration Committee section on page 9.

NOTES TO THE FINANCIAL STATEMENTS

7. TAXATION

	2021	2020
	£'000	£'000
UK Corporation Tax		
Recovery of tax paid on prior period due to loss	-	-
Adjustment in respect of prior years	-	-
Tax	<u>-</u>	<u>-</u>
The tax assessed for the year is lower (2020: lower) than the standard rate of Corporation Tax in the UK (19%) (2020: 19%).		
Profit before taxation:	154	1
Profit before taxation multiplied by 19% (2020: 19%) during the year	<u>29</u>	<u>-</u>
Effects of:		
Differences between capital allowances for the year and depreciation	5	7
Interest allowable for Corporation Tax	(18)	(16)
Income not taxable	(9)	(14)
Disallowable costs	1	1
Losses carried forward to future years	-	22
Brought forward losses used this year	(8)	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The small company rate of Corporation Tax in the UK has been 19% with effect from 1 April 2017. Prior to this it was 20% with effect from 1 April 2011.

8. INTEREST ON SHARE CAPITAL

A provision of £91k (2020: £82k) has been made for interest payable to members accrued at a rate of 0.25% (2020: 0.25%) for the full year on member balances, (after deducting the proportion for which we hold a declaration of waiver). Interest on the share capital of a Registered Society is deductible as an expense for the purposes of Corporation Tax.

	2021	2020
	£'000	£'000
Provision at 1 October	82	72
Interest paid in year	(84)	(73)
Charge for the year	93	83
Provision carried forward at 30 September	<u>91</u>	<u>82</u>

9. TANGIBLE ASSETS

	2021	2020
	£'000	£'000
Cost		
1 October	340	340
Additions	37	20
Disposals *	(66)	(20)
30 September	<u>311</u>	<u>340</u>
Accumulated depreciation		
1 October	222	182
Charge for year	44	60
Depreciation on disposals *	(66)	(20)
30 September	<u>200</u>	<u>222</u>
Net book value		
1 October	118	158
30 September	<u>111</u>	<u>118</u>

*Disposals and Depreciation on disposals include the removal of £66k (2020: £20k) of fully written down assets with nil net book values.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS

At 30 September 2021 the Society had share investments of £118k (2020: £123k). These represent a USD denominated investment in Oikocredit of £94k (2020: £98k) and EUR denominated investments in social banks of £24k (2020: £25k). The movement in value of these investment is due to exchange differences. The Directors consider the value of the investments to be supported by underlying assets.

11. LOANS AND ADVANCES TO CUSTOMERS

	2021	2020
	£'000	£'000
Repayable:		
In not more than one year	34,596	30,897
In more than one year	7,402	7,789
Provisions for bad debts	(10,222)	(9,026)
	<u>31,776</u>	<u>29,660</u>

Bad debts

The following table explains the bad debt charge and provision for the financial year:

	2020/21	Explanation (of 2020/21 charges and year end position)	2019/20
	£'000		£'000
Provision 1 October	9,026		7,438
Released during the year	(395)	Write-offs of brought forward provision	(336)
Year-end provisions (doubtful debts)	836*	Year-end provisions include 63 producer (2020: 44) and 4 buyer (2020: 3) accounts. Newest customer is 2 years with the Society and longest is 25 years. 17 accounts are in America, 48 in Africa and 2 in the UK.	737*
Adjustment to previous provisions	132*	Amounts added or no longer needed in relation to previous provisions	429*
Income not recognised	960	Credited to provision rather than income, due to recovery of the customer accounts being doubtful	965
Effect of currency retranslation	(337)	Reflecting the changes in values of previous EUR and USD provisions	(207)
Provision 30 September	<u>10,222</u>	Total of 67 accounts represented (2020: 47 accounts)	<u>9,026</u>

* These figures together with a charge of 44k (2020: Nil) relating to write-offs/recoveries during the year, comprise the charge of £1,012k (2020: £1,166k) in the Statement of Comprehensive Income on page 13.

Provisions are based on an assessment of the recoverability of customer accounts in arrears or with known cashflow problems. Where a provision is deemed to be necessary, because there is an expectation that the Society will not recover the full amount due, a specific impairment charge will be made based on the detail of the account in question. The Society works with customers in arrears and exercises forbearance where possible, seeking to find a resolution which gives time for a customer to trade successfully again. Even when a 100% provision has been allocated and/or a debt has been fully written off the books, efforts continue to recover due amounts until such point as the Society knows that no further recovery is possible.

NOTES TO THE FINANCIAL STATEMENTS

12. DEPOSITS WITH CREDIT INSTITUTIONS

	2021	2020
	£'000	£'000
Repayable:		
In not more than three months	40,655	11,890
In not more than one year	6,007	1
	<u>46,662</u>	<u>11,891</u>

13. OTHER DEBTORS

	2021	2020
	£'000	£'000
Other debtors	3	3
Taxation and social security	23	11
Accrued income	39	4
Prepayments	61	46
	<u>126</u>	<u>64</u>

14. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2021	2020
	£'000	£'000
Foreign currency overdrafts, repayable:		
In not more than three months	(31,313)	(28,485)
	<u>(31,313)</u>	<u>(28,485)</u>

The Society has agreed a facility with its Bank under which it may draw money (as overdrafts) in certain major currencies at rates linked to inter-bank interest rates, in order to fund its foreign currency advances. The Society is required to maintain as security a cash deposit with the Bank of 100% of the facility amount. A Security Charge in favour of the Bank is in place over these deposits and this is registered at the FCA.

15. OTHER CREDITORS DUE WITHIN ONE YEAR

	2021	2020
	£'000	£'000
Amounts due to Shared Interest Foundation	6	9
Taxation and social security	25	24
Trade creditors	52	37
Unclaimed loan stock	91	151
Accruals	143	137
Other creditors	71	15
	<u>388</u>	<u>373</u>

NOTES TO THE FINANCIAL STATEMENTS

16. SHARE CAPITAL

	2021	2020
	£'000	£'000
1 October	46,148	43,071
Receipts	7,079	5,336
Withdrawals	(2,497)	(2,259)
Net inflow	4,582	3,077
30 September	50,730	46,148

Shares are withdrawable at six months' notice. During the year Directors continued to exercise their discretion to allow withdrawal on demand. The entitlement of members to the assets of the Society is limited to the shares that they hold in the Society, together with any interest declared by Directors on those shares. The face value of each share is £1. All shares have been issued and fully paid. Share capital includes £15k denominated in EUR (2020: £6k).

17. PROFIT AND LOSS ACCOUNT

	2021	2020
	£'000	£'000
Balance brought forward	1,599	1,681
Profit /(loss) for the year	61	(82)
Balance carried forward	1,660	1,599

18. TOTAL RESERVES

	2021	2020
	£'000	£'000
Increase in proposed share interest	9	10
Increase in share capital	4,582	3,077
Profit /(loss) for the year	61	(82)
Net increase in total reserves	4,652	3,005
Total reserves at 1 October	47,829	44,824
Total reserves at 30 September	52,481	47,829

19. CASH FLOW OF LENDING ACTIVITIES

	2021	2020
	£'000	£'000
Cash paid	(59,152)	(48,517)
Cash recovered	56,024	53,728
Net increase / (decrease) in funds loaned	(3,128)	5,211

NOTES TO THE FINANCIAL STATEMENTS

20. FINANCIAL COMMITMENTS

Financial commitments at the year-end under non-cancellable leases will result in the following payments:

	2021	2020
	£'000	£'000
Land and buildings		
Annual commitment for leases expiring:		
One to five years	54	55
	<u>54</u>	<u>55</u>

The Society has a lease on its Head Office location for a 10-year period with a break at five years, which was removed by agreement in Oct 2020. The annual commitment shown in the table above reflects the average, annualised payment under the lease to the conclusion of the 10-year lease in 2025.

21. SUBSIDIARY

The Society is the only member of the charitable company Shared Interest Foundation (SIF). SIF is a company limited by guarantee and registered in England and Wales. SIF's objectives are to advance education and training; and to relieve poverty, sickness and distress in all parts of the world in all respects for the benefit of the public.

Consolidation of the Society and Foundation Financial Statements is not required under FRS 102 1A. In addition, the Directors believe that the scale of the result of the Foundation compared to the Society, means that consolidation would not provide useful information to a user of these financial statements. The financial statements of the Shared Interest Foundation are available on request to the Company Secretary at the Registered Office which is the same as that for the Society (see the back of this document) and also from the Registrar of Companies or the Charity Commission.

During the year, a charge of £15k (2020: £13k) was paid by the Foundation to the Society in respect of rent and related attributable overheads and a sum of £35k (2020: £33k) was paid by the Foundation to the Society in respect of services to it provided by staff employed by the Society. Also, a sum of £4k (2020: £5k) was paid by the Society to the Foundation in respect of services provided by the Foundation's Project Manager to the Society for leading the Social Accounts process.

Income for the Foundation for the year ended 30 September 2021 was £362k (2020: £350k) and expenditure was £304k (2020: £198k) leaving the charity with total funds in the sum of £384k (2020: £326k) at the year-end.

22. FINANCIAL INSTRUMENTS

The Society has entered into contracts (known as "derivatives") to mitigate the exchange risk for certain foreign currency income during the year ended 30 September 2022. At 30 September 2021 the Society had entered into forward exchange contracts with a commitment to sell USD 1020k and EUR 336k and receive a fixed sterling amount. The Society had also entered into option based contracts which mean that the Society may also have to sell USD 1,000k and EUR 330k depending on market exchange rates at four quarter ends (December 2021, March, June and September 2022). These contracts all mature within 12 months of the year end. In 2020 there were no similar contracts that were outstanding at the year end maturing prior to 30 September 2021. Equivalent contracts were booked in October 2020.

The Society has also entered into forward foreign currency exchange contracts to the value of just under £28m to provide (and fix the cost of) a proportion of the currency required for lending within 12 months of the year end. The cost of this will be shown in the Statement of Comprehensive Income to which it relates in the 2021-22 year.

The Society has no interest rate derivative financial instruments (2020: none).

SHARED INTEREST

Pearl Assurance House
7 New Bridge Street West
Newcastle upon Tyne
NE1 8AQ

0191 233 9100
www.shared-interest.com

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Coffe beans produced by Cecafe Cooperative in Peru



The Shared Interest Social Accounts are available to download from our website.
Shared Interest Society Ltd is registered with the Registrar of Mutual Societies, number 27093R.

