

To : **Members of North Castle and Edinburgh Credit Union Ltd.**
(trading as Castle Community Bank)

From : **Ian Irvin**
Chairman

Re : **Report to the Members for the Annual General Meeting 29th March 2021**

It is fair to say the last year has been difficult for everyone due to the coronavirus pandemic and I hope you and your family are safe and well. As we approach our Annual General Meeting (AGM) I would like to update you on recent developments in our community bank. At our last AGM you approved our plan to grow the business and I would like to highlight our progress to date.

- In September we received approval of our new common bond from the regulator
- We have since raised capital to reopen our business
- Grown our loan book by 300% to over £2.6m and raised deposits of £3m
- Appointed Adrian Sargent as Chief Executive Officer

Regrettably, we have had to close our Craigmillar Branch due to the financial realities of the world in which we operate.

A lot of focus has been on our people and we are delighted to appoint Adrian to lead our business in the coming years. Adrian has excellent financial services experience and you'll hear from Adrian at the AGM on the next stages of our journey. We had already made changes to strengthen the team ahead of Adrian joining.

- Margaret Strachan has been appointed to role of Operations Manager and has done a fantastic job in restarting our operations
- Paul Drury has joined us on part time basis as our Loans Officer supporting Margaret

We have also had some changes since the last AGM to our Board of Directors. My predecessor as Chairman, Willie McEwan, has stepped down from the Board, as has Jan Myerthall, and I would like to extend a particular vote thanks to them both for their support and service to the Credit Union these past several years. I am very clear that we would not be where we are today had it not been for the support and input from both Willie and Jan, and indeed from all our former Directors and staff. We also sadly lost Owen Thomas, one of our volunteers, who passed away during the year. He had been a great support to the Credit Union, and he will be greatly missed. I would also like to express my personal thanks to Michael Cockburn who has served us for the past few years as our General Manager, having stepped down from that full time position a few months ago.

We have had three new additions to our Board of Directors, being Emma McNeil, Austin Flynn, and Mary Jane Brouwers. Emma has been working with us for some time and she has been supporting us in a wider marketing sense, also working to develop our web site. Austin is a partner at Morton Fraser, solicitors, and he brings to the Board of Directors a wealth of experience in the commercial arena. Mary Jane has joined us from the world of finance, and I am delighted to be able to advise Members that she has assumed the role of Treasurer.

I have a few specific points that I would like to bring to Members' attention, which I now note as follows:

Common Bond

We lodged our revised Rule Book with the Financial Conduct Authority (FCA), keeping the Prudential Regulatory Authority (PRA) advised, immediately following our AGM on 24th March 2020 and our expectation, at that time, was that the requisite approvals would be secured within a two-to-three-week time frame. It took us until September 2020 before we were able to secure the final approval from the FCA and, having done so, secure an appropriate sign off from the PRA. There were no material changes that arose because of the examination by the FCA, albeit that there was a great deal of analysis undertaken by them, but the delay in concluding the formalities was because of operational challenges that the FCA faced due to the pandemic.

Accounts

The accounts reflect the somewhat stagnant state of trading activities during the year to 30th September 2020, but we were able to secure additional Regulatory Capital in the run up to our year end, as a result to which we have been able to maintain our 5% Capital Adequacy Ratio, which we need to continue to be able to offer Fixed Term Deposits to our Members, and indeed to potential Members. My colleagues and I, together with our auditor, would be more than happy to answer any questions that Members might have regarding our accounts.

Supervisory Committee

The Supervisory Committee resigned earlier in the year and, despite our best efforts, we have been unable to replace the committee. The reality is that the complexities arising from our expanding operation are such that the pool of suitable candidates to serve on the Supervisory Committee is limited.

I have discussed this, at length, with the PRA as this is something of a common problem amongst other Credit Unions. There are currently provisions within Rule Book for the Supervisory Committee to outsource their function to an internal auditor and the Board of Directors have decided to appoint an internal auditor, Alexander Sloan, to provide the sort of challenge being sought by the PRA. They have specialist knowledge of Credit Unions and their input will be extremely valuable.

The sole reliance on an internal auditor places us slightly at odds with the current Rule Book and the Board of Directors have decided to consider the complete removal of the requirement for a Supervisory Committee, relying instead on an internal auditor providing the oversight being sought. This would require a material change to our Rule Book, which I have discussed, at length, with both the FCA and the PRA, but clearly this is a matter for the Members to consider.

The change, in my view, would be a pragmatic one, but nonetheless it is a fundamental change to the very structure and makeup of the Credit Union, and the Board of Directors are not inclined, at this AGM, to formally request such a change, from Members, to our Rule Book, although we may well do so next year as our relationship with Alexander Sloan evolves.

Directors Fees

It was agreed at our AGM last year that the principle of paying a fee to Directors for attendance at Board Meetings, and indeed Committee Meetings, was reasonable but that there should be an annual review regarding the daily rate, said rate to be approved at the AGM. The Board of Directors do not intend to make any changes to the current daily rate, being £ nil per day. As the business

grows we will be putting in place controls and committees to ensure the good governance of the bank, one of these committees will be a remuneration committee which will consider pay and reward for all engaged with Castle Community Bank. This will also include any remuneration for the newly appointed Treasurer who will also be a Director.

I very much look forward to meeting with you all at the AGM but, in the meantime, if there are any items that you would like to have clarified then please do not hesitate to get in touch. Kindest regards.

Ian Irvin

Ian Irvin
Chairman

12th March 2021