

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

From : **Ian Irvin**
Chairman

Copy : **Board of Directors**
Auditors

Re : **Extraordinary General Meeting – Executive Summary**

We have called this Extraordinary General Meeting (EGM) of the Credit Union to be held at 15:00 on Wednesday, 29th September 2021 (details enclosed) principally to seek approval from the Members of a substantially updated Rule Book.

The last time that we did this, being March 2020, we included a schedule that indicated, on a line-by-line basis, the various changes that had been made to the previous Rule Book but, on this occasion, such an approach is not going to be practical given the scale of the changes being made. The reality is, however, that we are only making four material changes to the Rule Book, but the mechanics associated with so doing are such that these four changes, outlined below, have resulted in quite a lot of the text, from the currently approved Rule Book, being deleted and replaced. To that end, I have attached to this notice the Rule Book that was approved by the Members in March 2020, together with a schedule of tracked changes showing the movement from this Rule Book to the new, substantially updated, Rule Book, a clean copy of which is also attached, and it is the approval of this clean copy that is the underlying reason why this EGM has been called.

The previous Rule Book change enabled us to start on our current journey, and the recent recruitment of a CEO has been an essential part of this process. Most Credit Unions do not have a CEO, instead being run by committees rather than a conventional Board of Directors, therefore our business model is arguably more commercially focused, and the changes being sought, by means of this EGM, seek to reflect this new reality.

The four main changes are as follows:

1. Increasing the Scope of the Common Bond
2. Establishment of an Internal Audit function
3. Director Compensation and CEO Board appointment
4. Rule Book Modernisation

Increasing the Scope of the Common Bond

You will note from the accompanying commercial update from my colleague, Adrian Sargent, CEO, that we have made considerable progress over the past several months. The reality is, however, that there are many more potential Members that we would like to bring into the Credit Union, but that we are unable to do so because their Employment Code falls outside of the scope of the current approval that is in place. We have discussed this, at length, with both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and the consensus from the Regulators is

that we can increase the quantum of Employment Codes provided that, in so doing, we do not seek to capture all of the internationally recognised Employment Codes.

The main focus of the Credit Union, in terms of our objectives, is to support the financially disadvantaged in our midst, and the more people that we are able to reach out to then the greater is our ability to meet this objective. Increasing the scope of the Common Bond by bringing in these additional Employment Codes will allow us to continue to grow the Credit Union in a manner that would be in keeping with our overriding objective.

The broadening of the Common Bond also allows the Credit Union to access a wider pool of depositors and therefore decrease the risk that we cannot raise sufficient funds to settle our existing deposits as they mature. This is key to ensuring that the Credit Union will still be there for our Members in the future.

Establishment of an Internal Audit function

The establishment of an internal audit will allow us to ensure that the systems being operated by the Credit Union perform as they should, and it will also provide challenge and oversight to the Board of Directors to ensure that my colleagues and I are operating in a manner that is consistent with both the legislation, and the Rule Book. This function had previously been undertaken by a Supervisory Committee but having discussed this, at length, with the FCA it is the case that most Credit Unions do not engage a Supervisory Committee, despite there usually being a note in their Rule Books requiring them to do so, and instead they appoint Internal Auditors to undertake this function.

I am pleased to be able to advise you that we have already appointed a firm of Internal Auditors and we will be reporting on their activities at the next Annual General Meeting (AGM).

We have also now made provision within the new Rule Book for the specific appointment of the Internal Auditors, with whom we have also agreed suitable Terms of Reference, although it should be noted that the current Rule Book also refers to Internal Auditors. The reality is, however, that reference to the Supervisory Committee is made several times in the current Rule Book and that, as a result, the removal of this requirement, in and of itself, has resulted in many changes within the Rule Book, as is evident from the tracked changes schedule attached.

Director Compensation and CEO Board appointment

There are two related issues regarding Director compensation. The first is that we have appointed our CEO to the Board of Directors, which is contrary to the current Rule Book. My own view on this is very clear in that I see little merit in the CEO presenting information to the Board of Directors, seeking their agreement on a given topic, without the CEO being both party to the decision taken and, as a Director, actually living with the decision taken. I am therefore firmly of the view that, from the standpoint of Corporate Governance, having the CEO as a full member of the Board of Directors is of the utmost importance. We have therefore edited the Rule Book to cover the situation where employees, which would include the CEO and others, can serve as full Members of the Board of Directors.

Given the skill set of the current CEO, and indeed given the skill set of the current Treasurer, then, in my view, it is imperative that we have a majority of Non-Executive Directors serving on the Board of Directors with the skill sets necessary to hold the Executive to account, at Board level. This has

resulted in some recent changes to the Board of Directors, the upshot being that in order to attract suitable talent then we need to pay a market rate to secure the services of said individuals to serve as Non-Executive Directors. The Rule Book, as currently approved, allows the Credit Union to pay a daily rate for these appointments, the current rate being nil, and what we are now proposing is for all Directors to be paid at a market rate, taking full account of the nature of our business as a Credit Union and of our primary objective, being to support the financially disadvantaged in our midst. The Board of Directors have sought advice regarding what might be regarded as a suitable market rate, and this will be presented to Members for approval at the Annual General Meeting, and, if appropriate, at an Extraordinary General Meeting. The proposed day rate of Non-Executive Directors, being all Board Directors excluding the CEO, based on a market analysis is £350, which is below other similar financial institutions.

We have established both a Nominations Committee and the Remuneration Committee and it is the view of the Board of Directors that, between them, these two committees should be able to make recommendations to the Board of Directors to allow us to appoint appropriate individuals, doing so at a sensible rate of compensation.

Rule Book Modernisation

There are several rules contained within the current Rule Book that are outdated when set against more modern business norms and practices. We have sought to remove a number of these anomalies, replacing them with more modern wording, to achieve a Rule Book that can be relied upon to hold the Board of Directors to account in a more rational and acceptable manner. The Directors believe that the Rule Book, which the Members are being asked to approve is a workable document from the standpoint of Corporate Governance that fully complies with statute.

Conclusion

The Board of Directors are seeking the approval from the Members regarding the adoption of the substantially updated Rule Book for North Edinburgh and Castle Credit Union Ltd., trading as Castle Community Bank, and the Resolutions being laid before the Members are with this objective in mind.

I hope that the above, and the attached, is of value to you as a Member of the Credit Union and that you will support the Board of Directors by passing the Motions laid before you. That said, please do not hesitate to get in touch with me should there be any aspect of that which is proposed that is of concern to you. Kindest regards.

Ian Irvin

Ian Irvin
Chairman

2nd September 2021