Castle Community Bank

Castle Community Bank

Annual Report and Accounts 2022

Contents


Castle Community Bank
Leith
49 Great Junction Street
Edinburgh
EH6 5HX
0131 466 5006
Castle Community Bank
Savings and loans · Fair and square
castlecommunitybank.co.uk

Credit union information

Legal Entity Name:	North Edinburgh and Castle Credit Union
Trading Name:	Castle Community Bank
Directors:	S Pearson D Reid M J Brouwers K Mountford A Sargent
Secretary:	M J Brouwers
Registered Office	49 Great Junction Street Edinburgh EH6 5HX
FCA & PRA FRN	213877
FCA Mutuals Registration Number	19CUS
Auditors	Sharles Audit Limited Statutory Auditor 29 Brandon Street Hamilton ML3 6DA

Chair's report

Dear members

I am delighted to give you this, my first report as Chair of the Board of Castle Community Bank, having been appointed in September 2022. At the outset, I wish to acknowledge the tremendous work of my predecessor, Ian Irvin, who retired in September but remains a friend and supporter of Castle Community Bank. We wish Ian well for a long and active retirement.

2022 is proving to be one of the most challenging years anyone can remember. The cost-of-living crisis, compounded by political uncertainty, rising inflation and a fragile economy, means that we are all facing a very difficult winter in 2022/23, with significantly higher fuel bills and household costs. Whilst this is a huge challenge for our members and the wider public, I strongly believe that the credit union movement in the UK has much to offer struggling households. Our aims are enshrined in the Credit Union Act 1979 and remain as relevant as ever:

- to encourage thrift
- provide fair savings and loans products and
- encourage financial education

You may recall from previous reports that Castle Community Bank took a cautious view towards the end of the lockdown years. We reduced lending levels during 2020 and focused on building a modern credit union that could offer growth and sustainability to its members rather than contraction and losses. Our partnership with Amplifi Capital (U.K) Limited, who provide a modern platform for Castle, has resulted in substantial growth in lending and deposit levels, to the point today where we are one of the largest credit unions in Scotland and the United Kingdom.

Your Board and Management team are to be commended for exercising caution at every stage of this growth story. We have prudently reviewed credit decisions and regularly consulted with our regulators to ensure that we are meeting all regulatory and capital requirements. We have consistently reviewed our products from our members' perspectives, to ensure that they are both useful and affordable. I am pleased to say that this cautious approach to growth has led to an excellent financial performance in 21/22 as you will see from our accounts which are attached. In summary the results for the year are as follows:

- Surplus before tax for the year £360,326
- Loans and advances to members increased from just under £15 million in the year to September 2021 to over £61 million at 30 September 2022.
- 13,670 members at 30 September 2022

All of this means that we are now equipped to give more back to our members and our communities, starting in North Edinburgh where we are based. For example:

- I am delighted to announce a new relationship with the well-respected UK charity Christians Against Poverty and their partners in North Edinburgh, the Mustard Seed. We are providing financial support for their excellent debt advice work as well as signposting it from our branch.

- We continue to support three foodbanks in Edinburgh and the Lothians. The foodbanks supported are Edinburgh North East, which supports the area around our branch in Leith, the Community Alliance Trust supporting residents of Craigmillar, and the Lauder Larder Community Foodbank in the Borders.

- We are working with the Fintech Snoop, whose clever mobile phone app allows customers to monitor their finances and make real savings on household bills on a daily basis.

We look forward to delivering further and more broad ranging Financial Inclusion projects in over the coming years and I hope to tell you about those in future reports. The future financial wellbeing for our members is why we are all proud to work for Castle Community Bank, a community-based bank that is more about purpose than profit and genuinely cares for our members and the issues they are facing.

Finally, I'd like to thank our CEO Adrian Sargent and his excellent team of professional bankers who work so hard to make this a true community bank. Adrian has made some key additions to the team over the past year to strengthen our capability and prepare for further growth.

Thanks also to my fellow Board directors for their guidance, supervision and constructive challenge through the year.

And last, but not least, I'd like to thank each and every one you, our members, for your support and trust – without you there would be no community bank. Whether you have been with us for years or have only recently joined us, I hope that you will continue to support a bank with a difference – your community bank.

W S Pearson

W Stephen Pearson (Dec 28, 2022 14:23 GMT)

Stephen Pearson
Chairman Dec 28, 2022

Castle Community Bank

The Board

Stephen Pearson

Chairman

A former lawyer from the City of London, Stephen led legal teams at RBS Group and Virgin Money where he was General Counsel. Having retired from banking in 2019, he is a Fellow of the Chartered Banker Institute and sits on its board. A long-time advocate for financial inclusion, Stephen sits on the Advisory Board of Salary Finance, the payroll loan and financial wellbeing provider. He has also recently been appointed Chair of Financial Inclusion Scotland, a collective hosted by Social Investment Scotland set up to tackle financial exclusion. Stephen is Chair of well-respected charity Leuchie House, which is Scotland's National Respite Centre for people with neurological conditions.

Kevin Mountford

Deputy Chairman

Kevin has operated in a range of Snr Management & Exec roles over the last 30 years and has been employed by several large UK brands. His career included a period as 'Head of Affinities' for HBOS, responsible for a broad range of third-party relationships. He went on to join moneysupermarket.com as channel 'Head' running several of their 'Money' business areas including Cards, Mortgages and Savings.
In 2011 he took the reins at start-up consultancy & marketing business Plan B Funding (PBF), specialising in assisting banks to raise retail deposits in the UK and wider Euro market. He led negotiations with Raisin GmbH and PBF is now part of one of Europe's leading Fintech businesses. He is also a non-executive director of two North West based businesses and is an Advisory Board member of FinTech North.

Mary Jane Brouwers

Treasurer, Chair of Audit, Nominations and Remuneration Committee

Mary Jane has held several non-executive director roles over the last 20 years. She is currently a non-executive director of GU Holdings Limited and a trustee of Museums Galleries Scotland, where she chairs the Audit and Risk Committee. Mary Jane has been working in early-stage equity investments since joining Bank of Scotland in 1997 and has subsequently worked with a range of different investors including SIS Ventures (Scotland's leading impact investor), Archangel Investors Limited (a prominent business angel group), and the Scottish Investment Bank. Mary Jane is a member of Changing the Chemistry and an active contributor to the work of Women's Enterprise Scotland. She is also a Member of the Institute of Directors and an ACMA, CGMA qualified accountant.

Douglas Reid

Money Laundering Reporting Officer

Douglas came to live in Edinburgh from the Highlands when studying law at the University of Edinburgh. He has advised individuals, companies, families and businesses throughout his career on common sense solutions, as well as negotiating the legal landscape. As well as being a busy husband and father, Douglas also serves as a Charity trustee. In the unlikely event of having any free time, Douglas likes to get some sleep.

Adrian Sargent

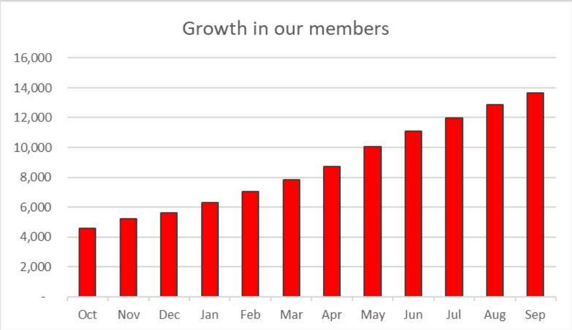
Board Member and Member of Board Audit, Risk, Nominations and Remuneration Committee

Adrian's career in banking, spanning over 25 years, has included senior roles at several financial services companies (Morgan Stanley, HBOS, Tesco Bank, BlackRock, Virgin Money). He has extensive experience in building, developing and managing banking teams, problem solving and aligning to regulatory requirements. He has a passion for all related items to the Environment, Social and Governance matters and alongside his role at Castle Community Bank actively promotes and contributes to developing a sustainable economy. Adrian is a chartered accountant and Fellow of the Association of Corporate Treasurers.

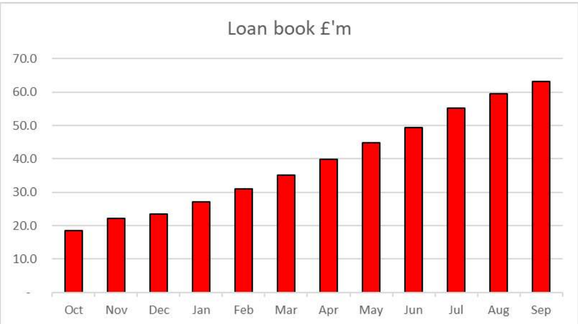
Chief Executive's Report

Over the past year we have seen the UK emerge from Covid and be gripped by the cost-of-living crisis. Through this Castle Community Bank has grown to be a major player in UK credit unions therefore reaching more members and providing them with "Savings and Loans. Fair and Square".

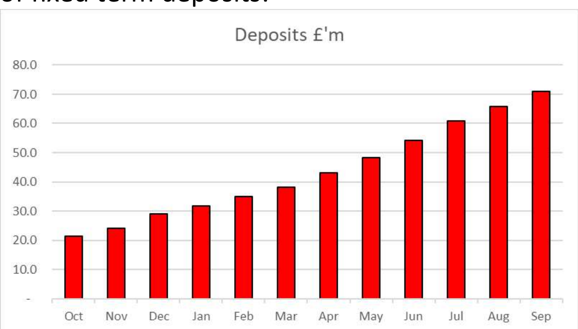
Our members have grown from 3,692 to 13,670:



9,847 loans issued totalling £61.8m to those who may have struggled to access mainstream banking:



Our members deposits have grown from £18.9m to £71.1m with Castle Community Bank being able to often offer top of market rates to members as well as being able to offer the same or better rate at maturity of fixed term deposits:



Despite these difficult times Castle Community Bank has been able to generate a surplus of £360k eliminating prior year losses and returning Castle Community Bank to net positive retained earnings for the first time.

Whilst as a business we see headwinds due to the cost-of-living crisis, increasing interest rate environment and the higher burden faced by many of our members, we are focused on managing our way through this as the business develops. We expect to see increasing bad debts as our members face increasing financial difficulty. We are focused on helping these members as well as ensuring we protect all our members' interests by making sure our lending is responsible and affordable.

As inflation started to increase Castle Community Bank adjusted the affordability metrics to take into account the rising cost of living. Whilst our new loan business volumes were reduced as a result, we are hopeful this means we have not been lending to those who were unlikely to afford the loan repayments in the future.

During 2023 we will see increased provisioning as the loan book both seasons and reacts to the cost-of-living crisis.

Castle Community Bank has a strong and growing relationship with Amplifi Capital (UK) Ltd and My Community Finance (MCF); their consumer facing brand to whom a large amount of work is outsourced. In addition, to diversify our footprint through 2022, Castle Community Bank started to utilise Raisin Platforms UK to raise member deposits. This enables an element of both diversification and contingent funding line allowing Castle Community Bank to raise member deposits independently.

Through our outsource arrangement with MCF our loan process is online, automated and easy to use for our members both new and old.

community myfinance raisin

We care about the financial wellbeing of our members and we are developing our financial education and resource tool.

In addition to the financial wellbeing tools, we are supporting food banks in our community and not-for-profit debt advisory agencies.

The Lauder Larder

Whilst the economic outlook is poor, we look forward to growing our member offering over the coming years, growing our membership and serving our members over the long term. We are active in the social space and are looking to develop deep and long-standing partnerships to advance credit and access to banking to those who are excluded and find it difficult to access mainstream banking. We aim to achieve this through innovation and technology.

Castle Community Bank's aim is to build a strong, sustainable, resilient, and independent credit union that is able to offer fair priced products and encourage thrift and a strong savings culture.

Recent surpluses are being reinvested into the business and our members, building a stronger and more sustainable community bank that supports its members.

We are committed to supporting the four overriding objectives in the credit union act:

a) the promotion of thrift among the members of the society by the accumulation of their savings
b) the creation of sources of credit for the benefit of the members of the society at a fair and reasonable rate of interest
c) the use and control of the members savings for their mutual benefit
d) the training and education of the members in the wise use of money and in the management of their financial affairs.

We also continue to support the wider credit union sector, both through our membership of the association of British Credit Unions, ABCUL and wider engagement, to grow and thrive. The mutuals sector has much to offer many, now and well into the future.

Here's to a bright future for our members and the credit union.

Adrian Sargent CA FCT
Chief Executive Officer
Castle Community Bank

Directors Report

The directors present their report with the financial statements of the credit union for the year ended 30 September 2022.

Principal Activity

The principal activity of the credit union in the year under review was that of providing community loans and savings to various parts of the United Kingdom.

Review of Business

The directors are satisfied with the results for the year under review. Some financial key performance indicators are set out in the table below to show the performance of the credit union over the trading year.

	Year to 30 September 2022	Year to 30 September 2021
Net interest income	**£5,593,896**	£808,757
Surplus after taxation	**£360,326**	£104,399
Capital Asset Ratio	**9.8%**	7.2%
Liquidity	**20%**	24%

Dividends

A dividend of 3% will be proposed at the forthcoming AGM for dividend bearing member deposits.

Future Developments

The directors have considered the impact that the war in Ukraine and the emerging macro-economic impact of sanctions on Russia and the Covid-19 pandemic have on the ongoing activities of the credit union.

This includes the potential impact of reduced levels of income for a period of time, the effect of a short-term shut-down and the availability of government assistance to individuals during this difficult period. The directors expect the credit union may experience a reduction in surpluses while these conditions persist but with the cumulative reserves the directors are confident the credit union can continue as a going concern.

Directors

Details of changes in directors in the year are shown in the table below

Director	Date of appointment	Date of resignation
S. Pearson	22 September 2022	
I. Irvin		30 September 2022
K. MacDonald		1 November 2021
A. Flynn		28 April 2022
A. Mathieson		31 March 2022

Compliance Statement

The credit union is required to maintain and test a single customer view (SCV) file for submission to the FSCS in the event that the credit union is wound up. The directors are aware of their responsibilities in respect of single customer view and completed a successful test in January 2022.

The directors also confirm the following as required by Section 10.1 of the PRA Credit Union Rulebook:

- the credit union carried out lending activity within the PRA Credit Union rulebook and we can confirm that we meet the requirements for carrying out this activity.
- the credit union had sufficient fidelity bond insurance throughout the year.

Statement of Directors Responsibilities

The directors and committee of management are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the credit union at the end of the financial year, and of the income and expenditure of the credit union for that year.

In preparing these financial statements they are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent; state whether accounting standards have been followed, and give details of any departures; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the credit union will continue in business.

They are also responsible for:

- ensuring that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Credit Union Act 1979; keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the credit union; and
- comply with the rules set out within the Prudential Regulatory Authority Credit Union Rulebook; safeguarding the credit union's assets; and maintaining a satisfactory system of control over the accounting records and transactions. Taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to Disclosure of Information to Auditors

So far as the directors are aware, there is no relevant audit information of which the credit union's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the credit union's auditors are aware of that information.

Auditors

The auditors, Sharles Audit Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

Mary Jane Brouwers.
Mary Jane Brouwers. (Dec 30, 2022 11:35 GMT)
....

Director
Date: Dec 30, 2022

Opinion

We have audited the financial statements of North Edinburgh and Castle Credit Union Limited (the 'credit union') for the year ended 30 September 2022 which comprise the Revenue Account, Balance Sheet, Cashflow Statement, Statement of Changes in Retained Earnings and Notes to the Financial Statements. 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 credit union's affairs as at 30 September 2022;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Credit Union Act 1979 and the Co-operative and Community Benefits Society 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 credit union in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Boards' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the credit union's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information in the Directors' report, other than the financial statements and our Report of the Auditors thereon. The Board is responsible for the other information.

Our opinion on the financial statements does not cover the other information and 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

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefits Society Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of controls over transactions has not been maintained; or
- the credit union has not kept proper accounting records; or
- the rules set out within the Prudential Regulatory Authority Credit Union Rulebook have not been complied with; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page twelve, the Board is 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 Board determines 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 Board is responsible for assessing the credit union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the credit union 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 a Report of the Auditors 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:

The aims of our audit are to identify and assess the risks of material misstatement of the financial statements as a result of fraud or error, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement as a result of fraud or error and to respond appropriately to those risks. As a result of the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures include the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the credit union and the sector in which it operates. We determined that the following laws and regulations were most significant: the Co-operative and Community Benefits Society Act 2014 and the Prudential Regulatory Authority Credit Union Rulebook
- We obtained an understanding of how the credit union complies with those legal and regulatory frameworks by making inquiries of management. We undertook a review of legal fees for any evidence of non-compliance.
- We assessed the susceptibility of the credit union's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the audit team included:
- identifying and documenting the controls management has in place to prevent and detect fraud and error;
- understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
- challenging assumptions and judgements made by management in its significant accounting estimates;
- identifying and testing journal entries, in particular any journal entries posted for large or unusual amounts;
- assessing the extent of compliance with relevant laws and regulations; and
- sample testing of transactions and balances.

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 Report of the Auditors.

Use of our report

This report is made solely to the credit union's members, as a body, in accordance with Co-operative and Community Benefits Society Act 2014. Our audit work has been undertaken so that we might state to the credit union's members those matters we are required to state to them in a Report of the Auditors 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.

Sharles Audit Ltd
Sharles Audit Ltd (Dec 30, 2022 12:52 GMT)

Sharles Audit Limited
Statutory Auditor
29 Brandon Street
Hamilton
ML3 6DA

Date: Dec 30, 2022

Revenue Account

	Notes	2022	2021
		£	£
Loan interest receivable and similar income	3	**6,229,414**	854,195
Interest payable	4	**(635,518)**	(45,438)
Net interest income		**5,593,896**	808,757
Fees and commission payable	5	**(2,882,171)**	(371,437)
Other income		**8,400**	86,600
Administrative expenses	6	**(695,215)**	(120,035)
Depreciation and amortization		**(3,764)**	(6,811)
Other operating expenses	7	**(572,376)**	(164,501)
Impairment losses on loans to members		**(1,088,440)**	(128,171)
Surplus before taxation		**360,330**	104,402
Taxation	9	**(4)**	(3)
Surplus for the financial year		**360,326**	104,399
Other comprehensive income		**-**	-
Total comprehensive income		**360,326**	104,399

The notes form part of these financial statements

Balance Sheet

	Notes	2022	2021
		£	£
ASSETS			
Cash at bank		**14,506,801**	4,652,705
Loans and advances to members	10	**61,183,704**	14,960,813
Tangible fixed assets	11	**18,292**	25,043
Debtors & prepayments	12	**4,339,360**	1,043,765
Total Assets		**80,048,157**	20,682,326
LIABILTIES			
Subscribed capital - repayable on demand	13	**70,982,444**	18,997,624
Subscribed capital – deferred shares		**7,762,787**	1,732,787
Other creditors and accruals	14	**1,181,850**	191,165
		79,927,081	20,921,576
Retained earnings		**121,076**	(239,250)
Total liabilities		**80,048,157**	20,682,326

The financial statements were approved by the Board of Directors and authorised for issue on Dec 30, 2022 and were signed on its behalf by:

W Stephen Pearson (Dec 28, 2022 14:23 GMT)
....
S Pearson - Director

D Reid (Dec 30, 2022 12:28 GMT)
....
D Reid - Director

Mary Jane Brouwers. (Dec 30, 2022 11:35 GMT)
....
MJ Brouwers - Director

The notes form part of these financial statements

Statement of Changes in Reserves

	2022	2021
	£	£
As at 30 September 2021	**(239,250)**	(343,649)
Total comprehensive income for the year	**360,326**	104,399
As at 30 September 2022	**121,076**	(239,250)

The notes form part of these financial statements

Cash Flow Statement

	Notes	2022	2021
		£	£
Cash flows from operating activities			
Surplus/(deficit) before taxation		**360,330**	104,402
Adjustments for non-cash items:			
Depreciation		**3,764**	6,811
Impairment losses		**1,048,293**	63,091
		1,052,057	69,902
Movements in:			
Accrued interest		**(101,034)**	(95,724)
Other assets		**(2,750,602)**	(885,605)
Other liabilities		**541,453**	128,584
		(2,310,183)	(852,745)
Cash flows from changes in operating assets and liabilities			
Cash inflow from subscribed capital		**6,030,000**	1,303,512
New loans to members		**(67,976,282)**	(17,363,708)
Repayment of loans by members		**20,705,098**	2,970,520
		(41,241,184)	(13,089,676)
Taxation paid		**(3)**	(64)
Net cash flows from operating activities		**(42,138,983)**	(13,768,181)
Cash flows from investing activities			
Purchase of property, plant and equipment		**2,987**	(3,300)
Net cash flow from managing liquid deposits		**51,990,092**	17,853,617
		51,993,079	17,850,317
Net increase/(decrease) in cash and cash equivalents		**9,854,096**	4,082,135
Cash and cash equivalents at beginning of year		**4,652,705**	570,569
Cash and Cash equivalents at end of year		**14,506,801**	4,652,705

The notes form part of these financial statements

Notes to the Financial Statements

1. Statutory Information

The credit union is registered under the Co-operative and Community Benefit Societies Act 2014 and operates as a Credit Union within the meaning of the Credit Union Act 1979. The credit union has registered with the Financial Conduct Authority and Prudential Regulatory Authority under the provisions of the Financial Services and Markets Act 2000.

The presentational currency of the financial statements is the Pound Sterling (£).

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 the credit union has deferred shares and interest-bearing shares.

2. Accounting policies

Basis of preparing the financial statements
The financial statements have been prepared, in accordance with the Co-operative and Community Benefit Societies Act 2014, Credit Unions Act 1979. These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Any departures from the standard are detailed in the accounting policies.

The financial statements are prepared on the historical cost basis.

Going concern
The financial statements are prepared on the going concern basis. The directors of the credit union believe this is appropriate despite a mismatch in the maturity analysis of subscribed capital and loans to members.

In the opinion of the directors this is due to a significant amount of subscribed capital not being redeemable at short notice unless loans with the same member have been repaid. The credit union also benefits from having an element of its subscribed capital that is deferred.

Income
Loan interest receivable and similar income: Interest on both loans to members and loans to banks (i.e., cash and cash equivalents held on deposit with other financial institutions) is recognised using the effective interest rate method and is calculated and accrued on a daily basis.

Where the loan interest rate for members loans has been reduced to zero, the credit union does not account for any loan interest on these loans, as the credit union will not seek to recover this loan interest. This policy does not meet with the requirements of FRS102. However, as a result of this policy, there is no net effect on the surplus or deficit for the year nor net assets of the credit union as an equal and opposite impairment provision would be required should this loan interest be included.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

Other operating income

Fees, charges and other operating income either arise in connection with a specific transaction, or accrue evenly over the year. Income relating to individual transactions is recognised when the transaction is completed.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Improvements to property	10% on cost
Office Equipment	50% on cost
Computer equipment	33% on cost

Tangible fixed assets 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.

At each balance sheet date, the directors of the credit union review the carrying amounts of its tangible fixed assets to determine whether there is any indication that any item has suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of the asset, the credit union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Expenditure of £500 or more on individual tangible fixed assets is capitalised at cost. Expenditure on assets below this threshold is charged directly to the revenue account in the period it is incurred.

Government grants

The accounting treatment of grants received are determined by the grant conditions and the reasons why the grant was applied for to determine whether they are treated as capital or revenue in nature.

Grants of a capital nature are reflected as deferred income in the balance sheet and released to the Revenue account over the estimated useful life of the assets to which they relate. Grants which are considered to be revenue are credited to the Revenue account in the period to which they relate.

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. The credit union 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 a trade. However, corporation tax is payable on investment income.

As a result of the limited activities of the credit union, from which any surplus would be chargeable to corporation tax, it is unlikely that deferred tax will arise.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

Impairment of financial assets
Impairment losses on loans to members are provided in accordance with the guidelines issued by the Prudential Regulatory Authority. Any impairment losses are recognised in the revenue account, as the difference between the carrying value of the loan and the net present value of the expected cash flows.

The credit union assesses at each balance sheet date, if there is objective evidence that any of its loans to members are impaired. The loans are assessed collectively in groups that share similar credit risk characteristics, because no loans are individually significant. In addition, if during the course of the year there is objective evidence that any individual loan is impaired, a specific loss will be recognised.

Impaired loans written off and recovered
In accordance with FRS102, the policy of the credit union and the requirements of the standard for impaired losses written off differ. Under FRS102 loans can be written off only when the credit union doesn't have the legal right to enforcement payment. The credit union writes off impaired loans when all methods of recovery have been exhausted. Therefore, the impaired losses written off in the financial statements do not meet the requirements of FRS102. As a result of the above there is no net effect on the surplus or net assets of the credit union.

Financial Assets - Members loans
Loans to members are financial assets with fixed or 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 flow from the asset have expired, usually when all the amounts outstanding have been repaid by the member. The credit union does not transfer loans to third parties.

Capital placement fees
Fees related to obtaining additional capital are prepaid and amortised over the expected life of the related capital of 5 years.

This treatment marks a change in the accounting policy, where previously these costs were charged against income as incurred. The Board has changed the accounting policy in order that the financial statements provide more relevant information about the effect of the capital transactions on the credit union's financial position. The impact of this change is to increase the credit union's surplus for the year by £330,821. The net assets position is also increased by £330,821.

Fees and Commissions Payable
Brokerage fees payable on new loans are prepaid with fees being amortised over the expected weighted average life of loans of 2 year. Brokerage costs and fees are matched with the interest receivable on members loans.

On loans with an associated brokerage fee an enhancement fee related to the performance of the loan is also charged subject to the loan being unimpaired after 1 year. These are accrued on all relevant loans.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand along with bank and building society deposits. The credit union has access to these funds and they are readily convertible to cash.

Financial liabilities - Subscribed capital

Members shareholdings in the credit union are redeemable and therefore are classified as financial liabilities and described as subscribed capital. They are initially recognised as the amount of cash deposited and subsequently measured at amortised cost.

Employee pension benefits

Defined contribution plans: The amounts charged as expenditure for the defined contribution plan are the contributions payable by the credit union for the relevant period under review.

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

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

Use of 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 the credit union's existing accounting policies. The area requiring the highest degree of judgement or complexity and the area where significant assumptions required is impairment losses on loans to members. The directors regularly conduct impairment reviews by analysing arrears reports, credit control data and the reports from debt collecting companies.

Dividend

The dividend is formally proposed by the directors after the year end and is confirmed at the following AGM. As a result, it does not represent a liability at the balance sheet date.

Juvenile deposits

The amount received by the credit union for juvenile depositors are held in trust for those depositors.

3. Loan interest receivable and similar income

	2022	2021
	£	£
Loan interest receivable from members	**6,229,394**	854,178
Bank interest receivable on cash and cash equivalents	**20**	17
Total loan interest receivable and similar income	**6,229,414**	854,195

The notes form part of these financial statements

Notes to the Financial Statements (continued)

4. Interest expense

Interest expense is the dividend paid to members for the prior year. The dividend is formally proposed by the Directors after the year end and is confirmed at the following AGM. As a result it does not represent a liability at the balance sheet date.

	2022	2021
	£	£
Interest payable during the year:		
Interest bearing share accounts	(635,518)	(45,438)
Dividend bearing share accounts	-	-
Interest proposed, but not recognised	(18,245)	-
Dividend Rate	3%	0%

5. Fees and commissions payable

Of the fees and commissions payable of £2,882,171; £2,865,093 is payable to the outsource provider.

6. Administrative expenses

		2022	2021
		£	£
Employment costs	8b	(464,641)	(108,693)
Auditors' remuneration		(15,128)	(5,275)
Telephone and internet		(1,938)	(2,001)
Computer maintenance		-	2,321
Legal and professional		(122,422)	(29,014)
General expenses		(76,855)	25,694
Printing, postage and stationery		(743)	(2,144)
Other insurance		(13,488)	(923)
Total administrative expenses		(695,215)	(120,035)

7. Other operating expenses

	2022	2021
	£	£
Cost of occupying offices		
Rent and rates	(12,896)	(12,961)
Heating and lighting	(804)	(1,073)
Insurance	(936)	(2,112)
	(14,636)	(16,146)
Regulatory and financial management costs		
Deferred share costs	(546,162)	(143,382)
Regulatory fees	(1,975)	(600)
Association of British Credit Union fees	(9,603)	(4,373)
	(557,740)	(148,355)
	(572,376)	(164,501)

Notes to the Financial Statements (continued)

8. Employees and employment costs

8a. Number of employees

The average monthly number of employees during the year was 15 (2021 - 6)

8b. Employment costs

	2022	2021
	£	£
Wages and salaries	**(418,973)**	(98,808)
Social security costs	**(34,793)**	(8,875)
Pension costs	**(1,844)**	-
Other staff costs	**(9,031)**	(1,010)
Total employment costs	**(464,641)**	(108,693)

8c. Directors and senior management

The directors and senior management were paid £355,854, covering 9 posts (2021 £47,333 covering 2 posts).

9. Taxation

Analysis of the tax charge

The tax payable on the surplus for the year was as follows:

	Notes	**2022**	2021
		£	£
Current tax			
UK corporation tax	9b	**4**	3

UK corporation tax has been charged at 19% (2021 - 19%).

Reconciliation of tax expense

The credit union 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 a 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:

	2022	2021
	£	£
Surplus before taxation	**360,330**	104,402
Surplus before taxation multiplied by corporation tax rate in the UK of 19% (2021: 19%)	**68,463**	19,836
Effects of:		
Non-taxable surplus/(deficit) on transactions with members	**68,459**	19,833
Total tax charge for the year	**4**	3

Notes to the Financial Statements (continued)

10. Members loans

10a. Members loans

	2022	2021
	£	£
As at 30 September 2021	**15,106,775**	713,587
Advanced during the year	**61,806,853**	16,576,936
Interest on members loans	**6,229,394**	854,178
Loan repayments	**(20,705,098)**	(2,970,520)
Gross loans and advances to members	**62,437,924**	15,174,181
Impairment losses		
Bad debts written off	**(59,965)**	(67,406)
As at 30 September 2022	**62,377,959**	15,106,775

10b. Total loan assets for regulatory purposes

	2022	2021
	£	£
Unsecured members loans	**62,377,959**	15,106,775
Specific impairment provision	**(900,349)**	(145,962)
General provision	**(293,906)**	-
As at 30 September 2022	**61,183,704**	14,960,813

10c. Credit risk disclosures

The credit union 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. The credit union's lending policy states that the maximum loan is £25,000. This limit is also in accordance with Prudential Regulatory Authority rules. The carrying amount of the loans to members represents the credit union's maximum exposure to credit risk.

10d. Allowance account for impairment losses

	2022	2021
	£	£
As at October 2021	**145,962**	82,871
Provisions for losses made during the year	**1,048,293**	63,091
As at 30 September 2022	**1,194,255**	145,962

10e. Impairment losses recognised for the year

	2022	2021
	£	£
Impairment of individual financial assets	**(59,965)**	(67,406)
Increase in impairment allowances during the year	**(1,034,699)**	(63,091)
	(1,094,664)	(130,497)
Reversal of impairment where debts recovered	**6,224**	2,326
Total impairment losses recognised for the year	**(1,088,440)**	(128,171)

Notes to the Financial Statements (continued)

11. Tangible Fixed Assets

	Leasehold Improvements	Office Equipment	Fixtures and Fittings	Total
Cost	£	£	£	£
Opening Balance	36,581	39,581	16,050	92,212
Disposals	-	(39,581)	-	(39,581)
	36,581	-	16,050	52,631
Accumulated Depreciation				
As at 1 October 2021	14,631	36,488	16,050	67,169
Charge for year	3,658	106	-	3,764
On disposals	-	(36,594)	-	(36,594)
	18,289	-	16,050	34,339
Net book value 30 September 2022	**18,292**	**-**	**-**	**18,292**
Net book value 30 September 2021	21,950	3,093	-	25,043

12. Prepayments and accrued income

	2022	2021
	£	£
Accrued interest on members loans	**688,909**	138,644
Other debtors	**-**	5,272
Prepayments	**3,650,451**	899,849
	4,339,360	1,043,765

13. Subscribed capital – financial liabilities

	2022	2021
	£	£
As at 1 October 2021	**18,997,624**	1,138,735
Movement in the year	**51,984,820**	17,858,889
As at 30 September 2022	**70,982,444**	18,997,624

14. Other creditors and accruals

	2022	2021
	£	£
Accrued interest on members shares	**493,339**	44,107
Accrued expenses	**688,507**	147,055
Corporation tax	**4**	3
	1,181,850	191,165

Notes to the Financial Statements (continued)

15.Financial instruments

Financial risk management
The credit union manages its subscribed capital and loans to members so that it earns income from the margin between interest receivable and interest payable. The main financial risks arising from the credit union's activities are credit risk, liquidity risk, market 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 the credit union, resulting in financial loss to the credit union. In order to manage this risk the board approves the credit union 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 it's 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. Note 3 provides further details about the impact of the maturity mismatch on the going concern status of the credit union. Excluding short term other payables, as noted in the balance sheet, the credit union's financial liabilities, the subscribed capital, are repayable on demand.

Market risk
Market risk is generally comprised of interest rate risk, currency risk and other price risk. The credit union 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
The credit union's main interest rate risk arises from the differences between the interest rate exposures on the receivables and payables that form an integral part of the credit union's operations. The credit union considers rates of interest receivable when deciding on the dividend rate payable on subscribed capital and dividend bearing member shares. The credit union does not use interest rate derivatives or options to hedge its own positions. The interest rate risk is regularly monitored with interest rates on members loans and interest receivable on bank deposits being regularly reviewed to ensure risk exposure is minimised.

Fair value of financial instruments
The credit union does not hold any financial instruments at fair value.

16. Reserves

	Retained Earnings	Deferred Shares	Total
	£	£	£
At 1 October 2021	(239,250)	1,732,787	1,493,537
Surplus for the year	360,326	-	360,326
Deferred shares received	-	6,030,000	6,030,000
At 30 September 2022	121,076	7,762,787	7,883,863

Notes to the Financial Statements (continued)

17. Contingent liabilities

The credit union 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 provision has been included for this liability. However, this is subject to future changes in interest rates and levels of deposits held by deposit takers. Therefore, there is inherent uncertainty regarding the totality of the levy that the credit union will have to pay.

18. Post balance sheet events

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

19. Related party disclosures

During the year no members (2021 - 1 member) of the Board, key management and their close family members had loans with the credit union. These loans were approved on the same basis as loans to other members of North Edinburgh Credit Union. None of the directors, key management or their close family members, have any preferential terms on their loans.

During the year under review Amplifi Capital Limited continued to provide a service agreement to promote North Edinburgh & Castle Credit Union Limited in exchange for charges on any member loans arising as a result of the promotion. Charges of £369,348 were paid to Amplifi Capital Limited during the year.

20. Revenue account

A grant of £0 (2021: £95,000) was received during the year

Castle
Community
Bank

Savings and loans
Fair and square

Castle Community Bank

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