CAF Bank

CHARITY BANKING WITH PURPOSE

ANNUAL REPORT
2023/24

Annual report and financial statements for the year ended 30 April 2024

At CAF Bank Limited (CAF Bank), we are all about banking with purpose. We are dedicated to meeting the banking needs of charities and social enterprises and, assisted by our experienced customer services team, we support organisations of all sizes and cause areas – from micro charities to the UK's best-known charitable and social purpose organisations.

We understand the pressures our customers and others across the charitable sector face because we're wholly owned by a charity. Through providing current accounts and savings accounts, facilitating transactions globally, and lending to maximise positive impact, everything we do at CAF Bank is designed to help our 14,000-strong community of customers help those who turn to them.

We are proud to treat the goals of those we support as our own.

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Image left: The Deaf Academy in Exmouth
Image right: Chamwell Centre Charity

2023 / 24

Image: The Sports Trust

Image: Toynbee Hall

PROFIT BEFORE TAX

£18.2M

2023: £10.6M

CUSTOMER DEPOSITS

£1.42BN

2023: £1.5BN

LOANS ADVANCED

£36.2M

2023: £34.0M

FASTER PAYMENTS MADE

2.23M+

2023: 2.06M

DRAWN AND COMMITTED LOAN BALANCES

£255M

2023: £230M

PHONE CALLS HANDLED

81,272

2023: 84,139

CUSTOMERS

14,230

2023: 13,950

CUSTOMER ACCOUNTS

25,249

2023: 24,539

Welcome.

JANET POPE
Chair

Forty years ago, CAF Bank was established to provide sustainable financial services for small and medium-sized charities, and this remains our overarching purpose today.

As a bank owned by the Charities Aid Foundation (CAF), we are not driven to maximise shareholder profits and this brings flexibility to our strategic decision making. We maintain a strong financial position and prudent approach to balance sheet management so that we can support and enable our customers to thrive, no matter what challenges they might face.

We understand the challenges faced by charities and social purpose enterprises, and we know the world they work in. Our goal is to help them to manage their funds, so they can spend more time making a positive impact in the world.

BEST CHARITY BANKING PROVIDER

Today, the Bank supports more than 14,000 charity customers, with deposits totalling £1.42bn. We continue to pass on the benefits of higher interest rates to our customers. Growth in new CAF Bank accounts confirms that those in the not-for-profit sector see us as a trusted banking partner.

Demonstrating that our customers remain at the heart of what we do, we were delighted to be commended in the 'Best Charity Banking Provider' category at the Business Moneyfacts Awards 2024. These awards recognise the outstanding efforts of the UK's top business banking and finance providers, and it is a privilege to be counted among them.

Our commitment to banking with purpose extends to our own operations, so I am proud that we have been named as one of the UK's greenest banks by environmental organisation, Bank.Green.

Although there is still much to do on our sustainability journey, this acknowledges the progress we have made in the past year. Recognising a number of factors like our financial support for sustainability driven projects, our policy of not financing fossil fuels and our work on baselining the emissions from our operations, this award is a major validation of our work so far.

FUNDING PROJECTS WITH PURPOSE

In October, we approved our first Green Loan, a form of finance specifically designed to fund projects that contribute towards a sustainability goal. We are building our pipeline of similar opportunities and, together with the ESG funds of our sister entity, CAF Financial Solutions Ltd (CFSL), they form a comprehensive suite of green finance products for our charity customers.

Our committed lending has grown significantly in the 2023/24 financial year, and we were pleased to agree our largest-ever loan. Throughout the year, we have supported projects such as environmentally beneficial farming in Worcestershire, state-of-the-art facilities at a school in south London and a new social-enterprise hub in the capital.

Despite a more positive economic outlook recently, the rise in the cost of living is still having a huge impact on charities, with energy prices a concern for many. The continued focus that we share with our parent charity, CAF, on building charity resilience, has never been more relevant.

Research from CAF's Charity Resilience Index found that more than half of charities remain worried about their survival. They are facing increasing demand for their services, declining income and significantly higher costs. Despite being a vital lifeline for many of society's most vulnerable people, they are being forced to make some difficult decisions about who they help and how.

Chair's report

SUPPORTING THE CHARITY SECTOR

Our healthy lending pipeline shows some improvement in customer confidence, but our drawn lending grew at a slower rate this year, perhaps demonstrating that charities are still nervous about taking on debt at the current time.

We know that the banking system is not serving charities particularly well. We have been liaising with the Charity Commission, other high street banks and UK Finance to create a working group that explores better banking options for charities. The Government needs to take the lead here and introduce a plan to support the sector; part of this should be recognising that good banking services for charities are vital.

At CAF Bank, our aim is to be the banking partner of choice for more UK charities. This has meant investment in our own ability to scale and take on additional customers in significant numbers. Set to be launched later in the year, our new IT platform will transform CAF Bank.

It will enable us to give our current and future customers a more efficient, modern experience and make sure we can offer the digital banking services that many of our customers need. Our aim is that customers who want to do everything online can, but those who want to pick up the phone will still be able to do so. We know that many of our customers appreciate being able to interact with our teams in this way.

A YEAR OF IMPACT

As a charity bank, we are regulated and governed like any other bank. We cannot make a difference where and when it matters without the commitment of our people and the expertise and counsel of our Board. Thank you to everyone who has worked so hard this past year.

I would like to extend my gratitude to Martyn Beauchamp, who stepped down as an Independent Non-Executive Director on 15 December 2023, and to Phil Alvey, who stepped down as Chief Financial Officer on 1 February 2024, after nearly three years of valuable service to the Bank.

On 30 May 2023, we welcomed Rob Vogtle (CAF Trustee) as a Non-Executive Director and on 14 December, Astrid Grey, Sam Seaton and Graham Toy were reappointed for a further three-year term. We welcomed Kerry Tremble as Chief Financial Officer on 1 February 2024. I was also delighted to have been reappointed as Chair of CAF Bank's Board for a third term.

Finally, I would like to extend our appreciation to the charities and social purpose enterprises that allow us to serve their diverse range of banking needs. Thank you for your trust and your loyalty.

JANET POPE
Chair

KEY HIGHLIGHTS DURING THE YEAR

- Lending for progress and impact
- Providing tailored financial and banking support
- Supporting charities with information on building resilience

ALISON TAYLOR
Chief Executive Officer

At CAF Bank, everything we do is driven by our desire to help charities and social purpose enterprises deliver exceptional support to the people and causes who need it most. It is not a responsibility we take lightly.

Set up by the Charities Aid Foundation 40 years ago, we were created by the sector, for the sector. Our dedication to banking with purpose means we share our customers' values, understand their pressures and help them achieve what they believe in.

SERVICE TAILORED TO OUR CUSTOMERS

While we hear regularly from customers who value our support, it is also rewarding to receive public appreciation. CAF Bank achieved joint first place in the 2024 Charity Banking Survey for overall customer satisfaction, with our telephony services singled out for particular recognition. We also came top for sector knowledge, which informs our ability to tailor our services to meet charities' needs.

In particular, at a time when UK banks are being questioned about their ability to serve the sector, it acknowledges the personal response we offer the 14,000-plus charities that have chosen us as their trusted banking partner.

We are committed to helping our customers bank in the way they choose, and we know that for many, cash management remains a core requirement. I was delighted that this year, CAF Bank expanded our range of services to allow customers to manage cash and cheques through Post Offices.

The feedback has been overwhelmingly positive, and we hope this gives charities greater flexibility at a time when bank branches are vanishing from our high streets.

SUPPORTING CHARITIES TO BUILD RESILIENCE

The economic volatility of the past couple of years has moderated, but the day-to-day cost of living continues to affect charities through demand for services, reduced income and higher costs.

To help our customers, during the past 12 months, we have run webinars for charity leaders and Trustees that cover important topics, including effective planning and risk management, to help ease the pressures they experience. Our Charity Resource Hub is a vital tool that can help organisations adapt for the future when budgets are still squeezed.

Given the importance of reserves, CAF Bank welcomed the updated Charity Commission guidance that recognised the balancing act Trustees must navigate when managing returns and risk. It allows for greater flexibility and provides practical steps for charity leaders and their Boards to consider.

Building resilience also means helping our customers to grow more sustainably, for example, by improving the energy performance of their properties. CAF Bank's new Green Loans are designed to help social purpose enterprises fund this kind of work and we were excited to see our first one go to Stockwood Community Benefit Society.

Fraud is now the most common crime in England and Wales and highlighting the risks has become essential to our work. We share with customers our seven golden rules – the information we will never ask for – and our online Security Centre provides tips and guidance for avoiding email, phone-based and online scams.

A major advance this year has been the introduction of our confirmation of payee service. This name-checking facility provides assurance that money transfers are going to the right recipient, guarding against accidental misdirected payments.

A GREENER, MORE SUSTAINABLE BANK

Externally recognised, our dedication to our sustainability agenda goes beyond our support for the sector. As part of the CAF group, we are committed to achieving net zero across our UK operations by 2050 and have engaged external consultants to help us understand and reduce our emissions, including those we finance.

Recognising the need to invest our money in a sustainable way, we have worked to ensure the default fund for our pension fund contributions is now 98% ESG-aligned.

Our actions are already making a tangible impact. The appointment this year of a new Head of Sustainability means we can accelerate our transition to a lower carbon economy and support our customers to do the same.

Image: Streetscene

POWERED BY PURPOSE AND OUR PEOPLE

Our people make everything possible, and I want to thank my colleagues for their hard work and dedication. I know from our outstanding employee survey results that we have a highly committed team and together, we make CAF Bank a great place to work.

Our new Head of HR has been developing CAF Bank's People Plan, outlining what it means to be powered by purpose. I am excited to see what opportunities this opens up in terms of personal and professional development for our people in the coming year.

CAF Bank's commitment to purpose continues outside of our organisation and over the past 12 months, we have dedicated volunteer hours to causes that matter to our people. The Executive Team volunteered with the Felix Project, a London-based food distribution charity that acts to both save unwanted food from waste and provide meals and supplies to those who need them most.

Another highlight was welcoming a third cohort of students keen to explore career paths in banking as part of the EY Foundation and Chartered Banking Institute's Smart Futures Programme. As a founding member of this initiative, every year we meet amazing young people who make us think differently about our organisation and the work we do, and it is incredibly inspiring.

I would like to thank our Chair, Janet Pope, and our Board, who guide our organisation with skill, experience and dedication, for which my executive team and I are extremely grateful.

A year of strong financial growth will enable us to continue investing in our future. Our digital modernisation programme, which is on course to be delivered later this year, will transform our services and give us the platform to scale so we can support more charities with their banking needs.

As CAF Bank evolves, the charities we serve will remain our focus. We are steadfast in our commitment to these organisations, whose tireless work makes an enormous difference to so many, every day.

ALISON TAYLOR
Chief Executive Officer

STRATEGIC REPORT

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Image: Milton Keynes YMCA

Principal activities

We're proud to be a specialist bank, owned by a charity and run for charities.

From one-person causes to large-scale organisations, we are the bank charities turn to. We believe in the power of good, and in treating our customers' goals as our own. This ethos around servicing charities is part of our broader group culture.

We provide transactional banking services and offer saving and borrowing options to charities and social purpose organisations across many cause areas. These activities are complemented by the investment and savings options for charities provided by our sister organisation, CFSL, and by the range of services provided to charities by our parent, CAF, of which we are a wholly owned subsidiary.

BANKING WITH PURPOSE

At CAF Bank, we are focused on supporting our charity customers to do more for the people who turn to them.

Around 45% of our charity and social enterprise clients are small organisations, so most of the people we talk to are volunteers rather than finance professionals. We understand the range of support they need, both financial and advisory.

Our objective is to deliver continual improvements to customer service and efficiency, thereby maintaining a financially robust and sustainable business model.

This includes through the delivery of our digital modernisation project, which brings together investment in a new banking platform and remodelled processes to enable new customer channels.

In addition to the core principles outlined above, we aim to deliver a seamless and cohesive service to our charity customers, across the Bank and the broader CAF group.

Image: The Sports Trust

STRATEGY AND OBJECTIVES

Our core principles are:

- Providing services for small and medium-sized charities and organisations with social purpose
- Offering services that our customers want at a fair and transparent cost
- Progressively realigning our lending activity around the single aim of supporting charitable and social purpose organisations and projects
- Improving customer service and customer satisfaction
- Continuing to drive efficiency and improvement through process simplification and investment in technology

Principal activities

KEY DECISIONS

Our strategy is to be the preferred bank for small and medium-sized charities. We aim to deliver a cycle of improving customer service and efficiency, leading to greater profitability, which in turn funds investment in the Bank.

We are committed to make our operations more sustainable and, as part of CAF group, achieve net zero across our UK operations by 2050.

We are privately owned by a charity, so can take a longer-term view than a publicly listed company. We make careful decisions to maintain strategic focus, control costs, invest, and ensure sufficient capital and liquidity is held. All the decisions we make consider the regulatory context and our full range of stakeholders.

APPOINTMENTS

On 30 May 2023, we welcomed Rob Vogtle as a Non-Executive Director and on 1 February 2024, Kerry Tremble was appointed as Chief Financial Officer. Martyn Beauchamp stepped down as an Independent Non-Executive Director on 15 December 2023 and Phil Alvey stepped down as Chief Financial Officer on 1 February 2024. On 14 December 2023, Astrid Grey, Sam Seaton and Graham Toy were reappointed for a further three-year term.

Image: Milton Keynes YMCA

Review of the year

At CAF Bank, we are focused on supporting our charity customers to do more. We understand the challenges they face and the world they work in. By helping them to navigate their finances, we allow our customers to do what they do best – make a positive impact on others.

Against a backdrop of continued uncertainty, it is clear that our focus on building charity resilience has never been more relevant. If you are looking at ways to grow your organisation's operations or make them more flexible, finances are a key consideration. Some charities are also starting to focus more on their future sustainability.

We know that energy costs are still a concern for many charities and social purpose enterprises. Our research found a third (32%) of charities say they plan to invest in improving their energy efficiency for the long term, a step that takes on more urgency now government support for energy costs has come to an end. Our new Green Loans will help charities become more energy efficient or work towards their sustainability goals.

In October 2023, we issued our first Green Loan to Stockwood Community Benefit Society. The organisation will use the funds to continue its environmentally beneficial farming methods, re-finance a ground source heat pump and install 170 solar panels. This will provide a system of clean renewable energy for its business park.

Looking inward to our own sustainability ambitions, we are proud CAF Bank has been named one of the UK's greenest banks by environmental organisation Bank.Green.

We were also delighted to be commended in the 'Best Charity Banking Provider' category at the Business MoneyFacts Awards 2024 and ranked joint first place for overall customer satisfaction ratings in the 2024 Charity Banking Survey. These recognise the efforts of the UK's top business banking and finance providers, and we are proud to be included among them. This recognition for our team reinforces our commitment to placing charity customers at the heart of what we do.

For many charities and social purpose enterprises, everyday banking is becoming more difficult due to branch closures and digitalisation. We are, therefore, pleased to have seen a positive response to the expansion of our services at Post Offices around the UK. This includes the ability to deposit cash, cheques and order a new paying-in book.

At CAF Bank, we know how hard charities work to raise funds, and the imperative of managing this money well for the benefit of the people they support. To increase our customers' peace of mind, we have introduced a new service called Confirmation of Payee. This name-checking facility for UK-based payments provides customers with a greater level of reassurance that they are sending funds to the correct recipient, minimising the risk of fraud and errors.

Choosing the right bank account is an important decision and the multitude of options available can be overwhelming. For the past year, we have been working with UK Finance, other banks and the voluntary sector to advocate for more banking options for charities. This has led to the Voluntary Organisation Banking Guide, which contains impartial advice to simplify the banking process and help customers choose, open and manage a bank account.

This need to give our customers a more efficient, modern experience is behind the significant investment we have made in our new digital IT platform. Over the past 12 months, we have been working hard to deliver this so we can serve more customers in more ways.

Once implemented, the new platform will transform CAF Bank. It will provide the foundation for modernising our client proposition and ensure we are able to offer efficient, up-to-date banking services in a mobile, 24/7 digital world.

Reform Restore Respect: transforming young people's lives

When Francis Osei-Appiah set out to change the lives of young people in Kent and Medway, he could never have imagined just how transformative his work would be. But 12 years later, his anti-crime workshops have helped 41,000-plus children in 419 schools across the county.

Francis set up the charity, Reform Restore Respect, to stop people taking the same path he did. As a former gang member who served nine years in prison, he saw the impact of his choices on his life and the people around him, especially his family.

"I try to empower and encourage people not to make the mistakes I made in my youth," Francis explains. "It can block their futures, in terms of travel to other countries, employment, careers and even insurance. I know because it has affected my life."

His success in Kent and Medway has led Francis to take his message nationwide, for example, by supporting the police and National Crime Agency. Yet, until recently, his charity was being hampered by a lack of support from its former high street bank, whether that was setting up standing orders or appointing Trustees. Time spent on the phone to call centres meant less time available for the charity's vital work.

"I feel high street banks have little understanding of registered charities and many deal with them like a corporate entity, so one of my Trustees recommended CAF Bank."

Reform Restore Respect made the switch in July 2023 and has not looked back. "I wish I had gone to CAF Bank straight away," says Francis. "Now my advice to any new charity is to go to CAF Bank. Whatever size organisation you are, there is an account for you."

With its banking sorted, the future of the charity and the young people it supports is looking even brighter.

Did you know?

Funding Reform Restore Respect for one-year equals just over a quarter of the annual cost of detaining one person at a Young Offender Institution.

Image: Reform Restore Respect

"I always say to myself if I can save one person in every school from having a criminal record or going to prison, I have done my job."

FRANCIS OSEI-APPIAH
CEO and founder,
Reform Restore Respect

Image: Thames Christian School

Thames Christian School: benefiting the whole community

A south London school set up to support a teacher's dyslexic children now benefits the wider student community, thanks to its new state-of-the-art facilities.

Thames Christian School was established as a charitable foundation in 2000 by its current Headteacher, Dr Stephen Holsgrove, to support his children, who he felt would benefit from smaller class sizes.

Initially based in a former library on the York Road housing estate near Clapham Junction in London, the secondary school quickly outgrew its facilities.

In 2018, it became part of a £1 billion 10-year project by Taylor Wimpey and Wandsworth Council to redevelop and regenerate the Winstanley and York Road housing estates.

A CAF Bank loan facility was a key part of the support that allowed the school to buy a new site close to its previous location and construct a purpose-built facility.

The new building was completed in February 2022, enabling the school to increase student numbers in Years 7-11. A sixth form was added in September 2023.

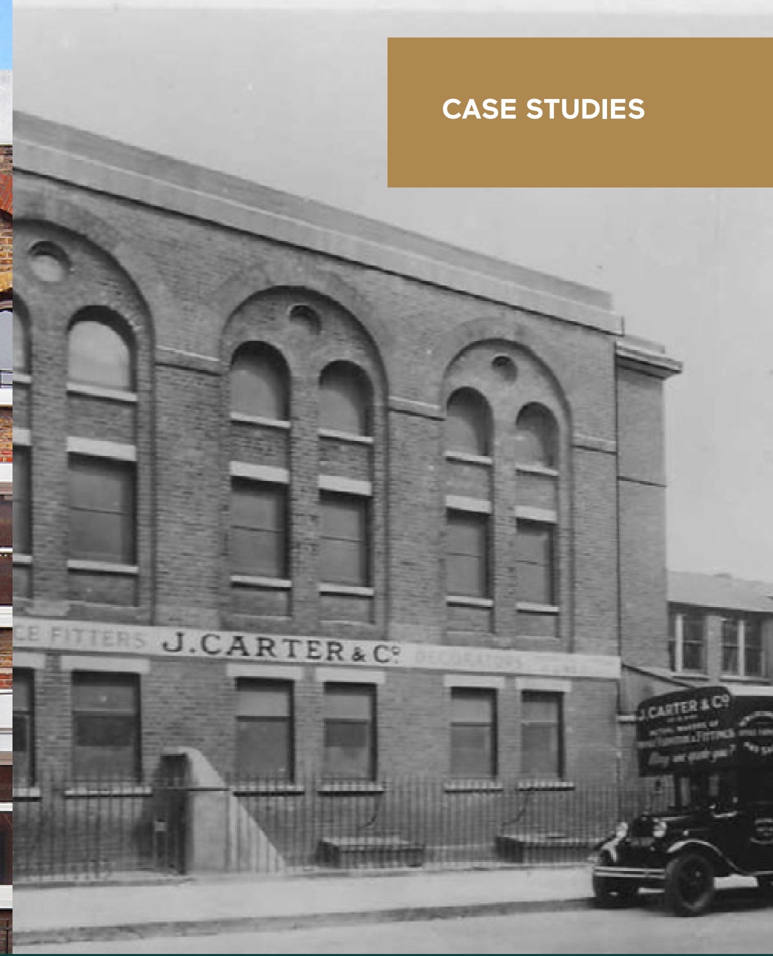
All 190 students at Thames Christian School benefit from the new state-of-the-art facilities that include specialist science laboratories, individual music rooms, a dance studio, fully equipped design and technology workshops and a library.

The hope is that student numbers will grow to 300-plus and the school can continue to provide excellent facilities for young people in the local community for many years to come.

"Having a new facility has transformed what we do. It means we have been able to take everything we developed previously into a fit-for-purpose environment, which has been a fantastic benefit to our children."

DR STEPHEN HOLSGROVE
Head of Thames Christian School


Image: The Home of Social Enterprise



The Home of Social Enterprise: creating a shared space for social enterprises to collaborate

Two of the UK's leading social enterprise sector bodies have found a new and long-term home after receiving a loan from CAF Bank.

Social Enterprise UK leads the world's largest network of businesses with a social purpose. Meanwhile, the School for Social Entrepreneurs runs courses to equip people to start, scale and strengthen organisations that make a positive difference.

For more than two decades, both organisations have had London-based headquarters and had been working on a plan to co-locate for several years.

Together, they identified a three-storey office building near Tower Bridge. They decided to share the rent of one floor and let out the others, building a social enterprise ecosystem.

In 2023, they set up a property holding company, The Home of Social Enterprise LLP, to help realise their vision. Alongside a loan from grant-making charity, the CHK Foundation, they received a £1.95 million secured loan from CAF Bank for the purchase.

The Home of Social Enterprise has created new opportunities and demonstrated how the sector can come together to be a united voice for good.

> "The CAF team were approachable and adopted a 'how can we?' attitude to ensure we could make something great happen."

ANDREW CROFT
LLP Board Director and
Director of Special Projects,
Social Enterprise UK

Image: Stockwood Community Benefit Society

Stockwood Community Benefit Society: providing green finance for biodynamic farming

CAF Bank customer, Stockwood Community Benefit Society, is based around Rush Farm in Worcestershire, the inspiration for long-running Radio 4 soap The Archers. It focuses on fostering community, climate-conscious working and producing nature-friendly food.

Established in 2012, the Community Benefit Society transferred ownership from private hands to the local community to address a succession issue, and now has more than 400 members. It owns and manages 150 acres of biodynamic farmland and an on-site business park, as well as renewable energy generation.

In October 2023, CAF Bank was proud to provide Stockwood with our first Green Loan, a form of finance specifically designed to fund projects that contribute towards a sustainability goal.

The loan has enabled Stockwood to continue farming using environmentally beneficial methods. It has also refinanced the installation of a ground source heat pump and 170 solar panels, which last year generated 37,000kWh of electricity – enough to power almost 14 homes. These provide clean renewable energy for heating and cooling Stockwood's business park.

The collaboration with CAF Bank aligns with Stockwood's mission to enhance the environment and engage communities sustainably. Continuing its pioneering efforts, the society now plans to introduce an innovative waste-to-energy system.

> "Our connection with CAF Bank started because our values aligned."

CHRIS BURDETT
CEO of Stockwood Community Benefit Society

Financial performance

CAF Bank made an overall profit of £13.6 million in 2023/24, which represents a 58% increase from the £8.6 million profit in 2022/23.

The Bank's income has been strong over the past year due to the Bank of England's decision to increase the base rate progressively up from 0.75% in April 2022 to 4.25% in April 2023, and then to 5.25% in August 2023 where it remained until the end of the financial year. Overall, the Bank's net interest income of £44.8 million is £16.7 million higher than in 2022/23.

Administrative expenses increased by 50% – from £18.5 million to £27.7 million in 2023/24, including £5.2 million (2022/23: £4 million) in intra-group recharges paid to our parent, CAF, for the cost of shared services. Our shared services model provides the Bank with IT, HR, premises, marketing and communications. The costs relating to the shared model rose due to greater spend in the respective functions to provide robust support, as well as a review of the calculation methodology.

Also included within administrative expenses are project and IT costs associated with our digital modernisation programme.

These costs totalled £6.4 million in 2023/24 compared with £4.2 million in 2022/23.

Excluding the shared services recharge and digital modernisation and project costs, direct administrative expenses rose by £5.7 million to £16 million from £10.3 million in 2022/23. This reflected investments in our IT infrastructure and higher people costs, all largely related to supporting a robust control environment and meeting regulatory and compliance standards.

In light of the increased capital expenditure on the Bank's new core banking system, it was agreed that no donation was made to our parent, CAF.

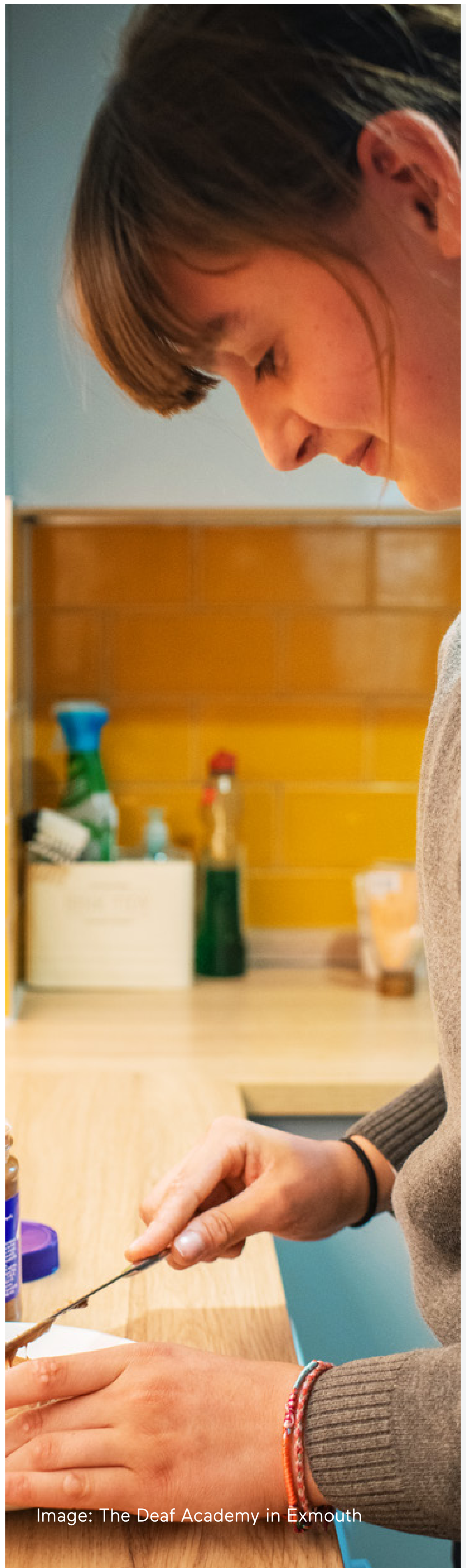


Image: The Deaf Academy in Exmouth

KEY PERFORMANCE INDICATORS

Committed loans and advances

£255M

2023: £230M

Deposits

£1.42BN

2023: £1.5BN

Profit after tax

£13.6M

2023: £8.6M

Net interest income

£44.8M

2023: £28.0M

Financial performance

DEPOSITS

We are grateful to our charity customers for continuing to provide us with a strong and stable base of deposits and our robust funding position underpins CAF Bank's activity. During the year, deposits dropped to £1.42 billion (£1.5 billion 2022/23), partially reversing balance increases during Covid.

LENDING

Although the economic environment remains challenging, committed loans and advances to customers continued to grow in 2023/24, rising from £230 million as at 30 April 2023 to £255 million at 30 April 2024. Within this total, loans to charities and social housing organisations increased by £36.2 million, following continuing demand from registered housing associations in particular. Social housing associations represent 62% of our drawn lending book by value.

We are encouraged by the lending pipeline. As at 30 April 2024, the Bank has £32.2 million of loans sanctioned pending final agreement and commitment (at 30 April 2023: £34 million).

Given the inflationary environment and ongoing cost-of-living pressures, we have continued to monitor and analyse both the collective and specific loan provisions. The quality of the loan book remains strong.

We have sought to ensure property valuations are up-to-date in determining loss given default. This is done by either obtaining new valuations or for our residential property, by indexing older valuations by reference to residential property indices. For assessing the collective provision, we have considered the impact of previous economic downturns on probability of default and loss given default values. On this basis, as at 30 April 2024, the collective provision is determined as £1.8 million (at 30 April 2023: £1.1 million).

To assess specific provision requirements, we have reviewed 'watchlist' loans and compared the estimated recoverable amount to the carrying value of the loans where there is evidence that the loan is impaired. The cost of living and the inflationary environment have impacted charities directly and through their donor base. This has resulted in specific provisions of £0.6 million at 30 April 2024 (30 April 2023: £0.6 million).

LIQUIDITY, THE INVESTMENT PORTFOLIO AND CAPITAL

The Bank's liquidity position remains strong: as at 30 April 2024, 45% of deposits were held in unencumbered cash, almost all deposited with the Bank of England. In addition, CAF Bank holds a long-term investment portfolio that consists of high-quality bonds, primarily AAA-rated, equating (unencumbered) to a further 44% of deposits. This portfolio is held to maturity and is therefore accounted for on an historical cost, accrual accounted basis.

In common with many other banks, CAF Bank also has access to the Discount Window Facility (DWF) and the Indexed Long-Term Repo Facility (ILTR) at the Bank of England, as part of its liquidity contingency arrangements.

Historical rises in bond market interest rates post-Covid resulted in an unrealised mark-to-market (MTM) loss on the investment portfolio. Given that bond positions are held to maturity, this MTM loss remains hypothetical and would only be realised if the Bank sold the bonds. At 30 April 2024, the unrealised MTM loss was £23.4m, down by £10m from £33.4m at 30 April 2023. As at 30 April 2024, the bank had equity capital of £65.1m, up from £51.5m at 30 April 2023 driven by £13.6m of retained profits during the year. As a percentage of equity, the MTM has therefore fallen from 65% of equity at 30 April 2023 to 36% as at 30 April 2024. This is also lower than the 40% of equity reported at 30 April 2022. Expected downward pressure on interest rates will reduce the MTM loss further over time, but even if interest rates remained constant, the MTM would continue to fall as the bond portfolio matures over time. The MTM loss was £16.7m as at 26 July 2024.

In August 2023 the Bank issued £15 million of subordinated debt (sub debt) to its parent, CAF. In April 2024, given continued positive financial performance, the Bank repaid £10m of the sub debt leaving a balance of £5m. Since year-end, the balance of £5m has been converted into a sub debt instrument that can be converted to Additional Tier 1 (AT1) regulatory capital, to provide additional capacity to support the bank's lending to charities and social purpose enterprises.

Fighting financial fraud

www.cafonline.org/about-us/security-centre

Our security centre offers everyone – whether they are a client or not – a regularly updated source of fraud-prevention support. From staying ahead of the latest scams to following simple fraud-prevention tips, there are plenty of insights to help keep funds safe.

KEY REGULATORY RATIOS

As at 30 April 2024, the Bank's Overall Regulatory Capital Ratio was 30.3% compared with 30.8% at 30 April 2023, reflecting the increase in lending offset by the increase in available regulatory capital from retained profits.

CAF Bank is reporting under the UK Leverage Ratio framework, which results in a leverage ratio of 6.05% compared with 4.64% as at 30 April 2023*.

As at 30 April 2024, the Bank's Liquidity Coverage Ratio (LCR) was 257%, compared with 262% at 30 April 2023.

Further detail on the Bank's regulatory capital and liquidity position as at 30 April 2024 is outlined in the Pillar 3 document that can be found at www.cafonline.org/about-us/about-caf-bank

Restated from 3.76% in 2023 Strategic Report

Environment and society

We recognise the role that CAF Bank can play in our sector to address all elements of the sustainability and Environmental, Social and Governance (ESG) agendas and we are committed to taking positive action where we can, for ourselves and our customers.

SUSTAINABILITY

Sustainability is increasingly becoming a focus across the banking and charity sectors and is a central part of who we are and what we do at CAF Bank.

Although we are still at the beginning of our sustainabilty journey, we have made significant progress this year and are proud to have been named one of the UK's greenest banks by environmental organisation Bank. Green.

We have developed a holistic sustainability strategy covering our internal and external activities and our actions are already making a tangible impact. The appointment this year of a new Head of Sustainability means we can accelerate our transition to a lower carbon economy and support our customers to do the same. We have engaged with external consultants to measure our Scope 1 and 2 emissions. This will give us a baseline position from which we can expand the scope of these measurements, as well as taking meaningful action to reduce our organisational emissions as part of our commitment to achieving net zero in our operations by 2050.

Our London office prioritises our approach to sustainability, minimising our overall footprint and helping us save money. This includes running on 100% renewable energy. Similarly, we have recently renegotiated the energy contract for our Kings Hill office, so that, by autumn 2025, it too will run on 100% renewable energy, rising from 60% currently.

In addition, we have amended our supplier and procurement procedures to ensure ESG considerations are included in both our selection of new suppliers and ongoing management of existing partners.

We have worked with our employee pension provider, Hargreaves Lansdown, to ensure the default fund for our employees' pension contributions is now 98% ESG-aligned.

Alongside our work to measure and reduce our own emissions, as a Bank we recognise our privileged position as an enabler of our customers' transitions to a lower carbon economy. In October 2022, we launched CAF Bank Green Loans, aligned to the Loan Market Association's Green Loan Principles. Our Green Loans provide a dedicated financing mechanism for our customers to carry out sustainability focused, environmentally beneficial projects. To date, we have agreed two Green Loans (for example, please see the case study on Stockwood Community Benefit Society), with more in our lending pipeline, and together with the ESG funds of our sister entity, CFSL, these form a comprehensive suite of green finance products for our charity customers.

We are currently in the process of reviewing the CAF-wide sustainability strategy and environmental commitments to make them more specific and to align them to a more detailed action plan.

Environment and society

OUR APPROACH TO CLIMATE AND ENVIRONMENTAL RISK

At CAF Bank, we recognise that our changing climate poses various environmental, societal, economic and political risks for us and the charities and communities we serve.

Climate and environment risk are divided into two principal categories:

Physical risk
The risk of an adverse impact to the Bank driven by extreme weather events, such as droughts, storms or floods (acute physical risk); or longer-term shifts in climate patterns (chronic physical risk).

Transition risk
Risks arising from the transition to a lower-carbon economy and its associated changes. These could include, but are not limited to, policy, legal, technology and market changes.

We see climate and environment risk as cross-cutting. It does not fall into a specific risk category, but impacts lots of different risk areas across the Bank, including credit risk, market risk, legal and regulatory risk.

CAF Bank has developed a comprehensive climate and environment risk register, which is subject to quarterly review. This is now being embedded into our Risk Management Framework and business practices.

Image: Streetscene

MONITORING CLIMATE RISK IN THE TREASURY PORTFOLIO

How we use our customers' money matters. The Bank maintains a conservative portfolio of treasury investments that is governed by our internal Treasury Policy. This ensures that ESG considerations are taken into account when making investment decisions. It has been updated to exclude any treasury investments in companies whose primary business involves the selling or manufacturing of traditional petrol or diesel vehicles.

This policy is subject to annual review and we will consider expanding the scope of these exclusionary criteria in future years. CAF Bank's treasury portfolio is also subject to screening through the publicly available Sustainalytics ESG risk-rating tool. This is updated by the Bank's Head of Sustainability on a quarterly basis and is presented to the Board Risk and Compliance Committee for review.

The position of CAF Bank's treasury portfolio at year end is shown below.

	Average ESG-Risk Score	Weighted Average ESG-Risk score
Treasury counterparties with available Sustainalytics rating	14.54	7.34

Sustainalytics ESG Rating*	**Relative Exposure**
Core Framework	3.02%
Comprehensive Framework	96.98%
Of those counterparties with an ESG-risk rating:	
Negligible Risk	79.84%
Low Risk	11.47%
Medium Risk	9.32%
High Risk	0.00%

* Full details of Sustainalytics frameworks and rating methodology is available online.

Environment and society

MONITORING CLIMATE RISK IN THE LENDING PORTFOLIO

CAF Bank currently considers our exposure to the financial risks from climate change to be relatively low, but we continue to build out our assessment of these risks in line with regulatory guidance.

All our lending is to UK charities and social purpose enterprises, and we do not engage in any fossil-fuel finance. Unlike many other banks, we are therefore less exposed to transition risk in our lending book as we do not lend to sectors that are most acutely impacted by the changing climate and the transition to a lower carbon economy.

Nevertheless, we continue to monitor the physical and transition risks to our lending portfolio:

> We monitor physical risk at initial loan application stage and through the annual review process. Physical risk is primarily assessed via flood risk from seas, rivers, surface water or reservoirs, using data provided by the Environment Agency.

> Transition risk is assessed by proxy, using Energy Performance Certificate (EPC) data for the buildings we hold as collateral against loans. This is an area that is evolving, subject to increasing regulatory and legislative review, so we are monitoring it closely, particularly regarding EPC requirements for social housing.

Over the coming year, we will look to enhance climate-related risk assessment, modelling and scenario analysis.

We have carried out initial gap analysis against the Prudential Regulation Authority's (PRA's) Supervisory Statement on climate-related financial risks (SS3/19). We are now working to close any gaps and further embed the identification, assessment, management and mitigation of climate-related financial risks into the Bank's governance and risk management frameworks.

The relevant policies state the Bank's risk appetite for exposure to climate-related risk and these are monitored by the Credit Risk Committee and the Asset-Liability Committee (ALCo). There is no impairment of lending or treasury assets due to climate-related risks and the assessment of these risks is central to the evaluation of future lending and investment opportunities.

SOCIETY

At CAF Bank, we recognise that the term sustainability is not just about protecting the environment. Social sustainability is central to the fabric of our society, and achieving positive social impact is inherent in everything we do.

To further this aim, for the third successive year, we partnered with the EY Foundation and the Chartered Banker Institute on its Smart Futures Programme. This provides paid work experience opportunities, employability skills training and interactive workshops to 16 to 18-year-old students from under-privileged backgrounds. We welcomed three students from London as part of the Easter 2024 intake, who each brought great enthusiasm and innovative ideas to their work experience placement with us. We look forward to welcoming many more in the future. These students continue to benefit after their formal work experience ends through a 10-month mentorship scheme with colleagues from CAF Bank's senior leadership team.

Through volunteering, many of our people are actively engaged in promoting social sustainability and strengthening civil society. We support this wherever we can and as part of Our Deal, we are proud to offer all employees a day of volunteering leave each year. This is used by many colleagues as an opportunity to give back to various causes close to them.

The Bank's Executive Team, for example, joined a shift with the Felix Project, a London-based food redistribution charity, giving them the opportunity to see the reality of food waste first hand. Together with other volunteers, they worked across the organisation's warehouse and kitchen, sorting through food donations, picking food for deliveries and preparing over 2,700 meals for distribution across London.

181 EMPLOYEES

As at 30 April 2024

90%

of our employees give CAF Bank a Net Promoter Score rating of seven or above in our latest employee survey

Our Deal

This is a framework that rewards, develops and supports everyone at CAF. From equitable, competitive salaries and opportunities for growth and development, to flexible, hybrid working and wellbeing support.

A fair and sustainable future for all


Image: Golden Opportunity Skills and Development (GOSAD)

In 2022/23, we modernised and refreshed all aspects of our UK employee value proposition. This year, we have built on this by appointing a new Head of HR Operations for CAF Bank and CFSL.

This new role combines strategic people expertise with financial sector experience, and is responsible for CAF Bank's People Plan. As well as supporting the overall strategic aims of CAF group and the Bank, the plan outlines what it means to be 'powered by purpose'. It also reflects the commitment of the Bank's people, the way the team works and their focus to help charities thrive.

In July 2023, we relocated to our new London office, offering our employees a more contemporary and hybrid-friendly environment. We are also investing in our Kent-based offices, so that we can provide our employees with an environment that fosters productivity, greater collaboration and work-life balance.

We know sustainability is important to our people and we are looking at how we can help employees meet their environmental aspirations through schemes such as the cycle to work programme, and by re-launching our employee sustainability collective, formerly called the Environment & Wellness Collective

Last year, we were awarded Gold accreditation from Investors in People and this year we were delighted to retain this. It recognises the work we are doing to build a leading place to work, where every voice matters, through enhanced benefits, career development, flexible ways of working and support for employee wellbeing.

EQUALITY AND DIVERSITY

We know that to be a really great organisation, we need to have a diverse perspective. Across CAF, we are developing a new programme to transform Diversity, Equity, Inclusion and Belonging (DEI&B).

We are looking to increase the number, and diversity, of candidates applying for jobs with us. We know that this not only creates a better working environment, it also means we can reflect the values, experiences and cultures of our customers and the people and communities they serve.

We continue to place strategic importance on the need for diversity across our organisation, including at Executive and Board level. When filling Board positions, diversity is actively considered as part of the selection process, with measures in place to ensure we maintain an appropriate and beneficial diversity of thought and lived experience.

In line with our Board Diversity Policy, CAF Bank's Board, with support from the Nomination and Remuneration Committee:

- Considers all aspects of diversity, when reviewing the composition and balance of the Board, and when considering the annual Board effectiveness review.
- Reflecting the recommendations of the FTSE Women Leaders Review, maintains as a minimum the 40% target for women on Boards, working towards a 50% target over time.
- Improves ethnic diversity at Board and senior management level, having at least one person who identifies as Black, Asian or Minority Ethnic on the Board, and maintaining this level of representation as a minimum, subject to having the required skills and experience.
- Oversees plans for diversity and inclusion – including succession plans, taking into account the challenges and opportunities facing the company – and reports on progress annually.

Our Non-Executive Directors and Executives are accomplished leaders in financial services, the charitable sector and other fields. Their expert scrutiny and strategic direction inform everything we do. They ensure our compliance and reporting protocols are fully fit for purpose, and they set an impressive level of robust, transparent governance that is upheld throughout the organisation.

We believe that good governance should not be limited to those at the top; it should be embedded at all levels. We continue to review our policies to ensure they are up-to-date and meet any regulatory requirements.

Our workforce training is constantly monitored to ensure everyone at CAF Bank is fully aware of their own responsibilities to the organisation, our clients and our colleagues. We also provide training and development opportunities to employees, alongside our apprenticeship scheme, to make sure everyone who works with us can grow their careers.

Our Employee Council is made up of volunteers who liaise with our managers to make sure the voices of people at all levels of our organisation are heard, and any concerns are brought to the attention of the Executive. A regular employee engagement programme has proven popular and our Small Awards scheme recognises those who have gone above and beyond for our customers.

Environment and society

Image: Stockwood Community Benefit Society

STAKEHOLDER ENGAGEMENT TO PROMOTE THE SUCCESS OF THE BANK

Under Section 172(1) of the Companies Act 2006, the Directors are required to describe how they consider a broad range of stakeholders when performing their duty to promote the success of the Bank. We have developed into a successful and profitable business, driven by a focus on core values, a clear strategy and efforts to consider our stakeholders' interests throughout our decision-making process.

In this statement, we have detailed our key stakeholders, their importance to our business and how we have engaged with them throughout the year. The Board governance structure is described within the Governance report on pages 44 – 47.

STAKEHOLDER ENGAGEMENT

We recognise and promote the importance of strong relationships with our stakeholders across all of our activities, and we are committed to engaging with them to ensure we maintain long-term relationships and add lasting value to the charity community in which we operate. Below we give examples of stakeholder engagement:

Employees

Our employees are usually the first point of contact customers have with the Bank and, therefore, are critical to our success. Many employees have a deep knowledge of our charity customers and their requirements, and perform key roles requiring specific knowledge and expertise. We aim to ensure that all our employees feel valued and appreciated while working for us.

The Directors and the Executive engage with our employees through regular meetings and feedback sessions, a structured appraisal process and annual employee surveys to help understand any issues or changes they would like to see implemented within the organisation.

Customers

Our charity and social purpose enterprise customers remain at the heart of our business. We have continued our customer engagement via regular meetings with borrowers and deposit customer surveys, which take place throughout the year. These programmes allow us to have a deep understanding of our customers' needs and values, and provide the opportunity for us to act on the feedback they have given. Feedback from customers is also informing our digital modernisation and will underpin the requirements for our new systems and customer channels. Examples of customer transactions and volumes are included in 'Our year at a glance' on pages 4 and 5.

Suppliers

We recognise that our suppliers are crucial to the success of CAF Bank and we understand the importance of maintaining strong lines of communication. Many perform critical outsourced functions and are subject to regular formal review. Directors and senior managers engage with suppliers regularly throughout the year and feedback is continually communicated and monitored through governance committees.

Regulators

It is within the Bank's culture of fairness and transparency to promote high standards of conduct within the Bank and with all external parties. In particular, as Directors of a regulated bank, holding customer deposits, safety, soundness and adherence to all relevant aspects of regulation is key to the Bank's business model.

Directors and the Executive maintain close awareness of this through engagement with regulators, primarily the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). This involves regular, direct contact with regulators, and is supported by interactions with industry bodies, specialist advisers, regulatory seminars, online forums and round-table events. This has allowed us to remain informed on increasing regulatory requirements and ensure we operate to the standard required.

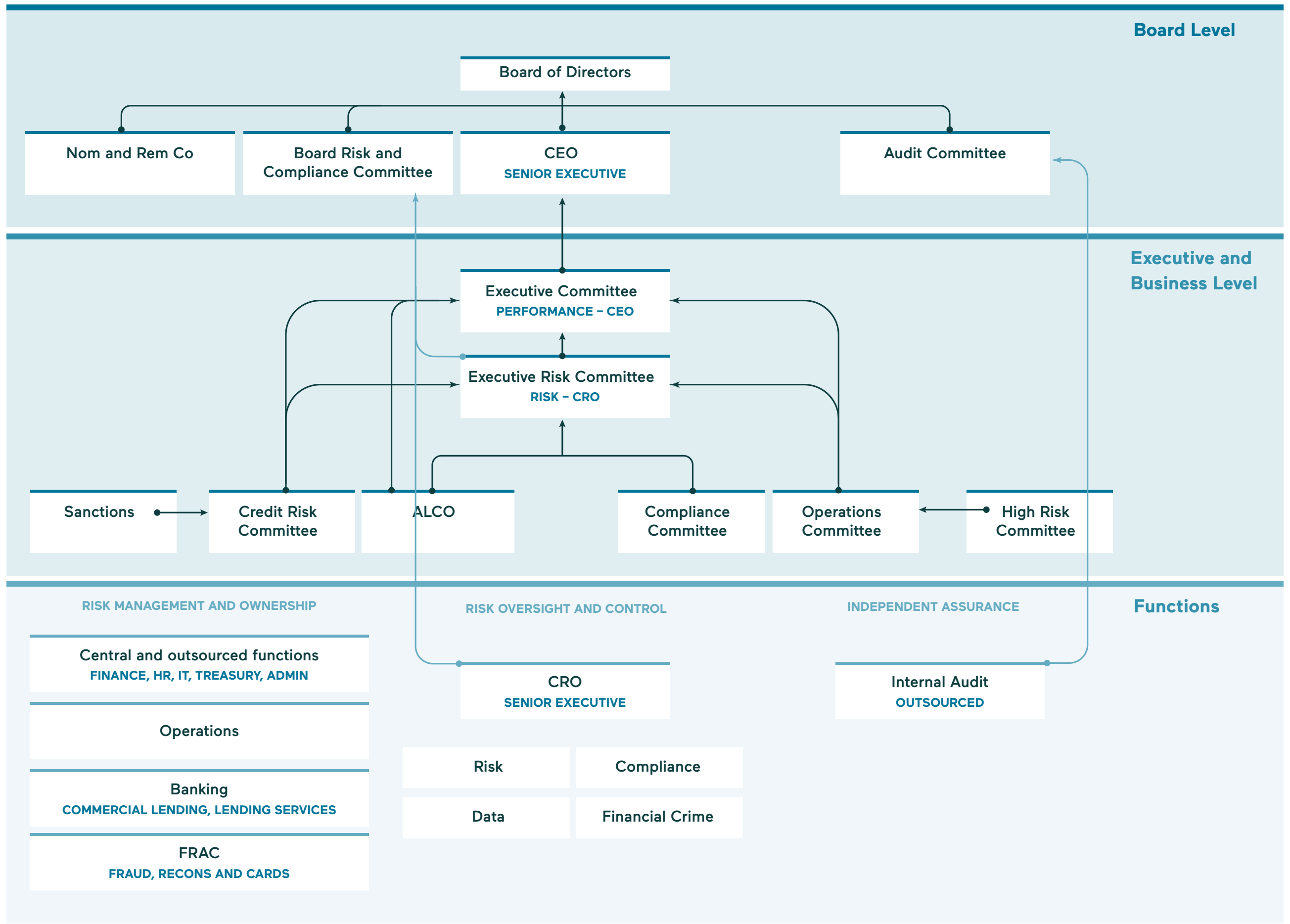
Board appointments

On 30 May 2023, we welcomed Rob Vogtle as a Non-Executive Director and on 1 February 2024, Kerry Tremble was appointed as Chief Financial Officer. Martyn Beauchamp stepped down as an Independent Non-Executive Director on 15 December 2023 and Phil Alvey stepped down as Chief Financial Officer on 1 February 2024. On 14 December 2023, Astrid Grey, Sam Seaton and Graham Toy were reappointed for a further three-year term.

This report has been approved by the Board of Directors and signed by order of the Board.

JANET POPE
Chair

Governance report



The CAF Bank Board is responsible for establishing and monitoring the Bank's strategy and risk appetite and approving related policy statements that set out the control environment within which the Bank operates. Implementation of strategy and development and delivery of the Bank's operating plan is the responsibility of the Bank's CEO and Executive Committee.

For a fixed time period until the Bank's modernisation project has been concluded, additional governance structures are in place: there is an additional Steering Committee (Transformation SteerCo) reporting into the Bank Executive Committee as well as an additional Board Sub-Committee (Transformation SubCo) reporting into the Bank Board. These committees have delegated responsibilities for the governance and oversight of the Bank's Transformation Project.

The Board comprises the Non-Executive Chair, nine Non-Executive Directors and two Executive Directors. It exercises its accountabilities through its own activities and through delegation of responsibilities to the CEO and the Executive Committee. The Board receives reports from, and reviews the work of, the CEO and the Executive Committee.

In FY 2024/25, the Board will be carrying out its Board Effectiveness Review with an external consultant.

The following Directors served throughout the year, except as noted:

	Meetings attended	Maximum
Janet Pope (Chair) [2, 3]	9	9
Astrid Grey (Deputy Chair) [1]	8	9
Martyn Beauchamp [1] (until 15 December 2023)	4	6
Kees Diepstraten [1]	8	9
Ursula Dolton [1]	9	9
Neil Heslop [2] (CAF Chief Executive)	8	9
Samantha Seaton [1]	8	9
Graham Toy [1]	9	9
David Watts [1]	8	9
Rob Vogtle [2 3]	8	8
Alison Taylor (Chief Executive Officer)	9	9
Phil Alvey (Chief Financial Officer until 1 February 2024)	6	7
Kerry Tremble (Chief Financial Officer from 1 February 2024)	2	2

1 – Independent Non-Executive Director (INED)
2 – Non-Executive Director (NED)
3 – CAF Trustee

- None of the Directors have interests in the shares of the Bank or any associated undertaking or trust.
- The Board is supported by Alison Westbrook, Company Secretary.
- During the year, the Board discharged its responsibilities as follows:
  - Approved the Bank's strategy, operating plans, budgets and forecasts;
  - Monitored (and approved changes to) the Bank's Transformation Plan for its banking system to enhance the Bank's customer proposition;
  - Approved the Risk Appetite Statements to maintain an effective and appropriate governance and control structure for managing the business;
  - Reviewed and challenged the Bank's operating activities with reference to strategic plans and changes in the external operating environment;
  - Approved the implementation of the Consumer Duty in CAF Bank, maintaining and developing the Bank's commitment to delivering positive outcomes for our customers;
  - Approved the Bank's People Plan;
  - Monitored the conduct of business to ensure adherence to approved risk appetite and compliance with applicable regulations;
  - Monitored the impact of operational resilience;
  - Monitored reputational risk and brand issues;
  - Reviewed, challenged and approved the capital and liquidity adequacy assessments and policies (ICAAP and ILAAP);
  - Reviewed, challenged and approved the Recovery Plan;
  - Approved the composition, membership and Terms of Reference of Board committees;
  - Reviewed reports and recommendations from Board committees, taking action as appropriate;
  - Reviewed and approved the Annual Report and Financial Statements;
  - Set an appropriate 'tone from the top' and ensured alignment of values and behaviours in the Bank relating to the conduct of its business; and
  - Kept the PRA and FCA informed of the Bank's strategy, operations, and risks during the year.

Governance report

BOARD COMMITTEES

The Board has established four committees to assist it in monitoring the business; reviewing policies, systems and controls; and setting risk appetite:

I. Board Risk and Compliance Committee;

II. Audit Committee;

III. Nominations and Remuneration Committee; and

IV. Transformation Committee (fixed period only).

Each committee is subject to its own Terms of Reference and has authority to review relevant policies, systems, controls and reporting, making recommendations to the Board for approval.

The Board Risk and Compliance Committee

The Board Risk and Compliance Committee (BRCC) is responsible for advising the Board on the Bank's Risk Management Framework and compliance matters. The Committee is chaired by an INED and comprises three other INEDs. The Board has also appointed an adviser to the Committee: Alison Straszewski. Key management attend Committee meetings by invitation.

During the year, the BRCC discharged its responsibilities. It:

- Reviewed the Risk Appetite Statement (RAS) and recommended this for approval by the Board;
- Monitored risk reporting and ensured the Bank's strategy, principles, policies and resources are aligned to the Bank's risk appetite, as well as to regulatory and industry best practice;
- Reviewed and challenged the ICAAP and ILAAP, the Operational Resilience self-assessment and the Recovery Plan, and recommended these to the Board for approval;
- Monitored compliance with legislation, regulation and internal policy;
- Monitored the Bank's risk profile, including established and emerging risks, and provided additional oversight of the Transformation Project; and
- Reviewed policies and recommended these to the Board.

Whistleblowing

The Chair of the BRCC acts as the Bank's whistleblowers' champion, maintaining responsibility for ensuring and overseeing the integrity, independence and effectiveness of whistleblowing policies and procedures. The Committee reviews the Bank's Whistleblowing Policy and associated arrangements at least annually.

The Board Audit Committee

The Board Audit Committee is responsible for reviewing the effectiveness of financial reporting and internal audit. The Committee also safeguards the independence of external auditors and the outsourced internal audit function, overseeing their effectiveness.

The Committee is chaired by an INED and comprises two other INEDs. Key management attend Committee meetings by invitation. During the year, the Committee Chair held regular meetings with the external auditors, internal auditors and management to discuss the business of the Committee and specific issues as they arose.

How the Committee discharged its responsibilities:

Financial Reporting

The Committee reviewed and challenged:

- The Annual Report and Financial Statements;
- The annual external audit plan, including remuneration of the auditors;
- The significant areas of judgement in relation to critical accounting policies;
- Evaluation of the effectiveness of external auditors, and assessed their independence and objectivity;
- The approval of non-audit services; and
- The Pillar 3 report.

Audit

During the year, the Committee:

- Reviewed and challenged the annual internal audit plan in the context of the Bank's risk and control profile;
- Reviewed and challenged the findings of internal audit reports and management's responses to recommendations; and
- Monitored the effectiveness of internal audit.

The Nominations and Remuneration Committee

The Nominations and Remuneration Committee is responsible for advising the Board on the appointment of members to the Board and Board committees. The Committee also makes recommendations regarding the remuneration of members of the Executive Committee and reviews and agrees the basis for pay rises and bonuses awarded to employee.

The Committee comprises the Chair, an INED, the CAF Bank CEO and CAF Chief Executive.

During the year, the Committee discharged its responsibilities. It:

- Reviewed the composition of the Board and made recommendations for appointments to the Board and Board committees;
- Monitored Board effectiveness and succession plans;
- Reviewed and approved policies, including diversity and equality policies;
- Monitored conflicts of interest; and
- Reviewed remuneration and other policy and practice in relation to employees and Directors.

Transformation Committee (fixed period only)

The Transformation Committee is responsible for providing oversight for the delivery of the Bank's Transformation Programme. The Committee also provides guidance and sign off on key decisions within the Transformation Programme and supports the resolution of escalations from the Transformation Steering Committee. At key programme milestones the Committee will provide recommendations to the CAF Board for review and ultimate sign off.

The Committee comprises the Chair, an INED, the CAF Bank CEO and CAF Chief Executive, Chief Information Officer, Director of Transformation, and an adviser (nominated by the Board), Richard Hawkins.

During the year, the Committee discharged its responsibilities. It:

- Reviewed and challenged project plans;
- Reviewed and challenged the transformation budget;
- Monitored project progress and milestones; and
- Reviewed and approved key programme decisions.

Risk management report

The Risk Management Framework (RMF) outlines how CAF Bank Limited (the "Bank") manages risks that are relevant to our chosen sectors, business model and operations.

Risk-taking is an inherent part of banking, and the Bank aims to make a profit from taking risks in a controlled way. Excessive and poorly managed risks can have negative impacts increasing the risk to the Bank's customers and sole shareholder, CAF.

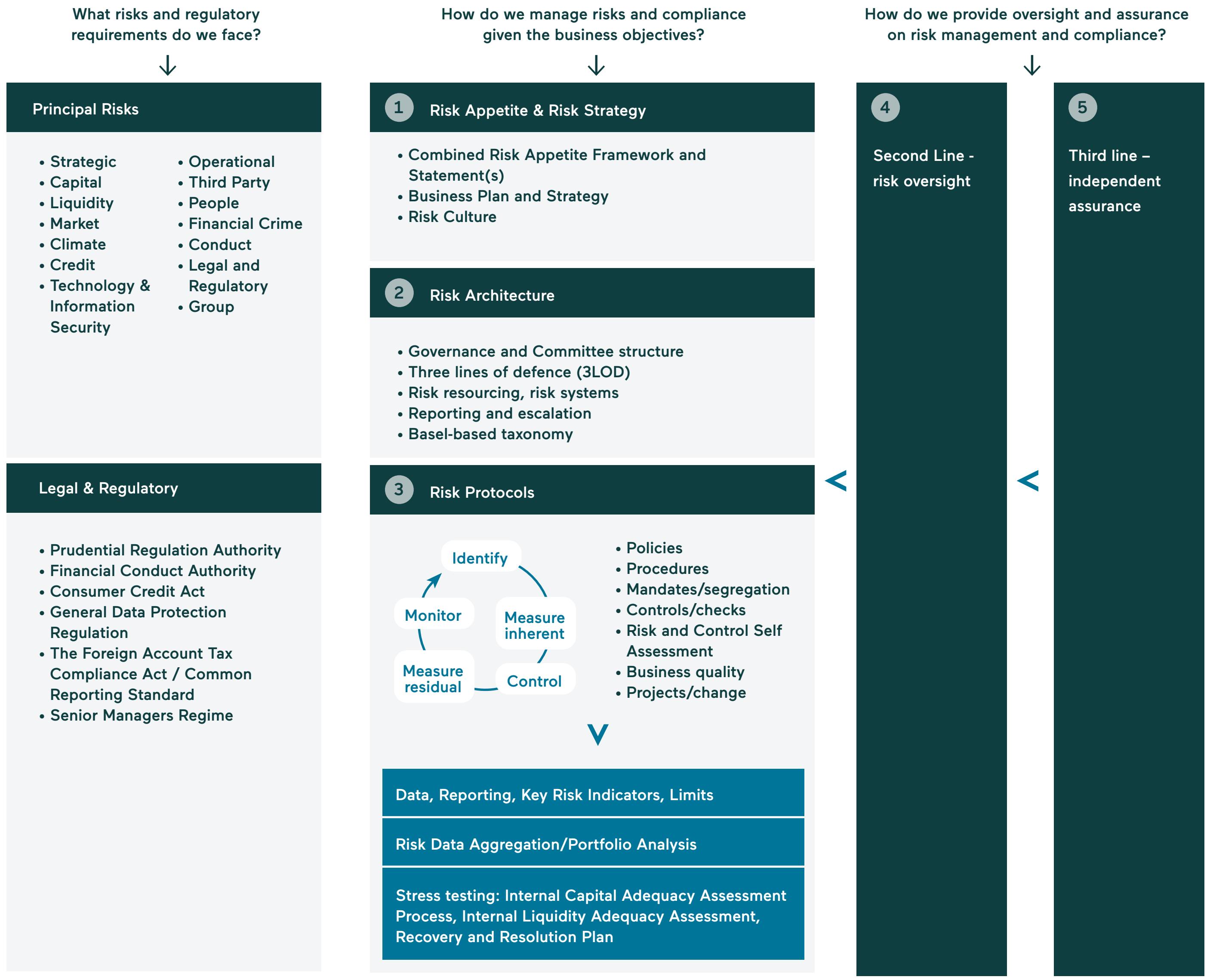
Risk is the combination of the probability of an event occurring and its consequences, which can be either positive or negative. In the context of this report, the focus is risks that could have an impact on the Bank's customers, capital, liquidity, profitability, reputation and ultimately its viability.

Risk management refers to the process of identification, assessment, measurement, control, and monitoring of risks.

The Board and senior management ensure the risks taken are manageable. We consider risks to be manageable when they are defined, understood, measurable and controllable. We control risks by ensuring the Bank's resources are capable of withstanding both expected and unexpected impacts.

The foundation for CAF Bank's risk culture is its set of published values (The Behavioural Value Indicators). The Behavioural Value Indicators is the cornerstone of ensuring appropriate behaviours and sets both the "tone from the top" and the tone throughout CAF Bank. These underpin all CAF businesses and the risk culture in CAF Bank.

Detailed frameworks, policies and procedures support this report. These combine to ensure the way the Bank manages risk is consistent with the size and nature of the Bank's operations. Below is a visual representation of our Risk Management framework;



The RMF includes the Three Lines of Defence (3LOD) model. This ensures a clear delineation of responsibilities between control over day-to-day operations, risk oversight and challenge of the Bank's activities.

This 3LOD model is important as it provides clarity for individuals and functions about their role and where responsibilities and accountabilities sit. It is a core component of the RMF.

The emphasis on the responsibilities of each line of defence is as follows:

First Line of Defence (1LOD) – business lines and centralised functions
The 1LOD (through managing risks and staying in control of their activities) is responsible for managing risk in the context of the legal and regulatory environment. The 1LOD also takes due regard of the reputational position that the Bank occupies in support of charities.

- To run the business in a safe but profitable fashion to enable sustainability – linked to the Risk Appetite Framework and Statements;
- To manage the risks in the business, within tolerances or limits;
- To act in an 'early warning' role regarding ongoing client relationship management;
- To identify, measure, control and monitor risks within each area of the business and to report, manage and escalate any risk incidents as well as evidencing control;
- To implement and adhere to the mandates, policies and processes that are part of the control environment; and
- To identify and assess new or emerging risks as internal activities or the external environment changes.

Second Line of Defence (2LOD) – oversight functions (Risk, Compliance, Anti-Money Laundering, and Data Protection)

- To provide independent oversight and guidance on risks relevant to the Bank's strategy and activities;
- To maintain an aggregate view of risk and monitoring performance in relation to the Bank's risk appetite;
- To monitor changes and compliance to external regulation, and promote best practices; and
- To support a structured approach to risk management by implementing and maintaining a RMF and Bank-wide risk policies, and to monitor their proper execution in the 1LOD.

Third Line of Defence (3LOD) – Internal Audit (the Internal Audit function is outsourced to Mazars LLP)

- To provide independent assurance to the Board via the Audit Committee that the 1LOD and 2LOD are both effective and operative in discharging their responsibilities.

Central to Risk Governance and to the 3LOD model is the Chief Risk Officer (CRO). The Bank acknowledges the stipulations and guidance as laid out in the FCA Handbook Senior Management Arrangements, Systems and Controls (SYSC) sections 7.1 (Risk Control) and 21.1 (Risk control: guidance on governance arrangements) and appoints a CRO (approved by the PRA and FCA as SMF4) to be responsible to the Board for oversight of Bank-wide risk management. This position is deemed independent of the business and to have unfettered access to the Board (usually through the Chair of the BRCC); however, on a day-to-day basis, the CRO will report to the CEO.

The CRO is responsible for monitoring exposures to the Board-approved risk appetites and reporting on the status of utilisation against limits, tolerances and other metrics to the dedicated Executive Risk Committee (ERC), as well as the BRCC.

RISK APPETITE STATEMENT

A primary element of the Risk Management Framework is the Risk Appetite Statement (RAS). The Board and Board Risk and Compliance Committee (BRCC) lead its adoption, supported by the Chief Risk Officer with engagement from a number of Non-Executive Directors via committee governance and senior management across the Bank and central functions. The appetite for risk is based on the themes from the Business Plan and the Bank's strategic objectives. There is a clear dependency between the Bank's risk appetite and strategy. This dependency needs to be clearly understood and appropriately balanced.

Focus of the three-year business plan	CAF Bank, a bank owned by a charity, is developing a more robust business model that seeks to maintain an appropriate balance between its mission to support charities and providing a return to CAF.
Overarching risk appetite assessment	The Bank will take appropriate but controlled risk to support income and lending book growth, to remain sustainable, while remaining a safe, trusted and ethical bank of choice, that is 'helping charities to make a better society'.

In articulating its risk appetite, the Bank has taken into consideration the need for regulatory compliance at all times, the preservation of its authorisation and reputation, and its desire for controlled and sustainable profits in line with its values.

The Bank's principal risks are strategic, capital, liquidity, credit, market, operational, people, technology and information security, third party, financial crime, conduct, legal and regulatory, climate and group. Identifying and monitoring current and emerging risks is integral to our approach to risk management.

STRATEGIC RISK

Strategic risk can affect the Bank's ability to achieve its strategic and business objectives. It might arise from making poor business decisions, from the sub-standard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

From a strategic perspective, CAF Bank was established as a mixed motive investment to further the charitable mission of its parent, CAF, through the provision of banking services to the charity sector, as well as to provide a financial return on CAF's investment in the Bank.

Risk management report

CREDIT

Credit risk is the potential of financial loss from a borrower or counterparty failing to meet their financial obligations to the Bank to repay in accordance with agreed terms.

Treasury assets

Treasury counterparties are reviewed and approved by the ALCo in accordance with policies and criteria approved by the Board. The Bank sets criteria that include credit rating, counterparty lending limits, group exposures and country exposure limits. The Bank uses the Standardised Approach to assess capital required for credit risk, with risk weightings based on the lower of the two highest of Fitch, S&P and Moody's ratings in accordance with the credit quality assessment scale.

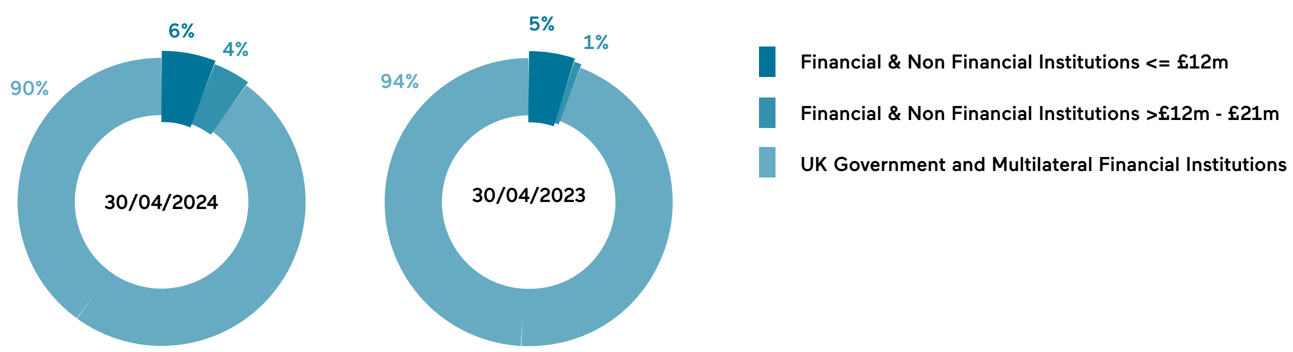
Treasury assets by class (Audited):

	2024		2023	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
Multilateral financial institutions	511,053	489,173	670,370	638,973
Fixed coupon corporate bonds	49,368	47,900	23,498	21,129
Floating rate corporate bonds	76,955	76,853	48,232	48,477
	637,376	**613,926**	**742,100**	**708,579**
Unlisted:				
Certificates of deposit	-	-	10,000	10,082
Debt securities	637,376	613,926	752,100	718,661
Balances at Bank of England	630,526	630,526	620,476	620,476
Loans and advances to banks	23,998	23,998	6,116	6,116
	1,291,900	**1,268,450**	**1,378,692**	**1,345,253**

Treasury assets by class:

	2024		2023	
Category	**Book Value £000**	**% of Book %**	**Book Value £000**	**% of Book %**
(Fitch equivalent lowest credit rating)				
UK Government	630,526	48.81%	620,476	45.00%
AAA	617,350	47.78%	732,614	53.13%
AA+	-	0.00%	9,486	0.69%
AA	20,025	1.55%	-	0.00%
AA-	21,725	1.68%	3,979	0.29%
A+	2,274	0.18%	2,137	0.16%
A	-	0.00%	10,000	0.73%
	1,291,900	**100.00%**	**1,378,692**	**100.00%**

Treasury assets by exposure value



Risk management report

Lending

Lending is monitored by the Credit Risk Committee. Loan applications are reviewed and presented for approval to the Sanctions Committee, a sub-committee of the Credit Risk Committee, in accordance with policies and criteria approved by the Board. Lending is secured on property and subject to maximum limits on loan to value ratios. CAF Bank has in place a system of limits and controls to manage credit risk on its loan portfolio.

The policies include maximum exposure values and limits to manage concentration risk by sector. Exposure to geographical area is also monitored. At 30 April 2024, the largest loan was £8.5m (2022/23: £8.7m). The maximum aggregate exposures to any one sector (social housing) and geographical area were 62% and 32% respectively (2022/23: 58% and 35% respectively).

Loans, overdrafts and BACS facilities are subject to regular monitoring of loan performance and individual annual review. Administration of the loan book is outsourced to BCM Global Mortgage Management Ltd, which provides regular management information on a loan-by-loan and aggregated basis. A collective impairment provision of £1,815k has been made at 30 April 2024 reflecting losses that may have been incurred but not yet identified (2022/23: £1,065k) and £552k has been provided for specific loan provisions (2022/23: £586k). No overdrafts were written off during the year (2022/23: none). One loan was in arrears at 30 April 2024 (2022/23: one).

As at 30 April 2024, the average loan to value ratio across the lending portfolio was 53% (2022/23: 53%).

Lending (Audited):

	2024	2023
	£000	£000
Gross loans and advances to customers (Note 9)	**201,979**	181,108
Undrawn overdraft and loan commitments (Note 19)	**52,831**	48,888
	254,810	229,996
Amounts included within the above:		
Secured on property	**254,810**	229,996
	254,810	229,996

As at 30 April 2024 the average loan to value ratio across the lending portfolio was 53% (2022/23: 53%).

LTV Range	**Amount (£000)**
<=10%	1,631
<=20%	6,182
<=30%	15,274
<=40%	24,119
<=50%	42,559
<=60%	23,751
<=70%	52,921
<=80%	30,656
<=90%	3,586
<=100%	1,300
Unsecured	-
Totals	**201,979**

CAPITAL

This is the risk that the Bank has insufficient or inadequate financial resources to cover financial losses, especially under stressed conditions, to meet regulatory requirements and to allow CAF Bank to continue to pursue its business plans. Consideration is given to both the quantum and nature of financial resources available.

Capital risk is measured, monitored and reported daily against limits approved by the Board within the Bank's Capital policy and monitored by Executive Management, ALCo, the Executive Risk Committee and BRCC. The Bank undertakes regular stress testing of its capital adequacy and complied with all internal and external limits throughout the period.

LIQUIDITY RISK

This is the risk that the Bank does not have sufficient or adequate financial resources to meet its obligations as they fall due or can secure them only at excessive cost. It arises from mismatches in the timing of cash flows. Excessive cost arises when the liquidity needed to fund illiquid asset positions can only be obtained at elevated rates. Consideration is given to both the quantum and timings of inflows and outflows as well as to the quantum and nature of the financial resources available to meet unexpected outflows.

Liquidity risk is measured, monitored and reported daily against intra-day triggers and limits approved by the Board within the Bank's Liquidity Policy. The liquidity position is monitored by Executive Management, ALCo and the ERC. The Bank undertakes regular stress testing of its liquidity position and behavioural analysis of its liabilities and assets.

CAF Bank holds liquidity buffer eligible assets with a book value of £1,177m (2022/23: £1,301m), excluding assets pledged as security under repurchase agreements. Liquidity buffer assets comprise amounts held in the Bank of England Reserve Account, and investments in Multilateral Development Banks, UK Gilts and Treasury Bills.

The Bank regularly conducts reviews of its depositor concentration, investment portfolio liquidity, contingency funding arrangements, product terms and conditions, and monitoring of customer behaviour. The output of this analysis, and resulting enhancements and actions, are monitored by ALCo and BRCC.

	2024 Book Value £000	**2023 Book Value £000**
Balances at Bank of England	630,526	616,894
Fixed coupon corporate bonds	49,368	23,498
Multilateral financial institutions	497,201	660,830
	1,177,095	**1,301,222***

**Restated from £1,287,264 per 2023 Risk Management report*

Risk management report

MARKET RISK INCLUDING INTEREST RATE RISK

This risk is the risk from adverse movements in external markets, e.g. changes in interest rates, investment values or currencies that will impact our income or the value of our assets and liabilities. This includes interest rate risk in our banking book (IRRBB), which is the risk arising from a mismatch between the duration of assets and liabilities.

CAF Bank does not undertake proprietary trading activities. Investments are held to maturity and valued at cost with any premium or discount amortised over the remaining term.

All the Bank's assets and liabilities are denominated in sterling.

The Bank manages interest rate risk through the purchase of fixed rate investments. The Bank's policy is to hold these investment securities to redemption at par. The impact of any movements in interest rates on fixed rate instruments is, therefore, not anticipated to affect the Bank's profits.

Market risk arising from interest rate moves may drive income volatility. Interest rate risk is controlled by measuring mismatches between the repricing behaviour of assets and liabilities. It is managed within Board-approved limits, measured weekly, and is monitored via ALCo and the BRCC.

Non-maturity (on-demand) deposits are behaviouralised into time bandings:

Current accounts	
£0 - £249,999	2 - 3 years
£250,000 - £999,999	1 - 2 years
Over £1m	6 - 12 months

Assets and liabilities analysed by interest rate pricing time periods (Audited):

As at 30 April 2024	Next day £000	Up to 3 months £000	3 months to 6 months £000	6 months to 1 year £000	1 year to 5 years £000	Over 5 years £000	Other items £000	Total £000
Assets								
Balances at Bank of England	630,526	-	-	-	-	-	-	630,526
Loans and advances to banks	23,998	-	-	-	-	-	-	23,998
Loans and advances to customers	162,925	-	410	80	32,702	1,584	-	197,701
Debt securities	-	148,886	-	76,554	402,524	8,581	831	637,376
Prepayments and accrued income	-	-	-	-	-	-	10,566	10,566
Intangible Assets	-	-	-	-	-	-	10,758	10,758
	817,449	148,886	410	76,634	435,226	10,165	22,155	1,510,925
Liabilities								
Customer accounts	731,832	-	-	109,788	577,803	-	10	1,419,433
Repurchase agreements	13,852							13,852
Other liabilities	-	-	5,000	-	-	-	7,540	12,540
Shareholders' funds	-	-	-	-	-	-	65,100	65,100
	745,684	-	5,000	109,788	577,803	-	72,650	1,510,925
Interest rate sensitivity gap	71,765	148,886	(4,590)	(33,154)	(142,577)	10,165	(50,495)	-
Impact of 2% change in interest rates	-	538	(33)	(465)	(706)	976	-	310

As at 30 April 2023	Next day £000	Up to 3 months £000	3 months to 6 months £000	6 months to 1 year £000	1 year to 5 years £000	Over 5 years £000	Other items £000	Total £000
Assets								
Balances at Bank of England	616,894	3,582	-	-	-	-	-	620,476
Loans and advances to banks	6,116	-	-	-	-	-	-	6,116
Loans and advances to customers	146,145	-	-	1,894	28,075	1,620	-	177,734
Debt securities	-	262,043	25,042	144,864	290,564	28,907	680	752,100
Prepayments and accrued income	-	-	-	-	-	-	8,775	8,775
Intangible Assets							6,333	6,333
	769,155	265,625	25,042	146,758	318,639	30,527	15,788	1,571,534
Liabilities								
Customer accounts	756,945	-	-	135,992	612,480	-	8	1,505,425
Repurchase agreements	8,852	-	-	-	-	-	-	8,852
Other liabilities	-	-	-	-	-	-	5,784	5,784
Shareholders' funds	-	-	-	-	-	-	51,473	51,473
	765,797	-	-	135,992	612,480	-	57,265	1,571,534
Interest rate sensitivity gap	3,358	265,625	25,042	10,766	(293,841)	30,527	(41,477)	0
Impact of 2% change in interest rates	-	(649)	(174)	(147)	6,416	(2,650)	-	2,796

OPERATIONAL RISK

This is the risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems, or from external suppliers and events.

This also includes Data Management, Model Risk Management, Product Management and Change Management.

During the year ended 30 April 2024, operational losses totalled £9k (2022/23: £7k).

CAF Bank uses the Basic Indicator Approach to assess operational risk capital requirements.

The Bank's operational resilience has continued to develop with enhancements to protect the Bank against internal and external events that can disrupt service to our customers. In accordance with PRA, FCA and Bank of England rules, the Bank has established important business services, defined set impact tolerances for the maximum tolerable level of disruption and performed testing of its ability to remain within impact tolerances during a severe but plausible disruption. Having adequate operational resilience improves our ability to absorb and not contribute to, or exacerbate, shocks and continue to provide critical functions during periods of disruption.

PEOPLE RISK

This is the risk of financial losses and negative performance related to failures by individual employees or in the management of human resources. This encompasses the ability to attract, manage, motivate, develop and retain competent resources against a changing working environment to maintain and develop the people-related culture of the organisation – ensuring continuing high levels of ethical standards and employee wellbeing.

TECHNOLOGY AND INFORMATION SECURITY RISK

These are the risks to the organisation or its stakeholders that could occur due to the threats and vulnerabilities (from within or outside the organisation e.g. cyberattacks) associated with the use and on-going operation of technology and information systems. This includes to the confidentiality, integrity and availability of data and the environments in which technology and information systems operate.

The Bank is currently delivering on a digital modernisation programme. The programme will transform our services and give us the platform to scale, so we can support more charities with their banking needs.

Risk management report

THIRD-PARTY RISK

These are the financial, security, environmental, macroeconomic, geopolitical and reputational risks arising from delivery of services from third parties (vendors, suppliers, contractors, service providers) and their supply chains, including service disruption relating to delivery of critical business activities and ongoing maintenance of appropriate levels of operational resilience.

FINANCIAL CRIME

There is the risk of either our customers or the Bank falling victim to, or facilitating, financial crime. Financial crime occurs from two sources, external and internal with growing incidents of collusion by employees and organised crime, the most dangerous combination of all. As a regulated financial institution, we have to comply with the law, regulations and globally accepted practices to combat financial crime (anti-money laundering, counter terrorist financing, anti-bribery and corruption, sanctions and tax evasion). Non-compliance could lead to regulatory enforcement, leading to substantial fines, restrictions on our activities and reputational damage.

We seek to protect our customers and the Bank from the risks of financial crime by identifying inherent risks and operating with appropriate systems and controls to detect and prevent harm. We will not conduct business with individuals or entities we believe are engaged in illicit behaviour. We seek to minimise the Bank's and our customers' exposure to loss from fraud.

CAF Bank complies with all relevant laws and regulation taking into account supervisory and approved industry guidance. Work to prevent fraud, money laundering, terrorist financing, breach of sanctions, tax evasion and bribery/corruption is led by the Bank's CEO and Chief Operating Officer (COO) with the support of dedicated Know Your Customer (KYC) and Fraud Prevention teams. Oversight is provided by the Money Laundering Reporting Officer and CRO.

Cyber threats are escalating from an increasingly sophisticated financial crime community and geopolitical tensions. We continue to invest in strengthening our cyber defences and ensuring the robustness of our controls.

CAF Bank continues to carry out KYC reviews in line with industry practice.

Bank losses to fraud in the year ended 30 April 2024 were £45k (2022/23: £25k).

CONDUCT RISK

This is the risk of poor customer outcomes at any stage of the customer journey, through inappropriate execution of the Bank's activities and processes. This could include poor employee behaviours, a breach of the conduct rules and a poor culture, which could cause detriment to customers, the Bank or employees. The Bank operates a Conduct Risk Framework that defines its approach to identifying, assessing, managing, monitoring and reporting conduct risks.

The aim is to ensure the Bank does the right thing for customers, by having the customer at the heart of everything we do and adhering to the requirements and principles of the FCA's Consumer Duty. The Bank will be proactive in delivering good outcomes for customers generally and put customers' interests at the centre of our activities. CAF Bank defines conduct risk as 'the risk of delivering unfair customer outcomes that may cause customer detriment, reputational damage and/or undermining the integrity of the market through the Bank's actions, behaviour and/or the conduct of business'. By driving an appropriate conduct culture, the Bank minimises the likelihood of a conduct risk event and maintains good customer outcomes in line with the requirements of Consumer Duty.

LEGAL AND REGULATORY RISK

The PRA and the FCA are the primary regulators for the Bank. Through our Senior Management we maintain a close and open working relationship with both to ensure we deliver on our commitments to them. Identifying and managing risk events, which includes items such as regulatory compliance breaches, is an integral part of the Bank's risk management framework to ensure the Bank effectively identifies, manages and monitors its risks. We have no appetite for knowingly breaching or not complying with mandatory rules, laws and regulations.

CLIMATE RISK

The risks associated with the process of transitioning the business model and operations to help bring in a low-carbon economy is a key deliverable for the business. This includes management of existing assets and increased utilisation of 'green' or sustainably linked investments in a timed manner that supports the wider economy through the transitioning process, as well as supporting clients and customers with transitioning and delivering climate responsible products and services. Further details of the Bank's approach to managing climate and environment-related risk can be found in the Environment and Society section of the Strategic Report.

GROUP RISK

By being part of a group, CAF Bank recognises it is exposed to certain types of risk: reputational and contagion risk from a stress within CAF or another group entity; CAF Bank's dependency on shared services within CAF, most prominent is CAF IT. However, the Bank also relies on other areas, including Marketing, Product Management, Facilities Management, Legal Support, Press Relations, and elements of Human Resources People Management.

Image: The Deaf Academy in Exmouth

The Directors present their report and the audited financial statements for the year ended 30 April 2024.

Report of the Directors

RESULTS FOR THE YEAR

CAF Bank made a profit on ordinary activities before taxation for the year of £18,169k (2022/23: £10,648k). The Bank seeks to retain sufficient profits to support regulatory capital requirements, including planned lending to the social purpose and not-for-profit sectors and planned infrastructure investment programmes. After meeting these requirements, together with interest obligations on capital instruments and taxation, CAF Bank then aims to donate surplus profits to its parent charity, CAF. Given the ongoing investment in the Bank's Transformation Programme, a donation will not be made this year.

No dividends were paid on ordinary share capital during the year (2022/23: none).

CHARITABLE AND POLITICAL DONATIONS

CAF Bank did not make a donation to CAF in the year (2022/23: none). The Bank did not make political donations or incur any political expenditure during the year (2022/23: none) nor are any being proposed for the year.

EMPLOYEES

CAF Bank recognises that the development and training of employees is critical to its continuing success and provides development opportunities and support to ensure all people have the knowledge and skills to perform at the highest standard. Each employee receives an induction and job-related training and resources are made available to enable individuals to develop and improve their performance and keep up to date with internal and external developments. As part of the CAF group, we are pleased to report CAF Bank's commitment to its employees is evidenced by the Bank's contribution to the group achieving the Investors in People Gold accreditation.

The Bank is committed to offering equal opportunities to all employees and opposes all forms of discrimination. The Bank seeks to provide equal opportunities in training, development and career opportunities for all employees.

In total, 44% of the Non-Executive Directors and 40% of the Bank's Executive Management are women. CAF Bank, as part of CAF, has been recognised as a Level 2 – Disability Confident Employer, which is a national recognition scheme confirming the Bank's commitment to equality of opportunity throughout the recruitment process and employment for people with disabilities.

CAF Bank regularly provides its people with information, including the Bank's progress against objectives, financial position, future aims and strategy. An annual engagement survey is undertaken and the results used to improve performance in areas that are important to employees.

All of the Bank's people are employed by CAF and recharged to CAF Bank where activities have been undertaken on the Bank's behalf.

GOING CONCERN

To assess going concern, the Directors have reviewed the adequacy of the Bank's capital and liquidity positions, and the Bank's operational resilience, including the ability of CAF to continue to provide shared services over a period of at least twelve months from the date of approval of the financial statements.

The Directors have concluded the Bank's capital position can withstand a severe economic outcome, and further concluded that the likelihood of CAF Bank going into resolution due to a capital shortfall is remote.

In supporting the going concern basis, the Directors also consider the results of the stress tests in the Bank's internal capital and liquidity adequacy assessments, including consideration of factors, such as the Bank's deposit concentration profile, Financial Services Compensation Scheme coverage, and liquid asset profile. The Directors also consider the interactions between liquidity and capital stresses and the impact of mitigating management actions, including access to contingency funding lines, both from the central bank and commercial counterparties.

Report of the Directors

The Directors considered the level of unrealised losses attached to the Bank's portfolio of financial investments, noting this portfolio is used to manage the Bank's interest rate position and would be held to maturity in all but the most extreme scenarios. After assessing all of the above, the Directors consider it remote that the Bank would need to dispose of the securities and therefore realise any of these unrealised losses.

The Directors have concluded the Bank's parent will continue as a going concern providing shared services to the Bank. Other suppliers are closely monitored and there are no indications of issues that would threaten the Bank's going concern.

The Directors have therefore adopted the going concern basis in preparing the financial statements.

Statement of Directors' Responsibilities

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

DIRECTORS' INTERESTS

The Directors who served during the financial year are reported in the Governance report on page 44 - 47. No Director had an interest in the share capital of the Bank or any other group company.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are a Director at the date of approval of this report confirms that:

1) So far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and

2) Each Director has taken all the steps that they ought to have taken as a Director in order to make them aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board and signed on its behalf on 31 July 2024.

JANET POPE
Chair

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAF BANK LIMITED

OPINION

In our opinion, CAF Bank Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2024 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 30 April 2024; the profit and loss account, the statement of changes in equity and cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 5, we have provided no non-audit services to the company in the period under audit.

OUR AUDIT APPROACH

Overview

Audit scope

- We performed a full scope audit of the financial statements of CAF Bank Limited. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.
- The scope of the audit and the nature, timing and extent of audit procedures were determined with consideration of our risk assessment, the financial significance of account balances and other qualitative factors.

Key audit matters

- Provision on loans and advances to customers

Materiality

- Overall materiality: £651k (2023: £515k) based on 1% of net assets.
- Performance materiality: £488k (2023: £386k).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Provision on loans and advances to customers Refer to Note 1.6 - Impairment of financial assets; Note 9 - Loans and advances to customers; and disclosures pertaining to credit risk. The identification and the determination of loan loss provisions is inherently judgemental. Due to the specialised nature of the Bank's lending book (lending to charities and for social purpose projects), and limited historical loss data and proxy industry data, management use expert judgement in establishing certain key assumptions. The areas of risk which have been the focus of our work were: • The judgements made by management in determining the probability of default and loss given default; and • For individually assessed loans, the approach taken by management to determine the loan loss provision, in particular the valuation of collateral and time to realise the forecast cash flows.	We understood management's approach in determining the loan loss provision, and performed the following audit procedures in order to assess the methodology, and the appropriateness of management's judgments and estimates in the context of the current economic uncertainties and our wider industry experience. We evaluated the design and implementation of key controls related to the determination of the loan loss provision. We engaged the support of our credit modelling specialists in performing the substantive procedures set out below: • Evaluating the reasonableness of management's methodology, including key judgments and assumptions; • Evaluating the application of documented methodology in the model, and challenged the reasonableness of management assumptions (including where expert judgement has been applied in determining overlays against probability of default levels to capture current economic uncertainty); • Recalculating the model output, across all portfolios, by replicating the calculation as per the model methodology using management data; • Substantively testing key data fields used in the model on a sample basis, by tracing those fields back to supporting evidence; and • For individually assessed provisions, assessing and testing the appropriateness of key assumptions, including recovery strategies and recoverable amounts. We evaluated whether the loan loss provision disclosures made by management were compliant with the requirements of the FRS 102 and agreed the disclosures to source data. Based on our procedures and the evidence obtained, we found the assumptions and judgments used by management in determining the loan loss provision estimate to be reasonable, and the financial statements disclosures to be materially compliant with the requirements of FRS 102.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company provides banking services to charities and social purpose orngaisations in the UK, and with no subsidiaries. It is provided with operational support by its parent, Charities AID Foundation, for which cost recharges are implemented. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment. We performed audit procedures over relevant business activities and using the materiality levels set out below.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£651k (2023: £515k).
How we determined it	1% of net assets
Rationale for benchmark applied	We believe that net assets is an appropriate benchmark as the principal focus for stakeholders is whether the company has sufficient resources to support its purpose and business activities.

Independent auditors' report to the members of CAF Bank Limited

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2023: 75%) of overall materiality, amounting to £488k (2023: £386k) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £33k (2023: £26k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- reading and evaluating management's going concern assessment, and performing risk assessment procedures;
- assessing and challenging key assumptions used by directors in their determination of the going concern status of the company;
- assessing the liquidity and capital forecasts, including stress testing prepared by management to support the going concern assessment;
- assessing the nature and profile of the deposit customer base, the extent of diversification and FSCS insurance coverage, and behavioural analysis performed by management;
- substantiation of cash and other liquid assets held by the company, as well as access to liquidity facilities at the Bank of England;
- performing enquiries of the Prudential Regulation Authority, and reading legal and regulatory correspondence to assess whether there are any compliance issues which may impact the going concern of the company; and
- critically evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

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 company'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.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 30 April 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 company'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 company 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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and bias in key accounting estimates, including the provision on loans and advances to customers. Audit procedures performed by the engagement team included:

- Enquiring of management, and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;

- Making enquiries of and/or review of key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority;
- Gaining an understanding of period end controls around the preparation of the financial statements, including controls around posting of journals;
- Testing the appropriateness of journal entries using risk based sampling procedures, also making use of data analytics to identify journals with high risk characteristics;
- Assessing for bias in key accounting estimates. For example, in relation to the provision on loans and advances to customers; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 10 October 2022 to audit the financial statements for the year ended 30 April 2023 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 30 April 2023 to 31 April 2024.

Darren L Meek

DARREN L MEEK
Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

31-07-2024

PROFIT AND LOSS ACCOUNT

For the year ended 30 April 2024

	Note	2024 £000	2024 £000	2023 £000	2023 £000
Interest receivable	3	65,025		35,396	
Interest payable	4	(20,250)		(7,350)	
Net interest income			**44,775**		28,046
Fees and commissions receivable		2,710		2,560	
Fees and commissions payable		(945)		(913)	
Net fee income			**1,765**		1,647
Net operating income			**46,540**		29,693
Administrative expenses	5		(27,655)		(18,472)
Loan loss provision (charge) / credit	9		(716)		(573)
Profit on ordinary activities before taxation			**18,169**		10,648
Tax on profit on ordinary activities	7		(4,542)		(2,073)
Profit on ordinary activities after taxation			**13,627**		8,575

There are no recognised gains or losses for either year other than those shown in the profit and loss account above. All income and expenses for the current and prior year are derived from continuing operations.

The notes on pages 76 to 88 form an integral part of the financial statements.

BALANCE SHEET

As at 30 April 2024

	Note	2024 £000	2024 £000	2023 £000	2023 £000
Assets					
Balances at Bank of England	8		630,526		620,476
Loans and advances to banks	8		23,998		6,116
Loans and advances to customers	9		197,701		177,734
Debt securities	10		637,376		752,100
Prepayments and accrued income			10,566		8,775
Intangible assets	11		10,758		6,333
Total assets			**1,510,925**		1,571,534
Liabilities					
Customer accounts	12		1,419,433		1,505,425
Repurchase agreements	13		13,852		8,852
Other liabilities	14		7,540		5,784
Subordinated debt	15		5,000		-
Total liabilities			**1,445,825**		1,520,061
Called up share capital	16	40,319		40,319	
Retained earnings	17	24,781		11,154	
Total shareholders' funds	17		65,100		51,473
Total liabilities and total shareholders' funds			**1,510,925**		1,571,534

The notes on pages 76 to 88 form an integral part of the financial statements.

The financial statements on pages 72 to 88 were approved by the Board of Directors and authorised for issue on 31 July 2024 and signed on its behalf by

JANET POPE
Chair

KERRY TREMBLE
Chief Financial Officer

CAF Bank Limited
Company Number 1837656

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 April 2024

	Notes	Called-up share capital £000	Additional tier 1 securities £000	Distributable reserve £000	Retained earnings £000	**Total £000**
At 1 May 2022		29,350	11,000	1,000	1,579	**42,929**
Profit on ordinary activities after taxation for the financial year		-	-	-	8,575	**8,575**
Transferred from distributable reserve	17	-	-	(1,000)	1,000	**-**
Redemption of additional tier 1 securities	17	-	(11,000)	-	-	**(11,000)**
Issue of share capital	17	10,969	-	-	-	**10,969**
At 30 April 2023		40,319	-	-	11,154	**51,473**
Profit on ordinary activities after taxation for the financial year		-	-	-	13,627	**13,627**
At 30 April 2024		40,319	-	-	24,781	**65,100**

The notes on pages 76 to 88 form an integral part of the financial statements.

CASH FLOW STATEMENT

For the year ended 30 April 2024

	Notes	**2024** £000	**2024** £000	2023 £000	2023 £000
Cash flows from operating activities					
Profit on ordinary activities		13,627		8,575	
Adjustments for:					
Amortisation of investments		(2,450)		344	
Corporation tax paid		(5,815)		(830)	
(Increase) in prepayments and accrued income		(1,791)		(4,982)	
Increase/(decrease) in Cash Ratio Deposit with the Bank of England		3,582		(369)	
(Increase) in loans and advances to customers		(20,683)		(17,900)	
Increase in loan loss provision		716		573	
(Decrease) in customer accounts		(85,992)		(3,512)	
Increase in other liabilities		7,570		2,435	
Net cash (used in) operating activities			**(91,236)**		(15,666)
Cash flows from investing activities					
Acquisitions of debt securities		(254,111)		(88,130)	
Redemptions of debt securities		371,286		112,831	
Proceeds from repurchase agreements		5,000		8,852	
Proceeds from subordinated debt		15,000		-	
Repayment of subordinated debt		(10,000)		-	
Acquisition of intangible assets		(4,425)		(1,657)	
Net cash generated from investing activities			**122,750**		31,896
Cash flows from financing activities					
Costs of redemption of additional tier 1 securities and exchange for ordinary share capital		-		(31)	
Net cash used in financing activities			**-**		(31)
Change in cash and cash equivalents in the year			31,514		16,199
Cash and cash equivalents at beginning of year			623,010		606,811
Cash and cash equivalents at end of year			**654,524**		623,010
Represented by:					
Balances at Bank of England repayable on demand	8		630,526		616,894
Loans and advances to banks repayable on demand	8		23,998		6,116
			654,524		623,010

The notes on pages 76 to 88 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 (as issued by the Financial Reporting Council, the Financial Reporting Standard applicable in the UK and Republic of Ireland) and have been prepared in accordance with the Companies Act 2006.

Where information in the risk management report on pages 48 to 59 is identified as audited, it is incorporated into these financial statements by this cross reference and is covered by the Independent Auditors' report on pages 64 to 71.

1.1.2 Going concern

The going concern basis was adopted in preparing the Annual Report and Financial Statements as described below.

To assess going concern the Directors have reviewed the adequacy of the Bank's capital and liquidity positions, and the Bank's operational resilience, including the ability of CAF to continue to provide shared services over a period of at least twelve months from the date of approval of the financial statements.

The Directors have concluded the Bank's capital position can withstand a severe economic outcome, and further concluded that the likelihood of CAF Bank going into resolution due to a capital shortfall is remote.

In supporting the going concern basis, the Directors also consider the results of the stress tests in the Bank's internal capital and liquidity adequacy assessments, including consideration of factors such as the Bank's deposit concentration profile, Financial Services Compensation Scheme coverage, and liquid asset profile. The Directors also consider the interactions between liquidity and capital stresses and the impact of mitigating management actions, including access to contingency funding lines, both from the central bank and commercial counterparties.

The Directors considered the level of unrealised losses attached to the Bank's portfolio of financial investments, noting this portfolio is used to manage the Bank's interest rate position and would be held to maturity in all but the most extreme scenarios. After assessing all of the above, the Directors consider it remote that the Bank would need to dispose of the securities and therefore realise any of these unrealised losses.

The Directors have concluded the Bank's parent will continue as a going concern providing shared services to the Bank. Other suppliers are closely monitored and there are no indications of issues that would threaten the Bank's going concern.

The Directors have therefore adopted the going concern basis in preparing the financial statements.

1.2 Interest and fee income and expenditure recognition

Income is recognised once the Bank has entitlement to the income, it is probable that the income will be received and the amount can be measured reliably.

(a) Interest

Interest income and expense are recognised in the profit and loss account using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of that asset or liability. The calculation of the effective interest rate includes all transaction costs (directly attributable to the acquisition or disposal of the instrument) and discounts or premiums that are an integral part of the cash flow of the financial asset or liability.

(b) Fee income

Fees are accounted for depending on the services to which the income relates to as follows:

- Fees earned on the execution of a significant act are recognised in 'fee income' when the performance obligation (typically the act) is completed;
- Fees earned in respect of services are recognised in 'fee income' as the services are provided; and
- Fees that form an integral part of the 'effective interest rate' of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in 'interest income'.

(c) Expenditure recognition

Expenditure is recognised as soon as there is a legal or constructive obligation to make a payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

Irrecoverable VAT is charged as a cost.

1.3 Pension costs

All staff are employed by CAF. The Bank is recharged by CAF for the cost of defined contribution personal pension arrangements.

The amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year. Differences between contributions payable and the year end contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1.4 Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

1.5 Basic financial instruments

Loans and advances to banks comprise the Bank's cleared and uncleared balances held at HSBC and deposits with an original maturity of three years or less. These are stated at amortised cost.

Interest-bearing loans are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost using the effective interest method, less any impairment losses.

Debt securities held for investment purposes are held to redemption at par and recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses. The amortisation of premiums or discounts is included in interest income in the profit and loss account.

Interest receivable on interest-bearing loans and debt securities is recognised using the effective interest rate method.

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Repos are measured at amortised cost. The difference between the sale and repurchase price is treated as interest and recognised in net interest income over the life of the agreement.

Debtors are recognised at the settlement amount due after any discount offered. Prepayments are valued at the amount prepaid.

Customer account balances represent the value of deposits by account holders and are recorded as liabilities.

Creditors are recognised where there is a present obligation resulting from a past event that will probably result in a transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors are normally recognised at their settlement amount after allowing for any discounts due.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual terms of the instruments.

NOTES TO THE FINANCIAL STATEMENTS

1.6 Impairment of financial assets

Financial assets including loans are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence can include default or delinquency by a borrower, restructuring of a loan or advance on terms the Bank would otherwise not consider, indications that a borrower or issuer may become insolvent, or a reduction in marketability of security.

The Bank considers evidence for impairment for loans and advances (including on-demand commitments) at both specific and collective level. If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan, including accrued interest, and the estimated recoverable amount. The estimated recoverable amount is measured as the present value of expected future cash flows discounted at the loan's original effective interest rate, including cash flows that may result from foreclosure less costs for obtaining and selling collateral. The carrying amount of the loan is reduced by the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account collateral type and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and loss experience for assets with credit risk characteristics similar to those in the Bank. In addition, the Bank uses its judgement to estimate the amount of an impairment loss, supported by historical loss experience data for similar assets. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process.

1.7 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation will commence when the assets are brought into use. Intangible assets are assessed for impairment at each balance sheet date.

External spend to suppliers on software and system development is capitalised where the recognition criteria are satisfied. Internal spend on staff and contractors is expensed, except where effort directly relates to system development and the recognition criteria are satisfied.

1.8 Significant estimates

The preparation of the Bank's financial statements require management to make estimates that affect the reported amounts of assets, liabilities, income and expense.

Estimates

Specific provisions for impaired assets involve estimating the valuation of properties held as security, the time taken to sell property, and costs of holding and selling property. Given the subjective nature of such estimates, there may be changes that could result in a material adjustment in the next financial year and these are cited below.

Estimation uncertainty also relates to the collective loan loss provision. To determine the collective provision, assumptions are made about variables including the probability of default, the loss given default and the loss emergence period. These variables are based on historical loss experience data for similar assets. Estimations are made with regards to the expected future cash flows relating to the sale of the security, with judgement required of the valuation of properties held as security and the costs of holding and selling property. Total loan loss provisions were £2,367k at 30 April 2024 (30 April 2023: £1,651k), with the analysis between specific and collective provisions disclosed in note 9.

The key variables in the measurement of provisions are:

- Gross property valuation: our provision estimates are based on the most recent valuation, with residential and commercial property indexed where relevant to current values. The sensitivity of the provision to changes in property valuations is explained below in the context of property valuation discounts.
- Discount to gross property valuation: for commercial and specialist properties held as security, our estimates assume a 30% discount to the most recent open market valuation to reflect the sale of a foreclosed property in an acceptable timeframe based on historic transactions. If this 30% discount was reduced to 25% on commercial and specialist properties, total loan loss provisions would reduce by £209k; if the discount increased to 35%, provisions would increase by £283k.
- Costs to sell: we estimate legal, administrative and marketing costs of between 10% and 20% of the gross property valuation are incurred in disposing of the property, based on historic precedent and the type of property. If these costs were 5% higher, loan loss provisions would increase by £346k; if selling costs were 5% lower, provisions would be £250k lower.
- Probability of default: the collective loan loss provision is based on assessing our lending portfolio against the criteria used by external rating agencies and using the corresponding historical probabilities of default (PDs), adjusted for management's assessment of current stress in the portfolio. If estimated PDs were 50% higher, additional loan loss provisions of £757k would be required; if PDs were 50% lower, provisions would reduce by £754k.

1.9 Critical accounting judgements

The preparation of the Bank's financial statements require management to make judgements that affect the reported amounts of assets, liabilities, income and expense.

Judgements

The Bank's credit risk team exercises judgement when determining triggers to monitor the underlying performance of a loan including probability of default and loss given default. This judgement could result in a loan being added to the 'watch list' and an impairment provision being required when a loss event is deemed to have occurred.

Intangible assets represent the Bank's investment in a new core banking system under the Bank Transformation Programme. In assessing for impairment at the balance sheet date, management assesses the current status of the programme, the continued viability of the programme any obsolescence within the programme and whether there will be an economic benefit to the Bank on completion of the programme. Management have concluded that the Transformation Programme will be taken to completion and will deliver economic benefits to the organisation when brought into use and has therefore, not been impaired.

2. Segmental information

The Bank carries on one principal class of business, being that of banking, and operates in one geographical segment, the United Kingdom.

3. Interest receivable

	2024	2023
	£000	£000
Interest receivable and similar income arising from debt securities	13,548	11,394
Other interest receivable and similar income	51,477	24,002
	65,025	35,396

NOTES TO THE FINANCIAL STATEMENTS

4. Interest payable

	2024	2023
	£000	£000
Customer accounts	18,767	7,346
Subordinated debt	967	-
Repurchase agreements	516	4
	20,250	7,350

5. Administrative expenses

	2024	2023
	£000	£000
Staff costs		
Wages and salaries	7,972	7,315
Social security costs	826	725
Other pension costs	576	492
	9,374	8,532
Other administrative expenses	18,281	9,940
	27,655	18,472

All staff are employed by CAF. Total employment costs are recharged where activities have been undertaken for CAF Bank. Staff costs represent employees of CAF who were assigned wholly to duties relating to the activities of the Bank.

Creditors include £43,163 (2023: £42,816) in respect of pension contributions payable to CAF.

The average number of total employees analysed by function was:

	2024	2023
	Number	Number
Management	34	23
Administration	142	143
	176	166

Other administrative expenses include the following amounts paid to CAF in respect of Directors' emoluments, other costs of staff partially allocated to duties relating to CAF Bank, and management charges relating principally to the occupancy of premises and the use of systems equipment. Contractors, information systems, human resources and other shared services staff costs are included in indirect staff costs (below).

Employees and management charges

	2024	2023
	£000	£000
Indirect staff costs	3,217	2,713
Management charges	2,026	1,301
	5,243	4,014

Directors' emoluments

None of the Directors who served during the year were remunerated directly by the Bank (2022/23: none).

During the year, total Directors' remuneration was £517,370 (2023: £470,845) including pension contributions in respect of services rendered by three Executive Directors (2023: two) for their qualifying services provided to the Bank. No amounts were paid to third parties for Directors' services (2023: none). The total remuneration of the highest paid Director during the year was £311,634 (2023: £293,010). Non-Executive Directors were not remunerated.

Auditors' remuneration

Auditors' remuneration included in administrative expenses consists of the following:

	2024	2023
	£000	£000
Audit fees payable to the company's auditors for the audit of the company's financial statements	268	185
Other audit related services	78	29
	346	214

6. Charitable donation to parent

The Bank has not accrued a donation to CAF during year ended 30 April 2024 (year ended 30 April 2023: none).

7. Tax on profit on ordinary activities

Corporation tax charges are set out below, applying the effective rate of UK corporation tax: 25% (30 April 2023: 19.49%).

	2024	2023
	£000	£000
Tax expense:		
Profit on ordinary activities before tax	18,169	10,648
Profit on ordinary activities before tax at 25% (2023 19.49%)	4,542	2,076
Adjustments in respect of prior years	-	(1)
Deferred tax - Origination and reversal of timing differences	-	(47)
Deferred tax - Impact of change in tax rate	-	45
	4,542	2,073

8. Loans and advances to banks

	2024	2023
	£000	£000
Repayable on demand	23,998	6,116
Loans and advances to banks	**23,998**	6,116
Balances at Bank of England - Reserve account	630,526	616,894
Balances at Bank of England - Cash ratio deposit	-	3,582
	654,524	626,592

9. Loans and advances to customers

	2024			2023		
	Loans	Overdrafts	Total	Loans	Overdrafts	Total
	£000	£000	£000	£000	£000	£000
Remaining maturity of loans and advances						
Repayable within 3 months	3,241	-	**3,241**	1,113	297	1,410
Repayable within 5 years	30,313	-	**30,313**	30,449	-	30,449
Repayable over 5 years	168,425	-	**168,425**	149,249	-	149,249
	201,979	**-**	**201,979**	180,811	297	181,108
Loan loss provision	(2,367)	-	**(2,367)**	(1,651)	-	(1,651)
Deferred income	(1,911)	-	**(1,911)**	(1,723)	-	(1,723)
	197,701	**-**	**197,701**	177,437	297	177,734

9. Loans and advances to customers (Contd)

Individual impairments provision

	2024 £000	2023 £000
Loan loss provision at 1 May	**(586)**	(176)
Released during the year	**34**	-
Provided during the year	**-**	(410)
Loan loss provision at 30 April	**(552)**	(586)

Collective impairments provision

	2024 £000	2023 £000
Loan loss provision at 1 May	(1,065)	(902)
Provided during the year	(750)	(163)
Loan loss provision at 30 April	**(1,815)**	(1,065)
Total loan loss provision	**(2,367)**	(1,651)

10. Debt securities

Investments

	2024 Book Value £000	2024 Market Value £000	2023 Book Value £000	2023 Market Value £000
Listed:				
Multilateral financial institutions	511,053	489,173	670,370	638,973
Fixed coupon corporate bonds	49,368	47,900	23,498	21,129
Floating rate corporate bonds	76,955	76,853	48,232	48,477
	637,376	**613,926**	742,100	708,579
Unlisted:				
Certificates of deposit	-	-	10,000	10,082
	637,376	**613,926**	752,100	718,661

10. Debt securities

Maturity

	2024 Book Value £000	2023 Book Value £000
less than 6 months	9,984	78,036
6 months to 1 year	105,868	244,930
	115,852	322,966
1 year to 5 years	512,943	400,227
	628,795	723,193
5 years and over	8,581	28,907
	637,376	752,100
Unamortised premiums	**13,849**	6,730

Premiums or discounts on investments held to maturity are amortised over their remaining lives.

Movements

	2024 Cost £000	2024 Amortisation £000	2024 Book Value £000	2023 Cost £000	2023 Amortisation £000	2023 Book Value £000
At 1 May	754,933	(2,833)	752,100	779,046	(1,901)	777,145
Acquisitions	254,111	1,974	256,085	88,130	796	88,926
Redemptions	(373,498)	2,212	(371,286)	(112,243)	(588)	(112,831)
Amortisation	-	477	477	-	(1,140)	(1,140)
At 30 April	**635,546**	**1,830**	**637,376**	**754,933**	**(2,833)**	**752,100**

11. Intangible asset

	2024 Development cost £000	2023 Development cost £000
At 1 May	6,333	4,676
Additions	4,425	1,657
At 30 April	**10,758**	6,333

Development costs are associated with the development costs of a banking system currently expected to be available for use in late 2024. They have been capitalised in accordance with FRS 102 Section 18, Intangible Assets other than Goodwill.

12. Customer accounts

	2024 £000	2023 £000
Repayable on demand	**1,408,508**	1,492,736
Repayable within 30 days	**10,925**	12,689
	1,419,433	1,505,425
Amounts include:		
Amounts owed to CAF	**6**	561

Amounts owed to CAF include current account balances payable on demand. Interest is paid to CAF at the prevailing published rate paid to all account holders.

13. Repurchase agreements

Repurchase agreements total £13,852,404 (2023: £8,852,404). The corresponding carrying value of assets of £14,671,668 (2023: £9,539,681) sold under sale and repurchase agreements is included within debt securities

14. Other liabilities

	2024	2023
Amounts due within one year:	**£000**	£000
Amounts owed to CAF	**1,390**	982
Sundry creditors	**5,637**	2,950
Taxation	**145**	1,484
	7,172	5,416
Amounts due after more than one year:		
Deferred tax	**368**	368
	7,540	5,784

Amounts owed to CAF include invoices for both direct and indirect costs payable on demand. Sundry creditors includes accruals for costs incurred but not yet paid and interest due to depositors.

15. Subordinated debt

	2024 £000	2023 £000
At 1 May	-	-
Issued	15,000	-
Repaid	(10,000)	-
At 30 April	**5,000**	-

In August 2023 CAF Bank issued £15 million of subordinated debt to CAF. In April 2024 CAF Bank repaid £10m of the subordinated debt leaving a balance of £5 million. After the year end, the remaining £5m has been converted to a sub debt instrument that can be converted to Additional Tier 1 (AT1) regulatory capital.

16. Called up share capital

	2024 Number	2024 £000	2023 Number	2023 £000
Allotted, issued and fully paid:				
Ordinary shares of £1 each (net of issue costs)	**40,350,000**	**40,319**	40,350,000	40,319
		40,319		40,319

17. Reconciliation of shareholders' funds

	Called-up share capital	Additional tier 1 securities	Distributable reserve	Retained earnings
	£000	£000	£000	£000
At 1 May 2022	**29,350**	**11,000**	**1,000**	**1,579**
Movement during the year	10,969	(11,000)	-	8,575
Transferred from distributable reserve	-	-	(1,000)	1,000
At 30 April 2023	**40,319**	**-**	**-**	**11,154**
Movement during the year	-	-	-	13,627
At 30 April 2024	**40,319**	**-**	**-**	**24,781**

18. FINANCIAL INSTRUMENTS

18.1 Market and interest rate risk

Market risk is the risk from adverse movements in external markets, e.g. interest rate movements, changes in investment values or currency movements that will impact our income or the value of our assets and liabilities. This includes interest rate risk in our banking book (IRRBB), which is the risk arising from a mismatch between the duration of assets and liabilities.

CAF Bank does not undertake proprietary trading activities. Investments are held to maturity and valued at cost with any premium or discount amortised over the remaining term. All the Bank's assets and liabilities are denominated in sterling

The Bank manages interest rate risk through the purchase of fixed rate investments. The Bank's policy is to hold these investment securities to redemption at par. The impact of any movements in interest rates on fixed rate instruments is therefore not anticipated to affect the Bank's profits.

Market risk arising from interest rate moves may drive income volatility. Interest rate risk is controlled by measuring mismatches between the repricing behaviour of assets and liabilities. It is managed within Board-approved limits, measured weekly, and is monitored via ALCo and the Board Risk and Compliance Committee.

18.2 Currency profile

The Bank has an exposure in US Dollars equivalent to £433k (2023: £401k). This is held as a collateral deposit for the Bank's Mastercard operations. Other than this exposure, all assets and liabilities are denominated in sterling.

18.3 Instruments held for trading

None of the Bank's financial instruments are held for trading purposes and no trading book is held.

18.4 Hedging

CAF Bank does not hold financial instruments for hedging purposes.

18.5 Fair values

Set out below is a comparison of all the Bank's financial instruments by category. Market values have been used to determine fair values of debt securities listed on a recognised UK exchange (note 10).

	2024		2023	
	Book Value	**Fair Value**	Book Value	Fair Value
Assets	**£000**	**£000**	£000	£000
Balances at central banks	**630,526**	**630,526**	620,476	620,476
Loans and advances to banks	**23,998**	**23,998**	6,116	6,116
Debt securities	**637,376**	**613,926**	752,100	718,661
Loans and advances to customers	**197,701**	**196,977**	177,734	177,354
	1,489,601	**1,465,427**	1,556,426	1,522,607

	2024		2023	
	Book Value	**Fair Value**	Book Value	Fair Value
Liabilities	**£000**	**£000**	£000	£000
Customer accounts	**1,419,433**	**1,419,433**	1,505,425	1,505,425
	1,419,433	**1,419,433**	1,505,425	1,505,425

The Bank's policy is to hold investment securities and loans and advances to customers to redemption or repayment at par (note 1.5). The impact of any movements in interest rates on fixed rate financial instruments is therefore not anticipated to affect the Bank's profits. This is more fully described on p.32 of the Strategic Report: Liquidity, The Investment Portfolio And Capital.

There are no fixed term deposits or savings products with a fixed rate.

NOTES TO THE FINANCIAL STATEMENTS

19. Off-balance sheet commitments

	2024	2023
	£000	£000
Undrawn overdraft commitments	**475**	578
Undrawn loan commitments	**52,356**	48,310
BACS facilities	**15,537**	13,268
	68,368	62,156

Commitments comprise amounts yet to be drawn under loan or overdraft agreements.

20. Parent trust

Charities Aid Foundation (CAF), registered charity number 268369, is the immediate and ultimate parent and controlling party of CAF Bank (registered office: 25 Kings Hill Avenue, Kings Hill, West Malling, ME19 4JQ).

The largest and only entity into which CAF Bank is consolidated is CAF. A copy of CAF's consolidated financial statements can be obtained from the Bank's registered office and at www.cafonline.org.

21. Related party transactions

CAF Bank has taken advantage of exemptions available under section 33 of FRS 102 not to disclose transactions with other group entities.

22. Post balance sheet events

There have been no events since the balance sheet date that are required to be adjusted for or to be disclosed other than those disclosed in note 15.

COUNTRY-BY-COUNTRY REPORTING

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions within the scope of the Capital Requirements Directive (CRD IV). All of the activities of the bank are conducted in the United Kingdom and therefore 100% of the total income, profit before tax and tax paid, as well as employee figures, are related to the United Kingdom.

The Bank has not received any public subsidies.

	2024	2023
	UK	UK
Number of employees (average)	**176**	166
	£000	£000
Turnover (total income)	**46,540**	29,693
Profit before tax	**18,169**	10,648
Corporation tax paid	**5,815**	830

1 Basis of preparation

The Report and Financial Statements for the year ended 30 April 2024 have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and have been prepared in accordance with the Companies Act 2006.

2 Accounting policies

Income recognition

(a) Interest income

Interest receivable on financial assets is recognised using the effective interest method over the expected life of the financial asset. Loan arrangement fees are recognised using the effective interest method over the expected life of the loan.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Directors (at 30 April 2024)

NON-EXECUTIVE DIRECTORS

JANET POPE
Chair

ASTRID GREY
Deputy Chair and Whistleblowing Champion

ROBERT VOGTLE
appointed 30 May 2023

KEES DIEPSTRATEN

URSULA DOLTON

NEIL HESLOP, OBE
CAF Chief Executive

SAMANTHA SEATON

GRAHAM TOY

DAVID WATTS

Executive Directors

ALISON TAYLOR
Chief Executive Officer

KERRY TREMBLE
Chief Financial Officer
appointed 1 February 2024

Company Secretary

ALISON WESTBROOK, ACG

Audit Committee

DAVID WATTS
Chair

KEES DIEPSTRATEN

URSULA DOLTON

Board Risk and Compliance Committee

ASTRID GREY
Chair

SAMANTHA SEATON

GRAHAM TOY

DAVID WATTS

Nominations and Remuneration Committee

JANET POPE
Chair

NEIL HESLOP, OBE
CAF Chief Executive

ALISON TAYLOR
Chief Executive Officer

KEES DIEPSTRATEN

Executive Committee

ALISON TAYLOR
Chief Executive Officer

KERRY TREMBLE
Chief Financial Officer
appointed 1 February 2024

ROBERT CAMP
Chief Information Officer

ALISON CARPENTER
Chief Risk Officer

DINA HENRY
Chief Operating Officer

STEPHEN POTTS
Director of Transformation

RICHARD HUNT
Director of Customer & Lending

NEIL POYNTON
Director of Charities Product & Development

JONATHAN MOON
Chief of Staff

CAROL STUART
Head of Human Resources

Bankers

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London EC4N 4TR

Nominee and Custodian

HSBC Securities Services Level 29
8 Canada Square
London E14 5HQ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

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Registered Company Number 01837656

CAF Bank Ltd.

Visit www.cafonline.org/caf-bank to find out more