CAF
Bank

ANNUAL REPORT

and financial statements for the year ended 30 April 2017

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CHAIRMAN'S STATEMENT

CAF Bank Limited ("CAF Bank") occupies a uniquely important position in the charity world – a bank for charities, wholly owned by a charity - Charities Aid Foundation, one of the largest charitable foundations in Europe. CAF Bank gifts any profits back to the not-for-profit sector and was established specifically to serve the needs of charities. Our mission makes it all the more important that we navigate the shifting economic winds to remain a safe and secure custodian of charities' money.

This year has been one of rapid change and challenge for CAF Bank. The political changes heralded by last year's referendum prompted a halving of interest rates by the Bank of England, and we await developments in Britain's negotiations to leave the European Union.

As a UK based bank which does not operate abroad, CAF Bank is not directly affected by many of the issues that Brexit has raised for the financial services industry. But our mission is to provide security in difficult times, so we are acutely aware of the pressures on charities, and we do all we can to maintain our rates and keep fees as low as possible.

Just as we work to keep charities' money secure from economic storms, so we continue to invest in our customer service teams to provide the best experience possible to our customers, and also to invest in a safer environment for our customers to guard against the threat of cyber crime.

Despite these challenges, CAF Bank remains a profitable bank with a carefully managed investment portfolio of highly liquid assets. Our capital has strengthened over the last year in line with our plans and supporting our lending charities.

Our lending has grown from £46m to £72m with a further £14m of loans and overdrafts committed but not yet drawn at the end of the year. It had been a great achievement to grow our lending in just four years, helping charities develop everything from social housing to drug rehabilitation schemes.

That is at the heart of what we do, as part of the wider CAF family, supporting charities transforming lives and communities around the world.

An important part of our work is succession planning and recruitment of new members to our Board and our staff to ensure we have the right balance of skills, knowledge and experience, to allow us to help charities thrive. To do that, nurturing our talent and ensuring CAF Bank always has the expertise and flair to build for the future is vital. Over the last year we strengthened our succession plans to maintain a strong, experienced and talented Board, bringing on new members as valued colleagues.

I am enormously grateful to all my fellow board members. I would like to thank those who have stepped down this year after giving huge amounts of time and energy to CAF Bank and am delighted to welcome four new colleagues to the Board, and our new Chief Risk Officer who bring enormous experience, wisdom and skill to our work. I would also like to extend my thanks to the staff of CAF Bank who do so much to strengthen and support thousands of charities.

Above all, I thank the charities we serve. They are the reason we are here. We wish them well, and stand ready to help them aid the millions of people who rely so much on the important work that they do.

Iain MacKinnon
Chair

STRATEGIC REPORT

Principal activities

CAF Bank Limited provides banking services to charities, social purpose organisations and philanthropically minded individuals. The Bank offers transactional current and deposit accounts primarily via telephone and internet banking and provides loans and advances to UK customers.

CAF Bank is a wholly owned subsidiary of the Charities Aid Foundation (CAF).

Strategy and Objectives

As a Bank owned by a charity and run for charities, CAF Bank supports customers to deliver social impact and achieve a fairer society by:

- Providing an ethical and fair approach to banking; and
- Offering straightforward and transparent services that customers understand and trust.

CAF Bank's longer term objectives are to:

- Diversify into a broader range of services, including lending; and
- Strengthen capital and reduce gearing.

CAF Bank aims to make an increasing contribution itself to the charitable sector through the amounts donated to the Charities Aid Foundation.

Case Study: St Michael's Church - For centuries, the church has served the small rural parish of Stoke Gifford on the outskirts of Bristol. As the community has expanded to more than 20,000 people, the congregation has grown to over 400 people.

Working closely with a lending partner has helped St Michael's to begin realising its ambition of building community spirit by bringing local people together, as Chris Bradley, Treasurer, St Michael's Church Centre Ltd elaborates: "CAF Bank was very supportive of our project - the centrepiece of which was the construction of a new church and community centre. The loan enabled us to open the first phase of the centre, providing a 300 seat auditorium, (expandable to over 550 when fully complete) meeting and seminar rooms for use by the church and community."

Review of the year

During the year ended 30 April 2017 CAF Bank continued to transition into a more diversified bank with a growing lending book and continued to build a small base of personal customers.

The loan book grew as planned during the year, driven by demand from charities for funds to enable them to support their impact. Loans drawn at 30 April 2017, net of repayments and provisions were £71.7m (2015/16: £45.6m). CAF Bank benefits from a long term loyal base of charity deposit customers who provide a strong and stable source of funds, enabling loans to be advanced to other charities at competitive rates. CAF Bank lends to charities and other social purpose organisations and provides development loans to personal customers, allowing the Bank to cross subsidise and maintain low cost banking for many smaller charities.

CAF Bank's personal banking service, launched in 2015, offers current account banking in conjunction with a regular tax effective donation to charity by invitation, and is complementary to the services offered by CAF to supporters of the sector. The Bank had 200 personal accounts at 30 April 2017.

The Bank continued to be impacted by low interest rates, which are expected to remain at relatively low levels for the foreseeable future. Given the outlook, and the need to cover our operating costs, we took the difficult decision to introduce a £5 monthly charge to all charity current account customers in November 2016, complementing the £25/month charge to personal customers.

The Bank reported a profit on ordinary activities before taxation of £4.4m in 2016/17, an increase of £0.7m on 2015/16. The bank benefitted from growth in lending and slightly improved yields on its investment portfolio. As a result, we are reporting a slight improvement in NII from 0.95% to 1.04% at 30 April 2017. Costs were impacted by additional staff to satisfy increased regulatory requirements and IT costs to upgrade infrastructure and payments systems.

Capital and liquidity

CAF Bank's capital position has been strengthened during the year following investment by the Charities Aid Foundation of a further £4m Additional Tier 1 capital ('AT1') and £2m ordinary share capital, improving the leverage ratio to 2.9%. The Bank continues to manage its capital position and balance sheet to achieve a leverage ratio of over 3% by December 2017. AT1 capital is perpetual, non-cumulative capital that converts to ordinary share capital in the event that Common Equity Tier 1 ratio falls, or is likely to fall, below 7%.

At 30 April 2017 the Bank's total Tier 1 capital ratio was 13.0%, compared to 10.9% at 30 April 2016, reflecting the increase in capital during the year.

Approximately 60% of CAF Bank's assets are highly liquid, with liquidity buffer eligible assets of £598m at 30 April 2017 (£561m at 30 April 2016). Liquidity buffer assets principally comprise investments in the Bank of England Reserve Account, Multilateral Development Banks and UK Gilts.

Case Study: Dolphin Living - an organisation tackling the shortage of high-quality, affordable homes in central London.

Dolphin Living, benchmarked CAF Bank's proposal against other offerings, to ensure the pricing, terms and amounts offered were competitive. What set CAF Bank apart from others were the similar values and charitable objectives to those of Dolphin Living.

Olivia Harris, Chief Executive, Dolphin Living, explains "We were reassured by the alignment of interests and that CAF Bank wants us to achieve our charitable objectives. We look forward to continuing our relationship with CAF Bank and in doing so keeping affordable properties available to working and vulnerable Londoners".

Lending

There are two principal streams to CAF Bank's lending:

- Loans to charities and social purpose organisations, secured on property, typically for terms of 5-25 years;
- Loans to personal customers secured on residential development property for terms up to 3 years funded by the Bank's own resources and personal customer balances.

The loan book grew in line with plan in 2016/17. At 30 April 2017 there were 89 drawn loans and 21 sanctioned but not committed loans to charities amounting to £52m and £17m respectively (2015/16: £38m and £24m) to organisations across the UK including social housing, heritage, faith and healthcare sectors. A further 8 loans totalling £10m were committed and expected to draw in 2017/18. Loans are predominantly floating rate, linked to Bank of England Base Rate at loan to value ratios of less than 70% (85% for social housing).

In addition, CAF Bank's personal loan book comprised 38 drawn loans and 19 sanctioned but not committed loans amounting to £20m and £13m (2015/16: £7.5m and £7.8m) respectively. The facilities are short term development loans secured on property at loan to value ratios no greater than 65%. Personal loans are priced higher than charity lending and include a donation by the borrower to charity of 0.5% of the loan value.

Future developments

Our priority for the future is to continue to diversify the Bank's services to enable customers to achieve their charitable objectives and increase their impact, whether these are charities seeking loan facilities and other services or personal customers looking for banking services with an integral giving commitment in support of their chosen charities.

We continue to be encouraged by the growth in lending, and see good levels of demand from charities and social purpose organisations for borrowing funds on straightforward, transparent terms. We will continue to expand CAF Bank's range of services going forwards to meet the demands of charities and philanthropically minded personal customers. Our market penetration is still modest in the sectors we have targeted, offering plenty of scope to grow the loan book.

There has also continued to be a high level of interest in the Bank's personal secured loans. Again, our offer is straightforward and competitive in the market and we see opportunities to generate income to cross subsidise our services to charities. We are optimistic that the strong demand seen since launch will continue and that personal loans linked to a charitable donation will be a successful long term loan product, although representing a smaller proportion of loans than our core charity loan book.

Customers increasingly want to access services online. CAF Bank will continue to invest in upgrading its IT infrastructure and web enabled services to support the provision of 24/7 inward transmission of funds and new payment services as these are introduced, while ensuring the Bank and customers are protected against growing cyber security risks.

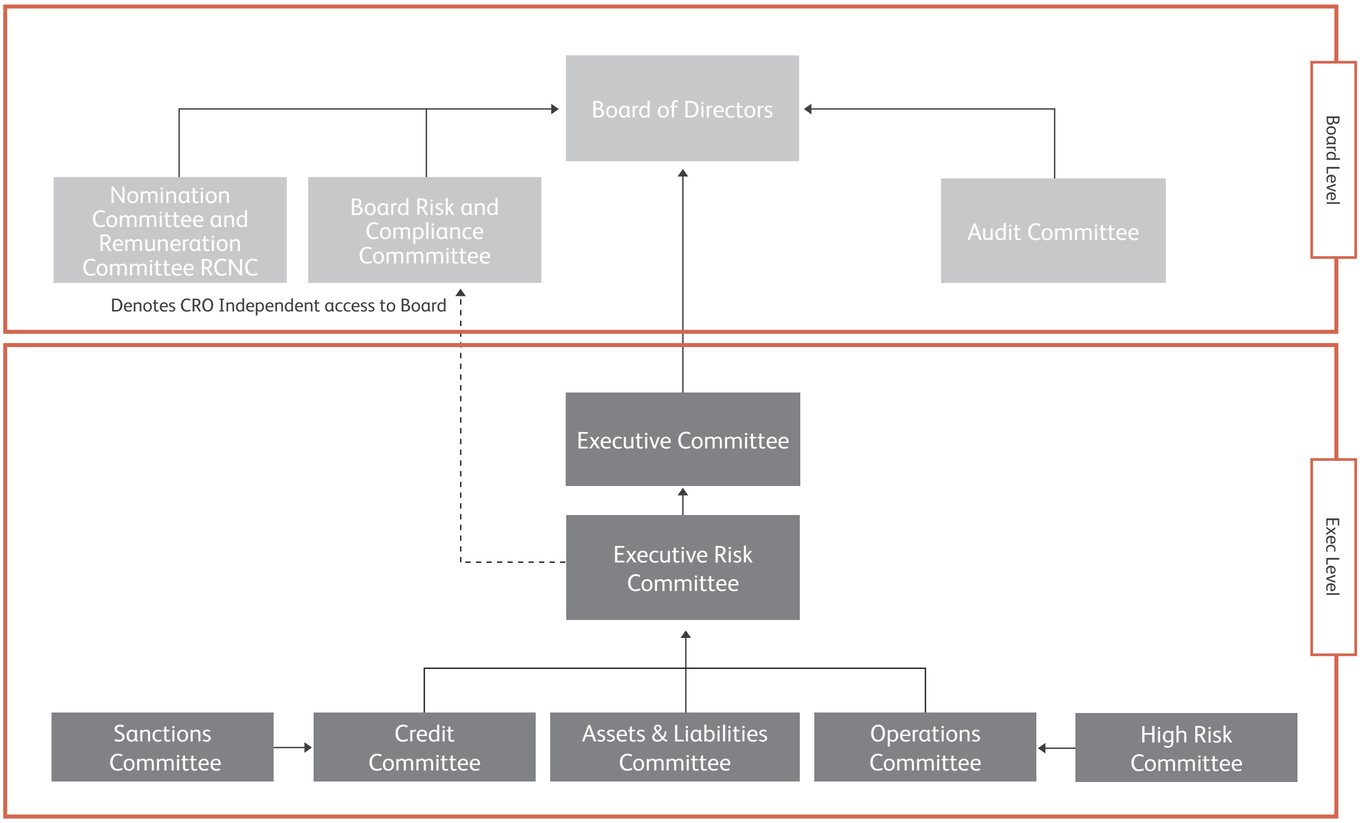
CAF Bank will continue to strengthen its capital base to support growth and improve resilience. The Bank will reduce gearing and improve capital ratios, primarily through further planned subscription of capital from CAF and expects to meet regulatory capital and Leverage Ratio requirements in line with European Banking Authority timetables.

Case Study: Kent & East Sussex Railway - is a tourist attraction and educational charity looking after over 90,000 visitors who travel on the railway every year. The company needed a loan to re-finance some existing debt, which had been incurred in 2000 to fund an extension of the railway line and new office accommodation.

"CAF Bank were easy people to deal with, they understood our requirements and were able to take decisions quickly. CAF Bank is able to operate without undue bureaucracy and to minimise the costs associated with a loan", Philip Shaw, Finance Director, Kent & East Sussex Railway Company Ltd.

GOVERNANCE REPORT

CAF Bank Governance Structure



The Board is collectively responsible to the shareholder and its other stakeholders for the long term success of the Bank. The Board is committed to implementing and maintaining a well-defined and well-structured corporate governance framework to achieve long term sustainable success. The Board has responsibility for determining the business strategy and related risk appetite and to monitor performance against the plan, objectives and performance indicators for each area.

The Board also has responsibility for ensuring a system of internal controls is maintained, which provide assurance of effective and efficient operations, internal financial controls and compliance with all applicable laws and regulations. Additionally, the Board is responsible for ensuring that the executive maintain an effective risk management and oversight process across the Bank to enable delivery of the strategy and business performance within the approved risk appetite and risk control framework.

Board composition

The Board consists of twelve non-executive directors and two executive directors at 30 April 2017. The names of the directors who served throughout the year, except as noted, are as follows:

	Meetings attended	Maximum
Iain MacKinnon (Chair) **	5	5
Paul Biddle #	5	5
Stuart Barnett * (retired 1 July 2016)	0	1
Clive Bowles #	5	5
David Dickman * (retired 29 November 2016)	3	3
Mairi Johnstone *	4	5
Dr Peter Kyle * (retired 1 July 2016)	0	1
Tiina Lee **	5	5
Dr John Low CBE ** (CAF Chief Executive)	5	5
Alistair Ray *	3	5
Mark Sinclair *	5	5
Kees Diepstraten * (appointed 27 September 2016)	4	4
Malcolm Himsworth * (appointed 27 September 2016)	4	4
Carole Machell * (appointed 27 March 2017)	1	1
Janet Pope * (appointed 27 March 2017)	1	1
Peter Ostacchini (Chief Executive)	5	5
John Grout (Finance Director)	4	5

* Independent non-executive director

\# Non-executive director having served for 9 years or more

** Non-executive director and CAF Trustee (or in the case of Dr Low, CAF Chief Executive)

None of the Directors have interests in the shares of the Bank or any associated undertaking or trust.

The Board exercises its responsibilities through its own activities and through delegation to its committees and the Chief Executive. The Chief Executive is responsible for delivery of the Bank's operating plan, supported by the Executive Committee and its sub-committees. CAF Bank adopted the Senior Managers Regime in February 2016 and this was fully implemented by 7 March 2017.

The Board Risk and Compliance Committee (BRCC)

The Board Risk Committee is chaired by a Non-Executive Director and comprises two other Non-Executive Directors. The main responsibilities of the Committee include ensuring:

- The development and maintenance of the Bank's risk management framework;
- Monitoring performance and that the Bank's strategy, principles, policies and resources are aligned to the Bank's risk appetite, as well as to regulatory and industry best practices;
- Reviewing policies and recommending these to the Board.

The Board Audit Committee

The Chair and members of the Audit Committee are Non-Executive Directors. The responsibilities of the Committee include:

- The monitoring of the integrity of the annual published report and accounts, Pillar 3 statements and CAF Bank's External Auditors;
- Reviewing the Bank's internal control and risk management systems;
- Focus upon Internal Audit and the assurance given by the third line of defence (currently outsourced externally) on the effectiveness of the first and second line functions and activities;
- The Chair of the Committee also oversees the adoption of whistleblowing across the Bank.

The Nominations and Remuneration Committee

The Nominations and Remuneration Committee, comprising the Chair, CAF Chief Executive and CAF Bank Chief Executive is responsible for:

- Review of Board effectiveness, Board nominations and retirements;
- Conflicts of interest; and
- Remuneration policy and practice.

The Executive Committee

The purpose of the Executive Committee is to assist the Chief Executive Officer in the performance of their duties, including:

- Development and implementation of strategy, operational plans, policies, procedures and budgets;
- Monitoring of operating and financial performance;
- Prioritisation and allocation of resource and monitoring competitive forces in each area of operation;
- Cascading the 'culture and tone' set by the Board in relation to the conduct of the Bank's business.

Executive Risk Committee

The purpose of Executive Risk Committee is to enable the Chief Risk Officer to discharge their duties, under delegated authorities, including:

- Monitoring the Bank's risk management framework and adherence to risk appetite metrics and statements;
- Ensuring the identification, assessment and control of principal risks;
- Act as the senior risk committee receiving reports from, and point of escalation for, the Asset and Liability Committee, Credit Committee and High Risk Committee (via the Operations Committee);
- Establishing and maintaining appropriate policies.

The Credit Committee

The purpose of the Credit Committee is to:

- Monitor portfolio performance against approved policies and limits;
- Renew policies and recommending these to the Executive Risk Committee;
- Review credit reports covering each specific business line;
- Review the quality of new lending, credit performance, arrears and non-performing loans and review the detailed composition of the credit portfolios.

The Sanctions Committee

The purpose of the Sanctions Committee is to:

- Review and approval of new credit proposals, in line with appetite and policy and approval levels;
- Review significant rejected applications and any impact upon reputation.

The Asset and Liability Committee (ALCO)

The purpose of ALCO is to:

- Oversee CAF Bank's liquidity, funding and market risks, regulatory and capital requirement within the risk appetite set by the Board;
- Review policies and recommend these to the Executive Risk Committee;
- Oversee, review and make recommendations on the Bank's ILAAP and ICAAP documents which are then presented to Executive Risk Committee for review;
- Monitor the financial risks faced by the Bank including counterparty placements and investments.

Operations Committee

The purpose of the Operations Committee is to:

- Review the level of customer service delivered through analysis of management information relating to service level agreements and complaints and developing relevant action and risk mitigation plans for implementation;
- Review outsourcing arrangements, ensuring compliance with outsourcing policy;
- Review systems and controls ensuring these are appropriate and escalate significant issues.

RISK MANAGEMENT REPORT

Risk Management Framework

The Risk Management Framework (RMF) outlines the means by which the Board and senior management establish the strategy of the Bank in relation to its risk appetite and articulates how the Bank identifies, measures and manages risk. The RMF explains how the Bank adheres to the monitoring of its risk appetite as well as the policies, procedures, governance, systems and tools that it uses to enable effective risk management at the Bank. Risk management refers to the process of identification, assessment, measurement, control and monitoring of risks to which the Bank is exposed.

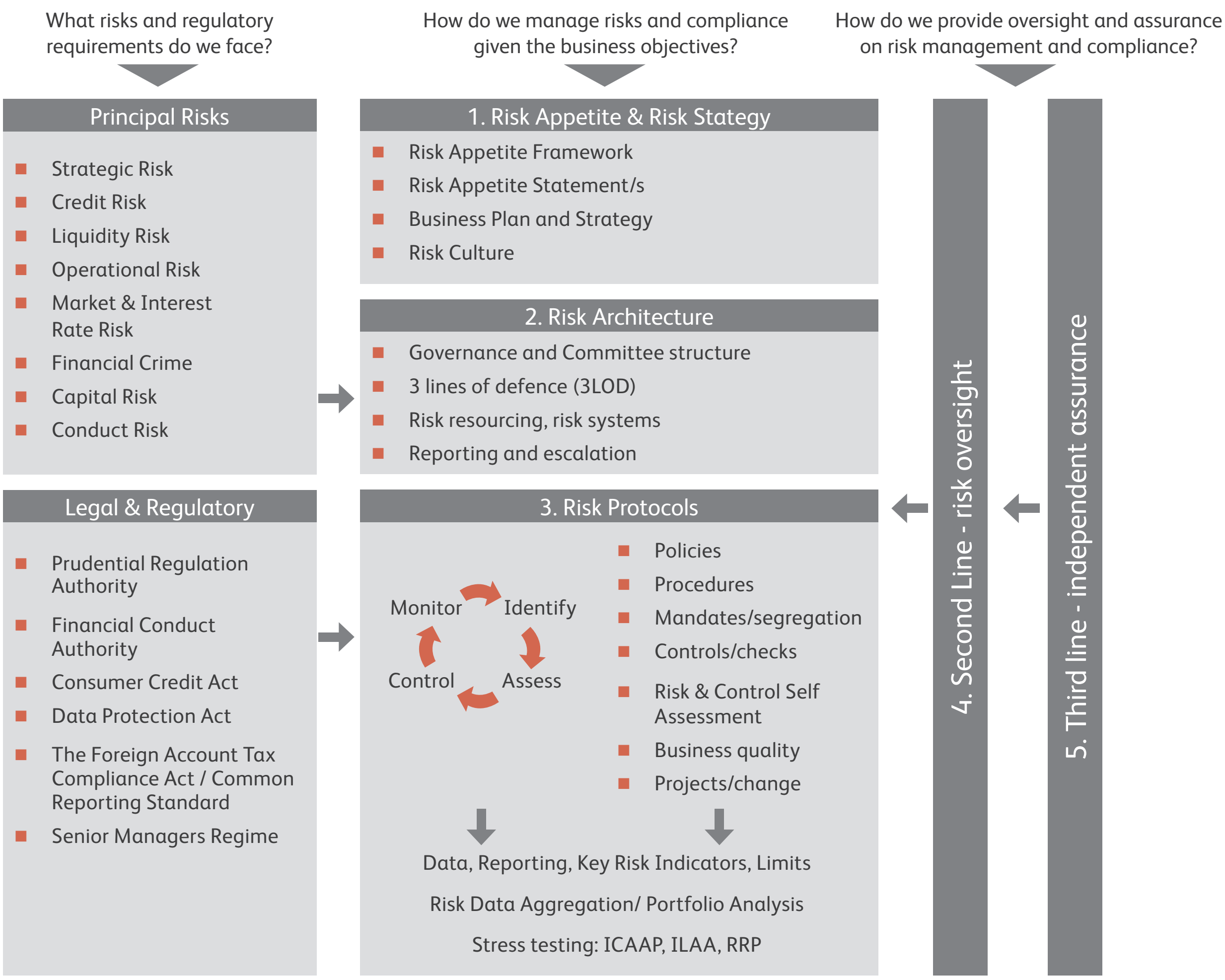
The RMF is reviewed and approved by the Board annually following recommendation by the Board Risk and Compliance Committee.

The Chief Executive Officer and the Chief Risk Officer ensure that business objectives and practices are fully aligned with the RMF.

The senior executives and managers of the Bank ensure that the RMF is embedded in its day-to-day management and control activities, with a clear separation between 1LOD and 2LOD (First and Second Lines of Defence) activities. The RMF is subject to assurance reviews undertaken by Internal Audit and these are made available to external stakeholders as and when required.

The RMF is supported by detailed policies and procedures. These combine to ensure that risks are managed in a manner which is consistent with the size and nature of the Bank's operations, are aligned to regulatory requirements and reflect industry best practice, as reflected below:

Risk Management Framework



The First Line of Defence (through managing risks on a day to day basis and staying in control of their activities), is responsible for managing risk in the context of the legal and regulatory environment and also to take due regard of the reputational position that the Bank occupies in support of charities.

The RMF includes the three lines of defence model which ensures a clear delineation of responsibilities between control over day to day operations, risk oversight and control and independent assurance of the Bank's activities.

This model provides clarity for individuals and functions about their role, where responsibilities and accountabilities lay and is a core component of the RMF. The emphasis on the responsibilities of each line of defence is as follows:

First line of defence - Business lines and centralised functions

- To run the business in a safe but profitable manner to enable sustainability – within the Risk Appetite Framework and Statements;
- To manage the risks in the business, within tolerances or limits;
- To act in an "early warning" role in terms of ongoing client relationship management;
- To identify, measure, control and monitor risks within each area of the business, reporting and escalation of issues as necessary and to evidence control;
- To implement and adhere to the mandates, policies and processes that are part of the control environment;
- To identify and assess new or emerging risks as internal activities or the external environment changes.

Second line of defence - Oversight functions (Risk, Compliance and Anti-Money Laundering)

- 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;
- To provide independent oversight and guidance on risks relevant to the Bank's strategy and activities;
- Maintain an aggregate view of risk and monitoring performance in relation to the Bank's risk appetite;
- Monitoring changes and compliance to external regulation, and promoting best practices.

Third line of defence - 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 operating effectively in discharging their responsibilities.

Central to the Risk Governance and to the Three Lines of Defence model is the Chief Risk Officer (CRO). The Bank has appointed a CRO (approved by the PRA and FCA) to be responsible to the Board for oversight of bank-wide risk management. The CRO is independent of the 1LOD and has unfettered access to the Board (usually through the Chair of the BRCC); and on a day to day basis reports to the Chief Executive.

The Bank's principal risks are credit risk, liquidity risk, market and interest rate risk, operational risk, financial crime risk, capital risk and conduct risk. Identifying and monitoring current and emerging risks is integral to our approach to risk management.

The following information on pages 12-16 is covered by the external auditors' opinion on page 20.

Credit Risk

Credit risk is the risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Bank to repay in accordance with agreed terms. Credit risk arises primarily from investing funds with wholesale counterparties and lending to charities and personal customers.

Wholesale assets

Wholesale counterparties are reviewed and approved by the Asset and Liability Committee (ALCO) in accordance with policies and criteria approved by the Board and monitored by the Executive Risk Committee. The Bank sets criteria which include credit rating, counterparty lending limits, group exposures, and country exposure limits. New investments with financial and non-financial institutions do not exceed £10m and £5m respectively.

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.

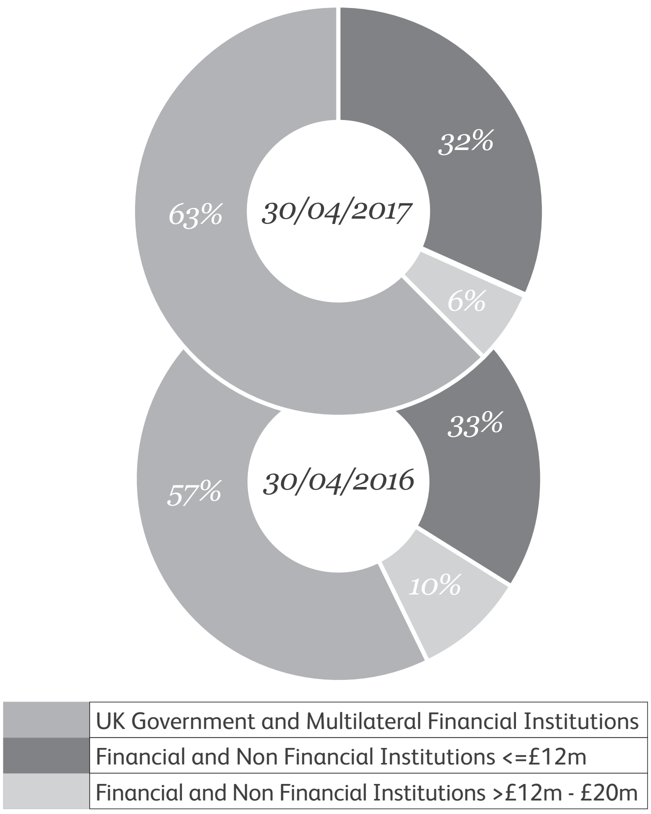
Treasury assets by class:

	2017		2016	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
UK government	26,364	26,799	90,028	90,695
Multilateral financial institutions	368,604	370,396	309,297	310,154
Fixed coupon corporate bonds	145,252	146,739	144,042	144,632
Floating rate corporate bonds	174,526	175,355	202,025	201,964
	714,746	719,289	745,392	747,445
Unlisted:				
Certificates of deposit	20,000	20,225	40,000	40,326
Commercial paper	-	-	9,901	9,901
Debt securities (Note 12)	734,746	739,514	795,293	797,672
Balances at Bank of England	203,278	203,278	160,697	160,697
Loans and advances to banks (Note 10)	22,341	22,341	25,996	25,996
	960,365	965,133	981,986	984,365

Treasury assets by credit rating:

Category (Fitch equivalent lowest credit rating)	2017 Book Value £000	2017 % of Book %	2016 Book Value £000	2016 % of Book %
UK Government	229,642	23.91%	250,726	25.53%
AAA	358,050	37.28%	284,388	28.96%
AA+	32,395	3.37%	49,482	5.04%
AA	9,620	1.00%	-	0.00%
AA-	104,393	10.87%	137,903	14.04%
A+	38,056	3.96%	48,918	4.98%
A	113,849	11.85%	143,705	14.63%
A-	51,666	5.38%	41,948	4.27%
BBB+	12,173	1.27%	19,179	1.95%
BBB	10,521	1.10%	4,328	0.44%
BBB-	-	0.00%	527	0.05%
BB+	-	0.00%	882	0.09%
	960,365	100.00%	981,986	100.00%

Treasury assets by exposure value



Lending

CAF Bank has in place a system of limits and controls to manage credit risk on its loan portfolio. Loan applications are reviewed by a credit assessment team and presented for approval to the Sanctions Committee, a sub-committee of the Credit 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.

The policies include maximum exposure values and limits to manage concentration risk by sector. Exposure to geographical area is monitored. At 30 April 2017, the largest loan was £5m. The maximum aggregate exposures to any one sector and geographical area were 34% and 36% 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 Capita Mortgage Services Ltd who provide regular management information on a loan by loan and aggregated basis.

A collective provision of £522k has been made at 30 April 2017 reflecting losses that have been incurred but not yet identified (2015/16: £269k). One overdraft of £5k was written off during the year which was fully provided for (2015/16: £23k). One loan was in arrears at 30 April 2017 (2015/16: none) and is considered impaired as the borrower has decided to cease its activity (2015/16: one). No loss is expected on the impaired loan due to the value of security held by the Bank.

	2017	2016
	£000	£000
Gross loans and advances to customers (Note 11)	72,916	46,329
Undrawn overdraft and loan commitments (Note 20)	14,285	9,099
	87,201	55,428
Amounts included within the above:		
Secured on property	86,173	53,660
Unsecured:		
Loans	255	356
Overdrafts	773	1,412
	87,201	55,428

As at 30 April 2017 the CAF Bank loan to value across the lending portfolio was 46%.

Liquidity and Funding Risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or can secure them only at excessive cost. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.

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

CAF Bank has a high level of liquidity with a sticky client base, holding buffer eligible assets of £598m. Liquidity buffer assets comprise investments in the Bank of England Reserve Account, UK Gilts, Treasury Bills and multilateral development banks:

	2017 Book Value	2016 Book Value
	£000	£000
Balances at Bank of England	203,278	160,697
UK government	26,364	90,028
Multilateral financial institutions	368,604	309,297
	598,246	560,022

Case Study: Colchester School of Gymnastics (CSG) is a charity-run sports club, which aims to offer access to gymnastics for all within its catchment area. To support its mission and meet growing demand for membership, the school needed to expand its business. Having spent years raising funds for the planned extension, and after several unsuccessful grant applications, CSG faced a £200,000 shortfall to finance its growth plans. Obtaining a loan helped CSG to hurdle this funding gap, and get the project off the ground without a prolonged delay.

Completion of the building extension expanded the school's capacity, enabling it to double the level of membership. The number of people using the improved facilities increased to 1,800 a week, ranging from young children in their early development, through to veteran gymnasts. Increased income generated by the leap in membership levels is helping the club service its loan repayments. And the club has developed an asset that will benefit the local community for many years to come.

Market and Interest Rate Risk

Market and interest rate risk is the risk from adverse movements in external markets, e.g. interest rate movements, changes in investment values or currency movements that will reduce our income or the value of our assets. 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.

The Bank continues to make returns in the present low interest rate environment. 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.

Market and interest rate risk is measured by monitoring mismatches between assets and liabilities assessed on a behavioural basis which may result from movements in market interest rates over a specified time period within Board approved limits. IRRBB is measured weekly and monitoring is carried out by ALCO and the Board Risk and Compliance Committee

Non-maturity (on-demand) deposits are behaviourally adjusted as follows:

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:

As at 30 April 2017	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	202,751	527	-	-	-	-	-	203,278
Loans and advances to banks (Note 10)	4,341	10,000	-	5,000	3,000	-	-	22,341
Loans and advances to customers (Note 11)	71,705	-	-	-	-	-	-	71,705
Debt securities (Note 12)	-	215,565	88,064	142,448	288,669	-	-	734,746
Prepayments and accrued income	-	-	-	-	-	-	7,715	7,715
	278,797	226,092	88,064	147,448	291,669	-	7,715	1,039,785
Liabilities								
Customer accounts (Note 13)	582,092	-	-	42,837	368,409	-	10,295	1,003,633
Other liabilities (Note 14)	-	-	-	-	-	-	5,676	5,676
Accruals and deferred income	-	-	-	-	-	-	126	126
Subordinated liabilities (Note 15)	-	-	-	-	-	-	-	-
Preference shares (Note 16)	-	-	-	-	-	-	-	-
Shareholders' funds (Note 18)	-	-	-	-	-	-	30,350	30,350
	582,092	-	-	42,837	368,409	-	46,447	1,039,785
Interest rate sensitivity gap	(303,295)	226,092	88,064	104,611	(76,740)	-	(38,732)	-
Impact of 2% change in interest rates	-	184	(652)	(1,538)	3,108	-	-	1,102

Assets and liabilities analysed by interest rate pricing time periods:

As at 30 April 2016	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	160,204	493	-	-	-	-	-	160,697
Loans and advances to banks (Note 10)	2,996	-	-	15,000	8,000	-	-	25,996
Loans and advances to customers (Note 11)	45,620	-	-	-	-	-	-	45,620
Debt securities (Note 12)	-	294,335	56,340	150,354	294,264	-	-	795,293
Prepayments and accrued income	-	-	-	-	-	-	7,147	7,147
	208,820	294,828	56,340	165,354	302,264	-	7,147	1,034,753
Liabilities								
Customer accounts (Note 13)	619,242	-	-	41,603	337,906	-	2,853	1,001,604
Other liabilities (Note 14)	-	-	-	-	-	-	4,675	4,675
Accruals and deferred income	-	-	-	-	-	-	249	249
Subordinated liabilities (Note 15)	1,100	-	-	-	-	1,000	-	2,100
Preference shares (Note 16)	-	-	-	-	-	-	1,775	1,775
Shareholders' funds (Note 18)	-	-	-	-	-	-	24,350	24,350
	620,342	-	-	41,603	337,906	1,000	33,902	1,034,753
Interest rate sensitivity gap	(411,522)	294,828	56,340	123,751	(35,642)	(1,000)	(26,755)	-
Impact of 2% change in interest rates	-	271	(417)	(1,807)	3,035	98	-	1,180

The following information is not covered by the external auditors' opinion.

Operational Risk

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

The Bank continues to develop systems and controls to increase the probability of success and reduce the likelihood of failure associated with operational risks. Policies and practices are in place to address and mitigate our operational risks, the reporting of which will be enhanced on a continuous improvement basis.

During the year ended 30 April 2017 operational losses totalled £31k (2015/16: £48k). Cyber threats are escalating from an increasingly sophisticated criminal community and we continue to invest in strengthening defences. CAF Bank has also enhanced the level of customer reviews undertaken in line with industry practice.

CAF Bank uses the Basic Indicator Approach for operational risk capital calculations.

Financial Crime

Financial crime is the risk of non compliance with the law, regulations and globally accepted practices that are expected of all financial institutions to combat financial crime that may lead to substantial fines and reputational damage.

The Bank operates with dedicated resources in both the first and second line, with a dedicated Anti-Money Laundering/ Know your Customer team headed up by a dedicated Money Laundering Reporting Officer.

Capital Risk

Capital risk is the risk that the Bank has insufficient capital to cover stressed conditions, regulatory requirements or growth plans.

An overriding principle is that the Bank operates at all times at levels that are above regulatory minima. The Board views that a strong capital position aids the long term strategy of controlled growth.

Conduct Risk

Conduct risk is the risk of detriment caused to the Bank's customers due to inappropriate execution of its business activities and processes, including the sale of unsuitable products.

The Bank aligns its appetite for Conduct risk to the overall values of the Bank, by placing the customer in the centre of everything that we do. Controls and monitoring techniques are in place to minimise this risk and any impact it may have upon the organisation, for example through active complaint monitoring and monitored under the RAF.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 30 April 2017.

Results for the Year

CAF Bank made a profit on ordinary activities before taxation for the year of £4,359k (2015/16: £3,737k). Subject to annual Board approval, CAF Bank gifts its profits to its parent charity, Charities Aid Foundation, after ensuring sufficient reserves are available to meet interest payable on capital instruments and taxation. Interest of £120k (2015/16: £160k) was payable to the holders of the 8.00% and 9.15% preference shares, which were redeemed early in 2017. Dividends of £488k (2015/16: £183k) were payable to AT1 holders. No dividends were paid on ordinary share capital during the year (2015/16: none).

Charitable and Political Donations

CAF Bank donated £3,839k to CAF in the year (2015/16: £3,292k). The Bank did not make political donations or incur any political expenditure during the year (2015/16: none).

Employees

CAF Bank recognises that the development and training of staff is fundamental to its continuing success and provides development opportunities and support to ensure all staff have the knowledge and skills to perform at the highest standard. Each member of staff 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. CAF, the Bank's parent, has been awarded Gold accreditation by Investors in People.

The Bank is committed to offering equal opportunities to all staff and opposes all forms of discrimination. The Bank seeks to provide equal opportunities in training, development and career opportunities to all staff. Four members of the Board and 66% of the Bank's Executive Management are women. CAF Bank, as part of CAF, has been awarded the Two Ticks symbol, which is a national recognition scheme confirming the Bank's commitment to equality of opportunity throughout our recruitment process and employment for disabled people.

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

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

Going concern

CAF Bank's forecasts, taking into account planned changes in trading performance, treasury activities and capital raising plans, show that the Bank is able to operate at adequate levels of profitability, liquidity and capital, for the foreseeable future.

Consequently the Directors are satisfied that CAF Bank has sufficient resources to continue in business for the foreseeable future and have, therefore, adopted the going concern basis in preparing the financial statements.

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be submitted to the Board.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). 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. No director had an interest in the share capital of the Bank or any other UK group company.

Disclosure of information to auditors

Each of the persons who is 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 he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor's 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 26 June 2017

Iain MacKinnon
Chair

CAF Bank Limited, **Company Number 1837656**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAF BANK LIMITED

We have audited the financial statements of CAF Bank Limited for the year ended 30 April 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, the sections of the Risk Management Report described as audited and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 23 to the financial statements for the financial year ended 30 April 2017 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Robert Topley FCA
(Senior Statutory Auditor) for and on behalf of Deloitte LLP
Statutory Auditor, London, United Kingdom

26 June 2017

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 APRIL 2017

	Notes	2017		2016	
		£000	£000	£000	£000
Interest receivable	3		11,748		11,646
Interest payable	4		(992)		(1,790)*
Net interest income			10,756		9,856
Fees and commissions receivable		1,728		1,117	
Fees and commissions payable		(953)		(958)	
Net operating income			775		159
Administrative expenses	5		(6,944)		(5,921)
Loan loss provision	11		(258)		(267)
FSCS levy	6		30		(90)
Profit on ordinary activities before taxation			4,359		3,737
Tax on profit on ordinary activities	8		(800)		(698)
Profit on ordinary activities after taxation			3,559		3,039

* Amounts in 2016 have been reclassified to reflect the treatment of £183k of AT1 coupons as dividends rather than interest expense.

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 26 to 34 form an integral part of the financial statements.

BALANCE SHEET
AS AT 30 APRIL 2017

		2017		2016	
	Notes	£000	£000	£000	£000
Assets					
Balances at Bank of England			203,278		160,697
Loans and advances to banks	10		22,341		25,996
Loans and advances to customers	11		71,705		45,620
Debt securities	12		734,746		795,293
Prepayments and accrued income			7,175		7,147
Total assets			1,039,785		1,034,753
Liabilities					
Customer accounts	13		1,003,633		1,001,604
Other liabilities	14		5,676		4,675
Accruals and deferred income			126		249
Subordinated liabilities	15		-		2,100
Preference shares	16		-		1,775
Total liabilities			1,009,435		1,010,403
Called up share capital	17	21,350		19,350	
Additional Tier 1 capital	17	8,000		4,000	
Distributable reserves	18	1,000		1,000	
Shareholders' funds	18		30,350		24,350
Total liabilities and shareholders' funds			1,039,785		1,034,753

The notes on pages 26 to 34 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 26 June 2017 and signed on its behalf by

Iain MacKinnon
Chair

John Grout
Finance Director

CAF Bank Limited
Company Number 1837656

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 APRIL 2017

	Notes	Called-up share capital £000	Additional Tier 1 Securities £000	Distributable Reserves £000	Profit and loss account £000	Total £000
At 30 April 2015		19,350	2,000	1,000	(222)	22,128
Profit for the financial year		-	-	-	3,039	3,039
Charitable donation to parent	7	-	-	-	(3,292)	(3,292)
Current tax credit thereon		-	-	-	658	658
Dividends payable to AT1 shareholders	9	-	-	-	(183)	(183)*
Issue of share capital	17					-
Issues of additional tier 1 capital	17	-	2,000	-	-	2,000
At 30 April 2016		19,350	4,000	1,000	-	24,350
Profit for the financial year		-	-	-	3,559	3,559
Charitable donation to parent	7	-	-	-	(3,839)	(3,839)
Current tax credit thereon		-	-	-	768	768
Dividends payable to AT1 shareholders	9	-	-	-	(488)	(488)
Issue of share capital	17	2,000	-	-	-	2,000
Issues of additional tier 1 capital	17	-	4,000	-	-	4,000
At 30 April 2017		21,350	8,000	1,000	-	30,350

* Amounts in 2016 have been reclassified to reflect the treatment of £183k of AT1 coupons as dividends rather than interest expense.

The notes on pages 26 to 34 form an integral part of the financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 APRIL 2017

	2017		2016	
	£000	£000	£000	£000
Cash flows from operating activities				
Profit on ordinary activities before taxation	4,359		3,737	
Adjustments for:				
Amortisation of investments	1,733		2,846	
Corporation tax paid	(33)		(62)	
Increase in prepayments and accrued income	(567)		(1,394)	
Decrease in accruals and deferred income	(172)		(39)*	
(Increase)/decrease in Cash Ratio Deposit with Bank of England	(33)		89	
Decrease in loans and advances to banks	5,000		20,000	
Increase in loans and advances to customers	(26,333)		(25,658)	
Increase in loan loss provision	253		267	
Loans written-off during the year	(5)		(23)	
Increase in customer accounts	2,029		12,325	
Decrease in FSCS levy liability	(191)		(261)	
Increase/(decrease) in other liabilities	646		(151)	
Net cash generated from operating activities		(13,314)		11,676
Cash flows from investing activities				
Acquisitions of debt securities	(284,641)		(556,930)	
Redemptions of debt securities	343,453		490,799	
Net cash from investing activities		58,812		(66,131)
Cash flows from financing activities				
Charitable donations paid	(3,292)		(2,185)	
AT1 dividend paid	(439)		(136)*	
Issue of ordinary share capital	2,000		-	
Issue of additional tier 1 capital	4,000		2,000	
Repayment of loan stock and preference shares	(3,875)		-	
Net cash from financing activities		(1,606)		(321)
Change in cash and cash equivalents in the year		43,892		(54,776)
Cash and cash equivalents at beginning of year		163,200		217,976
Cash and cash equivalents at end of year		207,092		163,200
Represented by:				
Balances at Bank of England repayable on demand		202,751		160,204
Bank overdrafts		-		-
Loans and advances to banks repayable on demand (Note 10)		4,341		2,996
		207,092		163,200

* Amounts in 2016 have been reclassified to reflect the treatment of £183k of AT1 coupons as dividends rather than interest expense.

The notes on pages 26 to 34 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2017

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), which replaces the former UK GAAP.

Where information in the risk management report on pages 10 to 17 is marked as audited, it is incorporated into these financial statements by this cross reference and is covered by the independent auditors report on page 20.

The going concern basis was adopted in preparing the annual report and accounts as described on page 18.

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 income

Interest receivable on financial assets is recognised using the effective interest method over the term of the loan.

(b) Fee Income

Loan arrangement fees are recognised using the effective interest method over the term of the loan. Non-utilisation fees on undrawn loans are recognised as income in the period they are earned.

(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 Financial Services Compensation Scheme ('FSCS') Levy

The amount of the FSCS levy is determined by the value of the Bank's protected deposits at 31 December each year. The levy is accounted for on an accruals basis using information provided by the FSCS, forecast future interest rates and the Bank's historic share of industry protected deposits.

1.5 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.

1.6 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 shown at the lower of cost or estimated realisable value.

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.

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.

Preference shares and subordinated liabilities are included in liabilities at par and face value respectively. 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.

1.7 Impairment of 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 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.

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

	2017	2016
	£000	£000
Interest receivable and similar income arising from debt securities	8,440	8,986
Other interest receivable and similar income	3,308	2,660
	11,748	11,646

4. Interest payable

	2017	2016
	£000	£000
Customer accounts	777	1,504
Preference shareholders	120	160
Loan stock holders	95	126
	992	1,790*

* Amounts in 2016 have been reclassified to reflect the treatment of £183k of AT1 coupons as dividends rather than interest expense.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2017

5. Administrative expenses

	2017	2016
	£000	£000
Staff costs		
Wages and salaries	2,575	2,457
Social security costs	241	210
Other pension costs	147	152
	2,963	2,819
Other administrative expenses	3,981	3,102
	6,944	5,921

All staff are employed by CAF. Total employment costs are recharged where activities have been undertaken for CAF Bank. Staff costs (above) represent 89 (2015/16: 79) employees of CAF who were assigned wholly to duties relating to the activities of the Bank.

Creditors include £12,000 (2015/16: £13,000) in respect of pension contributions payable.

The average number of total employees wholly assigned to CAF Bank analysed by function was:

	2017	2016
	Number	Number
Management	18	16
Information systems	-	3
Administration	71	60
	89	79

Other administrative expenses include the following amounts paid to CAF in respect of director's 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. Information systems staff costs are included in indirect staff costs (below).

	2017	2016
	£000	£000
Indirect staff costs	1,189	1,013
Management charges	527	527
	1,716	1,540

Directors' emoluments

None of the directors who served during the year were remunerated directly by the Bank (2015/16: none). During the year, the Bank reimbursed CAF with £284,097 (2015/16: £273,573) including pension contributions in respect of services rendered by two executive directors (2015/16: two). Non-executive directors were not remunerated.

Auditor's remuneration

Auditor's remuneration included in administrative expenses consists of the following:

	2017	2016
	£000	£000
Audit fees payable to the company's auditor for the audit of the company's financial statements	70	70
Other non audit services	71	-
	141	70

6. FSCS levy

The Financial Services Compensation Scheme ('FSCS') levy is required to fund interest on borrowings undertaken by the FSCS to make good protected deposits at banks seeking the scheme's support.

The levy year runs from 1 April to 31 March, and the amount of the levy is based on a bank's share of protected deposits at 31 December. The provision at 30 April 2017 represents the estimated amounts due in respect of the Bank's participation in the scheme for the years ending 31 March 2017 and 2018.

	2017	2016
	£000	£000
Provision at 1 May	411	672
Paid during the year	(161)	(351)
Provided during the year	(30)	90
Provision at 30 April	220	411

7. Charitable donation to parent

The Bank donated a surplus to CAF of £3,839,000 (2015/16: £3,292,000) during the year, with £3,839,000 remaining to be paid at 30 April 2017.

8. Tax on profit on ordinary activities

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 20% (2015/16: 20%). The differences are explained below.

	2017	2016
	£000	£000
Tax expense:		
UK corporation tax	800	698
Reconciliation to tax expense:		
Tax at 20% on:		
Profit on ordinary activities before tax	872	748
Dividends payable to AT1 shareholders	(98)	(37)
FRS 102 adjustment	-	(45)
Interest payable to preference shareholders	24	31
	798	697
Expected tax charge on disallowable expenditure	2	3
Tax (over) accrued in previous year	-	(2)
	800	698

There is no unprovided deferred taxation.

9. AT1 Dividends Payable

	2017	2016
	£000	£000
AT1 dividends payable to shareholders	488	183
	488	183*

* Amounts in 2016 have been reclassified to reflect the treatment of £183k of AT1 coupons as dividends rather than interest expense.

10. Loans and advances to banks

	2017	2016
	£000	£000
Repayable on demand	4,341	2,996
Remaining maturity of other loans and advances:		
1 day to 8 days	10,000	-
Over 6 months to 1 year	5,000	15,000
Over 1 year to 5 years	3,000	8,000
Loans and advances to banks	22,341	25,996

11. Loans and advances to customers

	2017	2016
	£000	£000
Remaining maturity of loans and advances		
Repayable within 3 months	2,113	395
Repayable within 5 years	31,742	16,447
Repayable over 5 years	39,061	29,487
	72,916	46,329
Loan loss provision: Charity Loans	(204)	(75)
Loan loss provision: Personal Loans	(318)	(194)
Deferred income: Charity Loans	(530)	(52)
Deferred income: Personal Loans	(159)	(388)
At 30 April 2017	71,705	45,620

	2017	2016
	£000	£000
Loan loss provision at 1 May	(269)	(25)
Provided during the year: individual provision	(5)	(23)
Provided during the year: collective provision	(253)	(244)
Written off during the year	5	23
Loan loss provision at 30 April	(522)	(269)

12. Debt securities

12.1 Investments

	2017		2016	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
UK government	26,364	26,799	90,028	90,695
Multilateral financial institutions	368,604	370,396	309,297	310,154
Fixed coupon corporate bonds	145,252	146,739	144,042	144,632
Floating rate corporate bonds	174,526	175,355	202,025	201,964
	714,746	719,289	745,392	747,445
Unlisted:				
Certificates of deposit	20,000	20,225	40,000	40,326
Commercial paper	-	-	9,901	9,901
	734,746	739,514	795,293	797,672

12.2 Maturity

	2017	2016
	Book Value £000	Book Value £000
1 day to 8 days	-	9,972
Over 8 days to 3 months	-	85,345
3 months to 6 months	155,064	76,340
6 months to 1 year	142,448	152,355
	297,512	324,012
1 year to 5 years	437,234	471,281
	734,746	795,293
5 years and over	-	-
	734,746	795,293
Unamortised premiums	(8,478)	(7,789)

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

12.3 Movements

	Cost £000	Amortisation £000	Book Value £000
At 1 May 2016	804,709	(9,416)	795,293
Acquisitions	284,641	(3,321)	281,320
Redemptions	(343,454)	6,487	(336,967)
Amortisation	-	(4,900)	(4,900)
At 30 April 2017	745,896	(11,150)	734,746

13. Customer accounts

	2017	2016
	£000	£000
Repayable on demand	966,557	948,335
Repayable within 7 days	-	-
Repayable within 30 days	37,076	53,269
Repayable within 3 months	-	-
Repayable within 6 months	-	-
	1,003,633	1,001,604
Amounts include:		
Amounts owed to CAF	1,571	1,516

14. Other liabilities

	2017	2016
Amounts due within one year:	£000	£000
Amounts owed to CAF	4,158	3,526
Sundry creditors	1,281	720
FSCS Levy	220	411
Taxation	17	18
	5,676	4,675

15. Subordinated liabilities

	2017	2016
	£000	£000
Floating rate:		
Second issue	-	500
Fourth issue	-	350
Sixth issue	-	250
Fixed rate:		
Third issue, 8.71%	-	1,000
	-	2,100

Following regulatory approval, CAF Bank redeemed the subordinated liabilities in February 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2017

16. Preference Shares

	2017		2016	
	Number	£000	Number	£000
Authorised:				
9.15% preference shares of £1 each	5,000,000	5,000	5,000,000	5,000
8.00% preference shares of £1 each	5,000,000	5,000	5,000,000	5,000
		10,000		10,000
Allotted, issued and fully paid:				
9.15% preference shares of £1 each	-	-	1,500,000	1,500
8.00% preference shares of £1 each	-	-	275,000	275
		-		1,775

Following regulatory approval, CAF Bank redeemed the preference shares in January 2017.

17. Called up share capital and additional tier 1 securities

	2017		2016	
	Number	£000	Number	£000
Allotted, issued and fully paid:				
Ordinary shares of £1 each	21,350,000	21,350	19,350,000	19,350
Additional Tier 1 securities of £1 each	8,000,000	8,000	4,000,000	4,000
		29,350		23,350

Following regulatory approval, CAF Bank issued a further £4m of Additional Tier 1 capital and £2m of Ordinary share capital to CAF.

The principal terms of the AT1 capital are as follows:

- Perpetual, repayable at CAF Bank's election after 5 years with the prior consent of the PRA;
- Non-cumulative 9% per annum coupon, cancellable at the discretion of the CAF Bank Board;
- Irrevocable conversion to voting ordinary shares either at a trigger level of 7% Common Equity Tier 1 capital, or at such time as the CAF Bank Board considers it reasonably foreseeable that a trigger event will occur;
- In the event of conversion, £1 par value of AT1 capital will convert to £1 nominal value of ordinary share capital, such ordinary shares being identical to existing ordinary shares in all respects.

18. Reconciliation of shareholders' funds

	Called-up share capital	Additional Tier 1 securities	Distributable reserves	Profit and loss account
	£000	£000	£000	£000
At 1 May 2016	19,350	4,000	1,000	-
Issued during the year	2,000	4,000	-	-
At 30 April 2017	21,350	8,000	1,000	-

19. Financial instruments

19.1 Market and interest rate risk

Market and interest rate risk is described on page 15.

19.2 Currency profile

The Bank has an exposure of US$486k held as a collateral deposit for the Bank's Mastercard operations. Other than this exposure all assets and liabilities are denominated in sterling.

19.3 Instruments held for trading

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

19.4 Investments held to maturity

The Bank's policy is to hold investment securities to redemption at par (note 1.6). Any movements in interest rates are therefore not anticipated to materially affect the Bank's profits.

19.5 Hedging

CAF Bank does not hold financial instruments for hedging purposes.

19.6 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 12). Unlisted debt securities are bank certificates of deposit and commercial paper and fair values are as book values.

	2017		2016	
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Assets				
Balances at central banks	203,278	203,278	160,697	160,697
Loans and advances to banks	22,341	22,341	25,996	25,996
Debt securities	734,746	739,514	795,293	797,672
	960,365	965,133	981,986	984,365

20. Off-balance sheet commitments

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

	2017	2016
	£000	£000
Undrawn overdraft and loan commitments	14,285	9,099
	14,285	9,099

21. Parent trust

Charities Aid Foundation (CAF), registered charity number 268369, is the immediate and ultimate parent and controlling party of CAF Bank.

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

22. 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.

23. Country by country reporting

The Capital Requirements (Country by Country Reporting) Regulations came into effect on 1 January 2014 and place certain reporting obligations on financial institutions within CRD IV.

The activities of the Bank are described in the Strategic Report. All of the Bank's activities are carried out in the United Kingdom.

	2017	**2016**
	UK	UK
Number of employees (average FTE)	89	79
	£000	**£000**
Turnover (total income)	11,531	10,015*
Profit before tax	4,359	3,737*
Corporation tax paid	33	62
Public subsidies received	-	-

* Amounts in 2016 have been reclassified to reflect the treatment of £183k of AT1 coupons as dividends rather than interest expense.

DIRECTORS, BOARD COMMITTEES AND ADVISERS

Registered Office

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Email: cafbank@cafonline.org
Website: www.cafonline.org/banking

Company Number

1837656

Directors (at 30 April 2017)

Non-Executive Directors
Iain MacKinnon (Chair and CAF Trustee)
Paul Biddle
Clive Bowles
Tiina Lee (CAF Trustee)
Mairi Johnstone
Alistair Ray
Mark Sinclair
Kees Diepstraten
Malcolm Himsworth
Carole Machell
Janet Pope
Sir John Low CBE (CAF Chief Executive)

Executive Directors
Peter Ostacchini *(Chief Executive)*
John Grout *(Finance Director)*

Audit Committee

Paul Biddle (Chair)
Malcolm Himsworth
Mairi Johnstone

Board Risk & Compliance Committee

Tiina Lee *(Chair)*
Alistair Ray
Mark Sinclair

Nominations and Remuneration Committee

Iain MacKinnon *(Chair)*
Sir John Low CBE
Peter Ostacchini

Executive Committee

Peter Ostacchini (Chief Executive)
John Grout (Finance Director)
Dina Henry (Chief Operating Officer)
Chris Kairis (Head of Operations)

Bankers

HSBC Bank plc
City of London Branch
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Nominee and Custodian

Global Custody Europe
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Auditors

Deloitte LLP
Statutory Auditor
2 New Street Square
London EC4A 3BZ

CAF Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It is a subsidiary of Charities Aid Foundation (CAF), registered charity number 268369. Copies of the accounts of CAF may be obtained from the Bank's registered office and at www.cafonline.org.

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Company number 1837656

Charities Aid Foundation