ANNUAL REPORT

and financial statements for the year ended 30 April 2018

CAF Bank

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CHAIR'S STATEMENT

I'm delighted to introduce my first annual report as Chair of CAF Bank. During my first months it has been inspiring to see some of the amazing work, dynamic people and far sighted projects in the charities we support.

It has been a year of transition in the governance of CAF Bank, with a number of new Board members joining in key positions. All our non-executive directors volunteer their time and expertise and we are enormously grateful for the contribution they have made. I would like to make special mention and record our thanks to Iain MacKinnon as outgoing Chair. His strong leadership over the past five years has provided stability and direction to the Bank and we thank him for his commitment and guidance whilst navigating some very challenging times in the banking industry.

As a bank specialising in charities and wholly owned by a charity, CAF Bank has a special role supporting thousands of organisations, each with a mission to make a difference in the world. We are owned by the Charities Aid Foundation, a champion for better giving and together we contribute to a shared mission to transform lives and communities around the world.

We have continued our diversification into lending, building a varied loan book, supporting investment by charitable organisations from social housing and faith to disability and education. I am pleased to report that the value of drawn and committed loans has for the first time grown to just over £100m, representing nearly 10 per cent of the balance sheet. We will continue to focus on growing this important part of our work in a prudent manner.

The work of the Bank continues to provide a sound footing for the charities we serve. With an uncertain economic outlook, continuing low interest rates and growing regulatory requirements it is difficult for banks to reward customers whilst funding operations. But CAF Bank remains prudently managed and financially healthy with a carefully structured portfolio of highly liquid investments, including circa 40% with the Bank of England.

The Bank donated £3.6 million in 2017/18 to the Charities Aid Foundation, which was founded to serve the needs of charities. We are grateful to our parent for its injection of £11m of new capital during the year, enabling us to continue to expand our support to our customers.

Of course, CAF Bank must respond to the growing regulatory demands placed on all banks and we will continue to do this, to ensure charities can bank with confidence and that we play our part in maintaining the security of the wider financial system.

We are proud of our role specialising in and supporting charities who can sometimes find it difficult to access banking relationships. All of us at CAF Bank remember that providing charities with secure deposit services is at the heart of what we do and we are immensely grateful to all our charity customers for their continued loyalty.

I would also like to extend my thanks to the executive team and staff of the Bank whose dedication and professionalism contributes so much to our success, making it possible for us to strengthen and support the thousands of UK charities we serve.

Janet Pope
Chair

STRATEGIC REPORT

Principal activities

CAF Bank 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 secured loans and advances to customers.

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

Strategy and Objectives

As a regulated financial institution 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 essential banking services tailored for charities that customers understand and trust.

CAF Bank's longer term objectives are to:

- Pursue improvements in the efficiency of our activities whilst maintaining strong relationships with our customers, and
- Continue to diversify into lending and broaden our product range to cement our relevance to the sector.

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

Review of the year

During the year ended 30 April 2018 CAF Bank continued to transition into a more diversified bank with a growing lending book and a small base of philanthropically minded personal customers. CAF Bank lends to charities and other social purpose organisations and provides residential development loans to personal customers who make a charitable donation in lieu of part of the arrangement fee.

The loan book grew during the year, driven by demand from charities for funds to enable them to support their mission. Loans drawn at 30 April 2018 were £92.0m (2016/17: £72.5m) with a further £11.8m committed (2017/18 £12.4m). CAF Bank benefits from a 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.

Although demand from charities and developers for loans continues, we are seeing a level of apprehension and uncertainty around the impact of Brexit on the economy which is resulting in slightly slower growth in our loan book than planned.

The Bank is continuing a significant programme of investment in IT to improve operational resilience and security. Two factor authentication is planned to be introduced later in 2018 to bolster security for internet banking customers and a further series of IT hardware and software upgrades is planned for 2018/19.

Glen Housing

Life changing, forever homes

Residents at an affordable housing development are overjoyed with their new homes, purchased by a Scottish housing association with the help of a CAF Bank loan. Glen Housing provides affordable homes for rent, and owns and manages over 400 homes in Fife, a peninsula in eastern Scotland.

Glenrothes, Leven and Methil are small towns with a limited supply of rented accommodation available for the local community. To tackle this shortage, Glen Housing is working in partnership with developers to build affordable housing for rent, including amenity bungalows and homes accessible to wheelchair users. The housing association purchased 37 new houses from the developers, with the help of a £1.6 million loan from CAF Bank.

CAF Bank's personal banking service offers current account banking by invitation to individuals in conjunction with their making a regular tax effective donation to charity. The bank had 215 personal accounts at 30 April 2018.

The Bank reported a profit on ordinary activities before taxation of £4.5m in 2017/18, an increase of £0.1m on 2016/17. CAF Bank benefitted from growth in lending, although this was offset by higher staff costs to meet increased regulation and lower income on treasury investments, in spite of an increase in Base Rate during the year.

Despite challenging economic conditions the Bank donated £3.6m to CAF in 2018 (2017 £3.8m).

Capital and liquidity

CAF Bank's capital position has been strengthened again during the year following investment by the Charities Aid Foundation of £8m ordinary share capital and £3m Additional Tier 1 capital ('AT1'), improving our Leverage Ratio to 3.70%. CAF Bank's AT1 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 2018 the Bank's total Tier 1 capital ratio was 19.4%, compared to 13.0% at 30 April 2017, reflecting the increase in capital during the year. The Bank's minimum regulatory Tier 1 capital increased due to higher capital buffer requirements to 13.7% as at 30 April 2018 (30 April 2017: 11.6%). The Bank's capital position is outlined in further detail in the Pillar 3 document which can be found at https://www.cafonline.org/about-us/about-caf-bank.

Approximately 78% of CAF Bank's assets are highly liquid, with liquidity buffer eligible assets of £781m as at 30 April 2018 (£598m at 30 April 2017). Liquidity buffer assets comprise investments in the Bank of England Reserve Account, Multilateral Development Banks and UK Gilts/T Bills.

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 development for terms up to 3 years.

The loan book grew steadily in 2017/18. At 30 April 2018 the charity loan book comprised 105 committed loans with £71.1m drawn and £8.7m undrawn commitments to charities and social housing, disability, heritage and faith organisations (2016/17: £52.6m and £10.4m).

Stoll, Aldershot

Building homes to help veterans rebuild their lives

Vulnerable and disabled veterans will be able to make use of new state-of-the-art homes and facilities, following CAF Bank's support for a new housing scheme. Stoll, a charity that works with ex-servicemen and women who are struggling to reintegrate into civilian life, approached the bank for help in carrying out a major 34-home development.

Now, the charity has opened a brand new housing development at Aldershot Garrison, following a £3.8million loan. The scheme includes family accommodation, disability units, communal areas, training facilities, and even a therapeutic garden, all with the aim of helping veterans lead fulfilling, independent lives.

A further 13 loans to charities totalling £24.1m were sanctioned but not committed. 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 46 committed loans with £20.9m drawn and £3.1m undrawn commitments (2016/17: £19.9m and £2.4m), and a further 20 sanctioned but not committed loans amounting to £9.1m (2016/17: £13.4m). The facilities are short term development loans secured on property at loan to gross development value ratios no greater than 65%. Personal loans are higher yielding than loans to charities and include a donation by the borrower to one or more charities of their choice 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 charities to achieve their objectives in providing the essential services for the good causes they support. We will achieve this by offering access where possible to banking by UK charities irrespective of their size or cause; increasing the number of loans advanced to charities; enhancing our on-line banking services, and by investing in upgrading our IT infrastructure improve our resilience.

We continue to be encouraged by the growth in lending, and see steady demand from charities and social purpose organisations for borrowing funds on competitive commercial terms. Our market penetration is still relatively modest in the charity groups we support, but this offers plenty of scope for growth.

There also continues to be a demand for the Bank's personal secured development loans. Again, our offer is straightforward and competitive in the market in the current low interest rate environment.

Customers increasingly want to access services online. CAF Bank will continue to invest in upgrading its IT infrastructure and web enabled services to improve convenience and provide 24/7 online services, ensuring the Bank and customers are protected against growing cyber security risks.

CAF Bank will continue to maintain a sufficient level of capital to support growth in lending and provide resilience against a range of possible but unlikely stresses. The Bank plans to maintain a strong liquidity position with a significant portion of assets invested in the Bank of England Reserve Account and in highly liquid instruments.

St John's Church, Edinburgh

Laying a new cornerstone for the community

A thriving church in the heart of Edinburgh has opened the doors to an expanded and enhanced community hub, with CAF Bank's help. While a beautiful place of worship, the building facilities of the Church of St. John the Evangelist have struggled to keep pace with the needs of the growing number of users: church staff, charities, support bodies and children's groups. The church's vision of creating a welcoming community hub, the Cornerstone Centre, underpinned plans to upgrade and expand the building. Designed to be flexible, disability friendly and kind to the environment, this new facility houses an events hall, meeting and office space, café and shops. A loan from CAF Bank enabled completion of the build in time for the church to celebrate its 200th anniversary.

GOVERNANCE REPORT

Governance structure

The Board exercises its accountabilities through its own activities and through delegation of responsibilities to the CEO and his Executive Committee. The Board receives reports from the CEO and reviews the work of the Executive Committee.

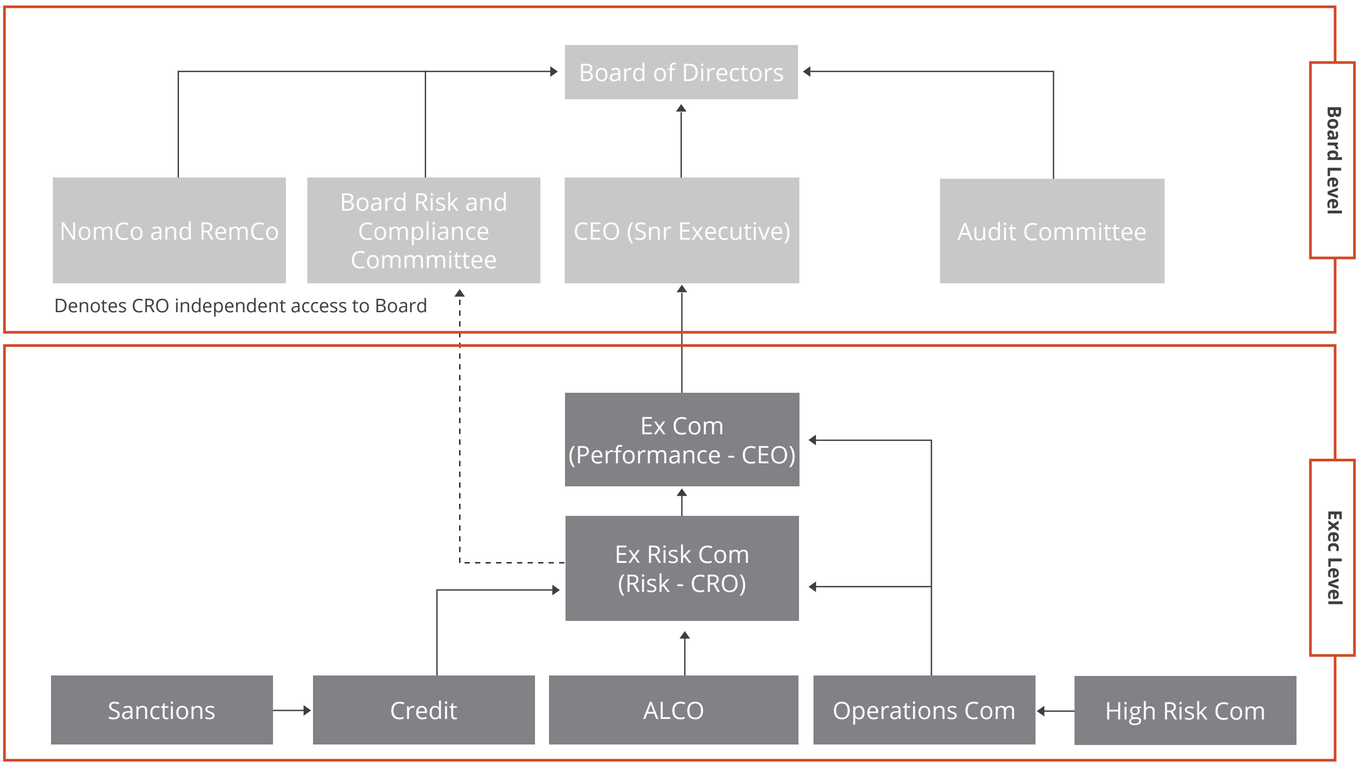
In addition, the Board has established three sub-committees to assist it in monitoring the business, reviewing policies, systems, and controls, and consideration and setting of risk appetite. These are:

i. Board Risk and Compliance Committee;

ii. Audit Committee; and

iii. Nominations and Remuneration Committee.

Each sub-committee is subject to its own terms of reference and has authority to review relevant policies (in line with the Policy Approval Protocol), systems, controls and reporting, making recommendations to the Board for approval.



Board composition

The Board consists of ten non-executive directors and two executive directors at 30 April 2018. The names of the directors who served throughout the year, except as noted, are as follows:

	Meetings attended	Maximum
Janet Pope [1,2] (Chair from 2 November 2017)	5	5
Martyn Beauchamp [1] (appointed 29 November 2017)	2	2
Paul Biddle [1,3] (retired 26 June 2017)	1	1
Clive Bowles [1,3] (retired 26 June 2017)	1	1
Kees Diepstraten [1]	5	5
Malcolm Himsworth [1]	5	5
Mairi Johnstone [1]	5	5
Tiina Lee [1,2] (retired 26 March 2018)	3	5
Sir John Low CBE [3] (CAF Chief Executive)	4	5
Carole Machell [1,2]	4	5
Iain MacKinnon [1,2] (Chair until retired 2 November 2017)	2	3
Alistair Ray [1]	4	5
Mark Sinclair [1]	5	5
Graham Toy [1] (appointed 29 November 2017)	3	3
Peter Ostacchini (CEO)	5	5
John Grout (Finance Director)	5	5

[1] Independent non-executive director
[2] CAF Trustee
[3] Non-executive director having served for 9 years or more

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

Board Responsibilities

The CAF Bank Board is responsible for:

a) development of the firm's strategy, operating plans and budgets, monitoring MI and providing challenge to the senior management against performance;
b) defining the Bank's risk appetite and implementing and maintaining policies to provide an effective and appropriate governance and control structure for managing the business;
c) setting an appropriate 'tone from the top' and ensuring alignment of values and behaviours in the Bank relating to the conduct of its business;
d) overseeing, monitoring and challenging the current and future operating activities of the Bank;
e) overseeing the conduct of business to ensure that systems, procedures and internal controls are adequate to ensure compliance with applicable regulations and regulatory limits/ ratios;
f) monitoring and managing sensitive matters such as reputational risk and brand issues;
g) reviewing, challenging and approving annually the capital funding (ICAAP) and liquidity (ILAAP) policies and assessments and approving the gifting of annual profits to its parent, the Charities Aid Foundation;
h) reviewing, challenging and approving annually the Recovery and Resolution Plan;
i) approving the composition, membership and terms of reference of Board sub-committees;
j) reviewing reports from Board sub-committees taking action as appropriate;
k) reviewing and approving where appropriate the recommendations from Board sub-committees; and
l) reviewing regulatory correspondence from the PRA and FCA and ensuring management take appropriate action on regulatory matters affecting the firm.

Board and Executive Committees

The Board Risk and Compliance Committee (BRCC)

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

- The development and maintenance of the Bank's risk management framework;
- Ensuring 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;
- Compliance with legislation, regulation and internal policy; and
- Reviewing policies and recommending these to the Board.

The Board Audit Committee

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

- Monitoring the integrity of the annual published report and accounts and Pillar 3 disclosures;
- Reviewing reports from the Bank's External Auditors including their audit plan, and monitoring the effectiveness of the external audit;
- Reviewing the Bank's internal control and risk management systems;
- Setting the annual audit plan and considering the work of Internal Audit, and monitoring, reviewing and challenging the effectiveness of the Bank's Internal Audit function, which is outsourced; and
- 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 CEO is responsible for:

- Reviewing the Board's effectiveness, Board nominations and retirements;
- Monitoring conflicts of interest;
- Succession planning; and
- Remuneration policy and practice.

The Executive Committee

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

- Cascading the 'culture and tone' set by the Board in relation to the conduct of the Bank's business;
- 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; and
- Reviewing the Bank's conduct of business to ensure products and processes are effective and compliant with applicable regulation.

Executive Risk Committee

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

- The development, implementation and maintenance of the Bank's overall risk management framework and adherence to risk appetite metrics and statements;
- Ensuring the identification, assessment and management 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 Operations Committee;
- Monitoring the Compliance function to ensure compliance with legislation, regulation and internal policy; and
- Establishing and maintaining appropriate policies.

The Credit Committee

The purpose of the Credit Committee is to provide oversight of the Bank's credit activities:

- Monitoring portfolio performance against approved policies and limits;
- Reviewing policies and recommending changes to the Executive Risk Committee;
- Reviewing credit reports covering each specific business line; and
- Reviewing 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:

- Approve or decline applications for credit from customers based on customers' creditworthiness in line with appetite, policy and approval levels.

The Asset and Liability Committee (ALCo)

The purpose of ALCo is to:

- Oversee the Bank's liquidity, funding and market risks, treasury, regulatory and capital requirement within the risk appetite set by the Board;
- Develop the Bank's forward looking asset and liability strategy;
- 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; and
- Develop and review product pricing.

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;
- Seek continued operational improvements and efficiencies;
- Review outsourcing arrangements, ensuring compliance with outsourcing policy; and
- Review systems and controls and in particular operational risk controls and new or emerging risks, ensuring these are appropriate and escalate significant issues.

Harvey's Foundry

Former engine foundry drives local regeneration

Local businesses will have a chance to put down roots and help a once-declining town thrive thanks to funding from CAF Bank. Harvey's Foundry, a project that turned two listed derelict buildings into new office space, has opened its doors in Hayle, West Cornwall. The project was completed successfully thanks to CAF Bank providing a loan of £540,000 for the last phase of the build. This involved the conservation and adaption of two derelict Grade 2 buildings and a new sympathetically-designed extension to create 18 new office units.

The scheme has so far created over 100 jobs in the area, and is part of a wider ten-year regeneration plan that has seen an area of the town transformed into a thriving hub.

RISK MANAGEMENT REPORT

Risk Management Framework

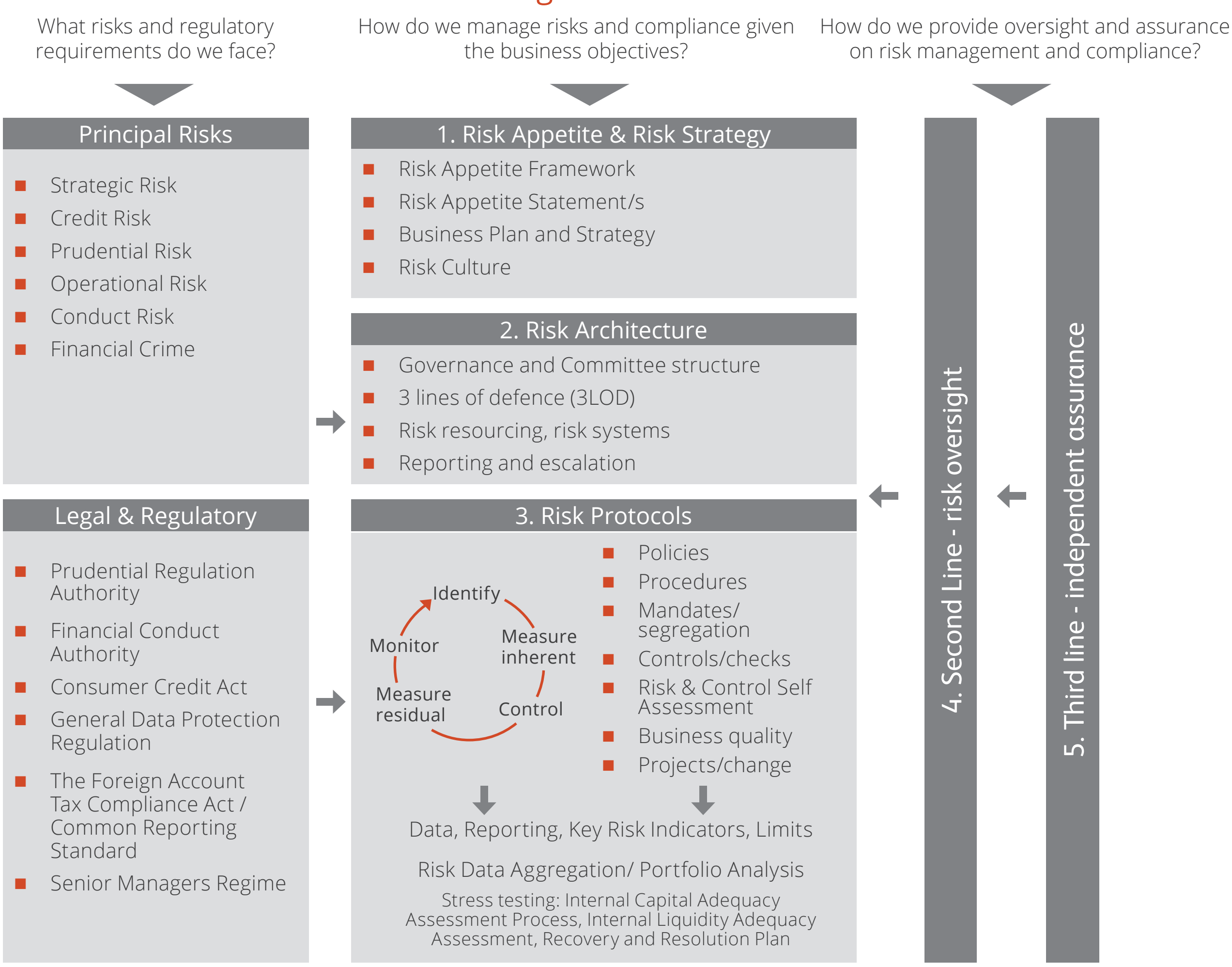
The Risk Management Framework (RMF) outlines the means by which the Board and senior management establish and implement the strategy of the Bank in relation to its risk appetite. This is the process of identification, assessment, measurement, control and monitoring of risks to which the Bank is exposed. 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.

The RMF is reviewed and approved by the Board annually following recommendation by the Board Risk and Compliance Committee. The CEO 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 First Line of Defence (1LOD) and Second Line of defence (2LOD) 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 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 lie 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 identify, measure, control and monitor risks within each area of the business, and to report and escalate issues as necessary and to evidence control;
- To implement and adhere to the mandates, policies and processes of the Bank;
- 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 in and compliance with external regulation, and promoting best practices.

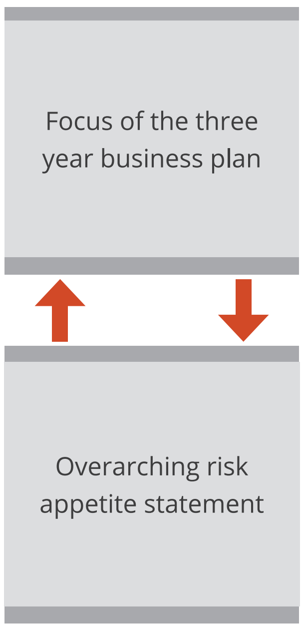
Third line of defence - Internal Audit (the Internal Audit function is outsourced to Mazars LLP)

- 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 CEO.

Risk Appetite Statement

In articulating its risk appetite, the Bank has taken into consideration the expectations of its stakeholders; the need for regulatory compliance at all times; the preservation of its franchise and reputation and its desire for controlled and sustainable profits, in line with its values. An overarching Risk Appetite Statement (RAS) governs the Bank's approach to the risks it is willing to assume in support of its Business Plan. Accordingly, the overarching Risk Appetite Statement is aligned to the Business Plan and Strategy:



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 in a low interest environment.

The Bank will take appropriate but controlled risk to support income and lending book growth, to remain sustainable, whilst remaining the safe, trusted and ethical bank of choice that is "helping charities make a better society".

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

The following information on pages 13-17 is covered by the external auditors' opinion on page 21.

Strategic Risk

Strategic risk is the risk that can affect the Bank's ability to achieve its strategic and business objectives. From a strategic perspective, CAF Bank was established to further the charitable mission of its parent, the Charities Aid Foundation as well as provide a financial return on CAF's investment in the Bank. The Bank is continuing to diversifying from being entirely reliant on wholesale treasury income into lending and growing fee income.

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.
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.

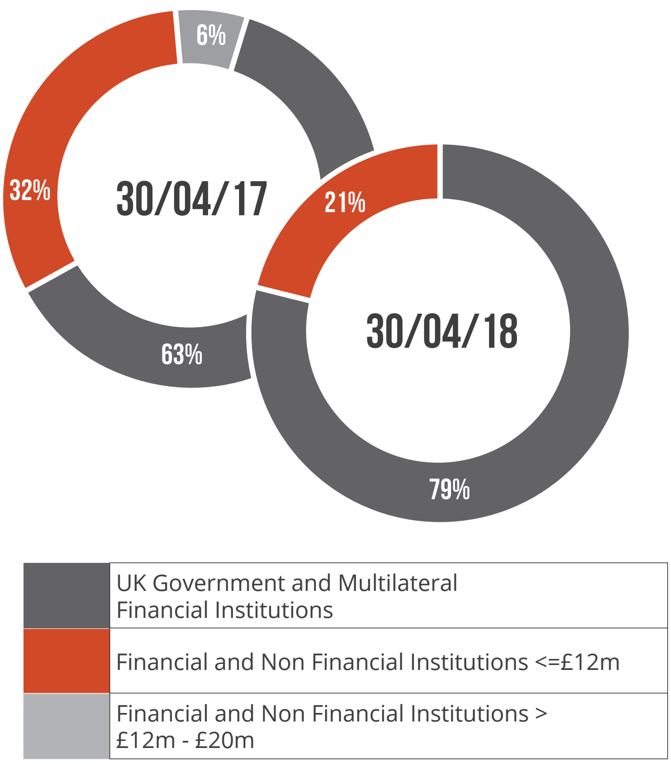
The Bank uses the Standardised Approach to assess capital required for credit risk, with risk weightings based on the lower of the two highest of Fitch, S&P and Moody's ratings in accordance with the credit quality assessment scale.

Treasury assets by class:	2018		2017	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
UK government	25,171	25,266	26,364	26,799
Multilateral financial institutions	350,934	349,560	368,604	370,396
Fixed coupon corporate bonds	98,865	99,035	145,252	146,739
Floating rate corporate bonds	97,538	98,072	174,526	175,355
	572,508	571,933	714,746	719,289
Unlisted:				
Certificates of deposit	10,000	10,111	20,000	20,225
Debt securities (Note 12)	582,508	582,044	734,746	739,514
Balances at Bank of England	415,346	415,346	203,278	203,278
Loans and advances to banks (Note 10)	12,268	12,268	22,341	22,341
	1,010,122	1,009,658	960,365	965,133

Treasury assets by credit rating:

Category (Fitch equivalent lowest credit rating)	2018 Book Value £000	2018 % of Book %	2017 Book Value £000	2017 % of Book %
UK Government	440,517	43.61%	229,642	23.91%
AAA	322,874	31.96%	358,050	37.28%
AA+	40,608	4.02%	32,395	3.37%
AA	4,577	0.45%	9,620	1.00%
AA -	32,037	3.17%	104,393	10.87%
A+	20,073	1.99%	38,056	3.96%
A	114,803	11.37%	113,849	11.85%
A-	26,319	2.61%	51,666	5.38%
BBB+	4,378	0.43%	12,173	1.27%
BBB	3,936	0.39%	10,521	1.10%
	1,010,122	100.00%	960,365	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 2018, the largest loan was £4.69m (2016/17: £5m). The maximum aggregate exposures to any one sector and geographical area were 46% and 26% respectively (2016:17 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 Link Mortgage Services Ltd who provide regular management information on a loan by loan and aggregated basis.

A provision of £641k has been made at 30 April 2018 reflecting losses that have been incurred but not yet identified (2016/17: £522k). No overdrafts were written off during the year (2016/17: £5k). No loans were in arrears at 30 April 2018 (2016/17: one).

	2018	2017
	£000	£000
Gross loans and advances to customers (Note 11)	92,866	72,916
Undrawn overdraft and loan commitments (Note 19)	12,359	14,285
	105,225	87,201
Amounts included within the above:		
Secured on property	103,812	86,173
Unsecured:		
Loans	148	255
Overdrafts	1,265	773
	105,225	87,201

As at 30 April 2018 the average loan to value ratio across the lending portfolio was 45%.

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 holds liquidity buffer eligible assets of £781m (2016/17: £598m). Liquidity buffer assets comprise investments in the Bank of England Reserve Account, UK Gilts, Treasury Bills and multilateral development banks:

	2018 Book Value	2017 Book Value
	£000	£000
Balances at Bank of England	415,346	203,278
UK government	25,171	26,364
Multilateral financial institutions	340,750	368,604
	781,267	598,246

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.

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:

£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 2018	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	414,756	590	-	-	-	-	-	415,346
Loans and advances to banks (Note 10)	4,268	8,000	-	-	-	-	-	12,268
Loans and advances to customers (Note 11)	91,425	-	-	-	-	-	-	91,425
Debt securities (Note 12)	-	150,329	15,721	127,126	288,835	-	497	582,508
Prepayments and accrued income	-	240	-	-	-	-	4,469	4,709
	510,449	159,159	15,721	127,126	288,835	-	4,966	1,106,256
Liabilities								
Customer accounts (Note 13)	600,581	-	-	47,058	387,766	-	14,021	1,049,426
Repurchase agreements (Note 14)	10,142	-	-	-	-	-	-	10,142
Other liabilities (Note 15)	-	-	-	-	-	-	5,288	5,288
Accruals and deferred income	-	-	-	-	-	-	50	50
Shareholders' funds (Note 17)	-	-	-	-	-	-	41,350	41,350
	610,723	-	-	47,058	387,766	-	60,709	1,106,256
Interest rate sensitivity gap	(100,274)	159,159	15,721	80,068	(98,931)	-	(55,743)	-
Impact of 2% change in interest rates	-	(155)	(115)	(1,169)	1,376	-	-	(63)

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
Repurchase agreements (Note 14)	-	-	-	-	-	-	-	-
Other liabilities (Note 15)	-	-	-	-	-	-	5,676	5,676
Accruals and deferred income	-	-	-	-	-	-	126	126
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

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 reduce the likelihood of failure associated with operational risks. The reporting of the Bank's operational risk profile continues to be enhanced. This highlights key areas of concern, enabling increased focus.

During the year ended 30 April 2018 operational losses totalled £37k (2016/17: £31k). Cyber threats are escalating from an increasingly sophisticated criminal community. We have and continue to invest in strengthening our cyber defences. CAF Bank has also enhanced the level of 'know your customer' reviews undertaken in line with industry practice.

The Bank is developing its Operational Resilience to protect the Bank against internal and external events that can disrupt service to our customers.

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

Financial Crime

The Bank defines "Financial Crime" to include any offence involving fraud or dishonesty, or handling the proceeds of crime. We seek to protect our customers and the Bank from the risks of financial crime by identifying inherent risks and operating only 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 with the support of dedicated Know Your Customer and Fraud Prevention teams. Oversight is provided by the Money Laundering Reporting Officer and Chief Risk Officer.

Bank losses to fraud in the year ended 30 April 2018 were £30k (2016/17 £13k).

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 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, inappropriate culture and/or the conduct of business. Conduct risk is managed through behaviours and customer centric decisions, to deliver appropriate customer outcomes through the Bank's products and services.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 30 April 2018.

Results for the Year

CAF Bank made a profit on ordinary activities before taxation for the year of £4,497k (2016/17: £4,359k). Under a deed of covenant, CAF Bank donates its profits to its parent charity, Charities Aid Foundation, after ensuring sufficient reserves are available to meet interest payable on capital instruments and taxation. Dividends of £894k (2016/17: £488k) were payable to AT1 holders. No dividends were paid on ordinary share capital during the year (2016/17: none).

Charitable and Political Donations

CAF Bank donated £3,600k to CAF in the year (2016/17: £3,839k). The Bank did not make political donations or incur any political expenditure during the year (2016/17: 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. As part of the CAF Group, CAF Bank's commitment to staff is evidenced by the Bank's contribution to the Group achieving and retaining the Investors in People Gold Standard, which is an outstanding achievement.

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. Three members of the Board and half 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 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 Report of the Directors 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 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 he/she ought to have taken as a director in order to make him/her 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 25 June 2018

Janet Pope
Chair

CAF Bank Limited
Company Number 1837656

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of CAF Bank Limited (the 'company') 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 identified 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year related to loan impairment provisions.
Materiality	The materiality that we used in the current year was £410k which was determined by reference to 1% of equity.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified. These matters included 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.

The matter below was 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 this matter.

Loan impairment provisions Refer to Note 1.7 on page 31 and Note 11 on page 34.	
Key audit matter description	Gross loans and advances to customers increased from £72,916k to £92,866k during the year. The provision for loan impairment is the most significant judgement made by the company in preparing its financial statements. Given lending to customers is a growing part of the business, the company has limited loss experience which increases the judgement required for both specific and collective provisions. Given the level of judgement required, we consider there to be an increased risk of misstatement due to fraud or error in respect of this key audit matter. The impairment provision balance as at 30 April 2018 was £641k (2017: £522k). This is a collective provision for incurred but not reported impairment losses. There was no individually identified loan impairment provision.
How the scope of our audit responded to the key audit matter	■ We assessed the design and tested the implementation of controls relating to the loan impairment provision; ■ We reviewed the company's loan impairment provisioning policy to assess whether it was in compliance with the requirements of Financial Reporting Standard 102; ■ We tested a sample of performing loans to assess whether there was objective evidence that impairment had arisen and not been identified; ■ We challenged the key assumptions applied to estimate the incurred but not reported loan impairment provision by comparing the assumptions to historical performance and industry peers; and ■ We re-performed the calculation of the incurred but not reported loan impairment provision to test its mathematical accuracy.
Key observations	Based on the procedures performed and evidence obtained, we found the company's assumptions, judgements and approach to estimating loan impairment provision to be reasonable and therefore considered the level of provision to be appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	£410k
Basis for determining materiality	1% of equity
Rationale for the benchmark applied	We consider equity to be the most relevant benchmark for users of the accounts given that the company is a regulated bank and a wholly- owned subsidiary.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement.

Our risk assessment included considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

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

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters 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 or 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 22 to the financial statements for the financial year ended 30 April 2018 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

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the company on 22 February 2017 to audit the financial statements for the year ending 30 April 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ended 30 April 2017 and 30 April 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Robert Topley FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
25 June 2018

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 APRIL 2018

		2018		2017	
	Notes	£000	£000	£000	£000
Interest receivable	3		11,405		11,748
Interest payable	4		(315)		(992)
Net interest income			11,090		10,756
Fees and commissions receivable		2,045		1,728	
Fees and commissions payable		(971)		(953)	
Net operating income			1,074		775
Administrative expenses	5,6		(7,548)		(6,914)
Loan loss provision	11		(119)		(258)
Profit on ordinary activities before taxation			4,497		4,359
Tax on profit on ordinary activities	8		(3)		(32)
Profit on ordinary activities after taxation			4,494		4,327

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 30-37 form an integral part of the financial statements.

BALANCE SHEET
AS AT 30 APRIL 2018

		2018		2017	
	Notes	£000	£000	£000	£000
Assets					
Balances at Bank of England			415,346		203,278
Loans and advances to banks	10		12,268		22,341
Loans and advances to customers	11		91,425		71,705
Debt securities	12		582,508		734,746
Prepayments and accrued income			4,709		7,715
Total assets			1,106,256		1,039,785
Liabilities					
Customer accounts	13		1,049,426		1,003,633
Repurchase agreements	14		10,142		-
Other liabilities	15		5,288		5,676
Accruals and deferred income			50		126
Total liabilities			1,064,906		1,009,435
Called up share capital	16	29,350		21,350	
Additional Tier 1 capital	16	11,000		8,000	
Distributable reserves	17	1,000		1,000	
Shareholders' funds	17		41,350		30,350
Total liabilities and shareholders' funds			1,106,256		1,039,785

The notes on pages 30-37 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 25 June 2018 and signed on its behalf by

Janet Pope
Chair

John Grout
Finance Director

CAF Bank Limited
Company Number 1837656

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 APRIL 2018

	Notes	Called-up share capital £000	Additional Tier 1 Securities £000	Distributable Reserves £000	Profit and loss account £000	Total £000
At 30 April 2016		19,350	4,000	1,000	-	24,350
Profit for the financial year			-	-	4,327	4,327
Charitable donation to parent	7	-	-	-	(3,839)	(3,839)
AT1 dividends payable	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
Profit for the financial year		-	-	-	4,494	4,494
Charitable donation to parent	7	-	-	-	(3,600)	(3,600)
AT1 dividends payable	9	-	-	-	(894)	(894)
Issue of share capital	17	8,000	-	-	-	8,000
Issues of additional tier 1 capital	17	-	3,000	-	-	3,000
At 30 April 2018		29,350	11,000	1,000	-	41,350

The notes on pages 30-37 form an integral part of the financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 APRIL 2018

	2018		2017	
	£000	£000	£000	£000
Cash flows from operating activities				
Profit on ordinary activities before taxation	4,497		4,359	
Adjustments for:				
Amortisation of investments	5,505		1,733	
Loss on disposal of debt security	95		-	
Corporation tax paid	(15)		(33)	
Decrease/(increase) in prepayments and accrued income	3,006		(567)	
Increase/(decrease) in accruals and deferred income	13		(172)	
Increase in Cash Ratio Deposit with Bank of England	(63)		(33)	
Decrease in loans and advances to banks	10,000		5,000	
Increase in loans and advances to customers	(19,840)		(26,333)	
Increase in loan loss provision	119		253	
Loans written-off during the year	-		(5)	
Increase in customer accounts	45,793		2,029	
(Decrease)/increase in other liabilities	(137)		455	
Net cash generated from operating activities		48,973		(13,314)
Cash flows from investing activities				
Acquisitions of debt securities	(198,141)		(284,641)	
Redemptions of debt securities	334,875		343,453	
Disposals of debt securities	9,905		-	
Increase in repurchase agreements	10,142		-	
Net cash from investing activities		156,781		58,812
Cash flows from financing activities				
Charitable donations paid	(3,839)		(3,292)	
AT1 dividend paid	(983)		(439)	
Issue of ordinary share capital	8,000		2,000	
Issue of additional tier 1 capital	3,000		4,000	
Repayment of loan stock and preference shares	-		(3,875)	
Net cash from financing activities		6,178		(1,606)
Change in cash and cash equivalents in the year		211,932		43,892
Cash and cash equivalents at beginning of year		207,092		163,200
Cash and cash equivalents at end of year		419,024		207,092
Represented by:				
Balances at Bank of England repayable on demand		414,756		202,751
Loans and advances to banks repayable on demand (Note 10)		4,268		4,341
		419,024		207,092

The notes on pages 30-37 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2018

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). CAF Bank has chosen to early adopt the amendments to FRS 102 (triennial review 2017) related to the tax effects of gift aid payments. As permitted, no other amendments have been adopted for the year ended 30 April 2018.

Where information in the risk management report on pages 13-17 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 21-25.

The going concern basis was adopted in preparing the annual report and accounts as described on page 19.

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 expected life of the financial asset. Loan arrangement fees are recognised using the effective interest method over the expected life of the loan.

(b) Fee Income

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 historical 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.

Interest receivable on interest-bearing loans and debt securities is recognised on an accruals basis 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2018

3. Interest receivable

	2018	2017
	£000	£000
Interest receivable and similar income arising from debt securities	6,823	8,440
Other interest receivable and similar income	4,582	3,308
	11,405	11,748

4. Interest payable

	2018	2017
	£000	£000
Customer accounts	315	777
Preference shareholders	-	120
Loan stock holders	-	95
	315	992

5. Administrative expenses

Staff costs	2018	2017
	£000	£000
Wages and salaries	3,053	2,575
Social security costs	271	241
Other pension costs	163	147
	3,487	2,963
Other administrative expenses	4,030	3,981
	7,517	6,944

All staff are employed by CAF. Total employment costs are recharged where activities have been undertaken for CAF Bank. Staff costs (above) represent 96 (2016/17: 89) employees of CAF who were assigned wholly to duties relating to the activities of the Bank.

Creditors include £17,000 (2016/17: £12,000) in respect of pension contributions payable.

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

	2018	2017
	Number	Number
Management	15	18
Administration	81	71
	96	89

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. Information systems staff costs are included in indirect staff costs (below).

	2018	2017
	£000	£000
Indirect staff costs	1,265	1,189
Management charges	527	527
	1,792	1,716

Directors' emoluments

None of the directors who served during the year were remunerated directly by the Bank (2016/17: none). During the year, the Bank reimbursed CAF with £294,082 (2016/17: £284,097) including pension contributions in respect of services rendered by two executive directors (2016/17: two). Non-executive directors were not remunerated.

Auditor's remuneration

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

	2018	2017
	£000	£000
Audit fees payable to the company's auditor for the audit of the company's financial statements	71	70
Other non audit services	64	71
	135	141

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 2018 represents the estimated amounts due in respect of the Bank's participation in the scheme for the years ending 31 March 2018 and 2019.

	2018	2017
	£000	£000
Provision at 1 May	220	411
Paid during the year	(147)	(161)
Provided during the year	31	(30)
Provision at 30 April	104	220

7. Charitable donation to parent

The Bank accrued a donation of £3,600,000 to CAF at 30 April 2018 (30 April 2017: £3,839,000).

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: 19% (2016/17: 20%). The differences are explained below.

	2018	2017
	£000	£000
Tax expense:		
UK corporation tax	3	32
Reconciliation to tax expense:		
Tax at 19% on (2016/17 20%) :		
Profit on ordinary activities before tax	854	872
Charitable donation to CAF	(684)	(768)
AT1 dividends payable	(170)	(98)
Interest payable to preference shareholders	-	24
	-	30
Expected tax charge on disallowable expenditure	3	2
	3	32

There is no unprovided deferred taxation.

9. AT1 Dividends Payable

	2018	2017
	£000	£000
AT1 dividends payable	894	488
	894	488

10. Loans and advances to banks

	2018	2017
	£000	£000
Repayable on demand	4,268	4,341
	4,268	4,341
Remaining maturity of other loans and advances:		
1 day to 8 days	5,000	10,000
Over 8 days to 3 months	3,000	-
Over 6 months to 1 year	-	5,000
Over 1 year to 5 years	-	3,000
	8,000	18,000
Loans and advances to banks	12,268	22,341

11. Loans and advances to customers

	2018				2017			
	Charity £000	Personal £000	Overdrafts £000	Total £000	Charity £000	Personal £000	Overdrafts £000	Total £000
Remaining maturity of loans and advances								
Repayable within 3 months	611	1,373	799	2,783	522	1,186	405	2,113
Repayable within 5 years	14,900	19,565	-	34,465	13,059	18,683	-	31,742
Repayable over 5 years	55,618	-	-	55,618	39,061		-	39,061
	71,129	20,938	799	92,866	52,642	19,869	405	72,916
Loan loss provision	(236)	(405)	-	(641)	(204)	(318)	-	(522)
Deferred income	(671)	(129)	-	(800)	(530)	(159)	-	(689)
Unamortised premiums	70,222	20,404	799	91,425	51,908	19,392	405	71,705

	2018	2017
	£000	£000
Loan loss provision at 1 May	(522)	(269)
Provided during the year: individual provision	-	(5)
Provided during the year: collective provision	(119)	(253)
Written off during the year	-	5
Loan loss provision at 30 April	(641)	(522)

12. Debt securities

12.1 Investments

	2018		2017	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
UK government	25,171	25,266	26,364	26,799
Multilateral financial institutions	350,934	349,560	368,604	370,396
Fixed coupon corporate bonds	98,865	99,035	145,252	146,739
Floating rate corporate bonds	97,538	98,072	174,526	175,355
	572,508	571,933	714,746	719,289
Unlisted:				
Certificates of deposit	10,000	10,111	20,000	20,225
	582,508	582,044	734,746	739,514

Debt securities include items with a book value of £10,184,000 (2016/17: nil) which have been sold under repurchase agreements (note 14). These assets have not been derecognised as the Bank has retained substantially all the risks and rewards of ownership. The Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction and remains exposed to any associated interest rate risk or credit risk of the assets.

12.2 Maturity

	2018	2017
	Book Value £000	Book Value £000
3 months to 6 months	28,269	155,064
6 months to 1 year	162,143	142,448
	190,412	297,512
1 year to 5 years	392,096	437,234
	582,508	734,746
5 years and over	-	-
	582,508	734,746
Unamortised premiums	(5,085)	(8,478)

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 2017	745,895	(11,148)	734,747
Acquisitions	198,141	(330)	197,811
Redemptions	(346,035)	11,160	(334,875)
Disposals	(10,000)	-	(10,000)
Amortisation	-	(5,175)	(5,175)
At 30 April 2018	588,001	(5,493)	582,508

13. Customer accounts

	2018	2017
	£000	£000
Repayable on demand	1,020,808	966,557
Repayable within 7 days	-	-
Repayable within 30 days	28,618	37,076
	1,049,426	1,003,633
Amounts include:		
Amounts owed to CAF	1,361	1,571

14. Repurchase agreements

Repurchase agreements total £10,142,000 (2016/17: nil). The corresponding carrying value of assets of £10,184,000 (2016/17: nil) sold under sale and repurchase agreements is included within debt securities (note 12).

15. Other liabilities

	2018	2017
Amounts due within one year:	£000	£000
Amounts owed to CAF	3,947	4,158
Sundry creditors	1,336	1,501
Taxation	5	17
	5,288	5,676

16. Called up share capital and additional tier 1 securities

	2018		2017	
	Number	£000	Number	£000
Allotted, issued and fully paid:				
Ordinary shares of £1 each	29,350,000	29,350	21,350,000	21,350
Additional Tier 1 securities of £1 each	11,000,000	11,000	8,000,000	8,000
		40,350		29,350

Following regulatory approval, CAF Bank issued a further £3m of Additional Tier 1 capital and £8m of Ordinary share capital to CAF in 2017/18. 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.

17. 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 2017	21,350	8,000	1,000	-
Issued during the year	8,000	3,000	-	-
At 30 April 2018	29,350	11,000	1,000	-

18. Financial instruments

18.1 Market and interest rate risk
Market and interest rate risk is described on page 16.

18.2 Currency profile
The Bank has an exposure of US $491k 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 Investments held to maturity
The Bank's policy is to hold investment securities to redemption at par (note 1.6). The impact of any movements in interest rates on fixed rate instruments is therefore not anticipated to affect the Bank's profits.

18.5 Hedging
CAF Bank does not hold financial instruments for hedging purposes.

18.6 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).

	2018		2017	
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Assets				
Balances at central banks	415,346	415,346	203,278	203,278
Loans and advances to banks	12,268	12,268	22,341	22,341
Debt securities	582,508	582,044	734,746	739,514
	1,010,122	1,009,658	960,365	965,133

19. Off-balance sheet commitments

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

	2018	2017
	£000	£000
Undrawn overdraft commitments	562	1,453
Undrawn charity loan commitments	8,687	10,458
Undrawn personal loan commitments	3,110	2,374
	12,359	14,285

20. 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.

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. 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.

	2018	2017
	UK	UK
Number of employees (average FTE)	96	89
	£000	**£000**
Turnover (total income)	12,164	11,531
Profit before tax	4,497	4,359
Corporation tax paid	15	33
Public subsidies received	-	-

DIRECTORS, BOARD COMMITTEES AND ADVISERS

Registered Office

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West Malling
Kent ME19 4JQ

Telephone: 03000 123 456
Fax: 03000 123 600
Email: cafbank@cafonline.org
Website: www.cafonline.org/banking

Company Number

1837656

Directors (at 30 April 2018)

Non-Executive Directors
Janet Pope (Chair)
Martyn Beauchamp
Kees Diepstraten
Malcolm Himsworth
Mairi Johnstone
Sir John Low CBE (CAF Chief Executive)
Carole Machell
Alistair Ray
Mark Sinclair
Graham Toy

Executive Directors
Peter Ostacchini (CEO)
John Grout (Finance Director)

Audit Committee

Malcolm Himsworth (Chair)
Kees Diepstraten
Mairi Johnstone

Board Risk & Compliance Committee

Carole Machell (Chair)
Alistair Ray
Mark Sinclair
Graham Toy

Nominations and Remuneration Committee

Janet Pope (Chair)
Sir John Low CBE
Peter Ostacchini

Executive Committee

Peter Ostacchini (CEO)
John Grout (Finance Director)
Dina Henry (Chief Operating Officer)
Alison Carpenter (Chief Risk Officer)

Bankers

HSBC Bank plc
City of London Branch
Ground Floor, 60 Queen Victoria Street
London EC4N 4TR

Nominee and Custodian

Global Custody Europe
HSBC Securities Services
Level 29, 8 Canada Square
London E14 5HQ

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