

Image: Golden Opportunity
Skills and Development (GOSAD)



Charity banking made simple

CAF Bank Limited Annual Report and Financial
Statements for the year ended 30 April 2023

CAF
Bank



Image: Merseyside Society for Deaf People (MSDP)

About CAF Bank

We are more than a bank. We know the pressures charities and social purpose enterprises face, and we address them, one by one. We help charities grow stronger. Our tailored approaches, expert guidance and genuine care allow charities to concentrate on supporting the people who turn to them.

We look after their funds and help protect their good name. Our experienced customer service team offers reliable support that helps charities to achieve what they believe in. CAF Bank Limited (CAF Bank) supports a community of more than 14,400 charitable organisations that bank with purpose. From micro charities to large organisations, we are the bank they turn to. We believe in the power of good, and in treating the goals of charities as our own.

Contents

Our year at a glance	04
Chair's report	06
Chief Executive's introduction	08
Strategic report	
Principal activities	10
Review of the year	12
Financial performance	18
Environment and society	22
Risk management report	34
Report of the Directors	46
Independent Auditors' report	48
Profit and loss account	56
Balance sheet	57
Statement of changes in equity	58
Cash flow statement	59
Notes to the financial statements	60

Our year at a glance



£10.6m

PROFIT BEFORE TAX



£1.5bn

CUSTOMER DEPOSITS



£229m

DRAWN AND COMMITTED LOAN BALANCES



£34m

LOANS ADVANCED



2m+

FASTER PAYMENTS MADE



14,431

CUSTOMERS



101,759

ENQUIRIES HANDLED



16,047

CURRENT ACCOUNTS



84,139

PHONE CALLS RECIEVED

Chair's report

At CAF Bank, we want to make a difference where and when it matters. From micro charities to large organisations, we are the bank to which thousands of charities and social purpose enterprises turn.

The difficulties of the past few years have had a significant impact on many of the organisations we support. The Covid-19 pandemic, followed by sharply rising interest rates, the cost-of-living crisis and geopolitical upheaval, have resulted in more people looking to these organisations for help. In parallel, economic uncertainty has led to rises in operating costs and falling donations as household budgets have been stretched.

For the charities we serve, we know we are more than a bank. We support them, we listen to them and, importantly, we act on what they tell us. Our tailored approach, expert guidance and genuine care allow them to focus on supporting the communities that need them.

As a bank owned by a charity – the Charities Aid Foundation (CAF) – we are perfectly placed to understand fully the challenges the sector faces, and to assist in finding solutions.

SUPPORT WHERE IT IS NEEDED MOST

Research conducted by our parent, CAF, in autumn 2022 showed that more than half of surveyed charities were worried about their ability to survive. This was up from 35% six months earlier. Around half also said that, due to increasing pressures, they needed to use their reserves to cover core costs.

While some providers reduced their operating hours, withdrew banking facilities or stopped accepting applications, I am proud to say that we have remained open to new customers throughout these challenging times. We have helped charities to access banking services and financial support tailored to their needs; we have used their feedback to help us drive continuous improvement; we have helped reduce the risk of fraud and continue to explore ways to make their money work harder.

For example, we reintroduced interest on current accounts, increased deposit account interest in response to Bank of England base rate changes and cut our monthly account fee by over 35%. This was recognised when we were top-rated for fees and charges in Charity Finance magazine's 2023 charity banking survey.

A SHARED PURPOSE

We will continue to be steered by the same purpose that drives the charities we support. I believe that connecting with a bank that shares your values helps you grow stronger and achieve more for your cause.

Here in the UK, in the 2022/23 financial year, our drawn and committed loan balances grew by £44 million, the biggest annual uplift in the history of CAF Bank lending. We advanced £34 million in loans to 31 different entities. This has enabled them to carry out vital work, expand their services, purchase premises and help more people in need of a lifeline.

It has allowed housing associations, for example, to make improvements to their existing stock. It has made possible the purchase of a 10-bed hostel, the construction of a Sikh Gurdwara and the conversion of an old town hall into a church. Hundreds of new homes can now be made available for social rent.

It is through projects like these that we can make important steps towards achieving our vision of a sustainable future for society.

INFLUENCE AND INTERNATIONAL EXPERTISE

Our customers benefit from the experience, influence and global reach of our parent organisation. This year CAF launched a Charity Resource Hub that provides tools, guidance and inspiration to help during these difficult times.

Together with CAF, we have worked with sector bodies to raise awareness among policymakers of the serious challenges charities face. CAF's well-respected research, including its Charity Resilience Index and UK Giving Report, has been cited in Parliament, enabling us to make a strong case for government intervention to support charitable organisations.

While many charities struggle with international payments or payments into difficult jurisdictions through mainstream banks, we make it easier for money to move across borders, while maintaining the highest standards of regulatory compliance. During the past 12 months, our volumes of international payments reached over 12,000.

A YEAR OF IMPACT

I would like to extend my gratitude and thanks to Mairi Johnstone, who stepped down as a Director on 30 April 2023, after over nine years of dedicated service to the Bank. We are pleased to welcome two new Non-executive Directors to the Board in Ursula Dolton and Rob Vogtle.

We cannot make a difference where and when it matters without the commitment of our people, the expertise and counsel of our Board, and the loyalty of our charity customers. I would like to extend my gratitude to everyone who has worked tirelessly this past year to make such an impact for so many.

Janet Pope
Chair



Key activities during the year



Lending for progress and impact



Providing tailored financial and banking support



Supporting charities with information through our cost-of-living hub

Chief Executive's introduction

At CAF Bank, we are proud to serve charities whose tireless work makes a huge difference to the lives of hard-pressed people and communities.

The cost-of-living crisis is at the forefront of many people's minds, amplified by the challenging global economic environment. We know that charities and social enterprises have been on the frontline in tackling these challenges, supporting the people who really need it. Following closely on from the pandemic, these challenges have presented charities with a perfect storm of significantly higher demand, rising costs and falling income as donors reduce their giving. Nonetheless, social purpose organisations have shown remarkable resilience and we have been working hard to support them.

In conjunction with CAF we created a cost-of-living Charity Resource Hub, harnessing our combined expertise. This provides a wealth of information on topics such as governance and strategy, financial planning, attracting new funding, and managing operational cost pressures. We are really pleased that this information has proved valuable to more than 40,000 different users.

At CAF Bank everything we do is designed to help our customers support the people who turn to them. For example, our new online security centre provides fraud prevention support and guidance on the steps customers can take to protect themselves. Over the past 12 months, we have helped prevent £548,000 worth of fraudulent transactions.

EXTRA SUPPORT FOR OUR CUSTOMERS

In early 2023, we took swift action in response to growing uncertainty about the economic climate. The CAF Bank Lending Team contacted all our borrowers to offer additional support, such as interest-only periods on loans. We appreciated the positive feedback from customers who welcomed this reassurance over a particularly difficult winter.

We continue to listen to our customers and to find the best ways for them to share their views with us. Our new customer feedback collection system is helping to drive continuous improvement.

In the past year we have also been supporting new charities that have turned to us. In the 12 months since May 2022, we have recorded a 30% increase year-on-year in the number of new accounts opened.

Our efforts have not gone unnoticed. For the second year running CAF Bank was named Charities Bank of the Year in the Charity Times Awards – a fantastic achievement that demonstrates the consistency of the service we offer to the organisations that trust us with their banking services.

WORKING TO MAKE A DIFFERENCE

Since CAF was founded almost 100 years ago, we have worked to connect and enable those looking to make a difference in the world. This is at the core of what we do.

As such we are committed to embedding sustainability within our operations. Over the course of the year, we have developed our CAF Bank sustainability strategy covering our internal and external activities. We are actively engaged with CAF on pursuing a roadmap to become net zero in our operations. The ESG funds we launched last year through our fellow subsidiary of CAF, CAF Financial Solutions Limited (CFSL), are now firmly established and we are working on our first green loan, which we look forward to launching shortly.

None of this would be possible without our people and we strive to make CAF Bank a great and safe place for them. Along with hybrid working, we have introduced financial payments to help employees with increasing costs, are providing more professional development opportunities and offer a range of wellbeing support.

We were delighted to receive such positive feedback from our colleagues in the last Financial Services Conduct Board survey and I am thrilled that CAF was recently awarded Gold accreditation by Investors in People, which we will hold for the next three years. This is an outstanding achievement and a testament to everyone at CAF who has played their part in delivering this great result.

PROGRESSING OUR TRANSFORMATION

We continue to move forward with our digital strategy to give our banking customers and our people the best possible experience. We have been navigating this against the backdrop of the pandemic and so it has taken longer than we initially planned, but now, working with our technology partners, we are seeing real progress. Alongside this we are expanding our teams to bring in new capabilities, particularly around data strategy.

For the third year, CAF Bank has supported the Smart Futures Programme, which seeks to support young people from disadvantaged backgrounds by providing paid work experience and business skills

training. This year's cohort have been engaged and motivated, and we continue to provide mentoring support for them. I want to thank all those involved in making this programme such a success.

As we continue to invest in our people and our transformation, the charities we serve remain our focus. I thank them for choosing CAF Bank as a trusted partner in achieving their aims and ambitions.

Alison Taylor
Chief Executive Officer



Key activities during the year



30% increase in new accounts opened



Charity Times - charities bank of the year 2022 winner



Continued to support young people through Smart Futures

As a specialist bank, owned by a charity and run for charities, we at CAF Bank know that soaring bills and rising prices are placing ever-increasing demands on all not-for-profit organisations.

We offer borrowing, saving and investment options for organisations of all kinds, across many causes. These activities complement a range of services provided to charities by our parent, CAF, of which we are a wholly owned subsidiary.

Each year, after ensuring an adequate capital position is maintained to support customers' funds and any required capital investments, we aim to make a direct contribution to the charitable sector by donating our residual profit to CAF.

Strategy and objectives

Our core principles are:



Providing services for small and medium-sized charities and organisations with social purpose



Offering services that our customers want at a fair and transparent cost



Progressively realigning our lending activity around the single aim of supporting charitable and social purpose organisations and projects



Improving customer service and customer satisfaction



Continuing to drive efficiency and improvement through process simplification and investment in technology

BANKING WITH PURPOSE

Around 45% of our charity and social enterprise clients are small organisations, so most of the people we talk to are volunteers rather than finance professionals.

We understand the range of support they need, both financial and advisory. Everything we do is geared towards enabling our clients to help the people who turn to them in times of crisis.

Our objective is to deliver continual improvements to customer service and efficiency, thereby maintaining a financially robust and sustainable business model. This includes through the delivery of our digital modernisation project, which brings together investment in a new banking platform and remodelled processes to enable new customer channels.

In 2021, the Bank's parent completed a broader strategic review, in conjunction with the Bank, defining the CAF group's purpose, vision, propositions and values.

The key objectives for the Bank coming out of this review, in addition to the core principles outlined above, are to deliver a seamless and cohesive service to our charity customers, across the Bank and the broader CAF group.

KEY DECISIONS

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

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

APPOINTMENTS

Board appointments

On 6 April 2023 we welcomed Ursula Dolton as an Independent Non-executive Director. After the year end on 30 May 2023, we also welcomed Rob Vogtle as an Independent Non-executive Director. Mairi Johnstone stepped down as a Director on 30 April 2023.

Strategic report

REVIEW OF THE YEAR

Image: Hubbub



At the heart of CAF is our mission to help all charities thrive. However, the pandemic, the cost-of-living crisis and interest rate rises have hit hard.

Charities are finding themselves with an increasing number of people relying more and more on their essential services. They are providing debt advice, food packages, somewhere warm to stay and care for the vulnerable. But they are having to meet this growing demand while facing their own financial challenges.

CAF's bespoke advisory services, funding and finance solutions are there to help strengthen their long-term resilience. Our support includes access to grants for small charities and flexible and affordable finance.

Our new resource hub, launched in autumn 2022, provides a wide range of tools and guidance on subjects including financial planning, staffing and volunteers. Alongside this, we are running regular webinars covering topics such as responsible charity leadership and fundraising strategies.

In January 2023, we wrote to all our borrowers inviting them to talk to us if they were experiencing financial pressures. We have introduced interest-only periods on loans for those that need it, either because they are facing challenges or because they want to do more for their beneficiaries.

All our borrowers meet with our experts at least once a year, whether that is face-to-face or online, and for many the conversations are far more

frequent. Currently, we are averaging a check-in every two months, so we can understand our clients' individual circumstances.

During the pandemic, this proactive and personalised approach meant none of our clients missed a repayment. It has also ensured that, despite the economic turbulence of 2022/23, we are still opening new accounts. In addition, the Bank continues to drive low rates so we can lend to more clients that need our services.

“The cost-of-living crisis makes the value of charities’ work more visible than ever while also placing these same charities under significant pressure as they seek to deliver their essential services and meet increasing demand from their communities.”

Alison Taylor, CEO of CAF Bank

£
£229m

Total committed loans and advances to clients

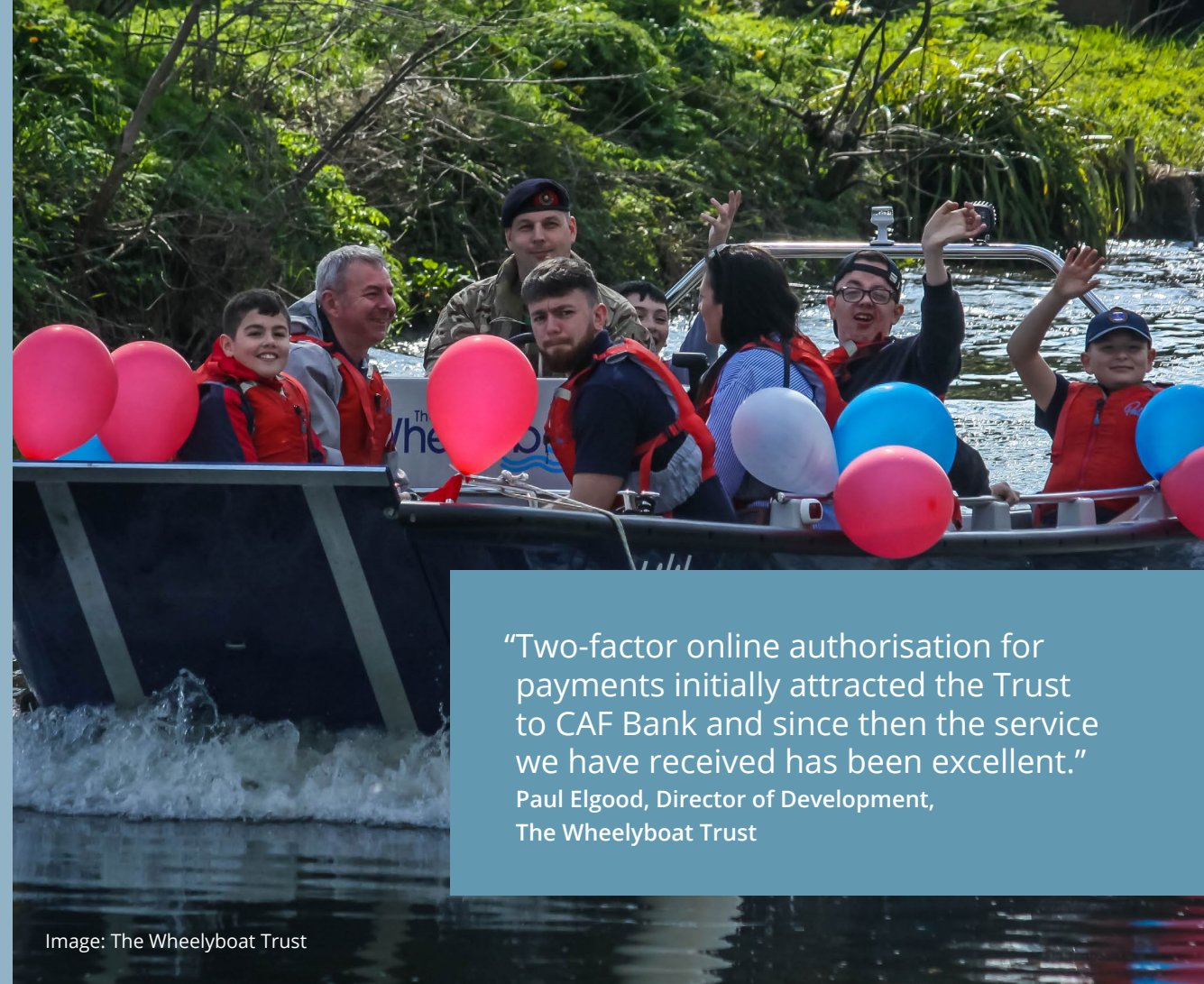
101,759

Enquiries handled by CAF Bank in 2022/23

£
14,431
Customers

£
16,047
Current accounts

£
£1.5bn
Deposits



“Two-factor online authorisation for payments initially attracted the Trust to CAF Bank and since then the service we have received has been excellent.”
Paul Elgood, Director of Development,
The Wheelyboat Trust

Image: The Wheelyboat Trust

The Wheelyboat Trust: Helping disabled people take part in water-based activities

A CAF Bank customer since 2016, The Wheelyboat Trust is a national charity that enables disabled people to participate in a wide variety of activities on the water in its specially designed and purpose-built wheelchair accessible Wheelyboats.

It designs, builds, funds and supplies a range of Wheelyboat models that are used by organisations such as outdoor activity centres, canal trusts, fisheries, Sea Scouts, Navy Cadets, SEN schools, sailing clubs and Sailability groups.

Operating since the mid-1980s, the Trust has so far supplied 228 Wheelyboats to projects all over the UK and Ireland. One of its most important roles is to help organisations raise funds to acquire Wheelyboats.

The Trust operates without having to borrow, but with an annual turnover of around £350,000 it needs a bank it can rely on, and that is where CAF Bank comes in.



West Sussex, UK

The Poland Trust: Affordable homes for local people

High property prices in Surrey have made it hard for many people in the area to find a home of their own, but CAF Bank has helped fund a life-changing social housing project on land gifted by a local family.

Thanks to a secured loan from CAF Bank, the 12 flats and houses on the land will be rented to tenants at 60% of the market rate, with priority given to people with a strong connection to the area.

Poland Meadow, developed by charity and Almshouse Association member, The Poland Trust, opened its doors in September 2022 after nearly ten years in the making.

The development includes five self-build plots, which the Trust has sold to local buyers at 75% of market value. These can only be sold on at 80% of market value and have to be offered to people in nearby communities.

The 12 flats and houses on the land will be rented to tenants at

60%
of the market rate



Surrey, UK

Image: Humraaz



“I never thought I would be able to live independently in the village and community where I grew up, because of housing costs in the area. This lovely new flat is a life-changing opportunity, and I am extremely grateful for it.” Poland Meadow resident

Gesher: Transforming how young people are educated

For some children, mainstream school learning and a 'one size fits all' approach can be inaccessible and sometimes damaging, but the Gesher School has an entirely different approach.

An Ofsted-rated 'outstanding' school, Gesher believes that learning should be personalised and informed by a person's passions and interests. It uses a trans-disciplinary approach to learning, meaning that its teachers, therapists, teaching assistants, parents and carers work very closely together. This ensures each young person has an individually tailored provision of care throughout their school day.

When it wanted to expand to become an 'all-through' school rather than just for primary aged children, Gesher got in touch with CAF Bank to see if we could help.

A loan enabled the school to purchase the freehold of a new building and site, securing its long-term future, and that of its pupils.

It now has a building specially designed for its growing number of students. It has also been able to develop critical spaces and places within the building that help each child's learning experiences.



Pinner, London, UK



Image: Gesher



Image: Toynbee Hall

Toynbee Hall: Providing advice in challenging times

Operating since 1884, Toynbee Hall works alongside communities to tackle inequality by providing a range of high-quality advice services and community projects.

When the Toynbee Hall estate needed significant investment to safeguard the future of its services, including the world's longest-running free legal advice clinic, it reached out to us at CAF Bank.

We were able to provide a loan of £2.5 million to assist with the completion of the redevelopment and regeneration of the estate. This included new advice and community centres and commercial office space, which means it can now generate an income and help secure its financial future.



East London, UK

"CAF Bank has helped us provide essential support to thousands of people who walk through the doors of our advice centre each year. We can now provide a warm, welcoming and inclusive community space and can generate income to work towards building a fairer and happier future for the people of East London."

Rebecca Sycamore, Chief Executive of Toynbee Hall

Strategic report

FINANCIAL PERFORMANCE

Key performance indicators



£229m

Committed loans and advances



£1.5bn

Deposits



£8.6m

Profit after tax



£28.0m

Net interest income



Image: MS-UK

Fighting financial fraud

We are committed to helping charities keep their money safe. Our security centre is free to anyone, whether they are a client or not. It offers guidance and tips to help organisations understand their cyber exposure, recognise scams and other threats, and introduce financial controls to protect their accounts.

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



CAF Bank made an overall profit of £8.6 million in 2022/23. This represents an increase from the £1.6 million profit in 2021/22.

The Bank's income has improved as we have benefitted from improvements in yields across our treasury investments following the Bank of England's decision to increase the base rate progressively up from 0.75% in March 2022 to 4.25% in March 2023. Overall, the Bank's net interest income of £28.0 million is £17.4 million higher than in 2021/22. Net fee income decreased from £2.1 million to £1.6 million as a result of reducing the monthly fee charged on current accounts by over a third from £8 to £5.

Administrative expenses increased by 57% from £11.8 million to £18.5 million in 2022/23 including £4.0 million (2021/22: £1.7 million) in intra-group recharges paid to our parent, CAF, for the cost of shared services. Our shared services model provides the Bank with IT, HR, premises, marketing and communications. The costs relating to the shared model increased due to greater spend in the respective functions to provide robust support, as well as a review of the calculation methodology.

Also included within administrative expenses are project and IT costs associated with our digital modernisation programme. These costs totalled £4.2 million in 2022/23 compared with £1.7 million in 2021/22.

Excluding the shared services recharge and digital modernisation and project costs, direct administrative expenses increased by £1.9 million to £10.3 million from £8.4 million in 2021/22. This reflected investments in our current IT infrastructure and higher staff costs, all largely related to supporting a robust control environment and meeting regulatory and compliance standards.

In light of the increased capital expenditure on the Bank's new core banking system, it was agreed that no interest would be paid on capital instruments, and no donation was made to our parent. The Bank's key performance indicators are included on page 18.

DEPOSITS

We are grateful to our charity customers for continuing to provide us with a strong and stable base of deposits and our robust funding position underpins CAF Bank's activity. During the year, deposits have remained unchanged at £1.5 billion.

Strategic report



Image: GOSAD

LENDING

Despite an extremely challenging economic environment, committed loans and advances to customers grew steadily in 2022/23, increasing from £185 million as at 30 April 2022 to £229 million at 30 April 2023. Within this total, loans to charities and social housing organisations increased by £42.6 million, following continuing demand from registered housing associations in particular. Social housing associations represent 63% of our drawn lending book by value.

We are encouraged by the lending pipeline. As at 30 April 2023, the Bank has £34 million of loans sanctioned pending final agreement and commitment (at 30 April 2022: £58 million).

Given the ongoing inflationary environment and the cost-of-living crisis, we have continued to monitor and analyse closely both the collective and specific loan provisions. Despite this, the quality of the loan book remains strong resulting in a modest loan loss provision.

We have sought to ensure property valuations are up-to-date in determining loss given default. This is done by either obtaining new valuations or for our residential property, indexing older valuations by reference to residential property indices. Non-residential is not indexed as published indices do not correlate with our specialised loan portfolio. For assessing the collective provision, we have considered the impact of previous economic downturns on probability of default and loss given default values. On this basis, as at 30 April 2023, the collective provision is determined as £1.1 million (at 30 April 2022: £0.9 million).

To assess specific provision requirements, we have reviewed 'watchlist' loans and compared the estimated recoverable amount to the carrying value of the loans where there is evidence that the loan is impaired. The ongoing cost-of-living crisis and inflationary environment have impacted charities directly and through their donor base. This has resulted in specific provisions increasing to £0.6 million at 30 April 2023 (at 30 April 2022: £0.2 million).

CAPITAL AND LIQUIDITY

CAF Bank's capital position remains strong relative to the risk weighting of its assets. As at 30 April 2023, the Bank's total capital ratio was 25.0% compared with 30.8% at 30 April 2022. The decrease in the total capital ratio reflects a decrease in capital resources from further capitalisation of intangible assets, combined with an increased capital requirement, principally driven by further growth in the level of client lending. The current year's retained earnings do not qualify as regulatory capital until audited. The Bank's minimum regulatory capital requirement decreased to 14.0% at 30 April 2023 (30 April 2022: 14.6%), which translates to a capital requirement of £20.5 million at 30 April 2023 compared with £18.1 million last year. Further detail about the Bank's capital position is outlined in the Pillar 3 document that can be found at www.cafonline.org/about-us/about-caf-bank.

CAF Bank is reporting under the UK Leverage Ratio framework, which results in a leverage ratio of 3.76% (at 30 April 2022: 3.97%) compared with a minimum of 3.25%.

In September 2022 all outstanding AT1 securities were converted to called-up share capital. Following the conversion, the Board considers that the distributable reserve is no longer required and consequently the full amount (£1 million) has been transferred to retained earnings.

In liquidity terms, approximately 80% of CAF Bank's assets are highly liquid, with liquidity buffer eligible assets of £1.29 billion at 30 April 2023 (30 April 2022: £1.28 billion). Liquidity buffer assets comprise amounts held in the Bank of England Reserve Account, and investments in Multilateral Development Banks and UK Gilts and Treasury Bills. CAF Bank has access to the Discount Window Facility at the Bank of England as part of its liquidity contingency arrangements.

The Bank's policy is to hold investment securities to redemption at par. The impact of any movements in interest rates on fixed rate financial instruments is therefore not anticipated to affect the Bank's profits. The fair value unrealised loss on debt securities was £33.4 million at 30 April 2023 (as at 30 April 2022: £17.4 million).

Image: YMCA MK



Digital modernisation

A new digital IT platform will transform CAF Bank. Our significant investment in technology has been driven by our need to give our customers a more efficient, modern experience; maintain compliance with regulatory changes; and upgrade our IT platforms to maintain operational resilience.

While the programme will take longer than initially planned, we are continuing to move ahead with our new IT platform and digital modernisation project. Our current plan is that the new platform and much of the enhanced functionality for customers will be delivered in late 2024.

This will provide the foundation for modernising our client proposition to ensure we are able to offer efficient, up-to-date banking services in a mobile, 24/7 digital world.

Strategic report

ENVIRONMENT AND SOCIETY

Image: MSDP

CAF Bank exists to facilitate and promote the work of our charity and social enterprise customers, providing responsible banking to accelerate progress in society for all.

As charities across the UK face the unprecedented double challenge of rising costs and a fundraising crisis, the value of a trusted banking partner that shares their sense of purpose has never been more important.

CAF BANK SUSTAINABILITY

We recognise the role we can play in our sector to address all elements of the sustainability and Environmental, Social and Governance (ESG) agendas and we are committed to taking positive action where we can. We have developed a holistic sustainability strategy covering our internal and external activities.

CAF Bank is committed to achieving net zero in our operations and, working with our parent, CAF, we have engaged with net zero consultants, JRP Solutions, to develop a roadmap and series of recommendations for how we can achieve this goal. Assessments are ongoing into the composition of CAF's carbon footprint; the sources and uses of our energy, water and waste across our office footprint; employee commuting patterns and the impact of rolling out updated systems technology to name a few.

These assessments will inform a report and a series of recommendations on the steps we can take as an organisation to make positive strides towards our net zero ambitions. This work is supported internally by Executive sponsors and a dedicated group of employees who bring their enthusiasm, skills and expertise to drive forward our actions in this area – together they form CAF's Environment & Wellness Collective. We are ambitious to accelerate this work, so where we can move faster, we will.

As part of our commitment to providing banking services tailored to our customers' needs, which facilitate their work, we recognise the central role we and the wider banking industry can play in financing the transition to a lower carbon economy. We are developing a green loan proposition for charities, aligned to the Loan Market Association's Green Loan Principles. This will provide a dedicated financing mechanism for our customers to undertake sustainability focused, environmentally beneficial projects, and to facilitate our customers' own transitions towards a lower carbon future. We hope to finalise this proposition and execute our first green loan in the very near future.

This year the Bank has undertaken a comprehensive internal environment and climate risk assessment exercise, the outputs of which are now being embedded into our risk management framework and business practices. We continue to monitor the level of sustainability risk in our treasury portfolio and have deepened this over the past year through assessing all our treasury investments against the publicly available Sustainalytics ESG-risk rating tool. These assessments are updated and presented to the Board's dedicated Risk and Compliance Committee on a regular basis. The Bank also continues to monitor the potential physical and transition risk impacts of a changing climate on its lending activities. We use a number of metrics to assess and evaluate these risks and will seek to enhance these climate-related risk assessment and modelling methodologies over the coming year.

Strategic report

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

At CAF Bank we recognise that the term sustainability is not just about protecting the environment and limiting our negative impact on it. Social sustainability is central to the fabric of our society, and achieving positive social impact is inherent in everything we do at CAF Bank. To further this aim, for the third successive year, we partnered with the EY Foundation and the Chartered Banker Institute on their Smart Futures Programme. This provides paid work experience opportunities, employability skills training, and interactive workshops to 16–18 year-old students

from under-privileged backgrounds. We welcomed three students from London as part of the Easter 2023 intake who each brought great enthusiasm and innovative ideas to their work experience placement with us. We look forward to welcoming many more in the future. These students continue to benefit after their formal work experience ends through a 10-month mentorship scheme with CAF Bank senior leadership.

Many of our people at CAF Bank are actively engaged in promoting social sustainability and strengthening civil society in their personal lives through regularly volunteering their time, efforts and skills for the benefit of others. We seek to support this wherever we can, so as part of ‘Our Deal’ we are proud to offer all employees one day of Volunteering Leave each year. This is used by many colleagues as an opportunity to give back to various causes close to them in contexts covering the length and breadth of the country.

Image: GOSAD



Image: MSDP



A greater focus on wellbeing

We aim to be a great and safe place to work.

Recognising the need to adapt to the changing landscape of work in the wake of the pandemic, this year we modernised and refreshed all aspects of our UK employee value proposition. Listening to and developing our workforce voice has been foundational to our approach and throughout 2021 we invited colleagues to share their experiences through our Reset working group. We also gathered further insights through a range of informal channels, including team meetings and listening groups, as well as consulting with more formal networks, such as the Employee Council. Using this feedback we were able to create a framework to shape our future ways of working that focused on flexibility in the workplace, the right tools and spaces, and the creation of our new employee deal.

Our Deal summarises our employee proposition under three pillars:

- Your Wellbeing, supporting physical, mental and financial wellbeing;
- Your Reward, improving competitive salaries and benefits; and
- Your Career, focusing on personal development and learning.

In July 2023, we relocate to our new London office, offering our employees a more contemporary and hybrid-friendly environment. This thoughtfully designed space not only prioritises our approach to sustainability, it also minimises our overall footprint. We are also planning to invest in our Kent-based offices, so that we can provide our employees with an environment that fosters productivity, greater collaboration and work-life balance.

With a renewed focus on Diversity, Equity, Inclusion and Belonging (DEIB), our goal is to create a workplace where employees feel valued and respected. This will form the foundations of our three-year people plan to create an environment where every individual can thrive and contribute their unique perspectives and talents.

Earlier this year, we were delighted to be awarded Gold accreditation from Investors in People in recognition of our refreshed employee proposition. We are building a leading place to work, where every voice matters through enhanced benefits, career development, flexible ways of working, and support for employee wellbeing.

Strategic report



Image: YMCA MK

“We would recommend working with CAF Bank to anyone – since taking out the loan they have been interested in our work and progress, and understand the many challenges faced by charities in the current economic climate.” Simon Green, Chief Executive, YMCA MK

60%

of the Executive Committee are women

45%

of the Board are women

EQUALITY AND DIVERSITY

CAF Bank, as with our parent charity, asks our staff to simply ‘be who you are, we like you that way’. We are an equal opportunities employer with staff from a wide variety of backgrounds and we believe in the importance of every employee having the same access to opportunities for advancement.

This not only creates a better working environment, it also means we can better reflect the different values, experiences and cultures of our clients and the people they are helping. We continue to place strategic importance on the need for diversity across our organisation, including at Executive and Board level.

When filling Board positions, diversity is actively considered as part of the selection process, with measures in place to ensure we maintain an appropriate and beneficial diversity of thought and experience.

This year we updated the CAF Bank Board diversity policy, setting targets to broaden the ethnic diversity of our Board and Senior Management, and not to fall below 40% female representation among the Board of Directors, in line with recommendations set out in the FTSE Women Leaders review.

The Bank’s longer-term aim is for equal male/female Board representation. We welcomed our first Black, Asian and Minority Ethnic (BAME) Board member this year and at the year-end, 45% of the Board, and 60% of the Executive Committee are women.

YMCA Milton Keynes: Homes and support for young people

Homes are fundamental to our health and wellbeing. As the only provider of supported housing dedicated to young people in Milton Keynes, YMCA MK provides quality and affordable homes for more than 200 people.

But YMCA MK is so much more than just a room; it provides practical, emotional and employment support to its residents, helping them to achieve their full potential. All this is delivered in its state-of-the-art campus, which opened in 2020, funded in part by a £4.4 million loan from CAF Bank.



Milton Keynes, UK

IN 2022/23...

400

people had a home through YMCA MK

108

jobs were secured by young people thanks to the charity’s support

153

people have moved in

Image: MSDP



Strategic report

As charities across the UK face the unprecedented double challenge of rising costs and a fundraising crisis, the value of a trusted banking partner that shares their sense of purpose has never been more important. By maintaining the highest standards of governance, we have positioned ourselves to fulfil this role.

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

We believe that good governance should not be limited to those at the top; it should be embedded at all levels. We have updated our Whistleblowing Policy to ensure that our people are equipped and empowered to raise any concerns about internal practices. Workforce training is constantly reviewed to ensure everyone at CAF Bank is fully aware of their own responsibilities to the organisation, our clients and our colleagues.

We also provide training and development opportunities to employees, alongside our apprenticeship scheme, to make sure everyone who works with us can grow their careers.

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

We continue to place strategic importance on the need for diversity across our organisation, including at the highest level. When filling Board positions, diversity is actively considered as part of the selection process, with measures in place to ensure appropriate diversity is maintained.

STAKEHOLDER ENGAGEMENT TO PROMOTE THE SUCCESS OF THE BANK

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

In this statement we have detailed our key stakeholders, their importance to our business and how we have engaged with them throughout the year. We then provide examples of key decisions we have made in the year, describing how we considered stakeholders in these decisions and how the decisions will add long-term value. The Board governance structure is described within the Governance report on pages 30-33.

STAKEHOLDER ENGAGEMENT

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

Employees

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

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

Customers

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

Suppliers

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

Regulators

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

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

Board appointments

On 6 April 2023 we welcomed Ursula Dolton as an Independent Non-Executive Director. After the year end on 30 May 2023, we also welcomed Rob Vogtle as an Independent Non-Executive Director. Mairi Johnstone stepped down as a Director on 30 April 2023.

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

Future Developments

The outlook for the Bank and detail on the digital modernisation is included within pages 18-27.

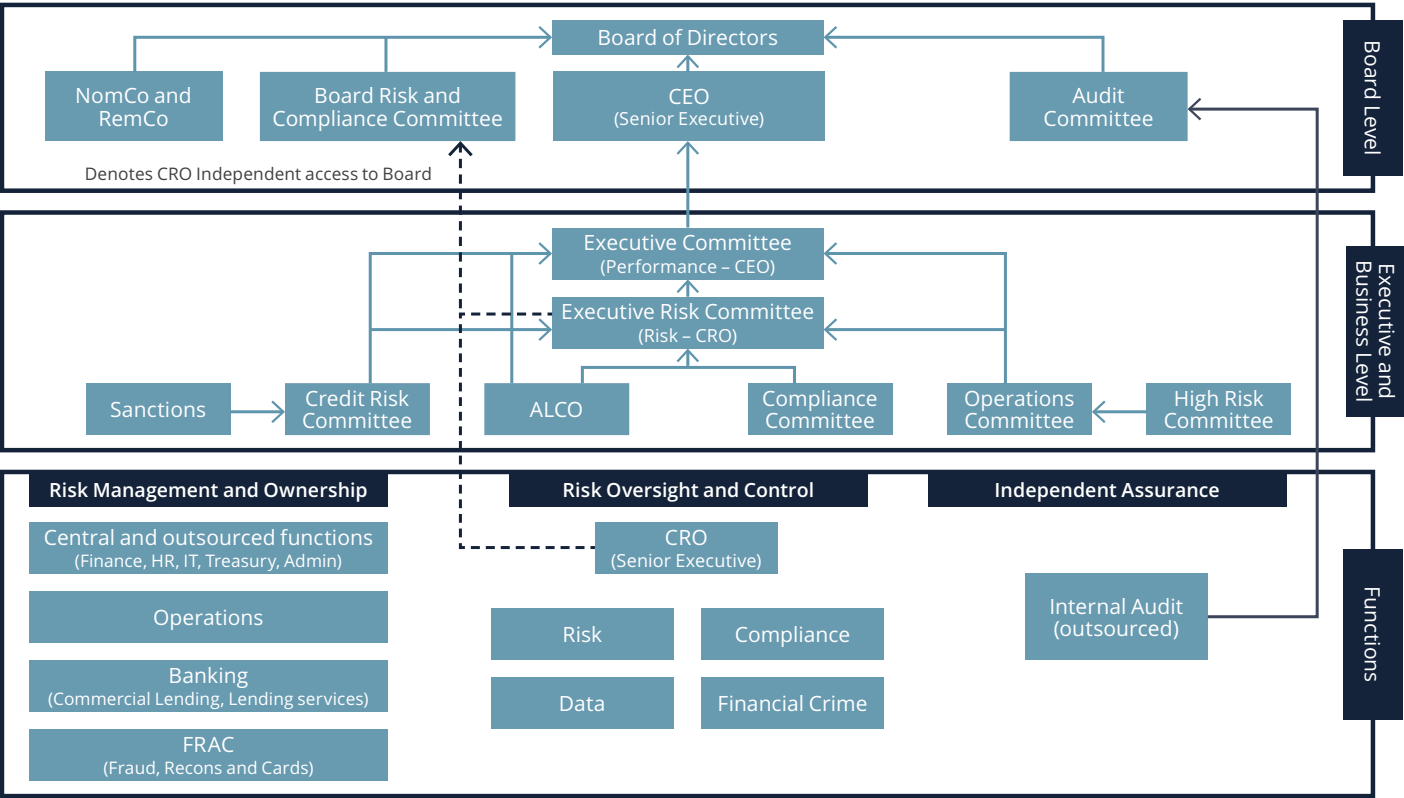


Janet Pope
Chair

26 July 2023

Governance report

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



For a fixed time period until the Bank’s digital modernisation project has been concluded, there is an additional sub-committee reporting into the Board and an Executive sub-committee reporting into the Executive Committee, which will be the Transformation SteerCo with delegated responsibilities for governance and oversight of the Transformation Project.

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

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

	Meetings attended	Maximum
Janet Pope (Chair) ^{1,2}	6	6
Astrid Grey (Deputy Chair) ¹	5	6
Martyn Beauchamp ¹	6	6
Kees Diepstraten ¹	6	6
Ursula Dolton ¹ (appointed April 2023)	–	–
Neil Heslop (CAF Chief Executive)	4	6
Mairi Johnstone ¹ (retired April 2023)	5	6
Samantha Seaton ¹	5	6
Graham Toy ¹	5	6
David Watts ¹	6	6
Alison Taylor (Chief Executive Officer)	6	6
Philip Alvey (Chief Finance Officer)	5	6

1 Independent Non-executive Director (INED)
2 CAF Trustee

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

The Board is supported by Kate Mayor, Company Secretary.

During the year, the Board discharged its responsibilities as follows:

- Approved the Bank’s strategy, operating plans, budgets and forecasts;
- Monitored (and approved changes to) the Bank’s Transformation Plan for its banking system to enhance our customer proposition;
- Approved the Risk Appetite Statements to maintain an effective and appropriate governance and control structure for managing the business;
- Reviewed and challenged the operating activities of the Bank compared to plans and changes in the wider economic environment;
- Monitored the conduct of business to ensure adherence to approved risk appetite and compliance with applicable regulations;
- Monitored the impact of operational resilience;
- Monitored reputational risk and brand issues;
- Reviewed, challenged and approved the capital and liquidity adequacy assessments and policies (ICAAP and ILAAP);
- Reviewed, challenged and approved the Recovery Plan;
- Approved the composition, membership and Terms of Reference of Board sub-committees;
- Reviewed reports and recommendations from Board sub-committees, taking action as appropriate;
- Reviewed and approved the Annual Report and Financial Statements;
- Set an appropriate ‘tone from the top’ and ensured alignment of values and behaviours in the Bank relating to the conduct of its business; and
- Kept the PRA and FCA informed of the Bank’s strategy, operations and risks during the year.

Governance report

BOARD COMMITTEES

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

- I. Board Risk and Compliance Committee;
- II. Audit Committee;
- III. Nominations and Remuneration Committee; and
- IV. Transformation Committee (fixed period only).

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

The Board Risk and Compliance Committee (BRCC)
The BRCC is responsible for advising the Board on the Bank's risk management framework and compliance matters. The Committee is chaired by an INED and comprises of three other INEDs. Key management attend Committee meetings by invitation.

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

- Reviewed the Risk Appetite Statement (RAS) and recommended this for approval by the Board;
- Monitored risk reporting and ensured the Bank's strategy, principles, policies and resources are aligned to the Bank's risk appetite, as well as to regulatory and industry best practices;
- Reviewed and challenged capital and liquidity adequacy assessments, the Operational Resilience self-assessment and the Recovery Plan and recommended these for approval by the Board;
- Monitored compliance with legislation, regulation and internal policy;
- Focused on business risks, credit and IT risks including oversight of the Transformation Project, and
- Reviewed policies and recommended these to the Board.

Whistleblowing

The Chair of the BRCC has oversight as the Bank's whistle-blowers' champion, with responsibility for ensuring and overseeing the integrity, independence and effectiveness of the whistleblowing policies and procedures. The Committee reviews at least annually the Bank's Whistleblowing Policy and associated arrangements.

The Board Audit Committee

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

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

How the Committee discharged its responsibilities: Financial Reporting

The Committee reviewed and challenged:

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

Audit

During the year the Committee:

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

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

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

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

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

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

The Committee comprises the Chair, three INEDs, the CAF Bank CEO, CAF Chief Executive and key members of the programme team.

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

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

Risk management report

Risk Management Framework

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

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

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

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

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

The senior executives and managers of the Bank ensure embedding of risk management in day-to-day management and control activities, with a clear separation between First Line of Defence (1LOD) and Second Line of Defence (2LOD) activities.

CAF Bank establishes and maintains risk culture by the adoption of a set of values, risk principles and setting the correct tone at the top of the Bank.

Detailed frameworks, policies and procedures support this document. These combine to ensure the way the Bank manages risk is consistent with the size and nature of the Bank’s operations. They align to regulatory requirements and reflect industry best practice, as reflected below:

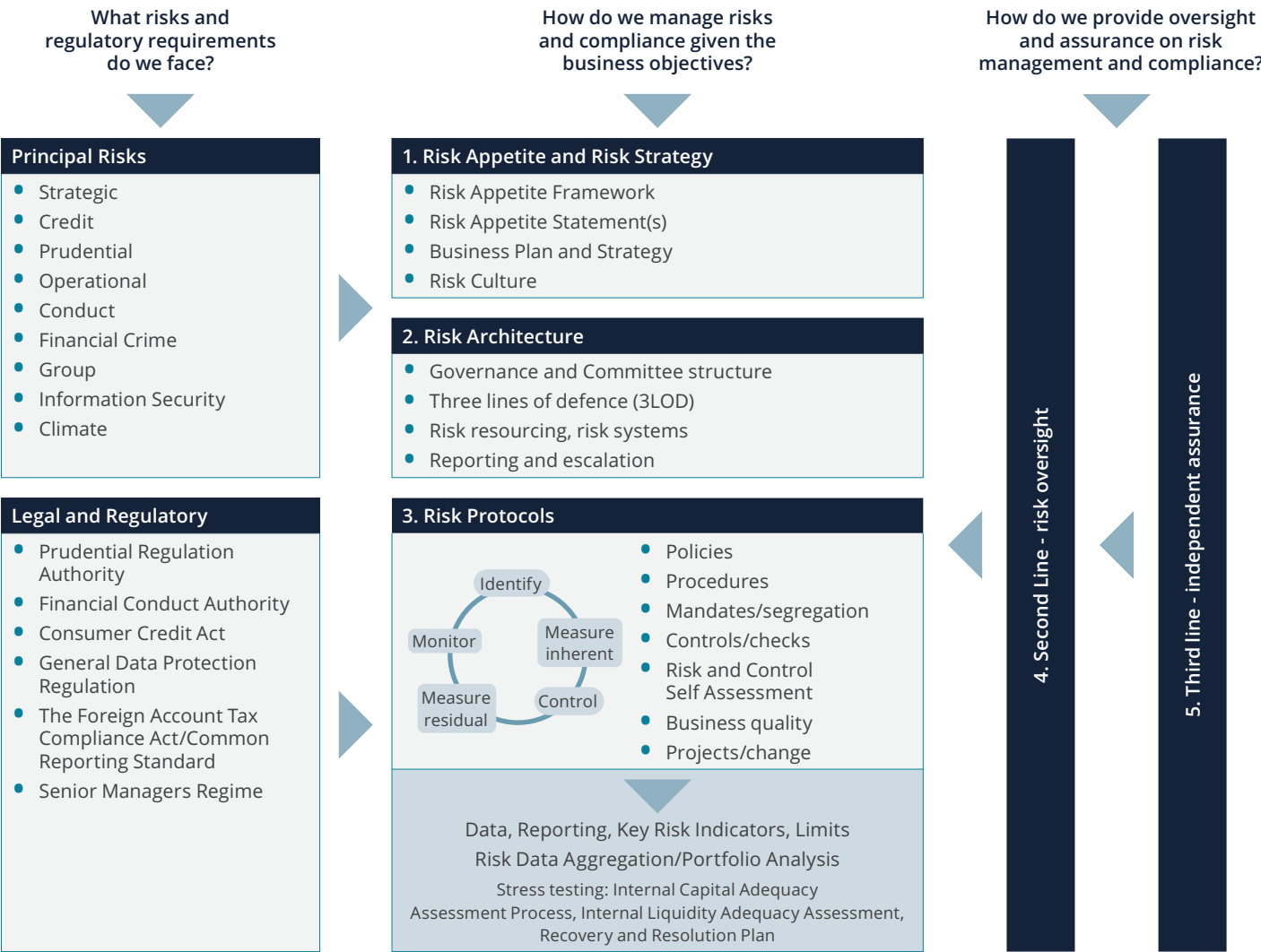


Image: GOSAD

Risk management report

The RMF includes the Three Lines of Defence Model (3LOD), 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 3LOD model is important as it provides clarity for individuals and functions about their role and where responsibilities and accountabilities sit, and is a core component of the RMF.

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

First Line of Defence – business lines and centralised functions

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

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

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

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

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

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

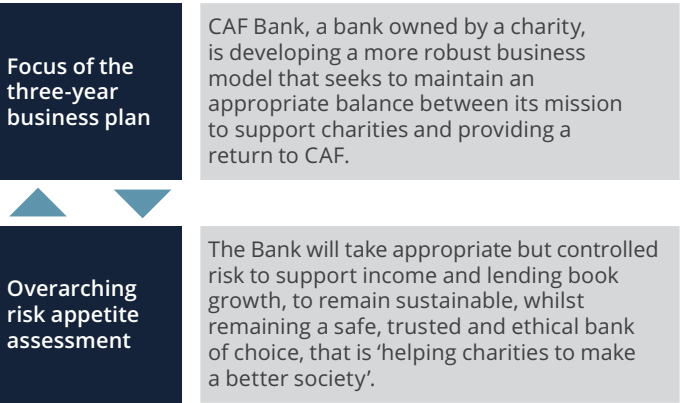
Central to the Risk Governance and to the Three Lines of Defence model is the Chief Risk Officer (CRO). The Bank acknowledges the stipulations and guidance as laid out in SYSC 7.1 (Risk Control) and SYSC 21.1 (Risk control: guidance on governance arrangements) and appoints a CRO (approved by the PRA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

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

RISK APPETITE STATEMENT

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

An overarching RAS governs the Bank’s approach to risks it is willing to accept in support of its Business Plan. The overarching Risk Appetite Statement aligns to the Business Plan and Strategy:



The Bank’s principal risks are strategic, credit, prudential, operational, financial crime, information security, conduct, climate and group. Identifying and monitoring current and emerging risks is integral to our approach to risk management.

STRATEGIC RISK

Strategic risk is the risk that can affect the Bank’s ability to achieve its strategic and business objectives. Strategic risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment. Due to the nature of this risk, it is owned by the CEO who assesses the risk holistically on a quarterly basis based on business performance and operating characteristics for the relevant period. This process utilises business reporting from across both CAF Bank and its parent shared services functions, such as the Human Resources reporting relating to resourcing and employee skills capacity management dynamics. During 2023, CAF Bank has been developing and rolling out its new Conformance Framework which, among other improvements, is designed to enhance management information to facilitate assessment of risk and deliver enhanced evidential based audit trails.

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

Risk management report

CREDIT RISK

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

Treasury assets

Treasury counterparties are reviewed and approved by the ALCo in accordance with policies and criteria approved by the Board. The Bank sets criteria that

include credit rating, counterparty lending limits, group exposures and country exposure limits. New investments with non-sovereign backed financial and non-financial institutions do not exceed £10.5m and £5.5m 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 (Audited):

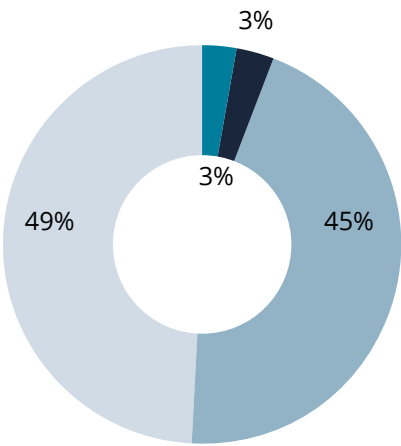
	2023		2022	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
Multilateral financial institutions	670,370	638,973	679,925	663,350
Fixed coupon corporate bonds	23,498	21,129	23,723	22,508
Floating rate corporate bonds	48,232	48,477	63,497	63,978
	742,100	708,579	767,145	749,836
Unlisted:				
Certificates of deposit	10,000	10,082	10,000	9,922
Debt securities (Note 10)	752,100	718,661	777,145	759,758
Balances at Bank of England	620,476	620,476	602,553	602,553
Loans and advances to banks (Note 8)	6,116	6,116	7,471	7,471
	1,378,692	1,345,253	1,387,169	1,369,782

Treasury assets by credit rating (Audited):

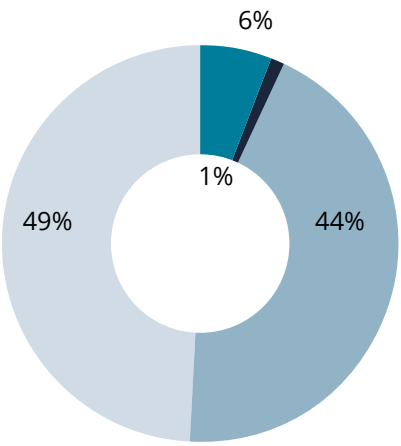
	2023		2022	
	Book Value £000	% of Book	Book Value £000	% of Book
Category (Fitch equivalent lowest credit rating)				
UK Government	620,476	45.00%	602,553	43.44%
AAA	732,614	53.13%	740,515	53.38%
AA+	9,486	0.69%	26,631	1.92%
AA-	3,979	0.29%	5,401	0.39%
A+	2,137	0.16%	2,069	0.15%
A	10,000	0.73%	10,000	0.72%
	1,378,692	100.00%	1,387,169	100.00%

Treasury assets by exposure value

30 April 2023



30 April 2022



- Multilateral financial insitutions
- Bank of England
- Financial and non-financial institutions <=£10m
- Financial and non-financial institutions >£10m - £20m

Risk management report

LENDING (AUDITED)

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

The policies include maximum exposure values and limits to manage concentration risk by sector. Exposure to geographical area is monitored. At 30 April 2023, the largest loan was £8.7m (2021/22: £7m). The maximum aggregate exposures to any one sector (social housing) and geographical area were 58% and 35% respectively (2021/22: 60% and 31% respectively).

	2023	2022
	£000	£000
Gross loans and advances to customers (Note 9)	181,108	162,932
Undrawn overdraft and loan commitments (Note 18)	48,888	22,608
	229,996	185,540
Amounts included within the above:		
Secured on property	229,996	185,540
	229,996	185,540

Loans, overdrafts and BACS facilities are subject to regular monitoring of loan performance and individual annual review. Administration of the loan book is outsourced to BCM Global Mortgage Management Ltd, which provides regular management information on a loan-by-loan and aggregated basis. A provision of £1,065k has been made at 30 April 2023 reflecting losses that may have been incurred but not yet identified (2021/22: £902k) and £586k has been provided for specific loan provisions (2021/22: £176k). No overdrafts were written off during the year (2021/22: none). One loan was in arrears at 30 April 2023 (2021/22: one).

As at 30 April 2023 the average loan to value ratio across the lending portfolio was 53% (2021/22: 53%).

LTV Range	Amount (£000)
<=10%	802
<=20%	5,623
<=30%	11,543
<=40%	22,107
<=50%	48,378
<=60%	20,981
<=70%	35,279
<=80%	33,304
<=90%	2,794
<=100%	-
Unsecured	-
Totals	180,811

PRUDENTIAL RISK

Prudential risk is the risk that the Bank has insufficient capital, liquidity and funding to maintain its operations in business as usual and stressed conditions. Prudential risk includes capital, liquidity and market risks.

CAPITAL RISK

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

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

(Audited):

	2023	2022
	Book	Book
	Value	Value
	£000	£000
Balances at Bank of England	616,894	599,340
Multilateral financial institutions	670,370	679,925
	1,287,264	1,279,265

LIQUIDITY RISK (INCLUDING 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 when required.

Liquidity risk is measured, monitored and reported daily against intra-day triggers and limits approved by the Board within the Bank's Liquidity Policy. The liquidity position is monitored by 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 £1,287m (2021/22: £1,279m), excluding assets pledged as security under repurchase agreements. Liquidity buffer assets comprise amounts held in the Bank of England Reserve Account, and investments in Multilateral Development Banks, UK Gilts and Treasury Bills.

Following the resolution and transfer of another UK bank in March 2023, the Bank has conducted reviews of its depositor concentration, investment portfolio liquidity, contingency funding arrangements, product terms and conditions, and regular monitoring of customer behaviour. The output of this analysis, and resulting enhancements and actions, are monitored by the BRCC.

Risk management report

MARKET RISK INCLUDING INTEREST RATE RISK (AUDITED)

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

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

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

Market risk 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 behaviouralised into time bandings:

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

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

As at 30 April 2023

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

Risk management report

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

As at 30 April 2022	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	599,340	3,213	-	-	-	-	-	602,553
Loans and advances to banks	7,471	-	-	-	-	-	-	7,471
Loans and advances to customers	145,065	-	-	4,662	10,680	-	-	160,407
Debt securities	-	266,297	-	65,911	406,503	37,911	523	777,145
Prepayments and accrued income	-	-	-	-	-	-	3,792	3,792
Intangible assets	-	-	-	-	-	-	4,676	4,676
	751,876	269,510	-	70,573	417,183	37,911	8,991	1,556,044
Liabilities								
Customer accounts	800,165	-	-	108,571	600,196	-	5	1,508,937
Repurchase agreements	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	4,178	4,178
Shareholders' funds	-	-	-	-	-	-	42,929	42,929
	800,165	-	-	108,571	600,196	-	47,112	1,556,044
Interest rate sensitivity gap	(48,289)	269,510	-	(37,998)	(183,013)	37,911	(38,121)	-
Impact of 2% change in interest rates	-	(553)	-	546	4,329	(3,496)	-	826

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

OPERATIONAL RISK

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

CAF Bank manages its risk profile through an integrated risk management programme which includes a quarterly review of all risks with appropriate reporting into its governance framework – the Executive Risk Committee and Board Risk and Compliance Committee.

During the year ended 30 April 2023 operational losses totalled £7k (2021/22: £12k).

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

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

FINANCIAL CRIME

Financial crime includes 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 with appropriate systems and controls to detect and prevent harm. We will not conduct business with individuals or entities we believe are engaged in illicit behaviour. We seek to minimise the Bank's and our customers' exposure to loss from fraud.

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

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

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

Bank losses to fraud in the year ended 30 April 2023 were £25k (2021/22: £48k).

INFORMATION SECURITY

These risks can affect the confidentiality, integrity and availability of our data and the information we hold and are managed as part of CAF Bank's Risk Management Framework. All relevant risks are reviewed quarterly ahead of key governance body meetings – Executive Risk Committee and Board Risk & Compliance Committee.

CONDUCT RISK

The Bank operates a Conduct Risk Framework that defines its approach to identifying, assessing, managing, monitoring and reporting conduct risks.

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

The RMF sets out how the Bank manages risks that are relevant to its chosen sector, business model and operations. Conduct risk has been identified as one of the Bank's principal risks, to support the Bank in maintaining a conduct culture, however, conduct risk is considered as part of all the Bank's principal risks.

CLIMATE RISK

The risks associated with the process of transitioning the business model and operations to help bring in a low-carbon economy is a key deliverable for the business. This includes management of existing assets and increased utilisation of 'green' or sustainably linked investments in a timed manner that supports the wider economy through the transitioning process.

GROUP RISK

Being part of any group exposes a firm to certain types of risks. CAF Bank is a financial institution wholly owned by its parent and therefore is exposed to risks associated with the activities of the parent (and vice versa). The Bank's RMF manages risks across business functions and the wider business model, which is the principal governance arrangement for ensuring relevant risks are identified and managed.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 30 April 2023.

RESULTS FOR THE YEAR

CAF Bank made a profit on ordinary activities before taxation for the year of £10,648k (2021/22: £2,029k). After ensuring it has retained what is required to support capital adequacy and agreed investment programmes, and after maintaining sufficient reserves to meet interest payable on capital instruments and taxation, CAF Bank aims to donate its surplus profits to its parent charity, CAF. Given the ongoing investment in the Bank's Transformation Programme, a donation will not be made this year.

No interest (2021/22: none) was payable or are being proposed for the period to AT1 holders due to the Bank's transformation expenditure. The AT1 securities were converted into ordinary share capital in September 2022. No dividends were paid on ordinary share capital during the year (2021/22: none).

CHARITABLE AND POLITICAL DONATIONS

CAF Bank did not make a donation to CAF in the year (2021/22: none). The Bank did not make political donations or incur any political expenditure during the year (2021/22: none) nor are any being proposed for the year.

EMPLOYEES

CAF Bank recognises that the development and training of staff is critical 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, we are pleased to report CAF Bank's commitment to staff is evidenced by the Bank's contribution to the group achieving the Investors in People Gold accreditation.

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

In total, 45% of members of the Board and 60% of the Bank's Executive Management are women. CAF Bank, as part of CAF, has been recognised as a Level 2 – Disability Confident Employer, which is a national recognition scheme confirming the Bank's commitment to equality of opportunity throughout 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

To assess going concern the Directors have reviewed the adequacy of the Bank's capital and liquidity positions, and the Bank's operational resilience, including the ability of CAF to continue to provide shared services.

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

Liquidity stress tests for varying levels of deposit outflows show the Bank is able to survive an outflow of deposits exceeding 77% of balances.

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

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

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

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

AUDITORS

PricewaterhouseCoopers LLP were appointed as the Bank's auditors on 10 October 2022 following an external audit tender.

A resolution to appoint the auditors and to agree their remuneration will be submitted to the Board.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

DIRECTORS' INTERESTS

The Directors who served during the financial year are reported in the Governance report on page 31. No Director had an interest in the share capital of the Bank or any other UK group company.

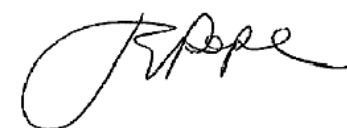
DISCLOSURE OF INFORMATION TO AUDITORS

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 auditors are aware of that information.

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

By order of the Board and signed on its behalf on 26 July 2023



Janet Pope
Chair

CAF Bank Limited
Company Number 1837656

Independent Auditors’ report to the members of CAF Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, CAF Bank Limited’s (the “company” or “Bank”) financial statements:

- give a true and fair view of the state of the company’s affairs as at 30 April 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 30 April 2023; the profit and loss account, the statement of changes in equity and cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

INDEPENDENCE

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

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

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

Our audit approach

CONTEXT

This is our first year of audit. After our appointment and becoming independent, we met with management to understand the company and its activities, and to gather information which we needed to plan our first audit effectively. We met with the former auditors and reviewed their audit working papers to obtain evidence over the 2022 opening balance sheet and comparative financial information.

OVERVIEW

Audit scope

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

KEY AUDIT MATTERS

Provision on loans and advances to customers

MATERIALITY

- Overall materiality: £515k based on 1% of net assets.
- Performance materiality: £386k

THE SCOPE OF OUR AUDIT

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

KEY AUDIT MATTERS

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

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

Independent Auditors’ report to the members of CAF Bank Limited

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision on loans and advances to customers</i></p> <p>Refer to Note 1.6 - Impairment of financial assets; Note 9 - Loans and advances to customers; and disclosures pertaining to credit risk.</p> <p>The identification and the determination of loan loss provisions is inherently judgemental. Due to the specialised nature of the Bank’s lending book (lending to charities and for social purpose projects), and limited historical loss data and proxy industry data, management use professional judgement in establishing certain assumptions.</p> <p>The areas of risk which have been the focus of our work were:</p> <ul style="list-style-type: none">• The judgements made by management in determining the probability of default and loss given default; and• For individually assessed loans we considered the approach to determine the provision for impairment, in particular the valuation of collateral and time to realise the forecast cash flows.	<p>We understood management’s approach to determining the loan loss provision, and performed the following audit procedures in order to assess the methodology, and the appropriateness of management’s judgments and estimates in the context of the current economic uncertainties and our wider industry experience.</p> <p>We evaluated the design and implementation of key controls related to the determination of the loan loss provision.</p> <p>We engaged the support of our credit modelling specialists in performing the substantive procedures set out below:</p> <ul style="list-style-type: none">• Evaluating the reasonableness of management’s methodology, including key judgments and assumptions;• Evaluating the application of documented methodology in the model, and challenged the reasonableness of management assumptions (including where expert judgement has been applied in determining overlays against probability of default levels to capture current economic uncertainty);• Recalculating the model output, across all portfolios, by replicating the calculation as per the model methodology using management data;• Substantively testing key data fields used in the model on a sample basis, by tracing those fields back to supporting evidence; and• For individually assessed provisions, assessing the appropriateness of key assumptions, including recovery strategies and recoverable amounts. <p>We evaluated whether the loan loss provision disclosures made by management were compliant with the requirements of the FRS 102 and agreed the disclosures to source data.</p> <p>Based on our procedures and the evidence obtained, we found the assumptions and judgments used by management in determining the loan loss provision estimate to be reasonable, and the financial statements disclosures to be materially compliant with the requirements of FRS 102.</p>

HOW WE TAILORED THE AUDIT SCOPE

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

The company is a stand-alone entity providing banking services in the UK, and with no subsidiaries. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment. We performed audit procedures over relevant business activities and using the materiality levels set out below.

THE IMPACT OF CLIMATE RISK ON OUR AUDIT

As part of our audit, we made enquiries with management to understand the process management has adopted to assess the extent of potential impact of climate risk on the financial statements and support the disclosures made within the financial statements. In addition to enquiries with management, we also:

- Evaluated the company’s qualitative and quantitative risk assessment to consider the impact on our audit risk assessment; and
- Considered the consistency of disclosures in relation to climate change within the Trustees’ report with the financial statements and knowledge obtained from our audit.

Our procedures did not identify any material impact as a result of climate risk on the financial statements.

MATERIALITY

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

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

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

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

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

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

Independent Auditors' report to the members of CAF Bank Limited

Conclusions relating to going concern

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

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

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

STRATEGIC REPORT AND REPORT OF THE DIRECTORS

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report

and Report of the Directors for the year ended 30 April 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

- Enquiring of management, and those charged with governance in relation to known or suspected instances of non compliance with laws and regulation and fraud;
- Making enquiries and/or review of key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority;
- Gaining an understanding of period end controls around the preparation of the financial statements, including controls around posting of manual journals;
- Testing the appropriateness of journal entries using risk based sampling procedures, also making use of data analytics to identify journals with high risk characteristics;
- Assessing for bias in significant estimates for example, in relation to the provision on loans and advances to customers; and

Independent Auditors' report to the members of CAF Bank Limited

- Incorporating unpredictability into the nature, timing and/or extent of our testing.

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

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

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

USE OF THIS REPORT

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

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



Darren L Meek (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 July 2023

Profit and loss account

for the year ended 30 April 2023

	Note	2023		2022	
		£000	£000	£000	£000
Interest receivable	3	35,396		10,823	
Interest payable	4	(7,350)		(182)	
Net interest income			28,046		10,641
Fees and commissions receivable		2,560		2,947	
Fees and commissions payable		(913)		(885)	
Net fee income			1,647		2,062
Net operating income			29,693		12,703
Administrative expenses	5	(18,472)		(11,774)	
Loan loss provision (charge) / credit	9	(573)		1,100	
Profit on ordinary activities before taxation			10,648		2,029
Tax on profit on ordinary activities	7	(2,073)		(389)	
Profit on ordinary activities after taxation			8,575		1,640

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 60 to 72 form an integral part of the financial statements.

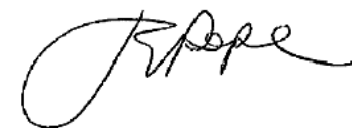
Balance sheet

as at 30 April 2023

		2023		2022	
	Notes	£000	£000	£000	£000
Assets					
Balances at Bank of England			620,476		602,553
Loans and advances to banks	8		6,116		7,471
Loans and advances to customers	9		177,734		160,407
Debt securities	10		752,100		777,145
Prepayments and accrued income			8,775		3,792
Intangible assets	11		6,333		4,676
Total assets			1,571,534		1,556,044
Liabilities					
Customer accounts	12		1,505,425		1,508,937
Repurchase agreements	13		8,852		-
Other liabilities	14		5,784		4,178
Total liabilities			1,520,061		1,513,115
Called up share capital	15		40,319		29,350
Additional Tier 1 capital	15		-		11,000
Retained earnings	16		11,154		2,579
Shareholders' funds	16		51,473		42,929
Total liabilities and shareholders' funds			1,571,534		1,556,044

The notes on pages 60 to 72 form an integral part of the financial statements.

The financial statements on pages 56 to 59 were approved by the Board of Directors and authorised for issue on 26 July 2023 and signed on its behalf by



Janet Pope
Chair

CAF Bank Limited
Company Number 1837656



Philip Alvey
Chief Finance Officer

Statement of changes in equity

for the year ended 30 April 2023

	Notes	Called-up share capital £000	Additional tier 1 securities £000	Distribut- able reserve £000	Retained earnings £000	Shareholders' funds £000
At 1 May 2021		29,350	11,000	1,000	(61)	41,289
Total comprehensive profit for the financial year		-	-	-	1,640	1,640
At 30 April 2022		29,350	11,000	1,000	1,579	42,929
Total comprehensive profit for the financial year		-	-	-	8,575	8,575
Transferred from distributable reserve	16	-	-	(1,000)	1,000	-
Redemption of additional tier 1 securities	16	-	(11,000)	-	-	(11,000)
Issue of share capital	16	10,969	-	-	-	10,969
At 30 April 2023		40,319	-	-	11,154	51,473

The notes on pages 60 to 72 form an integral part of the financial statements.

Cash flow statement

for the year ended 30 April 2023

	2023 £000	2022 £000
Cash flows from operating activities		
Profit on ordinary activities	8,575	1,640
Adjustments for:		
Amortisation of investments	344	1,170
Corporation tax paid	(830)	-
(Increase)/decrease in prepayments and accrued income	(4,982)	275
(Increase) in Cash Ratio Deposit with the Bank of England	(369)	(918)
(Increase) in loans and advances to customers	(17,900)	(34,801)
Increase/(decrease) in loan loss provision	573	(1,100)
(Decrease)/increase in customer accounts	(3,512)	110,791
Increase in other liabilities	2,435	2,317
Net cash (used in)/generated from operating activities	(15,666)	79,374
Cash flows from investing activities		
Acquisitions of debt securities	(88,130)	(228,836)
Redemptions of debt securities	112,831	336,397
Proceeds from repurchase agreements	8,852	-
Acquisition of intangible assets	(1,657)	(3,482)
Net cash from investing activities	31,896	104,079
Cash flows from financing activities		
Costs of redemption of additional tier 1 securities and exchange for ordinary share capital	(31)	-
Net cash used in financing activities	(31)	-
Change in cash and cash equivalents in the year	16,199	183,453
Cash and cash equivalents at beginning of year	606,811	423,358
Cash and cash equivalents at end of year	623,010	606,811
Represented by:		
Balances at Bank of England repayable on demand (Note 8)	616,894	599,340
Loans and advances to banks repayable on demand (Note 8)	6,116	7,471
	623,010	606,811

The notes on pages 60 to 72 form an integral part of the financial statements.

Notes to the financial statements

1. Accounting policies

1.1 BASIS OF PREPARATION

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

Where information in the risk management report on pages 34 to 45 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 48 to 55.

1.1.2 Going concern

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

To assess going concern the Directors have reviewed the adequacy of the Bank's capital and liquidity positions, and the Bank's operational resilience, including the ability of CAF to continue to provide shared services.

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

Liquidity stress tests for varying levels of deposit outflows show the Bank is able to survive an outflow of deposits exceeding 77% of balances.

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

The Directors considered the level of unrealised losses attached to the Bank's portfolio of financial investments, noting this portfolio is used to manage the Bank's interest

rate position and would be held to maturity in all but the most extreme scenarios. After assessing all of the above, the Directors consider it remote that the Bank would need to realise any of these unrealised losses.

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

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

1.2 INTEREST AND FEE INCOME AND EXPENDITURE RECOGNITION

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

(a) Interest 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

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

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

(c) Expenditure recognition

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

Irrecoverable VAT is charged as a cost.

1.3 PENSION COSTS

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

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

1.4 TAXATION

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

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

1.5 BASIC FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual terms of the instruments. Further details of the terms and conditions of the additional Tier 1 securities, which were classified as equity, can be found in note 15.

1.6 IMPAIRMENT OF FINANCIAL ASSETS

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

The Bank considers evidence for impairment for loans and advances (including on-demand commitments) at both specific and collective level. If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan, including accrued interest, and the estimated recoverable amount. The estimated recoverable amount is measured as the present value of expected

Notes to the financial statements

future cash flows discounted at the loan’s original effective interest rate, including cash flows that may result from foreclosure less costs for obtaining and selling collateral. The carrying amount of the loan is reduced by the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

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

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

1.7 INTANGIBLE ASSETS

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

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

1.8 SIGNIFICANT ESTIMATES

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

Estimates

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

Estimation uncertainty also relates to the collective loan loss provision. To determine the collective provision, assumptions are made about variables including the probability of default, the loss given default and the loss emergence period. These variables are based on historical loss experience data for similar assets. Estimations are made with regards to the expected future cash flows relating to the sale of the security, with judgement required (consistent with for specific provisions) of the valuation of properties held as security and the costs of holding and selling property.

Total loan loss provisions were £1,651k at 30 April 2023 (2022: £1,078k), with the analysis between specific and collective provisions disclosed in note 9.

The key variables in the measurement of provisions are:

- Gross property valuation: our provision estimates are based on the most recent valuation, with residential property indexed where relevant to current values. Commercial property is not indexed. If estimates of property valuations were to reduce by 10%, an additional £495k loan loss provision would be required; if valuations increased by 10%, the provision would be reduced by £202k.
- Discount to gross property valuation: for commercial and specialist properties held as security, our estimates assume a 38% discount to the most recent open market valuation to reflect the sale of a foreclosed property in an acceptable timeframe based on historic transactions. If this 38% discount was reduced to 25% on commercial and specialist properties, total loan loss provisions would reduce by £477k; if the discount increased to 45%, provisions would increase by £468k.
- Costs to sell: we estimate legal, administrative and marketing costs of between 10% and 20% of the gross property valuation are incurred in disposing of the

property, based on historic precedent and the type of property. If these costs were 5% higher, loan loss provisions would increase by £443k; if selling costs were 5% lower, provisions would be £355k lower.

- Probability of default: the collective loan loss provision is based on assessing our lending portfolio against the criteria used by external rating agencies and using the corresponding historical probabilities of default (PDs), adjusted for management’s assessment of current stress in the portfolio. If estimated PDs were 50% higher, additional loan loss provisions of £533k would be required; if PDs were 50% lower, provisions would reduce by £533k.

1.9 CRITICAL ACCOUNTING JUDGEMENTS

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

Judgements

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

Intangible assets represent the Bank’s investment in a new core banking system under the Bank Transformation Programme. In assessing for impairment at the balance sheet date, management assesses the current status of the programme and concludes that the programme will be taken to completion and that the development work to date has value when brought in to use.

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

	2023 £000	2022 £000
Interest receivable and similar income arising from debt securities	11,394	5,588
Other interest receivable and similar income	24,002	5,235
	35,396	10,823

4. Interest payable

	2023 £000	2022 £000
Customer accounts	7,346	182
Repurchase agreements	4	-
	7,350	182

5. Administrative expenses

Staff and other costs

	2023 £000	2022 £000
Staff costs		
Wages and salaries	7,315	5,846
Social security costs	725	551
Other pension costs	492	410
	8,532	6,807
Other administrative expenses	9,940	4,967
	18,472	11,774

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

Creditors include £42,816 (2022: £33,203) in respect of pension contributions payable to CAF.

Notes to the financial statements

5. Administrative expenses (continued)

The average number of total employees analysed by function was:

	2023	2022
	Number	Number
Management	23	21
Administration	143	120
	166	141

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).

Employees and management charges

	2023	2022
	£000	£000
Indirect staff costs	2,713	1,149
Management charges	1,301	549
	4,014	1,698

Directors' emoluments

None of the Directors who served during the year were remunerated directly by the Bank (2021/22: none). During the year, the Bank reimbursed CAF with £523,283 (2021/22: £445,900) including pension contributions in respect of services rendered by two Executive Directors (2021/22: two) for their qualifying services provided to the Bank. No amounts were paid to third parties for Directors' services (2021/22: none). The total remuneration of the highest paid Director during the year was £293,010 (2021/22: £258,370). Non-Executive Directors were not remunerated.

Auditors' remuneration

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

Auditors' remuneration

	2023	2022
	£000	£000
Audit fees payable to the company's auditors for the audit of the company's financial statements	185	148
Other audit related services	29	-
	214	148

6. Charitable donation to parent

The Bank has not accrued a donation to CAF at 30 April 2023 (30 April 2022: none).

7. Tax on profit on ordinary activities

The tax assessed for the period is lower than that resulting from applying the effective rate of UK corporation tax: 19.5% (19% up to 31st March 2023, 25% from 1st April 2023) (2021/22: 19%). The differences are explained below.

Tax on profit on ordinary activities

	2023	2022
	£000	£000

Tax expense:

UK corporation tax	2,073	389
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Reconciliation to tax expense:

Profit on ordinary activities before tax at 19.5% (2022: 19%)	2,076	386
Disallowed expenditure	-	1
Adjustments in respect of prior years	(1)	-
Deferred tax - Origination and reversal of timing differences	(47)	(35)
Deferred tax - Impact of change in tax rate	45	37
Tax charge	2,073	389

8. Loans and advances to banks

	2023	2022
	£000	£000
Repayable on demand	6,116	7,471
Loans and advances to banks	6,116	7,471
Balances at Bank of England - Reserve account	616,894	599,340
Balances at Bank of England - Cash ratio deposit	3,582	3,213
	626,592	610,024

9. Loans and advances to customers

	2023			2022		
	Loans	Overdrafts	Total	Loans	Overdrafts	Total
	£000	£000	£000	£000	£000	£000
Remaining maturity of loans and advances:						
Repayable within 3 months	1,113	297	1,410	1,582	493	2,075
Repayable within 5 years	30,449	-	30,449	34,288	-	34,288
Repayable over 5 years	149,249	-	149,249	126,569	-	126,569
	180,811	297	181,108	162,439	493	162,932
Loan loss provision	(1,651)	-	(1,651)	(1,078)	-	(1,078)
Deferred income	(1,723)	-	(1,723)	(1,447)	-	(1,447)
	177,437	297	177,734	159,914	493	160,407

Notes to the financial statements

9. Loans and advances to customers (continued)

Individual impairments provision

	2023	2022
	£000	£000
Loan loss provision at 1 May	(176)	(1,376)
Released during the year	-	1,200
Provided during the year	(410)	-
Loan loss provision at 30 April	(586)	(176)

Collective impairments provision

	2023	2022
	£000	£000
Loan loss provision at 1 May	(902)	(802)
Released during the year	-	-
Provided during the year	(163)	(100)
Loan loss provision at 30 April	(1,065)	(902)

10. Debt securities

Investments

	2023		2022	
	Book value	Market value	Book value	Market value
	£000	£000	£000	£000
Listed:				
Multilateral financial institutions	670,370	638,973	679,925	663,350
Fixed coupon corporate bonds	23,498	21,129	23,723	22,508
Floating rate corporate bonds	48,232	48,477	63,497	63,978
	742,100	708,579	767,145	749,836
Unlisted:				
Certificates of deposit	10,000	10,082	10,000	9,922
	752,100	718,661	777,145	759,758

10. Debt securities (continued)

Maturity

	2023	2022
	Book value	Book value
	£000	£000
less than 6 months	78,036	41,951
6 months to 1 year	244,930	65,911
	322,966	107,862
1 year to 5 years	400,227	631,372
	723,193	739,234
5 years and over	28,907	37,911
	752,100	777,145
Unamortised premiums	6,730	(2,484)

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

Movements

	Cost	Amortisation	Book value
	£000	£000	£000
At 1 May 2022	779,046	(1,901)	777,145
Acquisitions	88,130	796	88,926
Redemptions	(112,243)	(588)	(112,831)
Amortisation	-	(1,140)	(1,140)
At 30 April 2023	754,933	(2,833)	752,100

Notes to the financial statements

11. Intangible asset

	Development cost
	£000
At 1 May 2022	4,676
Additions	1,657
Amortisation	-
At 30 April 2023	6,333

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

12. Customer accounts

	2023	2022
	£000	£000
Repayable on demand	1,492,736	1,493,379
Repayable within 30 days	12,689	15,558
	1,505,425	1,508,937
Amounts include:		
Amounts owed to CAF	561	1,301

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

13. Repurchase agreements

Repurchase agreements total £8,852,404 (2021/22: none). The corresponding carrying value of assets of £9,539,681 (2021/22: none) sold under sale and repurchase agreements is included within debt securities (note 10).

14. Other liabilities

	2023	2022
	£000	£000
Amounts due within one year:		
Amounts owed to CAF	982	674
Sundry creditors	2,950	3,115
Taxation	1,484	236
	5,416	4,025
Amounts due after more than one year:		
Deferred tax	368	153
	5,784	4,178

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

15. Called up share capital and additional tier 1 securities

	2023		2022	
	Number	£000	Number	£000
Allotted, issued and fully paid:				
Ordinary shares of £1 each (net of issue costs)	40,350,000	40,319	29,350,000	29,350
Additional tier 1 securities of £1 each			11,000,000	11,000
		40,319		40,350

The distributable reserve of £1m was initially created via a transfer from share capital of the same amount in the financial year ending 30 April 2015. It was created to ensure adequate reserves were maintained to cover future interest payments on the additional tier 1 (AT1) securities, a condition of the AT1 capital regulations (CRR) qualifying criteria. Following the conversion of all outstanding AT1 securities to called-up share capital during September 2022 (net of issue costs), the Board considers that the distributable reserve is no longer required and consequently the full amount has been transferred to retained earnings.

Notes to the financial statements

16. Reconciliation of shareholders' funds

	Called-up share capital	Additional tier 1 securities	Distributable reserve	Retained earnings
	£000	£000	£000	£000
At 1 May 2021	29,350	11,000	1,000	(61)
Movement during the year	-	-	-	1,640
At 30 April 2022	29,350	11,000	1,000	1,579
Movement during the year	10,969	(11,000)	-	8,575
Transferred from distributable reserve	-	-	(1,000)	1,000
At 30 April 2023	40,319	-	-	11,154

See note 15 for further detail on the transfer from distributable reserve.

17. Financial instruments

17.1 MARKET AND INTEREST RATE RISK

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

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

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

Market risk 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.

17.2 CURRENCY PROFILE

The Bank has an exposure in US Dollars equivalent to £401k (2021/22: £404k) held as a collateral deposit for the Bank's Mastercard operations. Other than this exposure, all assets and liabilities are denominated in sterling.

17.3 INSTRUMENTS HELD FOR TRADING

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

17.4 HEDGING

CAF Bank does not hold financial instruments for hedging purposes.

17.5 FAIR VALUES

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

	2023		2022	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Assets				
Balances at central banks	620,476	620,476	602,553	602,553
Loans and advances to banks	6,116	6,116	7,471	7,471
Debt securities	752,100	718,661	777,145	759,758
Loans and advances to customers	177,734	177,354	160,407	160,407
	1,556,426	1,522,607	1,547,576	1,530,189
	2023		2022	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Liabilities				
Customer accounts	1,505,425	1,505,425	1,508,937	1,508,937
	1,505,425	1,505,425	1,508,937	1,508,937

The Bank's policy is to hold investment securities and loans and advances to customers to redemption or repayment at par (note 1.5). The impact of any movements in interest rates on fixed rate financial instruments is therefore not anticipated to affect the Bank's profits. The fair value unrealised loss on debt securities was £33.4m at 30 April 2023 (as at 30 April 2022: £17.4m). The unrealised loss on loan and advances to customers was £0.4m at 30 April 2023 (as at 30 April 2022: £nil).

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

Notes to the financial statements

18. Off-balance sheet commitments

Contingent liabilities and commitments

	2023	2022
	£000	£000
Undrawn overdraft commitments	578	382
Undrawn loan commitments	48,310	22,226
BACS facilities	13,268	12,689
	62,156	35,297

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

19. Parent trust

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

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

20. 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.

21. Post balance sheet events

There are no events since the balance sheet date that are required for, or to be disclosed.

Country-by-Country Reporting

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

The Bank has not received any public subsidies.

	2023	2022
	UK	UK
Number of employees (average)	166	141
	£000	£000
Turnover (total income)	29,693	12,703
Profit before tax	10,648	2,029
Corporation tax paid	830	-

1 Basis of preparation

The Report and Financial Statements for the year ended 30 April 2023 have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and have prepared in accordance with the Companies Act 2006.

2 Accounting policies

Income recognition

(a) Interest income

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

Taxation

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

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

Directors, Board Committees and Advisors

Registered Office 25 Kings Hill Avenue Kings Hill West Malling Kent ME19 4JQ United Kingdom Telephone: 03000 123 456 Fax: 03000 123 600 Email: cafbank@cafonline.org www.cafonline.org/caf-bank	Audit Committee David Watts (Chair) Kees Diepstraten Board Risk and Compliance Committee Astrid Grey (Chair) Samantha Seaton Graham Toy David Watts Nominations and Remuneration Committee Janet Pope (Chair) Neil Heslop (CAF Chief Executive) Alison Taylor (Chief Executive Officer) Executive Committee Alison Taylor (Chief Executive Officer) Philip Alvey (Chief Finance Officer) Robert Camp (Chief Information Officer) Alison Carpenter (Chief Risk Officer) Dina Henry (Chief Operating Officer)	Bankers HSBC Bank plc London EC4N 4TR Nominee and Custodian HSBC Securities Services Level 29 8 Canada Square London E14 5HQ Independent Auditors PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT
Company Number 1837656		
Directors (at 30 April 2023) Non-Executive Directors Janet Pope (Chair) Astrid Grey (Deputy Chair) Martyn Beauchamp Kees Diepstraten Ursula Dolton Neil Heslop (CAF Chief Executive) Samantha Seaton Graham Toy David Watts		
Executive Directors Alison Taylor (Chief Executive Officer) Philip Alvey (Chief Finance Officer)		
Company Secretary Kate Mayor		

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 financial statements of CAF may be obtained from the Bank's registered office and at www.cafonline.org.

Image: Emerge 3Rs



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