

CAF Bank

Annual report and financial statements for the year ended 30 April 2009

CAF Bank Limited



THE QUEEN'S AWARDS
FOR ENTERPRISE
2007

Queen's Award for Enterprise
awarded to Charity Financial Services

CAF Charities Aid
Foundation

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009

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DIRECTORS, COMMITTEES AND ADVISERS

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Website: www.cafonline.org/banking

Company Number

1837656

Directors

Non-Executive Directors

John Lorimer (*Chairman*) (*appointed 15 June 2009*)

Stuart Chandler (*Chairman*) (*resigned 15 September 2008*)

Tim Sweeney (*appointed interim Chairman 15 September 2008*)
(*resigned as interim Chairman 15 June 2009*)

Paul Biddle

Adele Blakebrough (*resigned 15 September 2008*)

Clive Bowles (*appointed 14 May 2008*)

David Clark

David Dickman

Philip Hardaker (*appointed 24 November 2008*)

Sir Brian Jenkins GBE (*retired 15 September 2008*)

Michael Lake (*appointed 24 November 2008*)

Dr John Low CBE (*Chief Executive - CAF*)

May Steele

Executive Director

Peter Mitchell (*Chief Executive*)

Audit, Risk & Compliance Committee

Tim Sweeney (*resigned as Chairman 24 November 2008*)

Paul Biddle (*appointed as Chairman 24 November 2008*)

David Clark

David Dickman

Philip Hardaker (*appointed 24 November 2008*)

Bankers

HSBC Bank plc

8 Canada Square

London E14 5HQ

Treasury Manager

Barclays Global Investors Limited

1 Churchill Place

London E14 5HP

Nominee and Custodian

HSBC Bank plc

Mariner House

Pepys Street

London EC3N 4DA

Auditors

Deloitte LLP

Chartered Accountants

London

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 30 April 2009.

Principal activities

The principal activity of CAF Bank Limited (CAF Bank) is to provide current and deposit account banking services to the UK charity sector. The bank seeks to offer competitive interest rates to customers of its principal products, *CafCash*, an interest bearing cheque account and *CAF Gold*, a high interest deposit account. There have been no significant changes in the activities of CAF Bank during the year.

Depositors' funds are invested in the market by the bank's treasury managers, Barclays Global Investors Limited. The bank invests in UK gilts, sterling eurobonds, floating rate notes, commercial paper and the sterling money market. The bank has an Audit, Risk and Compliance Committee ('ARCC') which reviews the risk management policy of the bank, including approved counterparties, at each meeting.

CAF Bank is a subsidiary of Charities Aid Foundation (CAF), registered charity number 268369.

Business review

Development and performance of company during the year

CAF Bank continued to grow its customer and account base during the year ended 30 April 2009. Average customer deposits during the year grew more strongly than planned, with year end depositor balances increasing by 15% from £936m to £1,080m. The number of customer accounts increased by 12% to nearly 26,000 (2008: 23,000) which was as expected. The bank saw customer deposits grow particularly strongly during the period of uncertainty in the second half of the year.

The bank aims to earn a fixed margin between interest receivable from counterparties and interest payable to customers. Although net interest income rose in line with depositors' balances, interest receivable and payable were both lower than the previous year as lower market interest rates more than outweighed the effect of higher balances. This is expected to continue into next year.

The cost to income ratio (excluding the FSCS levy) rose slightly from 53.0% to 55.7%, principally as a result of expenditure on a debit card service which is expected to be offered to customers during the next year.

Capital Structure

In April 2009 a further £1.0m of ordinary share capital was issued to CAF to provide capital to enable the bank to continue to grow its deposits.

Future developments

CAF Bank's long term vision is to create significant added value for the sector. The directors are aware, however, of the challenges to the bank in the current low interest rate environment and are actively seeking opportunities to maintain the competitiveness of key products.

As 'the bank for charities', the bank plans to grow the value added to the charity sector by continuing to offer straightforward products which can be delivered more efficiently than the traditional high street banks. It is anticipated that a debit card will be launched during the coming financial year, and a number of other potential developments to the existing business model are being considered.

REPORT OF THE DIRECTORS (continued)

Business review (continued)

Future developments (continued)

Significant investment has been made over recent years in systems, people and processes to accommodate the increased business volumes required to support the bank's growth strategy going forward. It is anticipated that future business growth can be accommodated without significant additional expenditure on operational and systems capability in the medium term. Continued take up of internet banking by customers is further reducing the impact on operating costs.

Results, dividends and charitable and political donations

CAF Bank gifts any profits to CAF in accordance with a charitable deed of covenant executed on 19 June 2002, after ensuring sufficient reserves are available to meet the interest due to preference shareholders and taxation. The bank donated charitable contributions of £2,867,000 (2008: £3,524,000) and paid charitable contributions of £2,174,000 (2008: £3,484,000) to CAF. Interest of £159,000 (2008: £160,000) was payable to the holders of the 8.00% and 9.15% preference shares. No dividends were paid on ordinary share capital during the year (2008: nil). There was no retained profit for the year (2008: none). No political donations were made during the year (2008: none).

Financial Services Compensation Scheme (FSCS)

CAF Bank has been advised that it faces a significant increase in the levy it pays to the FSCS. The role of the FSCS is, in general, to provide compensation to consumers of financial products when authorised firms are not able to meet their obligations. The existence of this compensation safety net protects consumers, leading to greater confidence in their dealings with financial firms, which is a benefit for all of those firms. Due to recent failures in the financial sector the FSA have increased the fee to all viable firms.

The liability to the FSCS is triggered by a bank's participation in the scheme on 31 December of the preceding year. Hence for banks with a financial year ending on or after 31 December 2008 a provision should be made for the full amount of the 2008-09 and 2009-10 levies, resulting in a provision of £1,001,000 for CAF Bank at 30 April 2009.

Senior Management Arrangements

Peter Mitchell, formerly Chief Operating Officer, became Chief Executive with effect from 1 May 2008. Mike Selman and John Grout were appointed on 16 June 2008 as Chief Operating Officer and Finance Director respectively. Trevor Barratt, Senior Manager Operational Performance & Risk, was appointed on 26 January 2009.

Principal risks and uncertainties

Risk governance structure

The bank maintains a risk governance structure that strengthens risk evaluation and management, whilst positioning the bank to manage the changing regulatory environment in an efficient and effective manner.

The Board, assisted by the Audit, Risk & Compliance Committee (ARCC) approves the bank's overall risk management framework. The Board also reviews the bank's aggregate risk exposures and concentrations of risk to ensure these are consistent with the Board's appetite for risk.

REPORT OF THE DIRECTORS (continued)

Principal risks and uncertainties (continued)

Risk governance structure (continued)

The bank's Chief Executive has primary responsibility for measuring, monitoring and controlling risks within the control frameworks for the business that are both consistent with the bank's high level policies and within the parameters set by the Board. Compliance with policies and parameters is overseen by the ARCC.

This framework is based on the concept of "three lines of defence":

- Risk management: primary responsibility for day to day risk management lies with the bank's executive management operating within a defined set of risk policies and appetite approved by the Board.
- Risk oversight: risk oversight is provided by the ARCC which is accountable to the Board.
- Independent and objective assurance: independent and objective assurance on the effectiveness of the risk management systems is provided by an Internal Audit function reporting to the Board.

This board-level engagement coupled with senior management involvement and focus ensures risks and issues are escalated on a timely basis and appropriate remedial plans are agreed and put into action.

A risk management framework is used for the identification, assessment, measurement and management of risk. The framework seeks to maximise value over time by aligning risk management with the corporate objectives of CAF Bank, assessing the impact of emerging risks from legislation, new technologies, or the market, and developing risk tolerances and mitigating strategies. The framework allows the business to identify and assess risks; aggregate risks and define the risk appetite; and exploit risks within the set risk appetite to gain competitive advantage, thereby seeking to increase stakeholder value.

Risk Appetite Statement

The directors and senior management have approved a low risk appetite. This is reflected in the type and level of risk that the bank is exposed to.

Principal risks

CAF Bank's business model is to pay current and deposit account customers an interest rate linked directly to the income the bank earns from investing these funds in the market with high grade counterparties. The principal risks faced by CAF Bank are:

Liquidity Risk

- Definition
The risk that the bank does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost, or that the bank does not have sufficiently stable and diverse sources of funding, or that the funding structure is inefficient.
- Risk Appetite
The bank ensures it maintains a minimum liquidity position sufficient to meet a daily cash outflow of at least 300% of the rolling three-year historic statistical median daily cash outflow, and meet a demand for repayment of up to 10% of retail deposits inside 8 days without requiring the sale of assets.

REPORT OF THE DIRECTORS (continued)

Principal risks and uncertainties (continued)

Principal risks (continued)

Liquidity Risk (continued)

- Mitigation

The bank maintains a minimum liquidity position in excess of regulatory requirements, being reflective of the organisation's low risk appetite.

Market & Interest Rate Risk

- Definition

The risk from adverse movements in external markets, e.g. interest rate movements, equity movements or currency movements.

- Risk Appetite

CAF Bank does not engage in market trading activities for its own account. CAF Bank has no exposure to foreign exchange risk or market risk as the bank does not trade in these markets. To do so would not be in keeping with the set risk appetite.

- Mitigation

CAF Bank does not run a trading book (equity, commodity or currency dealing), which in the highly volatile and uncertain markets of today gives the bank a competitive advantage over its main rivals. Investments purchased by the bank are held until maturity. Contractual terms of the bank's products allow for daily interest rate adjustment protecting the bank from interest rate risk.

Credit Risk

- Definition

The risk of reduction in earnings and/or value, as a result of the failure of the party with whom the bank has contracted to meet obligations (both on and off balance sheet) as they fall due.

- Risk Appetite

Credit Risk (wholesale markets)

The bank will not engage in wholesale deposit lending other than with interbank counterparties having a long term Fitch rating of "A" or greater, or allow placements exceeding the bank's large exposures capital base (subject to the FSA pre-notification rules).

Credit Risk (retail markets)

The bank will not engage in retail lending activities that will exceed 0.3% exposure of the bank's retail deposit funding during the pilot phase (2008-09) of offering overdraft facilities to selected retail customers.

- Mitigation

The credit quality of the counterparties with whom the bank places deposits or whose instruments the bank buys are approved by senior management of CAF Bank and monitored by the ARCC. The bank sets criteria which includes lending limits, group exposures, country exposure including the likely level of sovereign support and credit rating.

REPORT OF THE DIRECTORS (continued)

Principal risks and uncertainties (continued)

Principal risks (continued)

Operational Risk

- Definition

The risk of material adverse impact resulting from the failure of internal processes, people or systems or from external events.

- Risk Appetite

CAF Bank will not engage in activities that in the opinion of the Board would fall outside the scope of the definition of retail banking used by the Capital Requirements Directive (CRD) in relation to the application of capital holding calculations under the intermediate approach to the calculation of Operational Risk Capital.

- Mitigation

The Management undertakes the following:

- identification of the key operational risks within the business;
- evaluation of the effectiveness of the existing control framework covering each of the key risks to which the business is exposed;
- evaluation of both the financial risk and non-financial risk (e.g. reputational damage);
- for each material risk identified an estimate of exposure to probability and event likelihood is undertaken; and
- appropriate action to mitigate or minimise the risk.

This process is embedded into the bank's daily processes.

The average annual loss from risk events over the last three years has been £38.6k.

As part of the Capital Requirements Directive, introduced by the European Union in 2007, banks have a requirement to publish a document describing the risks the business faces in its normal course of business, alongside a description of the capital held to support the business. This disclosure process is referred to as "Pillar 3" in the Capital Requirements Directive and this information can be found at www.cafonline.org/banking.

CAF Bank adopts a prudent and responsible approach to the management of capital and has prepared a detailed Internal Capital Adequacy Assessment Process (ICAAP) which has been approved by the Board and submitted to the FSA.

The Board of the bank accepts that there is inherent risk in running a retail banking business; however, it is the bank's policy to minimise the unavoidable risks and further mitigate them wherever the costs of doing so are proportionate to the potential impact.

Going concern

CAF Bank's business activities, together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the Business Review and Principal Risks and Uncertainties on pages 1 to 5. In addition, note 18 to the financial statements includes the bank's objectives, policies and processes for managing its liquidity risk, details of financial instruments, and its exposure to credit risk and liquidity risk.

REPORT OF THE DIRECTORS (continued)

Going concern (continued)

In common with many financial institutions, the bank meets its day-to-day liquidity requirements through managing its funding sources, and is required to maintain a significant buffer over regulatory capital requirements in order to continue to be authorised to carry on its business. CAF Bank's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the bank should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future.

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

Post balance sheet events

There are no significant post balance sheet events.

Auditors

The bank has approved a policy in relation to the provision of non-audit services in order to ensure that the provision of such services does not impair the external auditors' independence or objectivity. The policy specifies the services that the auditors can provide and the limits above which specific approval is required for the auditors to undertake permitted non-audit work.

The auditors, Deloitte LLP, have indicated their willingness to continue in office. A resolution to re-appoint Deloitte LLP as the bank's auditors, and authorise the directors to fix their remuneration, will be proposed at the forthcoming Annual General Meeting.

Internal control

The directors have overall responsibility for the bank's systems of risk management, regulatory compliance and internal control and for reviewing their effectiveness. The systems of internal control are designed to ensure effective and efficient operations, including financial reporting, and compliance with laws and regulations. In establishing and reviewing the systems of internal control, the directors and senior management have regard to the materiality of relevant risks, the likelihood of loss being incurred and the cost of control. It follows, therefore, that the system of internal control can only provide reasonable, not absolute, assurance against the risk of material misstatement or loss.

The system of internal control is supported by an organisational structure with clear levels of responsibility and a strong control culture. Internal audit regularly reviews the effectiveness of controls and procedures established to manage key risks and may suggest steps to further improve internal control and risk management.

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). 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:

REPORT OF THE DIRECTORS (continued)

Statement of directors' responsibilities (continued)

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed.

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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of 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 on page 8. No director had an interest in the share capital of the bank or any other UK group company.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- 1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- 2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's 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 9 July 2009

Peter Mitchell
Chief Executive

CORPORATE GOVERNANCE

The directors are committed to high standards of corporate governance. Although the bank is not a listed company, the directors seek to comply, as far as practicable, with the principles and provisions of the Combined Code on Corporate Governance.

Board of directors

The board consists of nine non-executive directors and one executive director. Executive directors generally have responsibility for making and implementing operational decisions and for running the bank. The non-executive directors support the skills and experience of the executive directors by approving strategy and policy based on their knowledge and experience of other businesses and sectors. The responsibilities and composition of the board and election procedures for new directors are set out in the board's terms of reference.

The names of the directors who served throughout the year, except as noted, are as follows:

	Meetings attended	Maximum
Stuart Chandler ** (<i>Chairman</i>) (<i>resigned 15 September 2008</i>)	2	2
Tim Sweeney * (<i>appointed interim Chairman 15 September 2008</i>)	4	4
Paul Biddle *	4	4
Adele Blakebrough ** (<i>resigned 15 September 2008</i>)	0	1
Clive Bowles * (<i>appointed 14 May 2008</i>)	4	4
David Clark #	3	4
David Dickman *	4	4
Philip Hardaker ** (<i>appointed 24 November 2008</i>)	2	2
Sir Brian Jenkins GBE * (<i>retired 15 September 2008</i>)	0	2
Michael Lake ** (<i>appointed 24 November 2008</i>)	2	2
Dr John Low CBE ** (<i>Chief Executive – CAF</i>)	4	4
Peter Mitchell (<i>Chief Executive</i>)	4	4
May Steele *	2	4

* Independent non-executive director

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

Non-executive director having served for nine years or more

None of the directors has interests in the shares of the bank or any associated undertaking or trust. None of the directors who served during the year were remunerated directly by the bank. During the year, the bank reimbursed CAF with £120,658 (*2008: £243,500*) in respect of services rendered by one executive director (*2008: three*).

Members of the board undertake an induction programme, including meetings with senior management, which is designed to ensure they gain a full understanding of the bank.

Board committees

The Audit, Risk and Compliance Committee monitors compliance with the bank's liquidity, credit, market and operational risk policies and receives reports on any policy breaches or loss events. The Committee regularly reviews the Risk Profile and monitors liquidity, credit and operating risks and receives regular reports from the Chief Operating Officer, Senior Risk Manager and Internal Audit on matters concerned with internal control. The Committee also meets with the external auditors and receives their report.

The board does not have its own Nominations or Remuneration Committees, as the responsibilities of such committees, in relation to the bank, are met by the equivalent committees of CAF.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAF BANK LIMITED

We have audited the financial statements of CAF Bank Limited for the year ended 30 April 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30th April 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAF BANK LIMITED (continued)

Matters on which we are required to report by exception

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

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

Stuart Barnett (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
9 July 2009

PROFIT AND LOSS ACCOUNT
for the year ended 30 April 2009

	Notes	2009		2008	
		£000	£000	£000	£000
Interest receivable	3		41,779		52,368
Interest payable	4		<u>(33,056)</u>		<u>(44,908)</u>
Net interest income			8,723		7,460
Fees and commissions receivable		190		180	
Fees and commissions payable		<u>(1,041)</u>		<u>(922)</u>	
Net operating expenditure			(851)		(742)
Administrative expenses	5		<u>(3,929)</u>		<u>(3,129)</u>
Operating profit before FSCS levy			3,943		3,589
FSCS levy	6		<u>(1,001)</u>		<u>-</u>
Operating profit			2,942		3,589
Charitable donation to parent	7		(2,867)		(3,524)
Profit on ordinary activities before taxation			<u>75</u>		<u>65</u>
Tax on profit on ordinary activities	8		(75)		(65)
Profit on ordinary activities after taxation			-		-
Profit and loss account balance brought forward			-		-
Profit and loss account balance carried forward			<u>-</u>		<u>-</u>

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.

**BALANCE SHEET
as at 30 April 2009**

	Notes	2009		2008	
		£000	£000	£000	£000
ASSETS					
Loans and advances to banks	9		115,046		108,558
Debt securities	10		985,716		840,482
Prepayments and accrued income			6,721		13,562
Total assets			<u>1,107,483</u>		<u>962,602</u>
LIABILITIES					
Customer accounts	11		1,079,644		935,976
Bank overdrafts			1,789		757
Other liabilities	12		4,052		965
Accruals and deferred income			773		4,679
Subordinated liabilities	13		8,600		8,600
Preference shares	14		1,775		1,775
			<u>1,096,633</u>		<u>952,752</u>
Called up share capital	15	10,850		9,850	
Profit and loss account		<u>-</u>		<u>-</u>	
Shareholders' funds	16		10,850		9,850
Total liabilities			<u>1,107,483</u>		<u>962,602</u>

The financial statements were approved by the Board of Directors and authorised for issue on 9 July 2009 and signed on its behalf by

John Lorimer
Chairman

Peter Mitchell
Chief Executive

CASH FLOW STATEMENT
for the year ended 30 April 2009

	Notes	2009		2008	
		£000	£000	£000	£000
Net cash inflow from operating activities	17.1		151,847		173,081
Returns on investments and servicing of finance					
Charitable donations paid			(2,174)		(3,484)
Taxation					
Corporation tax paid			(80)		(65)
Capital expenditure and financial investment					
Acquisitions of debt securities		(3,088,099)		(2,140,108)	
Redemptions of debt securities		<u>2,942,810</u>		<u>1,980,858</u>	
Net cash outflow from capital expenditure and financial investment			(145,289)		(159,250)
Financing					
Proceeds from issue of equity shares			1,000		1,000
Increase in cash	17.2		<u>5,304</u>		<u>11,282</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009

1. Accounting policies

The financial statements, which should be read in conjunction with the Directors' Report, have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. These accounts comply with the relevant Statements of Recommended Accounting Practice issued by the British Bankers Association.

The principal accounting policies adopted are described below and have been applied consistently throughout the year and the preceding year.

1.1 Interest and fee income and expenditure recognition

Interest and fee income and expenditure are recognised in the profit and loss account on an accruals basis.

1.2 Financial instruments (note 18)

Loans and advances to banks comprise short-term deposits with an original maturity of one year or less. These are shown at the lower of cost or estimated realisable value.

Debt securities held for investment purposes are held to redemption at par and their cost is adjusted for the amortisation of any premium or discount over the period to maturity. The amortisation of premiums or discounts is included in interest income in the profit and loss account.

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

The bank does not utilise derivative instruments.

1.3 Pension costs

The bank makes contributions to the Pensions Trust in respect of defined contribution personal pension arrangements via CAF.

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

1.4 Financial Services Compensation Scheme ('FSCS') Levy

The amount of the FSCS levy is determined by the value of the bank's protected deposits at 31 December each year. The levy is accounted for on an accruals basis. No provision is made for the levy in respect of estimated protected deposits at future determination dates.

1.5 Taxation

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

2. Segmental information

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**3. Interest receivable**

	2009	2008
	£000	£000
Interest receivable and similar income arising from debt securities	37,520	43,850
Other interest receivable and similar income	4,259	8,518
	<u>41,779</u>	<u>52,368</u>

4. Interest payable

	2009	2008
	£000	£000
Customer accounts	32,161	43,992
Loan stock holders	736	756
Preference shareholders	159	160
	<u>33,056</u>	<u>44,908</u>

5. Administrative expenses

	2009	2008
	£000	£000
Staff costs		
Wages and salaries	1,265	1,020
Social security costs	113	93
Other pension costs	68	53
	<u>1,446</u>	<u>1,166</u>
Other administrative expenses	2,483	1,963
	<u>3,929</u>	<u>3,129</u>

Throughout the year 52 (2008: 45) employees of CAF (note 19) were assigned to duties relating to the activities of the bank.

The average number of employees analysed by function was:

	2009	2008
	Number	Number
Management	8	6
Information Systems	4	3
Administration	40	36
	<u>52</u>	<u>45</u>

Other administrative expenses include the following amounts paid to CAF in respect of directors' emoluments, other indirect staff costs and management charges relating principally to the occupancy of premises and the use of systems equipment.

	2009	2008
	£000	£000
Other indirect staff costs	654	709
Management charges	475	230
	<u>1,129</u>	<u>939</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**5. Administrative expenses** (continued)**Directors' emoluments**

None of the directors who served during the year were remunerated directly by the bank (2008: none). However, during the year, the bank reimbursed CAF with £120,658 (2008: £243,500) in respect of services rendered by one executive director (2008: three).

Auditors' remuneration

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

	2009	2008
	£000	£000
Audit fees payable to the company's auditors for the audit of the company's financial statements	44	44
Other services	24	13
	<u>68</u>	<u>57</u>

6. FSCS levy

CAF Bank has been advised by the FSA of a substantial increase in the Financial Services Compensation Scheme ('FSCS') levy. This is required to fund interest on borrowings undertaken by the FSCS to make good protected deposits at banks seeking the scheme's support during 2008/09.

The levy year runs from 1 April to 31 March, and the amount of the levy is based on a bank's share of protected deposits at the preceding 31 December. Accordingly, a provision has been made for £1,001,000 in respect of CAF Bank's participation in the scheme at 31 December 2007 and 2008, representing the levy years 2008/09 and 2009/10.

7. Charitable donation to parent

In accordance with a charitable deed of covenant executed on 19 June 2002 the bank is required to pay an annual sum equal to its profit after tax for the year to CAF. The amount payable for the year was £2,867,000 (2008: £3,524,000).

8. Tax on profit on ordinary activities

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 28% (2008: 30%). The differences are explained below:

	2009	2008
	£000	£000
Tax expense:		
UK corporation tax	<u>75</u>	<u>65</u>
Reconciliation to tax expense:		
Tax at 28% (30%) on:		
Operating profit	824	1,077
Charitable donation to parent	(803)	(1,057)
Interest payable to preference shareholders	45	47
	<u>66</u>	<u>67</u>
Tax under accrued in previous year	10	-
Marginal relief	(1)	(2)
	<u>75</u>	<u>65</u>

There is no unprovided deferred taxation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**9. Loans and advances to banks**

	2009	2008
	£000	£000
Repayable on demand	110,446	104,110
Remaining maturity of other loans and advances:		
1 day to 8 days	-	-
Over 8 days to 3 months	4,600	4,448
	<u>115,046</u>	<u>108,558</u>

10. Debt securities**10.1 Issue**

	2009		2008	
	Book Value	Market Value	Book Value	Market Value
	£000	£000	£000	£000
UK government	95,716	96,029	67,299	67,423
Sterling eurobonds	8,155	8,004	8,182	8,023
Floating rate notes	50,000	49,891	110,000	109,863
	<u>153,871</u>	<u>153,924</u>	<u>185,481</u>	<u>185,309</u>
Commercial paper	274,396	274,705	-	-
Certificates of deposit	557,449	557,678	655,001	663,985
	<u>985,716</u>	<u>986,307</u>	<u>840,482</u>	<u>849,294</u>

10.2 Listing

	2009		2008	
	Book Value	Market Value	Book Value	Market Value
	£000	£000	£000	£000
Listed on a recognised EU exchange	153,871	153,924	185,481	185,309
Unlisted	831,845	832,383	655,001	663,985
	<u>985,716</u>	<u>986,307</u>	<u>840,482</u>	<u>849,294</u>

Unlisted debt securities principally comprise certificates of deposit and commercial paper maturing within six months.

10.3 Maturity

	2009	2008
	Book Value	Book Value
	£000	£000
1 day to 8 days	104,951	95,000
Over 8 days to 3 months	641,894	445,000
3 months to 6 months	115,000	165,001
6 months to 1 year	108,382	119,937
	<u>970,227</u>	<u>824,938</u>
1 year to 5 years	7,812	7,829
	<u>978,039</u>	<u>832,767</u>
5 years and over	7,677	7,715
	<u>985,716</u>	<u>840,482</u>
Unamortised premiums	3,741	351

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**10. Debt securities** (continued)**10.4 Movements**

	Cost £000	Amort- isation £000	Book Value £000
<i>At 1 May 2008</i>	840,714	(232)	840,482
Acquisitions	3,088,099	(157)	3,087,942
Redemptions	(2,942,810)	94	(2,942,716)
Amortisation	-	8	8
At 30 April 2009	986,003	(287)	985,716

11. Customer accounts

	2009 £000	2008 £000
Repayable on demand	576,373	524,471
Repayable within 7 days	503,271	411,505
	<u>1,079,644</u>	<u>935,976</u>
Amounts include:		
Amounts owed to CAF	<u>16,042</u>	<u>11,790</u>

12. Other liabilities

	2009 £000	2008 £000
Amounts due within one year:		
Amounts owed to CAF	2,354	557
FSCS Levy	1,001	-
Sundry creditors	637	343
Taxation	60	65
	<u>4,052</u>	<u>965</u>

13. Subordinated liabilities

The total subordinated borrowing issued by the bank, for the development and expansion of its business and to strengthen the capital base, consists of subordinated unsecured loan stock as follows:

	2009 £000	2008 £000
Floating rate:		
- Second issue	500	500
- Fourth issue	350	350
- Sixth issue	250	250
Fixed rate:		
- Third issue, 8.71%	1,000	1,000
- Seventh issue, 8.875%	2,250	2,250
- Eighth issue, 8.75%	4,250	4,250
	<u>8,600</u>	<u>8,600</u>

13.1 Security and subordination

None of the loan stock is secured.

All loan stock is subordinated to the claims of depositors and other unsubordinated creditors of the bank.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**13. Subordinated liabilities** (continued)**13.2 Interest***Notes*

- (a) This issue bears interest at a rate fixed daily based on the rates paid to the bank's depositors.
- (b) These issues bear interest at rates fixed periodically based on London Inter-Bank Offered Rates.
- (c) This issue bears a fixed rate of 8.71% until 2017. After that date, in the event that the stock has not been redeemed, the coupon will be reset to a fixed margin over a reference gilt rate until the redemption date of that gilt.
- (d) Prior to 21 December 2006, this issue bore a fixed rate of 8.375%. After this date the coupon increased to a fixed rate of 8.875% until 2011.
- (e) This issue bears a fixed rate of 8.75% until 2011. After that date, in the event that the stock has not been redeemed, the coupon will increase to a fixed rate of 9.75% until redemption.

13.3 Repayment*Notes*

- (f) These issues are redeemable at par on the expiry of not less than five years and one day's notice given by the bank or the stockholder. No such notice has been given.
- (g) This issue has no fixed date for repayment.
- (h) This issue is redeemable by the bank at par on any interest payment date until the final redemption date of 21 December 2011.
- (i) This issue is redeemable by the bank at par in whole on 21 December 2011 or on any interest payment date thereafter.

However, with the consent of the Financial Services Authority (but not otherwise), the bank may redeem any stock at par on the expiry of not less than fourteen days' notice to the stockholders.

14. Preference shares

	2009		2008	
	Number	£000	Number	£000
Authorised:				
9.15% preference shares of £1 each	5,000,000	5,000	5,000,000	5,000
8.00% preference shares of £1 each	5,000,000	5,000	5,000,000	5,000
		<u>10,000</u>		<u>10,000</u>
Allotted, issued and fully paid:				
9.15% preference shares of £1 each	1,500,000	1,500	1,500,000	1,500
8.00% preference shares of £1 each	275,000	275	275,000	275
		<u>1,775</u>		<u>1,775</u>

9.15% preference shares

These are redeemable at par upon 28 days' written notice being given by the bank. The shares confer the right in a winding up of the bank to the capital paid up on them in priority to ordinary shares. The holders of these shares are entitled to a fixed non-cumulative dividend payable half yearly, but have no rights to attend or vote at general meetings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**14. Preference shares** (continued)**8.00% preference shares**

These are redeemable at par from January 2010, being the fifth anniversary of issue, upon 28 days' written notice being given by the bank. The shares confer the right in a winding up of the bank to the capital paid up on them in priority to ordinary shares. The holders of these shares are entitled to a fixed non-cumulative dividend payable half yearly, but have no rights to attend or vote at general meetings.

15. Called up share capital

	2009		2008	
	Number	£000	Number	£000
Authorised:				
Ordinary shares of £1 each	20,000,000	<u>20,000</u>	20,000,000	<u>20,000</u>
		<u>20,000</u>		<u>20,000</u>
Allotted, issued and fully paid:				
Ordinary shares of £1 each	10,850,000	<u>10,850</u>	9,850,000	<u>9,850</u>
		<u>10,850</u>		<u>9,850</u>

A further 1,000,000 ordinary shares of £1 each were issued at par in April 2009 to CAF.

16. Reconciliation of shareholders' funds

	2009	2008
	£000	£000
Retained profit for the financial year	-	-
New equity share capital issued	<u>1,000</u>	<u>1,000</u>
Net additions to shareholders' funds	1,000	1,000
Opening shareholders' funds	<u>9,850</u>	<u>8,850</u>
Closing shareholders' funds	<u>10,850</u>	<u>9,850</u>

17. Cash flow statement

17.1 Reconciliation of operating profit before taxation to net inflow from operating activities	2009	2008
	£000	£000
Operating profit before taxation	2,942	3,589
Decrease/(Increase) in prepayments and accrued income	6,841	(1,287)
(Decrease)/Increase in accruals and deferred income	(3,906)	536
Amortisation of premiums	<u>55</u>	<u>75</u>
Net cash inflow from trading activities	5,932	2,913
Net (increase)/decrease in loans and advances to banks	(152)	109,597
Net increase in customer accounts	143,668	60,562
Net increase in other liabilities	<u>2,399</u>	<u>9</u>
Net cash inflow from operating activities	<u>151,847</u>	<u>173,081</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**17. Cash flow statement** (continued)**17.2 Analysis of the balances of cash as shown in the balance sheet**

	<i>At 1 May 2008 £000</i>	Cash flow £000	<i>At 30 April 2009 £000</i>
Loans and advances to other banks repayable on demand	104,110	6,336	110,446
Bank overdrafts	(757)	(1,032)	(1,789)
	<u>103,353</u>	<u>5,304</u>	<u>108,657</u>

18. Financial instruments**18.1 Liquidity risk**

The bank is exposed to liquidity risk.

The liquidity policy requires that sufficient high quality liquid assets are held in a form and at a level which reflects prudent banking practice and regulatory criteria to meet fully and promptly all deposits and liabilities as they mature under normal and abnormal circumstances.

The liquidity policy is reviewed quarterly by the ARCC and at least annually by the board.

The bank manages its liquidity in liaison with its Treasury Managers, Barclays Global Investors Limited.

18.2 Currency profile

The bank has no exposure to foreign exchange risk. All of its assets and liabilities are denominated in sterling.

18.3 Instruments held for trading

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

18.4 Market price risk

The bank has no significant exposure to market price risk.

Any movements in interest rates would not affect the bank's profits given the basis upon which interest payable on customer accounts is calculated (note 18.8).

It is the bank's policy to hold investment securities to redemption at par (note 1.2).

18.5 Hedging

Financial instruments are not held for hedging purposes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**18. Financial instruments** (continued)**18.6 Fair values**

Set out below is a comparison of all the bank's financial instruments by category. Market values have been used to determine fair values of debt securities listed on a recognised UK exchange (note 10). Unlisted debt securities are bank certificates of deposit and commercial paper and fair values are as market values.

	2009		2008	
	Book Value	Fair Value	Book Value	Fair Value
Assets	£000	£000	£000	£000
Loans and advances to banks	115,046	115,046	108,558	108,558
Debt securities	985,716	986,307	840,482	849,294
	<u>1,100,762</u>	<u>1,101,353</u>	<u>949,040</u>	<u>957,852</u>

18.7 Credit risk

It is the bank's policy to invest its assets only with counterparties attracting a high credit rating. This policy results in a reduction in the number of counterparties, thereby increasing the concentration of risk. However, in the opinion of the directors, the emphasis on higher quality counterparties outweighs the disadvantages of the concentration of risk.

Assets include loans and advances to banks and building societies, bank certificates of deposit, commercial paper, UK gilts, sterling eurobonds and floating rate notes. Such transactions are with a range of counterparties approved by the board upon the recommendation of the ARCC. Each counterparty has a credit limit set by the board based upon advice from the ARCC.

The ARCC ensure credit risk remains within the risk appetite approved by the board. It meets at least four times a year and routinely reviews the suitability of lending criteria and proposes amendments to the board where appropriate. It also conducts an annual review of all counterparties based on information from its treasury managers, Barclays Global Investors Limited, rating agencies, market reports and press information.

18.8 Interest rate risk

Interest rates payable on customer accounts are adjusted each week to reflect interest rates earned on the bank's assets. Accordingly the bank has no significant exposure to interest rate risk. In addition, contractual terms of the bank's products allow for daily interest rate adjustment, further protecting the bank from interest rate risk.

The following assets and liabilities are analysed in time bands according to the earlier of the next interest rate pricing date or the maturity date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)**18. Financial instruments** (continued)**18.8 Interest rate risk** (continued)

As at 30 April 2009	Next day	Up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Assets								
Loans and advances to banks	110,446	4,600	-	-	-	-	-	115,046
Debt securities	-	746,845	115,000	108,382	7,812	7,677	-	985,716
Prepayments and accrued income	-	-	-	-	-	-	6,721	6,721
	110,446	751,445	115,000	108,382	7,812	7,677	6,721	1,107,483
Liabilities								
Customer accounts	576,373	503,271	-	-	-	-	-	1,079,644
Bank overdraft	1,789	-	-	-	-	-	-	1,789
Other liabilities	-	-	-	-	-	-	4,052	4,052
Accruals and deferred income	-	-	-	-	-	-	773	773
Subordinated liabilities	1,100	2,250	-	-	4,250	1,000	-	8,600
Preference shares	-	1,500	-	275	-	-	-	1,775
Shareholders' funds	-	-	-	-	-	-	10,850	10,850
	579,262	507,021	-	275	4,250	1,000	15,675	1,107,483
Interest rate sensitivity gap	(468,816)	244,424	115,000	108,107	3,562	6,677	(8,954)	-
As at 30 April 2008	Next day	Up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Assets								
Loans and advances to banks	104,110	4,448	-	-	-	-	-	108,558
Debt securities	-	540,000	165,001	119,937	7,829	7,715	-	840,482
Prepayments and accrued income	-	-	-	-	-	-	13,562	13,562
	104,110	544,448	165,001	119,937	7,829	7,715	13,562	962,602
Liabilities								
Customer accounts	524,471	411,505	-	-	-	-	-	935,976
Bank overdraft	757	-	-	-	-	-	-	757
Other liabilities	-	-	-	-	-	-	965	965
Accruals and deferred income	-	-	-	-	-	-	4,679	4,679
Subordinated liabilities	1,100	2,250	-	-	-	5,250	-	8,600
Preference shares	-	1,500	-	-	275	-	-	1,775
Shareholders' funds	-	-	-	-	-	-	9,850	9,850
	526,328	415,255	-	-	275	5,250	15,494	962,602
Interest rate sensitivity gap	(422,218)	129,193	165,001	119,937	7,554	2,465	(1,932)	-

19. Parent trust

CAF Bank is a wholly owned subsidiary of Charities Aid Foundation (CAF), registered charity number 268369.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2009 (continued)

20. Related party transactions

The bank has taken advantage of the exemptions available under paragraph 3(c) of FRS 8 not to disclose transactions with other group entities.

21. Contingent liability

As a participant in the Financial Services Compensation Scheme ('FSCS'), CAF Bank has an obligation to make good its share of any potential shortfall in amounts recovered from banks being wound down compared to borrowings taken out to fund protected deposits. It is expected that the period of such winding down will be three years from the date of initial funding. It is not possible at the current time to determine the amount of any potential shortfall.

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Telephone calls may be monitored and recorded for training and security purposes.

Company registration number 1837656 (England and Wales).

CAF Bank Limited is authorised and regulated by the Financial Services Authority (register number 204451).
It is a subsidiary of the Charities Aid Foundation (CAF), registered charity number 268369