

CAF BANK ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 April 2014

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014

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DIRECTORS, COMMITTEES AND ADVISERS

Registered Office

25 Kings Hill Avenue
Kings Hill
West Malling
Kent ME19 4JQ

Telephone: 03000 123 456

Fax: 03000 123 600

Email: cafbank@cafonline.org

Website: www.cafonline.org/banking

Company Number

1837656

Directors

Non-Executive Directors

Iain MacKinnon (*Chairman*)

Paul Biddle

Clive Bowles

David Carse

David Dickman

Philip Hardaker

Mairi Johnstone (*appointed 16 September 13*)

Peter Kyle

Tina Lee (*appointed 11 June 13*)

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

Dr Steve Perry (*appointed 24 March 14*)

Alistair Ray (*appointed 16 September 13*)

Executive Directors

Peter Ostacchini (*Chief Executive*) (*appointed 16 September 13*)

Barry Meeks (*Chief Executive*) (*resigned 16 September 13*)

John Grout (*Finance Director*) (*appointed 16 September 13*)

Audit, Risk & Compliance Committee

Paul Biddle (*Chairman*)

David Dickman

Philip Hardaker

Executive Committee (*at 30th April 2014*)

Peter Ostacchini (*Chief Executive*)

John Grout (*Finance Director*)

Chris Kairis (*Head of Operations*)

Colin Walton (*Head of Client Relations, Charities*)

Paul White (*Chief Risk Officer*)

Bankers

HSBC Bank plc

City of London Branch

Ground Floor, 60 Queen Victoria Street

London EC4N 4TR

RBS Bank plc

London Corporate Service Centre

Level 7, Aldgate Union

10 Whitechapel High Street

London E1 8DX

Deutsche Bank AG London

Global Transaction Banking

Winchester House

1 Great Winchester Street

London EC2N 2DB

Nominee and Custodian

Global Custody Europe

HSBC Securities Services

Level 29, 8 Canada Square

London E14 5HQ

Auditors

KPMG LLP

Chartered Accountants and Statutory Auditor

15 Canada Square

London E14 5GL

STRATEGIC REPORT

Principal activities

CAF Bank Limited (CAF Bank or the Bank) provides banking services to UK charities and not for profit organisations, principally via the provision of current and deposit account products with associated transactional services, and a growing loan book.

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

Development of the Bank during the year

The 2013/14 year has marked the start of a transition of the Bank's business model from solely being a deposit taker into a more diversified bank with growing income streams from lending and fees. A new permanent CEO, Peter Ostacchini, was recruited during the year with the remit to drive through this transition.

Momentum has been established with lending in the second half of the year following a redesign of the product, resulting in the loan book growing to £5.5m by the year end (2013: £0.2m). The Bank also sought to recover some of the transactional fees it is charged as a result of customer activity through account management charges to a small number of larger customers. However, in excess of 95% of customers are not charged for core banking services. Customers also made increased use of BACS bureau services and payment cards.

Financial performance

The ongoing low interest rate environment led to a continuing fall in interest income as longer dated assets matured and were replaced at lower yields. As a consequence of lower income, interest rates paid to customers were also reduced, although by less than the reduction in income, leading to a fall of £1.0m in net interest income and an average interest margin of 0.78% (2013: 0.90%).

Mainly as a result of the lower net interest income, operating profit fell from £3.2m to £2.4m.

Going concern

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

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

Future developments

The Bank plans to increase its lending and expand its fee earning services. Early indications are that the momentum in the lending book will be maintained, with a strong loan pipeline.

The Bank is working with its parent, CAF, to raise capital to meet CRD IV requirements in a timely manner. As part of this exercise, CAF took up a £2m ordinary share issuance in May 2014.

STRATEGIC REPORT (continued)

Principal risks and uncertainties

Principal risks

The Bank's principal risks are credit risk, liquidity and funding risk, market and interest rate risk, operational risk and regulatory risk.

Identifying and monitoring top and emerging risks are integral to our approach to risk management.

Credit Risk

- The risk of loss as a result of the failure of a borrower or counterparty to meet obligations as they fall due.
- Mitigation

Wholesale counterparties are reviewed and approved by the Asset and Liability Committee (ALCO) in accordance with policies and criteria approved by the Board and monitored by the Audit, Risk and Compliance Committee (ARCC). The Bank sets criteria which include counterparty lending limits, group exposures, country exposure including the likely level of sovereign support and credit rating.

Lending to charities is sanctioned by the Credit Committee in accordance with policies and criteria approved by the Board and monitored by the ARCC. Loans, overdrafts and BACS facilities are subject to individual annual review in addition to regular monitoring of loan performance.

Liquidity and Funding Risk

- 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. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.
- Mitigation

The Bank holds a significant proportion of its assets on demand with the Bank of England and other financial institutions.

The Bank undertakes regular stress testing and behavioural analysis of its liabilities and assets. Liquidity and Funding risk is managed against a series of triggers and limits approved by the Board within the Bank's Liquidity Policy.

Market & Interest Rate Risk

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

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.

The Bank has no exposure to foreign exchange risk as all of its assets and liabilities are denominated in sterling.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Principal risks (continued)

Market & Interest Rate Risk (continued)

The Bank manages IRRBB by monitoring the impact an increase or decrease in interest rates might have on its profitability and operating the level of fixed commitments within a set of limits established by the Asset and Liability Committee.

The Bank can vary interest rates paid to depositors subject to giving 60 days notice when reducing rates.

The Notes to the Financial Statements include a more detailed analysis of the Bank's position with respect to Market and Interest Rate Risk.

Operational Risk

- Operational risk is the risk of loss caused by human error, ineffective or inadequately designed internal processes, system failure, improper conduct, fraud and external events.
- Mitigation

Management identifies the key operational risks within the business, evaluates the effectiveness of the control framework and identifies appropriate action to mitigate or minimise the risk.

Regulatory Risk

- Regulatory risk is the risk to earnings, capital and reputation associated with a failure to comply with regulatory requirements and expectations.
- Mitigation

CAF Bank has in place systems and controls to ensure that it complies with its regulatory reporting requirements as well as a framework to ensure that new and amended regulation is embedded in to the systems and processes of the organisation.

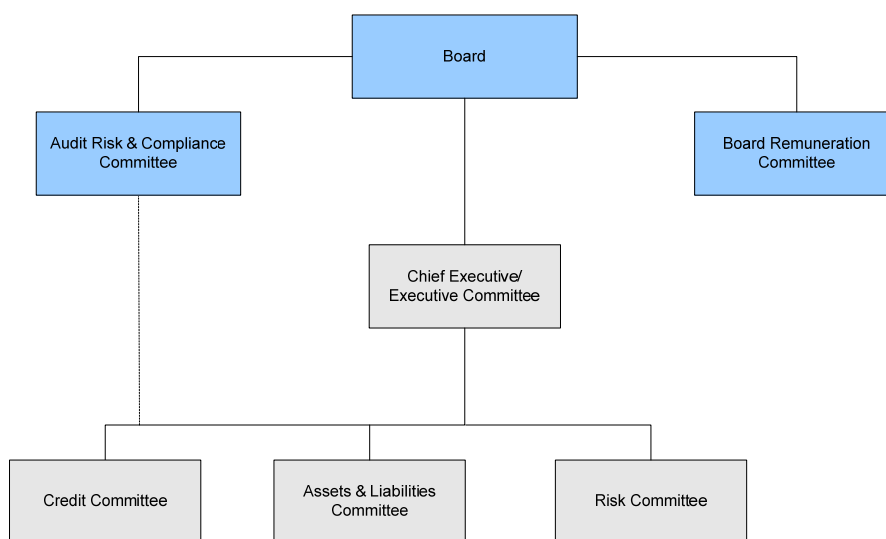
The Bank is working with its parent, CAF, to raise capital to meet increased capital and leverage ratio requirements in accordance with an agreed timetable.

CORPORATE GOVERNANCE

The Board is committed to establishing the highest standards of robust and transparent corporate governance. This is key to the Bank's ability to manage the opportunities and risks arising from its strategic priorities.

The strategy and risk appetite is set by the Board which delegates the day to day running of the business to the executive directors and management. The following framework has been established to ensure proper governance and Board oversight of those activities.

CAF Bank Governance Structure



Board Composition

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

	Meetings attended	Maximum
Iain MacKinnon **	5	5
Paul Biddle *	4	5
Clive Bowles *	4	5
David Carse *	4	5
David Dickman *	5	5
Philip Hardaker **	5	5
Mairi Johnstone * (appointed 16 September 13)	3	4
Peter Kyle *	3	5
Tiina Lee ** (appointed 11 June 13)	5	5
Dr John Low CBE ** (Chief Executive – CAF)	5	5
Dr Steve Perry * (appointed 24 March 14)	1	1
Alistair Ray * (appointed 16 September 13)	2	4
Peter Ostacchini (Chief Executive) (appointed 16 September 13)	4	4
Barry Meeks (Chief Executive) (resigned 16 September 13)	2	2
John Grout (appointed 16 September 13)	4	4

* Independent non-executive director

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

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

CORPORATE GOVERNANCE (continued)

Board member induction and development

On appointment to the Board, Directors receive documents and briefings on:

- Background information about the Bank;
- The role of the Board and the principal Board and Management Committees;
- The Bank's corporate governance practices and procedures; and
- The latest financial information and risk reporting.

Throughout their period of office, Directors are continually updated on the Bank's business, the competitive and regulatory environments in which it operates, and any other changes affecting the Bank and the industry in which it operates by written briefings and meetings with the Chief Executive and other members of the Executive Committee.

Board and other committees

The Board has delegated certain responsibilities to its appointed Committees which operate under written terms of reference setting out the authority delegated to them.

Audit, Risk & Compliance Committee (ARCC)

The Chair and members of the ARCC are Non-Executive Directors. The main responsibilities of the Committee are to review:

- The integrity of the annual published report and accounts and Pillar 3 statement;
- The systems of internal control, and internal and external audit processes;
- Compliance with applicable laws and regulations;
- The Bank's ethical and business standards;
- The effective operation of the Risk, Asset and Liability (ALCO), and Credit committees; and
- ICAAP and ILAA process and reporting.

Remuneration Committee

The Board Remuneration Committee, comprising the Chair and one other non executive member of the Board, determines the remuneration and employment policy applicable to members of the Executive Committee and Executive Directors and reviews salaries and any applicable incentive schemes that may be approved, including payments made under such schemes, for compliance with the restrictions applicable under national law, codes and regulation.

The Executive, and Executive Sub Committees

The Board has delegated day to day management of the business to the Chief Executive who is supported by the Executive Committee and its sub committees.

The Executive Committee operates under written terms of reference which include accountability for:

- Effective delivery of the strategy, and the management and control of the Bank's activities;
- Development and implementation of an annual Operating Plan and Budget focused on achieving the strategic vision and goals of the Board;

CORPORATE GOVERNANCE (continued)

The Risk Committee has oversight of the Bank's risk management framework. The committee is responsible for monitoring and managing risks and establishing and maintaining appropriate policies, procedures and internal controls.

The Credit Committee monitors performance of the Bank's loan portfolio and assesses credit applications in line with approved Lending Policy and Authority Limits.

The Asset and Liability Committee (ALCO) advises the Executive Committee on the Bank's asset and liability position, liquidity, capital and treasury management. The committee monitors actual and projected performance and key financial ratios, and ensures the balance sheet is managed within approved risk and investment policy limits.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 30 April 2014.

Results, dividends and political donations

Subject to annual Board approval, CAF Bank gifts its profits to its parent charity, CAF, after ensuring sufficient reserves are available to meet interest payable to preference shareholders and taxation. The Bank donated £2.3m to CAF in the year (2013: £3.2m). Interest of £159k (2013: £159k) 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 (2013: none). No political donations were made during the year (2013: none).

Post balance sheet events

On 20th May 2014, CAF, the Bank's parent, invested a further £2m in Ordinary Share Capital.

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 auditor's 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.

A resolution authorising the board to re-appoint the auditors and to agree their remuneration will be submitted to the forthcoming Annual General Meeting.

Risk management and 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 Bank's control environment is designed around a risk management framework, and a related set of principles and policies which facilitate the taking of acceptable risks within the appetite of the business, as set by the Board, bound by clearly defined limits.

The control environment includes:

- Clearly defined ownership of risks and responsibility for compliance with agreed mitigation including adherence to documented policies and control standards;
- An organisational structure with clear lines of responsibility, delegation of authority and reporting requirements;
- Comprehensive systems of financial reporting; and
- An internal audit function that reviews the system of internal control.

Further information on risk management is included within note 18.

REPORT OF THE DIRECTORS (continued)

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

Directors' interests

The directors who served during the financial year are reported on page 4. 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 auditor's are aware of that information.

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

By order of the Board and signed on its behalf on 15 July 2014

Iain MacKinnon
Chair

CAF Bank Limited
Company Number 1837656

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

We have audited the financial statements of CAF Bank Limited for the year ended 30 April 2014 set out on pages 10 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Michael Peck (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL
15 July 2014

PROFIT AND LOSS ACCOUNT
for the year ended 30 April 2014

	Notes	2014		2013	
		£000	£000	£000	£000
Interest receivable	3		11,096		13,120
Interest payable	4		(3,210)		(4,250)
Net interest income			7,886		8,870
Fees and commissions receivable		787		348	
Fees and commissions payable		(880)		(895)	
Net operating expenditure			(93)		(547)
Administrative expenses	5		(5,123)		(4,802)
Operating profit before exceptional items			2,670		3,521
Exceptional item					
FSCS levy	6		(275)		(248)
Operating profit			2,395		3,273
Charitable donation to parent	7		(2,344)		(3,217)
Profit on ordinary activities before taxation			51		56
Tax on profit on ordinary activities	8		(51)		(56)
Profit on ordinary activities after taxation			-		-
Profit and loss account balance brought forward			-		-
Profit and loss account balance carried forward			-		-

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 13 to 22 form an integral part of the financial statements.

BALANCE SHEET
as at 30 April 2014

		2014		2013	
	Notes	£000	£000	£000	£000
ASSETS					
Bank balances			6,460		7,615
Loans and advances to banks	9		524,363		480,010
Debt securities	10		495,378		494,774
Loans and advances to customers	11		5,530		191
Prepayments and accrued income			5,176		3,690
Total assets			<u>1,036,907</u>		<u>986,280</u>
LIABILITIES					
Customer accounts	12		1,010,813		961,047
Other liabilities	13		3,572		2,587
Accruals and deferred income			297		421
Subordinated liabilities	14		2,100		2,100
Preference shares	15		1,775		1,775
			<u>1,018,557</u>		<u>967,930</u>
Called up share capital	16	18,350		18,350	
Profit and loss account		<u>-</u>		<u>-</u>	
Shareholders' funds	17		18,350		18,350
Total liabilities			<u>1,036,907</u>		<u>986,280</u>

The notes on pages 13 to 22 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 15 July 2014 and signed on its behalf by

Iain MacKinnon
Chair

John Grout
Finance Director

CAF Bank Limited
Company Number 1837656

CASH FLOW STATEMENT
for the year ended 30 April 2014

	2014		2013	
	£000	£000	£000	£000
Reconciliation of operating profit before taxation to net inflow/(outflow) from operating activities				
Operating profit before taxation		2,395		3,273
(Increase)/decrease in prepayments and accrued income		(1,486)		1,135
Decrease in accruals and deferred income		(124)		(84)
Amortisation of premiums		(5,002)		1,946
		<u>(4,217)</u>		<u>6,270</u>
Net decrease/(increase) in loans and advances to banks		25,724		(39,581)
Net increase in loans and advances to customers		(5,339)		(191)
Net increase/(decrease) in customer accounts		49,766		(47,336)
Net decrease in other liabilities		(112)		(271)
Net cash inflow/(outflow) from operating activities		<u>65,822</u>		<u>(81,109)</u>
Returns on investments and servicing of finance				
Charitable donations paid		(1,217)		(5,272)
Taxation				
Corporation tax paid		(81)		(56)
Capital expenditure and financial investment				
Acquisitions of debt securities	(236,749)		(483,568)	
Redemptions of debt securities	<u>241,147</u>		<u>683,973</u>	
Net cash (outflow)/inflow from capital expenditure and financial investment		4,398		200,405
Increase in cash		<u>68,922</u>		<u>113,968</u>
Represented by:				
Loans and advances to other banks repayable on demand		70,077		107,448
Bank balances		<u>(1,155)</u>		<u>6,520</u>
		<u>68,922</u>		<u>113,968</u>

The notes on pages 13 to 22 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014

1. Accounting policies

The financial statements, which should be read in conjunction with the Strategic Report, have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and generally accepted accounting principles (UK GAAP). CAF Bank has taken advantage of the exemption from FRS 26 allowing reduced disclosure on financial instruments.

The going concern basis was adopted in preparing the annual report and accounts. The Strategic Report sets out the grounds for this approach.

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. Fees and commissions are recognised when all contractual obligations have been fulfilled.

1.2 Financial instruments (note 18)

Loans and advances to Banks comprise deposits with an original maturity of three years 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 with cost adjusted for any permanent impairment and 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.

Customer account balances represent the value of deposits by account holders and are recorded as liabilities. Bank overdrafts included as liabilities comprise the Bank's cleared and uncleared balances held at HSBC.

Preference shares and subordinated liabilities are included in liabilities at par and face value respectively. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual terms of the instruments.

The Bank does not utilise derivative instruments.

1.3 Pension costs

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

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

1.4 Financial Services Compensation Scheme ('FSCS') Levy

The amount of the FSCS levy is determined by the value of the Bank's protected deposits at 1 April each year. The levy is accounted for on an accruals basis based on information provided by the FSCS, forecast future interest rates and the Bank's historic share of industry protected deposits in accordance with IFRIC6.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**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

	2014	2013
	£000	£000
Interest receivable and similar income arising from debt securities	8,195	10,698
Other interest receivable and similar income	2,901	2,422
	<u>11,096</u>	<u>13,120</u>

4. Interest payable

	2014	2013
	£000	£000
Customer accounts	2,925	3,963
Loan stock holders	126	128
Preference shareholders	159	159
	<u>3,210</u>	<u>4,250</u>

5. Administrative expenses

	2014	2013
	£000	£000
Staff costs		
Wages and salaries	1,831	2,001
Social security costs	174	181
Other pension costs	98	130
	<u>2,103</u>	<u>2,312</u>
Other administrative expenses	3,020	2,490
	<u>5,123</u>	<u>4,802</u>

All staff are employed by CAF. Total employment costs are recharged where activities have been undertaken for CAF Bank. Staff costs (above) represent 67 (2013: 72) employees of CAF (note 20) who were assigned wholly to duties relating to the activities of the Bank.

Creditors include £7,000 (2013: £8,000) in respect of pension contributions payable.

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

	2014	2013
	Number	Number
Management	15	13
Information Systems	5	5
Administration	47	54
	<u>67</u>	<u>72</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**5. Administrative expenses** (continued)

Other administrative expenses include the following amounts paid to CAF in respect of director's emoluments, other costs of staff partially allocated to duties relating to CAF Bank, and management charges relating principally to the occupancy of premises and the use of systems equipment.

	2014	2013
	£000	£000
Indirect staff costs	1,010	718
Management charges	490	489
	<u>1,500</u>	<u>1,207</u>

Directors' emoluments

None of the directors who served during the year were remunerated directly by the Bank (2013: none). During the year, the Bank reimbursed CAF with £271,058 (2013: £257,591) in respect of services rendered by three executive directors (2013: two). Non-executive directors were not remunerated.

Auditor's remuneration

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

	2014	2013
	£000	£000
Audit fees payable to the company's auditor for the audit of the company's financial statements	49	49
Further regulatory assurance related services	14	11
	<u>63</u>	<u>60</u>

6. Exceptional items**FSCS levy**

In early 2009, CAF Bank was 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.

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 1 April. The provision at 30 April 2014 represents the estimated amounts due in respect of the Bank's participation in the scheme for the years ending 2014 and 2015, and a provision on a best estimate basis of the Bank's share of the shortfall in amounts recovered under the scheme.

As a participant in the 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 via a capital compensation levy. The amount accrued as at 30th April 2014 includes £208,000 in respect of the second year of the capital levy.

	2014	2013
	£000	£000
Provision at 1st May	839	778
Paid during the year	(381)	(187)
Provided during the year	275	248
Provision at 30th April	<u>733</u>	<u>839</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**7. Charitable donation to parent**

The Bank donated a surplus to CAF of £2,344,000 (2013: £3,217,000) during the year, with £1,844,000 remaining to be paid at 30 April 2014.

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: 23% (2013: 24%). The differences are explained below.

	2014	2013
	£000	£000
Tax expense:		
UK corporation tax	51	56
Reconciliation to tax expense:		
Tax at 23% on:		
Operating profit	551	786
Charitable donation to parent	(539)	(772)
Interest payable to preference shareholders	36	38
	<u>48</u>	<u>52</u>
Expected tax charge on disallowable expenditure	7	4
Tax over accrued in previous year	(4)	-
	<u>51</u>	<u>56</u>

There is no unprovided deferred taxation.

9. Loans and advances to Banks

	2014	2013
	£000	£000
Repayable on demand	470,087	400,010
Remaining maturity of other loans and advances:		
1 day to 8 days	-	-
Over 8 days to 3 months	276	20,000
Over 3 months to 6 months	-	20,000
Over 6 months to 1 year	31,000	20,000
Over 1 year to 5 years	23,000	20,000
	<u>524,363</u>	<u>480,010</u>

10. Debt securities**10.1 Investments**

	2014		2013	
	Book Value	Market Value	Book Value	Market Value
	£000	£000	£000	£000
UK government	971	1,191	974	1,297
Multilateral financial institutions	144,056	143,349	163,441	165,251
Sterling eurobonds	143,058	143,686	84,348	84,663
Floating rate notes	174,293	174,474	246,011	245,163
	<u>462,378</u>	<u>462,700</u>	<u>494,774</u>	<u>496,374</u>
Certificates of deposit	33,000	33,146	-	-
	<u>495,378</u>	<u>495,846</u>	<u>494,774</u>	<u>496,374</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**10. Debt securities** (continued)**10.2 Listing**

	2014		2013	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed on a recognised EU exchange	462,378	462,700	494,774	496,374
Unlisted	33,000	33,146	-	-
	<u>495,378</u>	<u>495,846</u>	<u>494,774</u>	<u>496,374</u>

Unlisted debt securities principally comprise certificates of deposit maturing within one year.

10.3 Maturity

	2014	2013
	Book Value £000	Book Value £000
1 day to 8 days	-	-
Over 8 days to 3 months	-	-
3 months to 6 months	82,402	90,000
6 months to 1 year	-	143,466
	<u>82,402</u>	<u>233,466</u>
1 year to 5 years	412,438	260,765
	<u>494,840</u>	<u>494,231</u>
5 years and over	538	543
	<u>495,378</u>	<u>494,774</u>
Unamortised premiums	<u>(7,631)</u>	<u>(15,809)</u>

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

10.4 Movements

	Cost £000	Amortisation £000	Book Value £000
At 1 May 2013	505,638	(10,864)	494,774
Acquisitions	236,749	(966)	235,783
Redemptions	(241,147)	7,540	(233,607)
Amortisation	-	(1,572)	(1,572)
At 30 April 2014	<u>501,240</u>	<u>(5,862)</u>	<u>495,378</u>

11. Loans and advances to customers

	2014 £000	2013 £000
Remaining maturity of loans and advances		
Repayable within 3 months	92	191
Repayable within 5 years	662	-
Repayable over 5 years	4,776	-
At 30 April 2014	<u>5,530</u>	<u>191</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**12. Customer accounts**

	2014	2013
	£000	£000
Repayable on demand	526,194	507,727
Repayable within 7 days	363,258	329,819
Repayable within 30 days	121,361	123,501
Repayable within 3 months	-	-
Repayable within 6 months	-	-
	<u>1,010,813</u>	<u>961,047</u>
Amounts include:		
Amounts owed to CAF	<u>32,906</u>	<u>38,830</u>

13. Other liabilities

	2014	2013
	£000	£000
Amounts due within one year:		
Amounts owed to CAF	2,041	986
Sundry creditors	772	706
FSCS Levy	733	839
Taxation	26	56
	<u>3,572</u>	<u>2,587</u>

14. 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:

		2014	2013
	<i>Notes</i>	£000	£000
Floating rate:			
- Second issue	<i>(a, d)</i>	500	500
- Fourth issue	<i>(b, d)</i>	350	350
- Sixth issue	<i>(b, e)</i>	250	250
Fixed rate:			
- Third issue, 8.71%	<i>(c, d)</i>	1,000	1,000
		<u>2,100</u>	<u>2,100</u>

14.1 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.

14.2 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 of 0.5% over a reference gilt rate until the redemption date of that gilt.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**14. Subordinated liabilities** (continued)**14.3 Repayment***Notes*

(d) 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.

(e) This issue has no fixed date for repayment.

With the consent of the PRA (but not otherwise), the Bank may redeem any stock at par on the expiry of not less than fourteen days' notice to the stockholders.

15. Preference shares

	2014		2013	
	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% and 8% 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.

16. Called up share capital

	2014		2013	
	Number	£000	Number	£000
Authorised:				
Ordinary shares of £1 each	30,000,000	30,000	30,000,000	30,000
		<u>30,000</u>		<u>30,000</u>
Allotted, issued and fully paid:				
Ordinary shares of £1 each	18,350,000	18,350	18,350,000	18,350
		<u>18,350</u>		<u>18,350</u>

17. Reconciliation of shareholders' funds

	2014	2013
	£000	£000
Retained profit for the financial year	-	-
New equity share capital issued	-	-
Net additions to shareholders' funds	-	-
Opening shareholders' funds	18,350	18,350
Closing shareholders' funds	<u>18,350</u>	<u>18,350</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**18. Financial instruments****18.1 Currency profile**

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

18.2 Instruments held for trading

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

18.3 Investments held to maturity

The Bank's policy is to hold investment securities to redemption at par (note 1.2). Any movements in interest rates are therefore not anticipated to materially affect the Bank's profits.

18.4 Hedging

CAF Bank does not hold financial instruments for hedging purposes.

18.5 Fair values

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

	2014		2013	
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Assets				
Loans and advances to banks	524,363	524,363	480,010	480,010
Debt securities	495,378	495,846	494,774	496,374
	<u>1,019,741</u>	<u>1,020,209</u>	<u>974,784</u>	<u>976,384</u>

18.6 Counterparty Credit Rating

The Bank's policy is to invest its assets only with counterparties attracting a high credit rating. The following table shows the breakdown of assets held by credit rating.

Category (Fitch equivalent credit rating)	2014		2013	
	Book Value £000	% of Book %	Book Value £000	% of Book %
UK Government	471,334	46.22%	400,984	41.14%
Other AAA	144,056	14.13%	163,441	16.77%
AA-	147,562	14.47%	113,662	11.66%
A+	78,591	7.71%	45,116	4.63%
A	98,993	9.71%	124,986	12.82%
A-	58,818	5.77%	119,978	12.31%
BBB+	18,952	1.86%	5,170	0.53%
BB+	1,435	0.14%	1,447	0.15%
	<u>1,019,741</u>	<u>100.00%</u>	<u>974,784</u>	<u>100.00%</u>

Assets include loans and advances to banks, bank certificates of deposit, commercial paper, treasury bills, UK gilts, corporate bonds, multilateral financial institution bonds, and floating rate notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**18. Financial instruments** (continued)**18.7 Maturity analysis**

The Bank does not trade its investments and therefore gains or losses arising from movements in market interest rates are not expected to be realised during the normal course of business.

The following table of assets and liabilities is analysed into time bands by reference to the earlier of the next interest rate pricing date (taking account of interest rate policy) or the maturity date:

As at 30 April 2014	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								
Bank balance	6,460	-	-	-	-	-	-	6,460
Loans and advances to banks	470,087	276	-	31,000	23,000	-	-	524,363
Loans and advances to customers	5,530	-	-	-	-	-	-	5,530
Debt securities	-	209,127	82,402	-	203,311	538	-	495,378
Prepayments and accrued income	-	-	-	-	-	-	5,176	5,176
	482,077	209,403	82,402	31,000	226,311	538	5,176	1,036,907
Liabilities								
Customer accounts	708,808	-	-	9,286	292,719	-	-	1,010,813
Other liabilities	-	-	-	-	-	-	3,572	3,572
Accruals and deferred income	-	-	-	-	-	-	297	297
Subordinated liabilities	1,100	-	-	-	-	1,000	-	2,100
Preference shares	-	-	-	-	-	-	1,775	1,775
Shareholders' funds	-	-	-	-	-	-	18,350	18,350
	709,908	-	-	9,286	292,719	1,000	23,994	1,036,907
Interest rate sensitivity gap	(227,831)	209,403	82,402	21,714	(66,408)	(462)	(18,818)	-

As at 30 April 2013	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								
Bank balance	7,615	-	-	-	-	-	-	7,615
Loans and advances to banks	400,010	20,000	20,000	20,000	20,000	-	-	480,010
Loans and advances to customers	191	-	-	-	-	-	-	191
Debt securities	-	280,752	-	78,466	135,013	543	-	494,774
Prepayments and accrued income	-	-	-	-	-	-	3,690	3,690
	407,816	300,752	20,000	98,466	155,013	543	3,690	986,280
Liabilities								
Customer accounts	690,848	-	-	18,858	251,341	-	-	961,047
Other liabilities	-	-	-	-	-	-	2,587	2,587
Accruals and deferred income	-	-	-	-	-	-	421	421
Subordinated liabilities	1,100	-	-	-	-	1,000	-	2,100
Preference shares	-	-	-	-	-	-	1,775	1,775
Shareholders' funds	-	-	-	-	-	-	18,350	18,350
	691,948	-	-	18,858	251,341	1,000	23,133	986,280
Interest rate sensitivity gap	(284,132)	300,752	20,000	79,608	(96,328)	(457)	(19,443)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2014 (continued)**19. Off-balance sheet commitments**

Commitments comprise amounts yet to be drawn under loan or overdraft agreements and BACS payment facilities.

	2014	2013
	£000	£000
Undrawn irrevocable overdraft and loan commitments	8,416	4,556
BACS payment facilities	3,734	2,437
	<u>12,150</u>	<u>6,993</u>

20. Parent trust

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

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

21. Related party transactions

Directors' expense reimbursements are disclosed in note 5. During 2012 the Bank entered into an agreement with Charity Bank to provide loan administration and credit services to CAF Bank. During 2013 this agreement was extended through to 2014. The agreement is on commercial arm's length terms. The costs paid to Charity Bank from this agreement during the year was £59,000 (2013: £61,000) including an accrual at the end of the year of £5,000 (2013: £nil). There are no other related party transactions.

CAF

Bank

Registered office:

CAF Bank Ltd, 25 Kings Hill Avenue, Kings Hill, West Malling, Kent ME19 4JQ

T: 03000 123 456

F: 03000 123 600

W: www.cafonline.org/banking

E: cafbank@cafonline.org

Company registration number 1837656 (England and Wales). CAF Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FRN 204451). CAF Bank Limited is a subsidiary of the Charities Aid Foundation (registered charity number 268369). Telephone calls may be monitored/recorded for security/training purposes and by calling you give your consent to this. Lines are open Monday to Friday 9am-5pm (excluding bank holidays).