CAF
Bank

CAF BANK ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 April 2013

CAF Charities Aid Foundation

CAF Bank Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2013

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DIRECTORS, COMMITTEES AND ADVISERS

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

Company Number
1837656

Directors
Non-Executive Directors
Iain MacKinnon *(appointed as Chairman 17 September 12)*
Paul Biddle
Clive Bowles
David Carse
David Dickman
Philip Hardaker
Peter Kyle
Dr John Low CBE *(Chief Executive - CAF)*
John Lorimer *(Chairman) (resigned 11 June 12 *)*
** Continued to act as Chairman until 17 September 12*

Executive Director
Barry Meeks *(Interim Chief Executive) (appointed 13 March 13)*
Peter Mitchell *(Chief Executive) (resigned 31 March 13)*

Executive Committee *(at date of signing report)*
Barry Meeks *(Interim Chief Executive)*
John Grout *(Finance Director)*
Steve Hunter *(Head of Product Management)*
Chris Kairis *(Head of Operations)*
David Price *(Chief Commercial Officer)*
Colin Walton *(Head of Client Relations, Charities)*
Paul White *(Acting Chief Risk Officer)*

Audit, Risk & Compliance Committee
Paul Biddle *(Chairman)*
David Dickman
Philip Hardaker

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

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

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 30 April 2013.

Principal activities

CAF Bank Limited (CAF Bank or the Bank) provides banking services to the UK charity sector, principally based around the provision of current and deposit account products with associated transactional services. The Bank introduced a lending service during the year. CAF Bank seeks to offer a combination of high quality service, competitive interest rates and low charges to customers of its principal products, *CafCash*, an interest bearing cheque account, *CAF Gold*, a higher interest deposit account and the *CAF 30 Day Notice account*.

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

Business review

Development of the Bank during the year

The external economic and financial environment continued to be very challenging for banks generally during 2012/13 with short term interest rates falling further during the year. The primary focus for CAF Bank during this period continued to be on diversifying income streams with the aim of being less reliant on wholesale interest income. As part of this diversification, the Bank successfully completed the pilot of a new lending service which has recently been launched. Although take up of loans during the year was slower than expected, a pipeline of £40m loans was established which is expected to result in more loans being drawn down in the coming year. Customers also made increased use of new BACS bureau services and debit cards.

Deposit balances contracted by £47m (equivalent to 5%) as a result of increasing competition for retail deposits from major UK banks in the early part of the year, and a move by customers to invest short term cash balances into a broader range of assets. In addition, a general outflow of customer deposits is also seen to be a result of the challenges experienced by the Third Sector in maintaining funding from the private sector and public finance. Feedback received from customers suggests that the charitable sector has responded to cutbacks in public funding by maintaining services at the expense of reserves. In spite of the fall in deposit balances, the number of customer accounts continued to grow from approximately 29,300 to over 30,000 as the Bank continued to attract charities through its offer of low cost banking and high quality service.

Given the ongoing financial uncertainty, the Bank’s investment strategy continues to be conservative. In response to lower market rates, and allied to the new liquidity regulations, CAF Bank continued to invest in medium term ‘AAA’ rated Gilts and Multilateral Financial Institution bonds, and investment grade Floating and Fixed Rate Bonds issued by major financial institutions. The investment policy was extended in 2012 to allow diversification into high quality non-financial corporate bonds.

At 30 April 2013, approaching 58% (2012: 50%) of assets are invested in ”AAA” rated gilts/bonds and deposited in the Bank of England Reserve Account, in keeping with a conservative investment policy providing a very high level of liquidity and a low exposure to credit risk.

REPORT OF THE DIRECTORS (continued)

Business review (continued)

Financial performance

The reduction in market interest rates during the year outlined above resulted in a reduction in interest income on wholesale assets during year, despite diversification into non-financial corporate bonds. 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 £1.3m in net interest income and an average interest margin of 0.9017% (*2012: 1.0110%*). Following similar moves by competitors, balance trends do not, to date, appear to have been impacted by these changes.

Administrative expenses increased from £4.6m to £4.8m which was almost entirely due to costs of launching new services. As a result of increased administrative expenses and lower net interest income, operating profit fell from £4.6m to £3.2m.

The capital position of the Bank was maintained during the year, with a core tier one capital ratio of 10.7%, benefitting from an increase in 'AAA' rated assets.

Financial Services Compensation Scheme (FSCS)

CAF Bank has continued to be impacted by a much higher levy payable to the FSCS than has been seen historically, as a result of the failure of Bradford & Bingley plc and others. 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 continuing low interest rate environment and implementation of the capital element of the levy result in the provision being broadly maintained in the current year.

Results, dividends and charitable and political donations

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 £3.2m to CAF in the year (*2012: £4.6m*). Interest of £159k *(2012: £160k*) 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 (*2012: none*). There was no retained profit for the year (*2012: none*). No political donations were made during the year (*2012: none*).

Future developments

It is anticipated that the Bank will continue to diversify its business model from a deposit taker into the provision of a broader range of banking services including lending. In the current low interest rate environment, it is also likely that the Bank will be required to extend the range of services for which a fee is charged, especially where the Bank incurs charges from a supplier for services such as cash and cheque handling.

The Bank's capital strategy will be linked to developments in the business model and regulatory changes. Growth in lending will require additional capital which is expected to be provided by both the parent and external third parties. In addition, existing funders will be approached with a view to refinancing legacy capital to avoid the amortisation requirements of revised regulation. The Bank is targeting that the existing 10% core tier 1 ratio will be maintained.

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 Principal Activities, Business Review and Principal Risks and Uncertainties on pages 5 to 8. In addition, note 19 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.

In common with many financial institutions, the Bank meets its day-to-day liquidity requirements through managing its funding sources, and is required by the Prudential Regulatory Authority (PRA) to maintain capital and liquidity buffers.

CAF Bank's forecasts and objectives, taking into account a number of potential changes in trading performance, treasury activities and capital raising plans, 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 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 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.

CAF Bank maintains a strong risk management culture which is reflected in its risk management framework and is aligned to the Bank's low risk appetite. An outline of the framework is set out on page 10.

REPORT OF THE DIRECTORS (continued)

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:

- 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 10. 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 11 June 2013

Barry Meeks
Interim Chief Executive

CAF Bank Limited
Company Number 1837656

RISK MANAGEMENT

Principal risks and uncertainties

Risk Appetite Statement

The Board and the Bank's executive operate a low risk strategy. This is reflected in the type and level of risk that the Bank is exposed to when compared to appetites and risk profiles demonstrated across the UK financial sector.

Principal risks

The principal risks faced by CAF Bank are:

Business Risk

- Definition

  Business risk is defined as the risk to "the Bank's revenue as set within the budget and over the medium-term plan arising from a sub optimal business strategy or the sub optimal implementation of the plan as agreed by the Board". In assessing business risk, consideration is given to internal and external factors.

- Risk Appetite

  The Bank's business risk appetite is set by reference to the approved budget and business plan sanctioned by the Board.

- Mitigation

  As part of the annual business planning process, the Bank develops a set of management actions to prevent or mitigate the impact on earnings in the event that business risks materialise. Additionally, business risk monitoring, through regular reports and oversight, results in corrective actions to plans and reductions in exposures where necessary. Revenue and capital investment decisions require additional formal assessment and approval. Formal risk assessment is conducted as part of the financial approval process.

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

  CAF Bank manages its liquidity resources in excess of regulatory requirements, monitoring both on a daily and intra-day basis against a range of limits and triggers. In addition to calculating the minimum liquidity requirement as required under PRA rules, the Bank ensures it maintains sufficient liquid assets to support existing and future activities as outlined in its business plan and strategy, taking into account expected levels of assets and liabilities. The Bank maintains a level of liquidity sufficient to provide for withdrawal of deposits without disposing of assets in all but the most extreme circumstances for a survival period of 3 months.

  The risk appetite is considered as a 'low risk appetite' based on liquidity levels and risk profiles within the UK banking sector.

- Mitigation

  The Bank holds significantly more eligible liquidity buffer assets than required to satisfy the regulatory requirements. At year end the eligible buffer assets were 340% of the minimum regulatory buffer requirements.

RISK MANAGEMENT (continued)

Principal risks and uncertainties (continued)

Principal risks (continued)

Liquidity Risk (continued)

- Mitigation (continued)

  The Bank conducts regular liquidity stress testing at increasing levels of severity and has the capacity to increase the frequency to daily and intra-day if required. Liquidity is managed against a series of triggers and limits approved by the Board within the Bank's Liquidity Policy.

  The Bank's Individual Liquidity Adequacy Assessment (ILAA) has been reviewed by the regulator and an Individual Liquidity Guidance (ILG) issued which is reflective of the Bank's own assessment.

  The Bank undertakes stress testing and behavioural analysis of its deposit base. Its Recovery and Resolution Plan outlines options for recovery from stressed situations, or in an extreme scenario, for an orderly wind-down should the Bank become unviable.

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 significant exposure to foreign exchange risk or market risk as the Bank does not trade in these potentially volatile markets. To do so would not be in keeping with the low set risk appetite.

  The Bank is exposed to some potential interest rate risk arising principally from changes in market interest rates which impact either the market value of longer dated investments or the rates that the Bank pays its depositors.

  Based on CAF Bank's conservative attitude to risk, the Board set risk appetite for Interest Rate Risk in the Banking Book (IRRBB) is £2.0m given a +/- 2.0% change in market interest rates. IRRBB is the risk arising from a mismatch between the interest rate re-pricing period of assets and liabilities.

- Mitigation

  CAF Bank does not run a trading book (equity, commodity or currency dealing). Investments, in the normal course of business, are held to maturity and valued at book cost with any premium or discount on acquisition amortised over the remaining term.

  With the exception of a small element of the liquidity buffer which is required to be turned over to satisfy regulatory requirements, the Bank holds investments to maturity and accordingly does not expect to realise material gains and losses.

  Capital has been allocated to specifically recognise the IRRBB appetite level.

  The impact of the Payment Services Regulations in relation to the advance notification to depositors of downward movements in applicable product rates is monitored closely. In the current low interest rate environment, the impact of the risk materialising is considered low.

RISK MANAGEMENT (continued)

Principal risks and uncertainties (continued)

Principal risks (continued)

Operational Risk

- Definition

  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.

- Risk Tolerance

  In setting tolerance levels for operational risk, the Bank considers the potential impact on earnings. This involves evaluating how much it could lose due to operational risk losses at various levels of certainty. At aggregate and individual risk levels, the Bank looks at both impact on its solvency and reputation. Risk tolerance is managed against a set of key performance indicators with appropriate limits and triggers.

  CAF Bank encourages and maintains an appropriately balanced legal and regulatory compliance culture and promotes policies and procedures to enable the business and its staff to operate in accordance with the laws, regulations and voluntary codes which impact on the Bank and its activities.

- Mitigation

  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.

  These are embedded into the Bank's daily processes.

  The average annual loss from risk events over the last three years has been £16k. A forward looking view of potential operational losses is considered and outlined within the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and associated capital planning.

Regulatory Risk

- Definition

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

- Risk Tolerance

  CAF Bank aims to comply with all regulatory requirements to minimise the risk of financial loss, maintain its high reputation and avoid regulatory sanction in a proportionate and appropriate manner.

- Mitigation

  The 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.

RISK MANAGEMENT (continued)

Principal risks and uncertainties (continued)

Principal risks (continued)

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 minimum long term rating of 'Fitch A-', 'S&P A-' or 'Moody's A3', whichever is the lower, or allow placements exceeding the Bank's large exposures capital base (subject to the FSA pre-notification rules).

  Credit Risk (SME markets)

  The Bank will engage in retail lending activities in aggregate up to a maximum exposure of 10% of the Bank's retail deposit funding, subject to regulatory capital restrictions. Concentration risk appetite normally limits large exposures to any one counterparty or connection to a maximum of 5% of the Bank's capital base subject to the overriding regulatory objective that any single exposure should not exceed 25% of the Bank's approved large exposure capital base without prior regulatory approval.

- Mitigation

  The credit quality of the counterparties with whom the Bank places deposits or whose instruments the Bank buys are approved by its Executive Management team in accordance with policies and criteria approved by the Board and monitored by the ARCC. The Bank sets criteria which include counterparty lending limits, group exposures, country exposure including the likely level of sovereign support and credit rating. The Bank uses Fitch, S&P and Moody's as its nominated External Credit Assessment Institutions (ECAI). The minimum sanctioned credit rating for counterparties is "A-" (or equivalent), with the lowest of the three ratings applying.

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 can be obtained from www.cafonline.org/banking.

CAF Bank adopts a prudent and responsible approach to the management of capital and prepares a detailed ICAAP which is approved by the Board. The ICAAP is submitted annually to the PRA for consideration.

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.

CORPORATE GOVERNANCE

CAF Bank provides value propositions for its customers in the 'not-for-profit' sector and operates within a comprehensive and proportionate governance framework (see Fig: 1). The Board is responsible for managing the Bank on behalf of the shareholders and each Director must act in a way that they consider promotes the long term success of the Bank for the benefit of the shareholders.

CAF Bank Governance and Control Structure

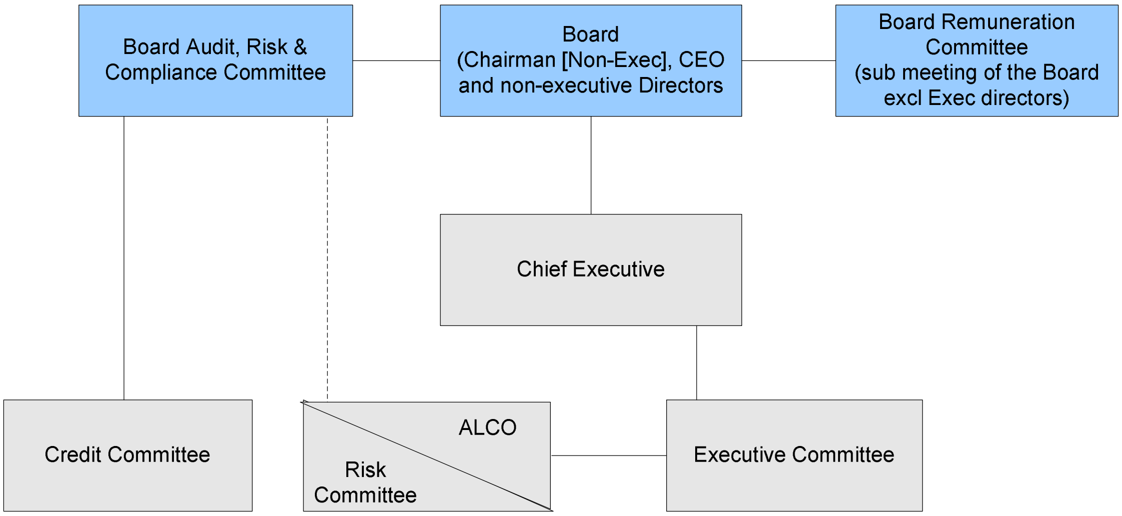

Fig. 1

The Board delegates responsibility for the day to day management of the Bank to the Chief Executive who is then responsible for making and implementing operational decisions, ensuring that the business is operating effectively. The Chief Executive is supported by the Executive Committee which he chairs.

The Chair of the Board is a Non-Executive Director. The Chair leads the Board in determination of its strategy and in the achievement of its objectives. The Chair is also responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chair has no involvement in the running of the day to day business of the Bank.

It is the responsibility of the Board, through the Executive, to ensure that an appropriate balance is achieved between promoting long term growth and delivering short term objectives. The Board is responsible for the success of the Bank within a framework of controls, which enables risk to be assessed and managed. It is responsible for setting strategy and maintaining the policy and decision making framework in which this is implemented, ensuring that the necessary financial and human resources are in place to meet strategic aims, monitoring performance against key financial and non-financial indicators, overseeing the system of risk management and for setting values and standards in governance matters.

None of the Directors have 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 £257,591 *(2012: £136,661*) in respect of services rendered by two Executive Directors *(2012: one)*.

In accordance with the Board's desire for the highest standards of Corporate Governance to be applied at CAF Bank, the Board has considered and adopted the recommendation of the 'Walker Review' for an externally conducted effectiveness review to be undertaken on a three yearly basis.

CORPORATE GOVERNANCE (continued)

Risk Management Framework Overview

The Board fulfils its responsibilities by deploying a Risk Management Framework and ensuring an appropriate risk appetite is set and agreed. The Bank Audit, Risk & Compliance Committee (ARCC) has been given responsibility for oversight of the Chief Executive and Chief Risk Officer in the exercise of their delegated responsibility for the framework's operational implementation. The ARCC reports to the Board on the Bank's position against the agreed risk appetite and any material actions being progressed regarding necessary changes or enhancements in the Bank's risk mitigation plans.

The framework involves capturing the Bank's risk exposure through use of a Consolidated Risk Report (CRR), summarising the identified risks and monitoring the impact of mitigating controls implemented to manage the business within the agreed risk appetite set by the Board. The Bank's policy is to conduct an annual Risk Assessment Review on all identified and emerging risks.

Risk controls are designed around deployment of:-

- Clear policies and procedures;
- Effective change management; and
- Appropriate business continuity planning.

The ARCC and Board obtain assurance of the effectiveness of the control activity (first line of defence) implemented by the business through a programme of ongoing monitoring activity undertaken by the Bank's Risk & Compliance function (second line of defence), supported by independent review from both Internal and External Audit reporting (third line of defence).

Board Meetings

The Board has four scheduled meetings each year. Delivery of the Bank's strategy is regularly considered and an offsite meeting is normally held annually to review the strategy and ensure it remains directionally sound.

Scheduled Board meetings are arranged well in advance and all Directors are expected to attend each meeting. All Directors are provided with background papers and relevant information in advance of each meeting. If a Director is unable to attend a meeting because of exceptional circumstances, they will still receive the supporting papers and will usually discuss with the Chair of the meeting any matters they wish to raise to ensure their views are given due consideration.

The Chair and Chief Executive are always available for Directors to discuss any matters relating to Board meetings or other matters and work together to make sure that the information communicated to the Board is accurate, timely and clear.

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

	Meetings attended	**Maximum**
Iain Mackinnon ** *(appointed as Chair 17 September 12)*	3	3
Paul Biddle *	3	4
Clive Bowles *	4	4
David Carse *	4	4
David Dickman *	4	4
Philip Hardaker **	3	4
Peter Kyle *	4	4
Dr John Low CBE ** *(Chief Executive – CAF)*	4	4
Barry Meeks *(Interim Chief Executive) (appointed 13 March 13)*	1	1
Peter Mitchell *(Chief Executive)(resigned 31 March 13)*	3	3
John Lorimer ** *(Chair) (resigned 11 June 12 #)*	1	1

Continued to act as Chairman until 17 September 12
* Independent non-executive director
** Non-executive director and CAF Trustee (or in the case of Dr Low, CAF Chief Executive)

CORPORATE GOVERNANCE (continued)

Board 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 and under its terms of reference the main responsibilities of the Committee are to review, monitor, assess and recommend for approval by the Board:

- The integrity of the annual published report and accounts and Pillar 3 statement, including any required formal statements relating to financial performance, reviewing significant financial reporting judgements contained in them;
- The systems of internal control;
- The internal and external audit processes;
- Compliance with applicable laws and regulations in relation to the preparation of financial statements and their presentation;
- The Bank's ethical and business standards;
- The effective operation of and outputs from the executive Risk and ALCO committees:
    - Market risk - advising the Board on liquidity management, asset/liability management, interest rate risk management and investment policy;
    - Credit Risk – wholesale and retail (including oversight of the Bank's Retail Credit Risk Committee). Power is reserved to the Board in respect of agreeing increases in institutional counterparty exposure limits *(within the agreed handbook dispensation received from the FSA – December 2011)*;
- Management of balance sheet structure;
- Management of capital structure;
- Operational Risk – reviewing risk management policy and processes and exposure to risk through operational, market developments, new products and services;
- ICAAP process and reporting; including, prior to recommending approval, a review of:-
    - Stress testing resilience and outcomes;
    - Pillar 2 capital adjustments;
    - Executive conclusions; and
    - Internal Audit comments.
- ILAA process and reporting; including, prior to recommending approval, a review of:-
    - Liquidity stress testing resilience and outcomes;
    - Contingency Funding Plan resilience;
    - Executive conclusions; and
    - Internal Audit comments.

Board 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 Board Remuneration Committee reports to the Board on its review annually.

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 its terms of reference;
- The terms of reference of the principal Board and Management Committees, and the powers delegated to them;
- The Bank's corporate governance practices and procedures;
- The latest financial information about the Bank, comprising the most recent audited financial report and statements together with the preceding month's internal management accounts report;
- The latest Consolidated Risk Report outlining aggregated risk assessments for primary risk drivers and significant risk issues; and
- Regulation by the PRA and Financial Conduct Authority (FCA) including approach to banking supervision and relationship with the Bank, preparatory to any pre-appointment interview request by the regulators.

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.

The Executive

The Board has delegated day to day management of the business to the Chief Executive who is supported by the Executive Committee which he chairs. Some but not all of the Executive Committee may also be Executive Directors on the main Board. The Executive Committee operates under written terms of reference set by the Chief Executive in accordance with the Board's delegated authority and under the oversight of the ARCC.

The Executive Committee is responsible for executing the agreed Board strategy and has:-

- Accountability to the Board for effective delivery of the strategy and all senior management decisions relating to the control of the Bank's business activities;
- Accountability for the development and implementation of an annual Operating Plan and Budget focused on achieving the strategic vision and goals of the Board;
- Accountability for implementation of the Bank's Risk Management Framework including:-
    - Construction of a proportionate Consolidated Risk Reporting framework providing clear and effective summaries of the Bank's risk exposures and identified mitigation;
    - Design and implementation of a framework for internal controls and checks based on development of policies and procedures appropriate to the Bank's business model;
    - Development of effective monitoring processes through a compliance/business assurance function delivering continuous feedback on control effectiveness and policy compliance;
- Accountability for managing the asset and liability position of the Bank which is delegated to a sub committee of the Executive (ALCO), in accordance with policies approved by the Board.

CORPORATE GOVERNANCE (continued)

Internal Control

The Board has overall responsibility for the Bank's system of internal controls, which aim to safeguard the Bank's assets, ensure that proper accounting records are maintained and that the financial information used within the business and for publication is accurate, reliable and fairly presents the financial position of the Bank and the results of its business operations.

Control Environment

The Bank's control environment is designed around the creation of a risk management framework, summarised earlier in this document, and a 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 identified 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;
- Clearly defined levels of authority regarding expenditure policies;
- Comprehensive systems of financial reporting. The Bank's rolling longer term plan, annual business objectives and budgets are approved by the Board. The Board reviews the progress of these plans and budgets regularly, including Key Performance Indicators. Actual results compared to budget and prior year periods are reviewed by the Board at every meeting;
- A whistleblowers policy, which provides the opportunity for any employee to report, in confidence, suspected malpractice; and
- An internal audit function that reviews the system of internal control.

Risk Assessment

The Board and Executive Management have the primary responsibility for identifying the key business risks facing the Bank. The Executive Committee's administration of the Bank's Risk Management design and processes, which are designed to identify and effectively manage the key risks the business faces, is reviewed by the ARCC which provides reports back to the Board.

Primary responsibility for ensuring management identifies and evaluates its significant risks and for designing and operating suitable controls rests with the Bank's Chief Risk Officer who ensures that significant risks are reviewed regularly by the Executive Committee (Risk sub-group), ARCC and main Board.

The ARCC and Board, in fulfilling their responsibilities to ensure the Bank's overall system of controls are effective in delivering against the agreed risk appetite, receive many regular and ad-hoc reports including:-

- Quarterly summary of Compliance reviews based on a programme of ongoing activity.
- Quarterly Consolidated Risk Report (CRR).
- Regular reviews of Board agreed policies.
- Independent expert reports on specific issues.
- Internal Audit reports.
- External Audit reports.

CORPORATE GOVERNANCE (continued)

Risk Assessment (continued)

The Bank's 'Risk Management Framework' document is the principal source detailing the approach taken by the Bank to directing and managing the risk process.

Monitoring

The ARCC monitors, on behalf of the Board, the effectiveness of internal control in accordance with written terms of reference provided and approved by the Board.

Whilst operation of the systems of internal control is the responsibility of line management it is subject to regular compliance monitoring delivering assurance that the controls implemented by management are in place and performed correctly (i.e. provision of 'second line of defence'). Independent review by Internal Audit and, where appropriate, by the Bank's external auditors and regulators complements the monitoring role of the Compliance Function.

Internal Audit

The Internal Audit Function is an independent function from the business operation, deriving its authority from the Board through the ARCC. Its primary role is to provide the 'third line of defence', giving final assurance relied on by the ARCC when signing off on the adequacy and effectiveness of the Bank's internal control system framework, including risk management.

Internal Audit discharges its responsibilities by:

- regular reviews of the processes which are designed to ensure business risks are effectively managed;
- by reviewing the financial and operational controls which help to ensure the Bank's assets are properly safeguarded from loss, including fraud; and
- by reviewing the adequacy of the controls which help to ensure compliance with corporate objectives, policies and procedures together with external legislation and regulation.

The Internal Audit function also acts as a source of constructive advice and best practice, assisting senior management with its responsibility to improve the processes by which business risks are identified and managed.

Internal Audit reports are submitted to and significant issues discussed at the ARCC. The most significant issues are reported from the ARCC to the Board together with an overall statement of the effectiveness of the Bank's systems of control.

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 2013 set out on pages 16 to 29. 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 4, 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 2013 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 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
11 June 2013

PROFIT AND LOSS ACCOUNT
for the year ended 30 April 2013

	Notes	2013 £000	2013 £000	*2012 £000*	*2012 £000*
Interest receivable	3		13,120		*14,969*
Interest payable	4		(4,250)		*(4,817)*
Net interest income			8,870		*10,152*
Fees and commissions receivable		348		*236*	
Fees and commissions payable		(895)		*(1,282)*	
Net operating expenditure			(547)		*(1,046)*
Administrative expenses	5		(4,801)		*(4,638)*
Operating profit before exceptional items			3,522		*4,468*
Exceptional items					
Loss on sale of gilts/bonds			(1)		*-*
FSCS levy	6		(248)		*150*
Operating profit			3,273		*4,618*
Charitable donation to parent	7		(3,217)		*(4,572)*
Profit on ordinary activities before taxation			56		*46*
Tax on profit on ordinary activities	8		(56)		*(46)*
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 19 to 29 form an integral part of the financial statements.

BALANCE SHEET
as at 30 April 2013

	Notes	2013 £000	2013 £000	*2012 £000*	*2012 £000*
ASSETS					
Bank balances			7,615		*1,095*
Loans and advances to banks	9		480,010		*332,981*
Debt securities	10		494,774		*697,125*
Loans and advances to customers	11		191		*-*
Prepayments and accrued income			3,690		*4,825*
Total assets			986,280		*1,036,026*
LIABILITIES					
Customer accounts	12		961,047		*1,008,383*
Other liabilities	13		2,587		*4,913*
Accruals and deferred income			421		*505*
Subordinated liabilities	14		2,100		*2,100*
Preference shares	15		1,775		*1,775*
			967,930		*1,017,676*
Called up share capital	16	18,350		*18,350*	
Profit and loss account		-		*-*	
Shareholders' funds	17		18,350		*18,350*
Total liabilities			986,280		*1,036,026*

The notes on pages 19 to 29 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 11 June 2013 and signed on its behalf by

Iain MacKinnon
Chair

Barry Meeks
Interim Chief Executive

CAF Bank Limited
Company Number 1837656

CASH FLOW STATEMENT
for the year ended 30 April 2013

	Notes	2013 £000	2013 £000	*2012 £000*	*2012 £000*
Net cash (outflow)/inflow from operating activities	18.1		(81,109)		*63,030*
Returns on investments and servicing of finance					
Charitable donations paid			(5,272)		*(6,515)*
Taxation					
Corporation tax paid			(56)		*(64)*
Capital expenditure and financial investment					
Acquisitions of debt securities		(483,568)		*(1,455,229)*	
Redemptions of debt securities		683,973		*1,516,867*	
Net cash inflow from capital expenditure and financial investment			200,405		*61,638*
Financing					
Repayment of loan stock		-		*(6,500)*	
Proceeds from issue of equity shares		-		*6,500*	
			-		-
Increase in cash	18.2		113,968		*118,089*

The notes on pages 19 to 29 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2013

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 generally accepted accounting principles (UK GAAP). The Bank has taken the exemption from FRS 26.

The going concern basis was adopted in preparing the annual report and accounts. The Directors' 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 19)

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*

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 based on information provided by the FSCS, forecast future interest rates and our 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 2013 (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

	2013	***2012***
	£000	***£000***
Interest receivable and similar income arising from debt securities	10,698	*12,325*
Other interest receivable and similar income	2,422	*2,644*
	13,120	*14,969*

4. Interest payable

	2013	***2012***
	£000	***£000***
Customer accounts	3,963	*4,160*
Loan stock holders	128	*497*
Preference shareholders	159	*160*
	4,250	*4,817*

5. Administrative expenses

	2013	***2012***
	£000	***£000***
Staff costs		
Wages and salaries	2,001	*1,730*
Social security costs	181	*164*
Other pension costs	130	*111*
	2,312	*2,005*
Other administrative expenses	2,489	*2,633*
	4,801	*4,638*

Throughout the year 66 *(2012: 72)* employees of CAF (note 20) were assigned to duties relating to the activities of the Bank.

Creditors include £8,000 (*2012: £9,000*) in respect of pension contributions payable.

The average number of total employees analysed by function was:

	2013	***2012***
	Number	***Number***
Management	13	*11*
Information Systems	5	*4*
Administration	54	*64*
	72	*79*

The average number of full-time equivalent employees analysed by function was:

	2013	***2012***
	Number	***Number***
Management	13	*11*
Information Systems	5	*4*
Administration	48	*57*
	66	*72*

5. **Administrative expenses** (continued)

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.

	2013	***2012***
	£000	***£000***
Indirect staff costs	718	*718*
Management charges	489	*489*
	1,207	*1,207*

Directors' emoluments

None of the directors who served during the year were remunerated directly by the Bank *(2012: none)*. However, during the year, the Bank reimbursed CAF with £257,591 *(2012: £136,661)* which includes £115,093 (*2012: nil*) for compensation for loss of office in respect of services rendered by two executive directors *(2012: one).*

Auditor's remuneration

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

	2013	***2012***
	£000	***£000***
Audit fees payable to the company's auditor for the audit of the company's financial statements	49	*42*
Further regulatory assurance related services	11	*5*
	60	*47*

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 the preceding 31 December. The provision at 30 April 2013 represents the estimated amounts due in respect of the Bank's participation in the scheme for the years ending 2013 and 2014, 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. This is expected to be recovered though a capital compensation levy. Further information on the timing and amount of this levy was received in early 2013, which currently estimates the levy to be payable over three years, with the first amount being payable in July 2013. The amount accrued as at 30th April 2013 includes £336,000 in respect of the first year of the capital levy.

	2013	***2012***
	£000	***£000***
Provision at 1st May	778	*1,230*
Paid during the year	(187)	*(302)*
Provided/(released) during the year	248	*(150)*
Provision at 30th April	839	*778*

7. **Charitable donation to parent**

The Bank donated a surplus to CAF of £3,217,000 (*2012: £4,572,000*) during the year, with £717,000 remaining to be paid at 30 April 2013.

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: 24% *(2012: 26%)*. The differences are explained below.

	2013 £000	***2012 £000***
Tax expense:		
UK corporation tax	56	*46*
Reconciliation to tax expense:		
Tax at 24% on:		
Operating profit	786	*1,201*
Charitable donation to parent	(772)	*(1,189)*
Interest payable to preference shareholders	38	*42*
	52	*54*
Expected tax charge on disallowable expenditure	4	*3*
Tax (over)/under accrued in previous year	-	*(11)*
	56	*46*

There is no unprovided deferred taxation.

9. **Loans and advances to Banks**

	2013 £000	***2012 £000***
Repayable on demand	400,010	*292,562*
Remaining maturity of other loans and advances:		
1 day to 8 days	-	-
Over 8 days to 3 months	20,000	*3,319*
Over 3 months to 6 months	20,000	*35,000*
Over 6 months to 1 year	20,000	*2,100*
Over 1 year to 5 years	20,000	-
	480,010	*332,981*

10. **Debt securities**

10.1 ***Issue***

	2013 Book Value £000	**2013 Market Value £000**	***2012 Book Value £000***	***2012 Market Value £000***
UK government	974	1,297	*977*	*1,337*
Multilateral financial institutions	163,441	165,251	*204,129*	*205,493*
Sterling eurobonds	84,348	84,663	*18,579*	*18,192*
Floating rate notes	246,011	245,163	*250,000*	*248,327*
	494,774	496,374	*473,685*	*473,349*
Commercial paper	-	-	*164,479*	*164,862*
Certificates of deposit	-	-	*58,961*	*59,193*
	494,774	496,374	*697,125*	*697,404*

10. **Debt securities** (continued)

10.2 ***Listing***

	2013 Book Value £000	2013 Market Value £000	*2012 Book Value £000*	*2012 Market Value £000*
Listed on a recognised EU exchange	494,774	496,374	*473,685*	*473,349*
Unlisted	-	-	*223,440*	*224,055*
	494,774	496,374	*697,125*	*697,404*

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

10.3 ***Maturity***

	2013 Book Value £000	*2012 Book Value £000*
1 day to 8 days	-	-
Over 8 days to 3 months	-	*162,940*
3 months to 6 months	90,000	*84,855*
6 months to 1 year	143,466	*142,068*
	233,466	*389,863*
1 year to 5 years	260,765	*305,737*
	494,231	*695,600*
5 years and over	543	*1,525*
	494,774	*697,125*
Unamortised discounts	(15,809)	*(9,875)*

10.4 ***Movements***

	Cost £000	Amort-isation £000	Book Value £000
At 1 May 2012	*706,043*	*(8,918)*	*697,125*
Acquisitions	483,568	(1,133)	482,435
Redemptions	(683,973)	2,893	(681,080)
Amortisation	-	(3,706)	(3,706)
At 30 April 2013	505,638	(10,864)	494,774

11. **Loans and advances to customers**

	2013 £000	*2012 £000*
Repayable within 3 years	191	-

During the year one (*2012: nil)* loan was advanced to a customer which is secured by debenture. Total commitments as at 30th April 2013 totalled £6,993,000 (*2012: nil*) which comprise amounts yet to be drawn under loan or overdraft agreements and BACS payment facilities.

12. Customer accounts

	2013 £000	*2012 £000*
Repayable on demand	507,727	*527,417*
Repayable within 7 days	329,819	*376,450*
Repayable within 30 days	123,501	*104,516*
Repayable within 3 months	-	-
Repayable within 6 months	-	-
	961,047	*1,008,383*
Amounts include:		
Amounts owed to CAF	38,830	*43,716*

13. Other liabilities

Amounts due within one year:	2013 £000	*2012 £000*
Amounts owed to CAF	986	*2,989*
Sundry creditors	706	*1,090*
FSCS Levy	839	*778*
Taxation	56	*56*
	2,587	*4,913*

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:

Floating rate:	*Notes*	2013 £000	*2012 £000*
- Second issue	*(a, d)*	500	*500*
- Fourth issue	*(b, d)*	350	*350*
- Sixth issue	*(b, e)*	250	*250*
Fixed rate:			
- Third issue, 8.71%	*(c, d)*	1,000	*1,000*
		2,100	*2,100*

*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 over a reference gilt rate until the redemption date of that gilt.

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**

	2013		*2012*	
	Number	**£000**	***Number***	***£000***
Authorised:				
9.15% preference shares of £1 each	5,000,000	5,000	*5,000,000*	*5,000*
8.00% preference shares of £1 each	5,000,000	5,000	*5,000,000*	*5,000*
		10,000		*10,000*
Allotted, issued and fully paid:				
9.15% preference shares of £1 each	1,500,000	1,500	*1,500,000*	*1,500*
8.00% preference shares of £1 each	275,000	275	*275,000*	*275*
		1,775		*1,775*

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**

	2013		*2012*	
	Number	**£000**	***Number***	***£000***
Authorised:				
Ordinary shares of £1 each	30,000,000	30,000	*30,000,000*	*30,000*
		30,000		*30,000*
Allotted, issued and fully paid:				
Ordinary shares of £1 each	18,350,000	18,350	*18,350,000*	*18,350*
		18,350		*18,350*

17. **Reconciliation of shareholders' funds**

	2013	*2012*
	£000	***£000***
Retained profit for the financial year	-	*-*
New equity share capital issued	-	*6,500*
Net additions to shareholders' funds	-	*6,500*
Opening shareholders' funds	18,350	*11,850*
Closing shareholders' funds	18,350	*18,350*

18. **Cash flow statement**

18.1 ***Reconciliation of operating profit before taxation to net (outflow)/inflow from operating activities***

	2013 £000	*2012 £000*
Operating profit before taxation	3,273	*4,618*
Decrease/(Increase) in prepayments and accrued income	1,135	*(299)*
Decrease in accruals and deferred income	(84)	*(195)*
Amortisation of premiums	1,946	*5,064*
	6,270	*9,188*
Net (decrease)/increase in loans and advances to banks	(39,581)	*78,081*
Net increase in loans and advances to customers	(191)	*-*
Net decrease in customer accounts	(47,336)	*(23,923)*
Net decrease in other liabilities	(271)	*(316)*
Net cash (outflow)/inflow from operating activities	(81,109)	*63,030*

18.2 ***Analysis of the balances of cash as shown in the balance sheet***

	At 1 May 2012 £000	Cash flow £000	At 30 April 2013 £000
Loans and advances to other banks repayable on demand	*292,562*	107,448	400,010
Bank balances	*1,095*	6,520	7,615
	293,657	113,968	407,625

19. **Financial instruments**

19.1 ***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.

19.2 ***Currency profile***

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

19.3 ***Instruments held for trading***

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

19.4 ***Market price risk***

The Bank's exposure to market price risk is limited to multilateral development bank assets held for liquidity buffer purposes.

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.

19. **Financial instruments** (continued)

19.5 Hedging

CAF Bank does not hold financial instruments for hedging purposes.

19.6 Fair values

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

	2013		*2012*	
	Book	Fair	*Book*	*Fair*
	Value	Value	*Value*	*Value*
Assets	£000	£000	*£000*	*£000*
Loans and advances to banks	480,010	480,010	*332,981*	*332,981*
Debt securities	494,774	496,374	*697,125*	*697,404*
	974,784	976,384	*1,030,106*	*1,030,385*

19.7 Credit risk

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

	2013		*2012*	
	Book	% of	*Book*	*% of*
Category	Value	Book	*Value*	*Book*
(Fitch equivalent credit rating)	£000	%	*£000*	*%*
UK Government	400,984	41.14%	*292,344*	*28.38%*
Other AAA	163,441	16.77%	*225,490*	*21.89%*
AA+	-	0.00%	-	*0.00%*
AA	-	0.00%	*50,269*	*4.88%*
AA-	113,662	11.66%	*44,192*	*4.29%*
A+	45,116	4.63%	*44,707*	*4.34%*
A	124,986	12.82%	*373,104*	*36.22%*
A-	119,978	12.31%	-	*0.00%*
BBB+	5,170	0.53%	-	*0.00%*
BB+	1,447	0.15%	-	*0.00%*
	974,784	100.00%	*1,030,106*	*100.00%*

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. 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 ensures 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.

19. **Financial instruments** (continued)

19.8 ***Interest rate risk***

The Bank is exposed to some potential interest rate risk arising principally from changes in market interest rates which impact either the market value of gilt and multilateral financial institution bonds or the rates that the Bank pays its depositors. The Bank's policy is to hold gilts and bonds to maturity except where the Bank is required to turnover an element of its liquidity buffer in line with regulatory requirements. Consequently, losses or gains arising from movements in market interest rates are not expected to be realised during the normal course of business.

The Bank's portfolio contains a combination of fixed and variable rate financial instruments and, at 30 April 2013, the proportion of the book that would re-price within 90 days is 68%.

The Bank can vary interest rates paid to depositors at short notice, subject to the Payment Services Regulations which require 60 days notice to be given in respect of downward changes that adversely impact customers. However, it is recognised that the Bank is potentially exposed to interest rate risk and the Board has agreed an appetite of £2m given a +/- 2.0% change in market rates.

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.

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)	-

19. **Financial instruments** (continued)

*19.8 **Interest rate risk***

As at 30 April 2012	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	1,095							1,095
Loans and advances to banks	292,562	3,319	35,000	2,100	-	-	-	332,981
Debt securities	20,000	392,940	59,855	72,068	150,737	1,525	-	697,125
Prepayments and accrued income	-	-	-	-	-	-	4,825	4,825
	313,657	396,259	94,855	74,168	150,737	1,525	4,825	1,036,026
Liabilities								
Customer accounts	527,417	480,966	-	-	-	-	-	1,008,383
Other liabilities	-	-	-	-	-	-	4,913	4,913
Accruals and deferred income	-	-	-	-	-	-	505	505
Subordinated liabilities	1,100	-	-	-	-	1,000	-	2,100
Preference shares	-	-	-	-	-	-	1,775	1,775
Shareholders' funds	-	-	-	-	-	-	18,350	18,350
	528,517	480,966	-	-	-	1,000	25,543	1,036,026
Interest rate sensitivity gap	(214,860)	(84,707)	94,855	74,168	150,737	525	(20,718)	-

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**

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

CAF
Bank

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CAF Charities Aid Foundation