CAF BANK LTD PILLAR 3 DISCLOSURE

30 April 2020

CAF Bank Ltd, 25 Kings Hill Avenue, Kings Hill, West Malling, Kent ME19 4JQ; company registration number 1837656 (England and Wales).

CAF Bank

CONTENTS

Overview

Purpose of this disclosure

This document is prepared in accordance with the Pillar 3 requirements which are set out under the Capital Requirements Directive and Regulation (CRD IV) and aim to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

General

CAF Bank Limited publishes its Pillar 3 Disclosure annually. This Pillar 3 report is based on the Bank's financial statements for the year ended 30 April 2020 and is prepared on a solo basis.

CAF Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This document should be read in conjunction with CAF Bank's annual report and financial statements for the corresponding financial year, which, together with other information, is available on the Bank's website www.cafonline.org/cafbankannualaccounts

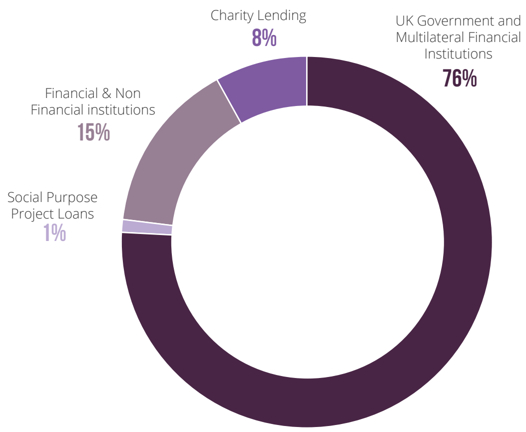
Principal activities

CAF Bank provides banking services to charities and social purpose organisations. The Bank offers transactional current and deposit accounts via telephone and internet banking and provides loans and advances to customers. These services complement a range of services to charities provided by the Charities Aid Foundation (CAF), the Bank's parent.

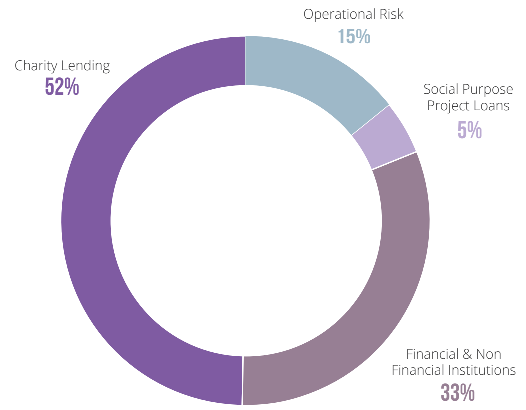
CAF Bank is a wholly owned subsidiary of CAF.

Capital and Exposures at 30th April 2020

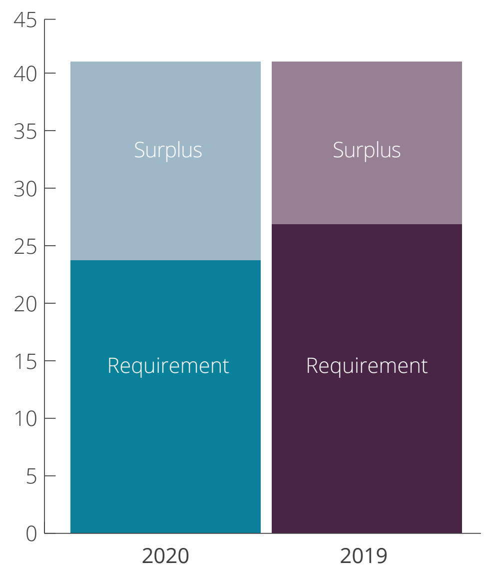
Exposures



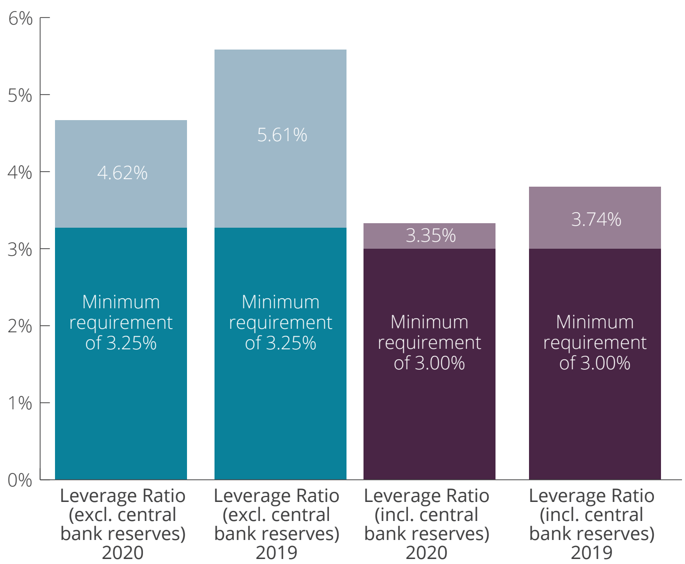
Risk Weighted Assets



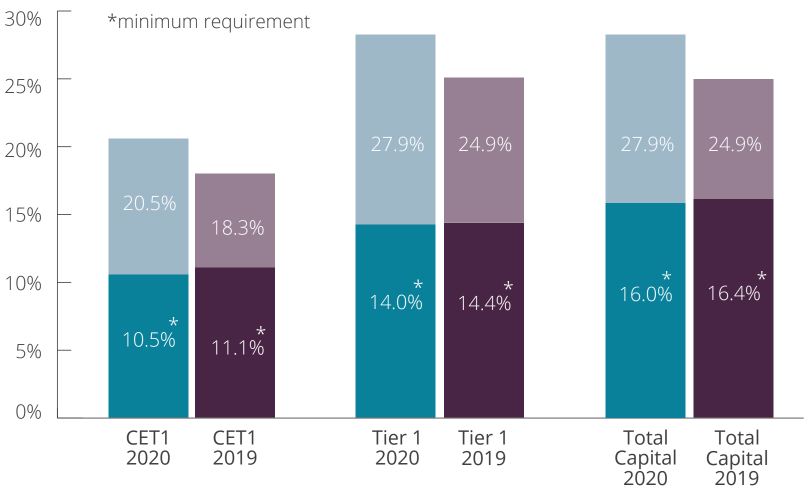
Capital Resources (£m)



Leverage Ratio



Capital Ratios



Overview of capital position versus capital requirement

CAF Bank's capital resources and total capital requirement are summarised in the table below.

Capital surplus	2020		2019	
	£000	%	£000	%
Total Capital resources				
CET1	30,350	20.6%	30,350	18.3%
Total T1	41,350	28.0%	41,350	24.9%
Total Capital	41,350	28.0%	41,350	24.9%
Total Capital Requirement				
CET1	15,505	10.5%	18,475	11.1%
Total T1	20,626	14.0%	23,828	14.4%
Total Capital	23,576	16.0%	27,147	16.4%
Capital Surplus				
CET1	14,845	10.1%	11,875	7.2%
Total T1	20,724	14.0%	17,522	10.6%
Total Capital	17,774	12.0%	14,203	8.6%

CAF Bank's capital position has improved in 2019/20 following the conclusion of a review by the PRA during the year. The main impact of this is to reduce the amount of capital required to support lending to registered social housing associations.

At 30 April 2020 the Bank's total capital ratio was 28.0% compared to 24.9% at 30 April 2019, reflecting a decrease in risk weighted assets on social housing loans. The Bank's minimum regulatory capital requirement decreased to 16.0% at 30 April 2020 (30 April 2019: 16.4%) which, combined with an agreed reduction in risk weighted assets translates to a capital requirement of £23.6m at 30 April 2020 compared to £27.1m last year.

Leverage ratio

CRR requires firms to calculate a non-risk adjusted Leverage Ratio, to supplement risk-based capital requirements. The Leverage Ratio measures the relationship between the capital resources of the firm and its total assets. The purpose is to constrain the build up of excessive leverage.

Leverage is calculated as Tier 1 capital divided by total on and off balance sheet assets adjusted for deductions.

The Prudential Regulation Authority has confirmed that CAF Bank should be reporting under the UK framework which results in a leverage ratio of 4.6% (2019: 5.6%) compared to a minimum of 3.25%.

The following table outlines the Bank's leverage ratio as at 30 April 2020.

	2020	2019
	£000	£000
UK Leverage Ratio		
Tier 1 Resources	41,350	41,350
Leverage Exposure	895,616	737,559
Leverage Ratio (excluding central bank exposures)	4.62%	5.61%
CRR Leverage Ratio		
Balance Sheet Assets	1,212,930	1,092,300
Regulatory adjustments	4,399	4,080
Committed facilities	17,547	8,424
Leverage Ratio Assets	1,234,875	1,104,805
Tier 1 Capital Resources	41,350	41,350
Leverage Ratio (including central bank exposures)	3.35%	3.74%

Capital management

CAF Bank aims at all times to maintain an adequate level of capital to support the development of its business and to meet regulatory capital requirements.

Business and capital plans are drawn up annually covering a three year period and approved by the Board. The plans ensure that adequate levels of capital are maintained by the Bank to support its strategy. This is integrated with the Bank's annual planning process.

The capital plan takes the following into account:

- Current and anticipated future regulatory capital requirements;
- Increases in demand for capital due to business development, including planned lending growth;
- Potential demand for capital from market shocks or stresses;
- Available supply of capital and capital raising options;
- Achieving a minimum required leverage ratio; and
- Internal controls and governance for managing the Bank's risk, operations and capital.

The Bank undertakes a detailed capital adequacy assessment to support its capital requirements. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital adequacy assessment is a key part of the Bank's risk and planning framework and a minimum capital requirement is assessed and agreed with the PRA. The Bank's internal capital adequacy assessment is regularly updated under two Pillars.

Capital resources

The Bank's capital resources are shown in the following table. The main features and terms of the various components of the capital resources are described in the Capital Instruments section.

	2020		2019	
	£000	% of Total Risk Exposure	£000	% of Total Risk Exposure
Common Equity Tier 1 Capital				
Called up ordinary share capital	29,350		29,350	
Qualifiying Distributable Reserves	1,000		1,000	
Common Equity Tier 1 Capital	30,350	20.6%	30,350	18.3%
Other Tier 1 Capital				
Additional Tier Capital	11,000		11,000	
Total Tier 1 Capital	41,350	28.0%	41,350	24.9%
Total Capital resources	41,350	28.0%	41,350	24.9%

Capital instruments issued by CAF Bank

Tier 1 capital

CAF Bank's Tier 1 capital is further comprised of CET1 capital (ordinary share capital and distributable reserves) and Other Tier 1 capital (Additional Tier 1 capital).

CET 1 capital

Description	Terms	2020	2019
		£000	£000
Tier 1 Capital			
Ordinary shares	Permanent	29,350	29,350
Distributable Reserves		1,000	1,000
Total		30,350	30,350

Ordinary share capital is fully paid-up with the proceeds of issue immediately and fully available. There is no obligation to pay a dividend. The capital is available for unrestricted and immediate use to cover risks and losses, and enable the organisation to continue trading.

Other T1 capital

Description	Coupon	Terms	2020	2019
			£000	£000
Tier 1 Capital				
Additional Tier 1	9.0%	Perpetual, non-cumulative	11,000	11,000
Total			11,000	11,000

The principal terms of the Additional Tier 1 capital are as follows:

- Perpetual, repayable at CAF Bank's election after 5 years with the prior consent of the PRA;
- Non-cumulative 9% per annum coupon, cancellable at the discretion of the CAF Bank Board;
- Irrevocable conversion to voting ordinary shares either at a trigger level of 7% Common Equity Tier 1 capital, or at such time as the CAF Bank Board considers it reasonably foreseeable that a trigger event will occur;
- In the event of conversion, £1 par value of AT1 capital will convert to £1 nominal value of ordinary share capital, such ordinary shares being identical to existing ordinary shares in all respects.

Capital requirement

Minimum capital requirement: Pillar 1

In calculating minimum capital requirements under Pillar 1, CAF Bank adopts the Standardised Approach to credit risk and Basic Indicator Approach to operational risk. The following table outlines the Bank's minimum capital requirement as at 30 April 2020.

Pillar 1 capital requirement	2020		2019	
	£000	%	£000	%
Risk weighted assets	125,890		145,894	
Operational Risk Add-on	21,650		20,091	
Total Risk Exposure Amount	147,540		165,985	
Credit Risk	10,070	8%	11,672	8%
Operational Risk	1,732	8%	1,607	8%
Total Pillar 1 capital requirement	11,802	8%	13,279	8%

An analysis of the credit risk capital requirement is shown in the table below.

Pillar 1 capital requirement	2020				2019			
	Exposure £000	Risk weighting %	RWA £000	Requmt £000	Exposure £000	Risk weighting %	RWA £000	Requmt £000
Central government and Multilateral Development Banks	929,959	0%	-	-	879,742	0%	-	-
Treasury Investments - Financial institutions	72,709	10%	7,271	582	-	10%	-	-
Treasury Investments - Financial institutions	38,090	20%	7,618	609	29,147	20%	5,829	466
Treasury Investments - Financial institutions	60,220	50%	30,110	2,409	73,571	50%	36,785	2,943
Treasury Investments - Corporates	9,151	20%	1,830	146	19,406	20%	3,881	311
Treasury Investments - Corporates	-	50%	-	-	1,881	50%	941	75
Treasury Investments - Corporates	-	100%	-	-	-	100%	-	-
Loans to charities	118,027	66%	77,630	6,210	89,142	100%	89,327	7,146
Loans to social purpose projects	4,536	150%	6,804	544	9,882	150%	14,823	1,186
Other items (debtors and prepayments)	798	100%	798	64	837	100%	837	67
SME deduction	-		(6,172)	(494)	-		(6,529)	(522)
Total Pillar 1 capital requirement	1,233,491		125,890	10,070	1,103,608		145,894	11,672

Minimum capital requirement: Pillar 2

Pillar 2 is designed to assess the adequacy of a firm's capital resources by considering all material risks to the business, including those not covered or adequately addressed by Pillar 1, taking into account the impact of stress tests conducted across a variety of different scenarios which the Bank may be exposed to. Requirements under Pillar 2 encourage firms to develop, operate and evolve better risk management techniques for monitoring, measuring and managing material risks.

CAF Bank has assessed its risks and allocated capital over and above that required for Pillar 1 for the risks shown in the following table. Each risk type is described in the Principal Risks section.

Pillar 2A

Risk type	2020 Capital Addition		2019 Capital Addition	
	£000	%	£000	%
Market and interest rate risk	1,313	0.9%	996	0.6%
Operational risk	2,302	1.6%	1,826	1.1%
Credit concentration risk	2,995	2.0%	3,685	2.2%
Total	6,610	4.5%	6,507	3.9%

The amounts identified above relating to Pillar 2A capital represent additional capital equivalent to 4.48% of Total Risk Exposure Amount (CAF Bank's 'ICG').

Pillar 2B

CAF Bank assesses an additional amount of capital as a buffer ('Pillar 2B') against risks it may become exposed to over the forward looking planning horizon. Such risks include a downgrade in credit ratings of wholesale counterparties, bail in losses affecting counterparties, loan losses and an increase in market interest rates. Following implementation of CRR, CAF Bank has progressively introduced Capital Conservation and Countercyclical buffers.

Capital Conservation Buffer rates are set in the CRR.

The Countercyclical Capital Buffer is a weighted average of the buffer rates applicable to the jurisdictions in which CAF Bank is invested. CAF Bank monitors the buffer rates published by the Bank of England.

As a result of the events connected with COVID-19, the Countercyclical Capital Buffer requirement was reduced. At 30 April 2020 the Countercyclical Capital Buffer requirement is 0% of Total Risk Exposure Amount.

Pillar 2B Capital Requirement (as % of Total Risk Exposure Amount)	
Capital Conservation Buffer	2.5%
Countercyclical Capital Buffer	0.0%

Total capital requirements

The above minimum capital requirements are aggregated and expressed as a percentage of the Bank's Total Risk Exposure Amount.

CRR places greater emphasis on the highest quality of capital (known as Common Equity Tier 1) and strengthens the criteria used to determine what can be used as CET1.

Minimum capital requirement (% of Total Risk Exposure Amount)	2020			2019		
%	CET1	Total T1	Total Capital	CET1	Total T1	Total Capital
Pillar 1	4.5%	6.0%	8.0%	4.5%	6.0%	8.0%
Pillar 2A	2.5%	4.5%	4.5%	2.2%	3.9%	3.9%
Capital Conservation Buffer	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Countercyclical Buffer	0.0%	0.0%	0.0%	0.9%	0.9%	0.9%
Management Buffer	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Minimum Requirement	10.5%	14.0%	16.0%	11.1%	14.3%	16.3%
£000						
Pillar 1	6,640	8,852	11,802	7,469	9,959	13,278
Pillar 2A	3,701	6,610	6,610	3,644	6,507	6,507
Capital Conservation Buffer	3,689	3,689	3,689	4,150	4,150	4,150
Countercyclical Buffer	-	-	-	1,552	1,552	1,552
Management Buffer	1,475	1,475	1,475	1,660	1,660	1,660
Minimum Requirement	15,505	20,626	23,576	18,475	23,828	27,147

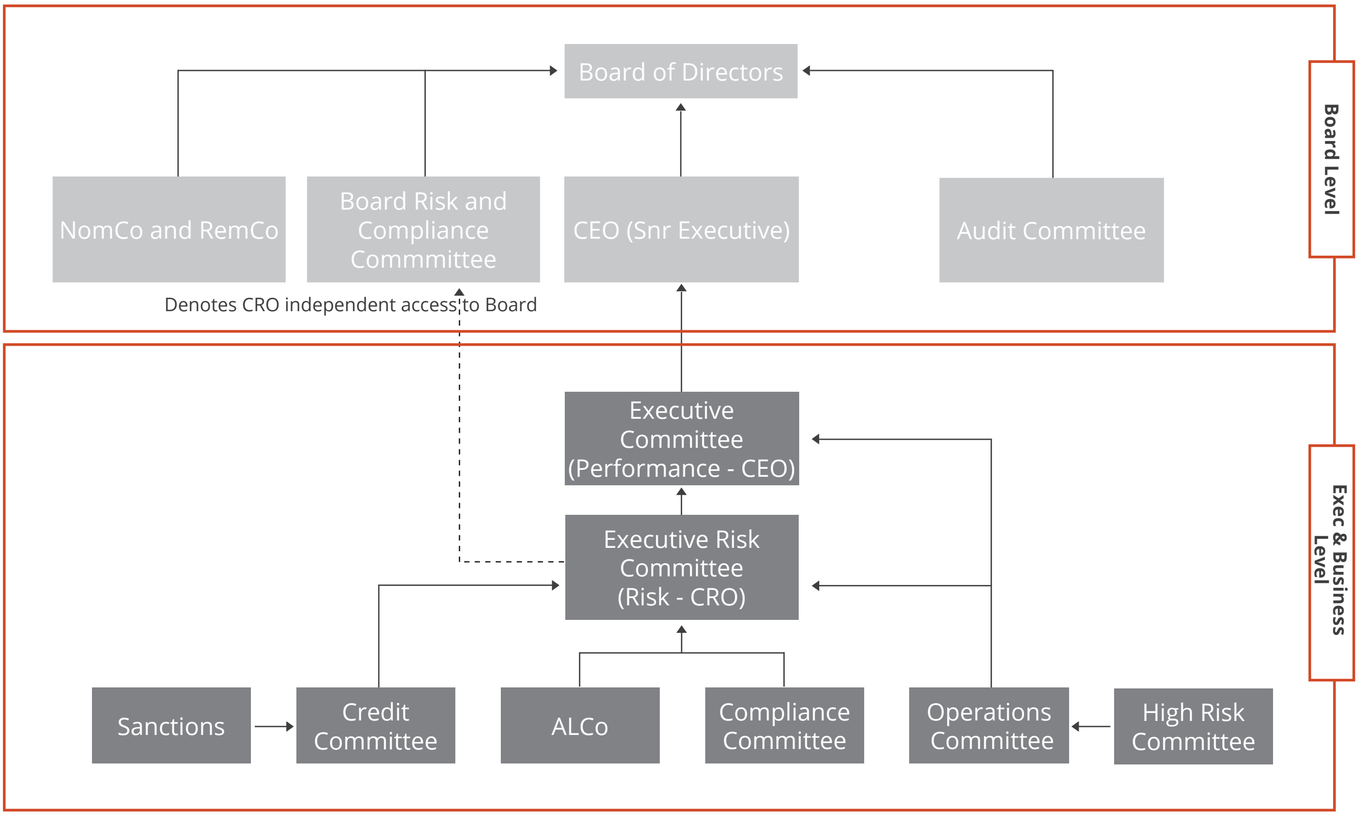
Governance

Governance Structure

As an unlisted company, the UK Corporate Governance Code (2018) does not apply to CAF Bank; however, the Board has sought to comply with a number of the provisions of the Code where it considers them to be appropriate and proportionate to a company of the Bank's size and nature.

The Board

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



The Board comprises the non-executive chair, seven non-executive directors and two executive directors and exercises its accountabilities through its own activities and through delegation of responsibilities to the CEO and the Executive Committee. The Board receives reports from the CEO and reviews the work of the Executive Committee.

How the Board discharged its responsibilities:

During the year the Board:

- Approved the Bank's strategy, operating plans, budgets and forecasts;
- Approved the Risk Appetite Framework and policies to maintain an effective and appropriate governance and control structure for managing the business;
- Reviewed and challenged the operating activities of the Bank compared to plans and changes in the wider economic environment;
- Monitored the conduct of business to ensure adherence to approved risk appetite and compliance with applicable regulations;
- Monitored reputational risk and brand issues;
- Reviewed, challenged and approved the capital and liquidity adequacy assessments and policies (ICAAP and ILAAP) and liquidity (ILAAP) including the gifting of annual profits to its parent, the Charities Aid Foundation;
- Reviewed, challenged and approved the Recovery and Resolution Plans;
- Approved the composition, membership and terms of reference of Board sub-committees;
- Reviewed reports and recommendations from Board sub-committees, taking action as appropriate;
- Reviewed and approved the Annual Report and Financial Statements;
- Set an appropriate 'tone from the top' and ensured alignment of values and behaviours in the Bank relating to the conduct of its business; and
- Kept the PRA and FCA informed of the Bank's strategy, operations and risks during the year.

Board Committees

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

i. Board Risk and Compliance Committee;
ii. Audit Committee; and
iii. Nominations and Remuneration Committee.

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

The Board Risk and Compliance Committee (BRCC)

The Board Risk and Compliance Committee is responsible for advising the Board on the Bank's risk management framework and compliance matters. The Committee is chaired by an Independent Non-Executive Director (INED) and comprises two other INEDs and two independent members. Key management attend Committee meetings by invitation.

How the BRCC discharged its responsibilities:

During the year the BRCC:

- Reviewed the Risk Management Framework and Risk Appetite Statement and recommended these for approval by the Board;
- Monitored risk reporting and ensured the Bank's strategy, principles, policies and resources are aligned to the Bank's risk appetite, as well as to regulatory and industry best practices;
- Reviewed and challenged capital and liquidity adequacy assessments and the recovery plan, recommended approval by the Board;
- Monitored compliance with legislation, regulation and internal policy;
- Focused on IT risks in particular, and
- Reviewed policies and recommending these to the Board.

The Board Audit Committee

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

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

How the Committee discharged its responsibilities:

Financial Reporting

The Committee reviewed and challenged:

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

Internal Audit

During the year the Committee:

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

Whistleblowing

The Chairman of the Audit Committee has oversight as the Bank's "whistleblowers' champion", with responsibility for ensuring and overseeing the integrity, independence, and effectiveness of the whistleblowing policies and procedures. The Committee reviews at least annually the Bank's Whistleblowing Policy and associated arrangements.

The Nominations and Remuneration Committee

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

The Committee comprises the Chair, the CEO and a Non Executive Director.

How the Committee discharged its responsibilities:

During the year the Committee:

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

Risk Management Framework

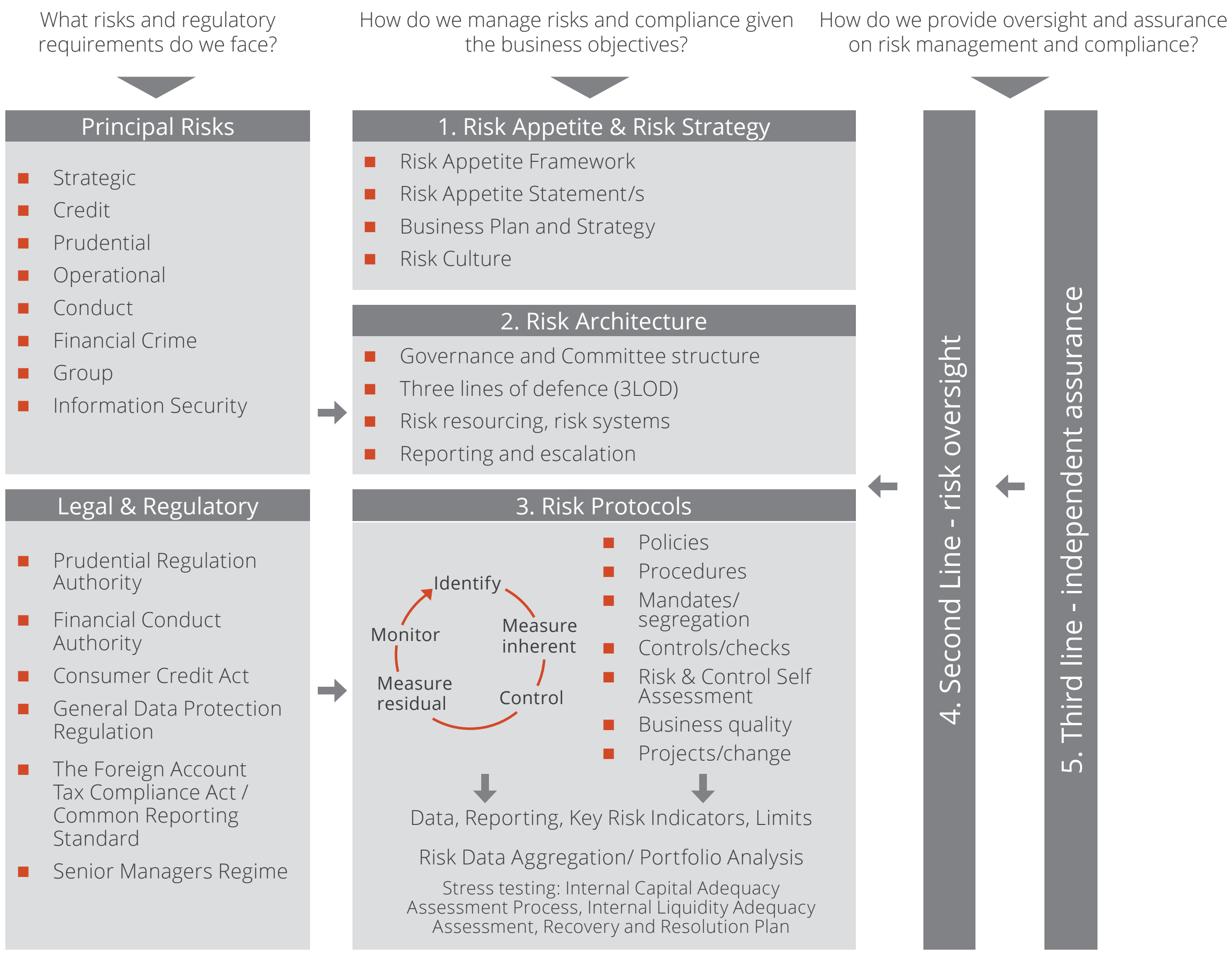
The Risk Management Framework (RMF) outlines how CAF Bank Ltd (the "Bank") manages risks that are relevant to our chosen sectors, business model and operations. Risk management refers to the process of identification, assessment, measurement, control and monitoring of risks. The RMF explains how the Bank adheres to the monitoring of its risk appetite as well as the policies, procedures, governance, systems and tools that it uses to enable effective risk management at the Bank.

The RMF is reviewed and approved by the Board annually following recommendation by the Board Risk and Compliance Committee. The CEO and the Chief Risk Officer ensure that business objectives and practices are fully aligned with the RMF.

The senior executives and managers of the Bank ensure that the RMF is embedded in its day-to-day management and control activities, with a clear separation between First Line of Defence (1LOD) and Second Line of Defence (2LOD) activities. The RMF is subject to assurance reviews undertaken by Internal Audit and these are made available to external stakeholders as and when required.

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

Risk Management Framework



The RMF includes the three lines of defence model which ensures a clear delineation of responsibilities between control over day-to-day operations, risk oversight and control and independent assurance of the Bank's activities.

The three lines of defence model is important as it provides clarity for individuals and functions about their role, where responsibilities and accountabilities lie and is a core component of the RMF.
The emphasis on the responsibilities of each line of defences is as follows:

First line of defence – Business lines and centralised functions

- To run the business in a safe but profitable manner to enable sustainability – linked to the Risk Appetite Framework and Statements;
- To manage the risks in the business within tolerances or limits;
- To act in an "early warning" role in terms of ongoing client relationship management;
- To identify, measure, control and monitor risks within each area of the business, reporting and escalation of incidents and to evidence control;
- To implement and adhere to the mandates, policies and processes that are part of the control environment; and
- To identify and assess new or emerging risks as internal activities or the external environment changes.

Second line of defence – Oversight functions (Risk, Compliance and Anti-Money Laundering)

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

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

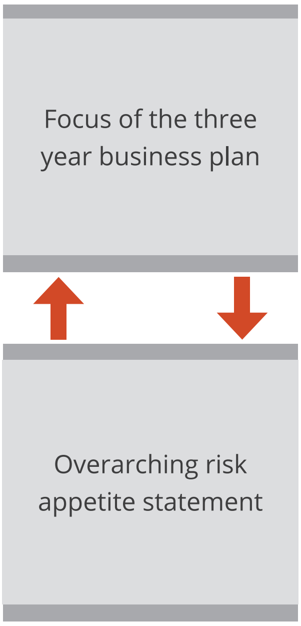
- To provide independent assurance to the Board via the Audit Committee that the 1LOD and 2LOD are operating effectively in discharging their responsibilities.

The Chief Risk Officer (CRO) is responsible to the Board for oversight of bank-wide risk management. This position is deemed independent of the business and to have unfettered access to the Board (usually through the Chair of the BRCC). On a day to day basis the CRO reports to the CEO.

Risk appetite statement

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

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



CAF Bank, a bank owned by a charity is developing a more robust business model that seeks to maintain an appropriate balance between its mission to support charities and providing a return to CAF in a low interest environment.

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

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

Strategic Risk

Strategic risk is the risk that can affect the Bank's ability to achieve its strategic and business objectives. Strategic risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

From a strategic perspective, CAF Bank was established as a mixed motive investment to further the charitable mission of its parent, the Charities Aid Foundation as well as provide a financial return on CAF's investment in the Bank.

Credit Risk

Credit or default risk is the potential of financial loss from a borrower or counterparty failing to meet their financial obligations to the Bank to repay in accordance with agreed terms. Credit risk arises primarily from investing funds with treasury counterparties and lending to charities and social purpose customers.

Treasury assets

Treasury counterparties are reviewed and approved by the ALCo in accordance with policies and criteria approved by the Board. The Bank sets criteria which include credit rating, counterparty lending limits, group exposures, and country exposure limits. New investments with financial and non-financial institutions do not exceed £10m and £5m respectively. The Bank uses the Standardised Approach to assess capital required for credit risk, with risk weightings based on the lower of the two highest of Fitch, S&P and Moody's ratings in accordance with the credit quality assessment scale.

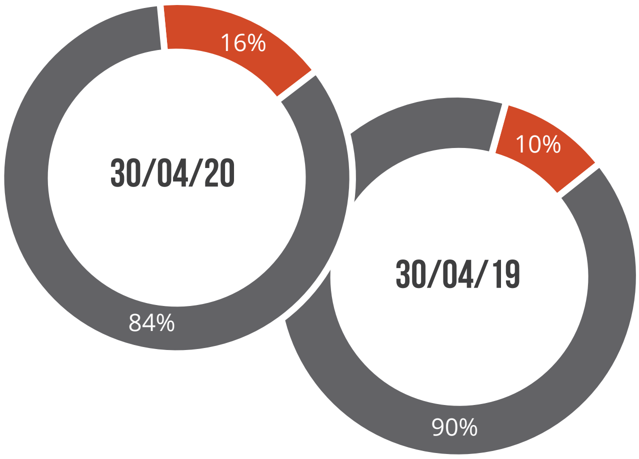
Treasury assets by class:

	2020		2019	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
UK government	63,036	63,102	105,825	106,016
Multilateral financial institutions	536,545	540,386	452,748	452,451
Fixed coupon corporate bonds	43,521	43,657	36,515	36,433
Floating rate corporate bonds	107,981	107,876	74,998	75,170
	751,083	755,021	670,086	670,070
Unlisted:				
Certificates of deposit	20,000	20,029	-	-
Debt securities	771,083	775,050	670,086	670,070
Balances at Bank of England	327,571	327,571	318,175	318,175
Loans and advances to banks	6,273	6,273	8,993	8,993
	1,104,927	1,108,894	997,254	997,238

Treasury assets by credit rating:

	2020		2019	
Category (Fitch equivalent lowest credit rating)	Book Value £000	% of Book %	Book Value £000	% of Book %
UK Government	390,607	35.35%	424,000	42.51%
AAA	526,187	47.62%	323,544	32.44%
AA+	82,893	7.50%	129,204	12.96%
AA	4,238	0.38%	4,408	0.44%
AA -	48,937	4.43%	61,114	6.13%
A+	52,065	4.72%	40,000	4.01%
A	-	0.00%	11,824	1.19%
A-	-	0.00%	-	0.00%
BBB+	-	0.00%	2,653	0.27%
BBB	-	0.00%	507	0.05%
	1,104,927	100.00%	997,254	100.00%

Treasury assets by exposure value



■ (dark grey)	UK Government and Multilateral Financial Institutions
■ (orange)	Financial and Non Financial Institutions <=£10m
■ (light grey)	Financial and Non Financial Institutions > £10m - £21m

Lending

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

The policies include maximum exposure values and limits to manage concentration risk by sector. Exposure to geographical area is monitored. At 30 April 2020, the largest loan was £4.9m (2018/19: £4.5m). The maximum aggregate exposures to any one sector (Social Housing) and geographical area were 55% and 26% respectively (2018/19: 50% and 23% respectively).

Loans, overdrafts and BACS facilities are subject to regular monitoring of loan performance and individual annual review. Administration of the loan book is outsourced to Link Mortgage Services Ltd which provides regular management information on a loan-by-loan and aggregated basis. A provision of £ 707k has been made at 30 April 2020 reflecting losses that have been incurred but not yet identified (2018/19: £445k) and £938k has been provided for specific loan provisions (2018/19: none). No overdrafts were written off during the year (2018/19: nil). No loans were in arrears at 30 April 2020 (2018/19: none).

	2020	2019
	£000	£000
Gross loans and advances to customers	106,400	91,797
Undrawn overdraft and loan commitments	33,439	14,911
	139,839	106,708
Amounts included within the above:		
Secured on property	139,805	106,657
Unsecured:		
Loans	-	31
Overdrafts	34	20
	139,839	106,708

As at 30 April 2020 the average loan to value ratio across the lending portfolio was 54% (2018/19: 57%).

LTV Range	No. of Loans	Amount £000
<=10%	7	£961
<=20%	12	£3,628
<=30%	20	£11,675
<=40%	13	£13,594
<=50%	16	£18,472
<=60%	22	£17,930
<=70%	19	£16,058
<=80%	6	£8,710
<=90%	6	£15,337
<=100%	0	£0
Unsecured	0	£0
Totals	121	£106,365

Prudential Risk

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

Capital Risk

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

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

Liquidity Risk (including Funding Risk)

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or can secure them only at excessive cost. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms when required.

Liquidity risk is measured, monitored and reported daily against intra-day triggers and limits approved by the Board within the Bank's Liquidity Policy. The liquidity position is monitored by ALCo and the Executive Risk Committee. The Bank undertakes regular stress testing of its liquidity position and behavioural analysis of its liabilities and assets.

CAF Bank holds liquidity buffer eligible assets of £916m (2018/19: £865m), excluding assets pledged as security under repurchase agreements. Liquidity buffer assets comprise investments in the Bank of England Reserve Account, UK Gilts, Treasury Bills and multilateral development banks.

	2020 Book Value	2019 Book Value
	£000	£000
Balances at Bank of England	326,104	316,950
UK government	63,036	105,825
Multilateral financial institutions	526,501	442,634
	915,641	865,409

Market Risk (including Interest Rate Risk)

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

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

Market risk is measured by monitoring mismatches between assets and liabilities assessed on a behavioural basis which may result from movements in market interest rates over a specified time period within Board approved limits. IRRBB is measured weekly and monitoring is carried out by ALCo and the Board Risk and Compliance Committee.

Non-maturity (on-demand) deposits are behaviourally adjusted as follows:

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

Assets and liabilities analysed by interest rate pricing time periods:

As at 30 April 2020	Next day £000	Up to 3 months £000	3 months to 6 months £000	6 months to 1 year £000	1 year to 5 years £000	Over 5 years £000	Other items £000	Total £000
Assets								
Balances at Bank of England	326,104	1,467	-	-	-	-	-	327,571
Loans and advances to banks	6,273	-	-	-	-	-	-	6,273
Loans and advances to customers	95,473	-	-	-	8,152	-	-	103,625
Debt securities	-	236,724	49,952	69,858	413,576	-	973	771,083
Prepayments and accrued income	-	240	-	-	-	-	4,138	4,378
	427,850	238,431	49,952	69,858	421,728	-	5,111	1,212,930
Liabilities								
Customer accounts	662,804	-	-	52,429	430,289	-	11,473	1,156,995
Repurchase agreements	-	10,142	-	-	-	-	-	10,142
Other liabilities	-	-	-	-	-	-	4,197	4,197
Accruals and deferred income	-	-	-	-	-	-	246	246
Shareholders' funds	-	-	-	-	-	-	41,350	41,350
	662,804	10,142	-	52,429	430,289	-	57,266	1,212,930
Interest rate sensitivity gap	(234,954)	228,289	49,952	17,429	(8,561)	-	(52,155)	-
Impact of 2% change in interest rates	-	6	(370)	(257)	635	-	-	14

Assets and liabilities analysed by interest rate pricing time periods:

As at 30 April 2019	Next day £000	Up to 3 months £000	3 months to 6 months £000	6 months to 1 year £000	1 year to 5 years £000	Over 5 years £000	Other items £000	Total £000
Assets								
Balances at Bank of England	316,950	1,225	-	-	-	-	-	318,175
Loans and advances to banks	8,993	-	-	-	-	-	-	8,993
Loans and advances to customers	90,462	-	-	-	-	-	-	90,462
Debt securities	-	153,910	55,969	106,162	352,512	-	1,533	670,086
Prepayments and accrued income	-	240	-	-	-	-	4,344	4,584
	416,405	155,375	55,969	106,162	352,512	-	5,877	1,092,300
Liabilities								
Customer accounts	546,559	-	-	66,529	408,433	-	12,707	1,034,228
Repurchase agreements	10,142	-	-	-	-	-	-	10,142
Other liabilities	-	-	-	-	-	-	6,473	6,473
Accruals and deferred income	-	-	-	-	-	-	107	107
Shareholders' funds	-	-	-	-	-	-	41,350	41,350
	556,701	-	-	66,529	408,433	-	60,637	1,092,300
Interest rate sensitivity gap	(140,296)	155,375	55,969	39,633	(55,921)	-	(54,760)	-
Impact of 2% change in interest rates	-	(45)	(414)	(575)	758	123	-	(153)

Operational Risk

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

Having adequate operational resilience improves our ability to absorb and not contribute to, or exacerbate shocks while continuing to provide critical functions.

During the year ended 30 April 2020 operational losses totalled £4k (2018/19: £43k).

The Bank continues to develop and enhance its Operational Resilience to protect the Bank against internal and external events that can disrupt service to our customers. Having adequate operational resilience improves our ability to absorb and not contribute to, or exacerbate shocks while continuing to provide critical functions.

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

Financial Crime

Financial Crime includes any offence involving fraud or dishonesty, or handling the proceeds of crime. We seek to protect our customers and the Bank from the risks of financial crime by identifying inherent risks and operating with appropriate systems and controls to detect and prevent harm. We will not conduct business with individuals or entities we believe are engaged in illicit behaviour. We seek to minimise the Bank's and our customers' exposure to loss from fraud.

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

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

CAF Bank continues to carry out 'know your customer' reviews in line with industry practice.

Bank losses to fraud in the year ended 30 April 2020 were £33k (2018/19: £46k).

Conduct Risk

The risk of poor customer outcomes at any stage of the customer journey, through inappropriate execution of the Bank's activities and processes. This could include poor staff behaviours, a breach of conduct rules and a poor culture, which could cause detriment to customers, the Bank or staff members. Conduct risk is managed through behaviours and customer centric decisions, to deliver appropriate customer outcomes through the Bank's products and services.

COVID-19

Since mid-March the UK Government has been responding to the COVID-19 pandemic with a range of measures which are impacting the Bank, our customers and the wider UK economy. The impact has been, and continues to be, rapidly evolving and difficult to predict with certainty.

CAF Bank has responded with a number of measures aimed at ensuring the continuation of full-banking services to all our customers, improving processes so our customers can operate remotely more easily and by proactively offering six-month capital repayment holidays to borrowers where there is a need for flexibility. Following the reduction in Base Rate by the Bank of England to 0.1%, CAF Bank has reduced the interest rate paid on deposit accounts.

The Bank is closely monitoring the emerging risks from the impact of COVID-19, including the impact on our loan customers and the impact on the Bank from lower interest rates. The Board monitors the impact of a range of projected interest rate scenarios in order to plan how the Bank would respond.

EU trade deal agreement

The Bank continues to monitor developments around the UK's exit from the European Union, and the EU trade deal currently due to conclude in December 2020. This may significantly impact the UK economy and, in turn, the Bank's profitability, which could be adversely affected by changes in interest rates and an increase in credit losses.

As part of our normal risk assessment, CAF Bank undertakes regular projections using alternative interest rate scenarios and loan book credit losses to support planning for varying outcomes, including the possibility of Brexit occurring without the UK establishing an agreement with the European Union.

Remuneration

CAF Bank is subject to the Remuneration Code (the Code). The aim of the Code is to ensure that all firms within scope have risk focused remuneration policies that are consistent with and promote effective risk management and do not expose them to excessive risk. The Bank's policies and procedures, covering salaries, bonuses and pension arrangements, comply with the requirements of the Code.

Remuneration Code Staff (Code Staff) are "employees whose professional activities have a material impact on the firm's risk profile, including any employee who is deemed to have a material impact on the firm's risk profile in accordance with Regulation (EU) 604/2014 of 4 March 2014 (Regulatory technical standards to identify staff who are material risk takers)".

The Bank's 'risk takers' or staff engaged in control or significant influence functions are all members of the senior management team. Total aggregate fixed remuneration of the Bank's five Code Staff for 2019/20 is £ 889k (2018/19: £ 810k). Amounts of variable remuneration are not material.

Remuneration is overseen by the Nominations and Remuneration Committee, which determines the remuneration and employment policies and practice. Non-Executive Directors are not remunerated.

As a bank, we offer an ethical and fair approach to doing business, and support our customers to deliver social impact and achieve a fairer society. The total remuneration paid to 115 staff assigned wholly to CAF Bank in the financial year 2019/20 was £4,369k. In line with our core principles, bonuses do not amount to a significant element of total compensation. Bonuses are paid as a one-off lump sum through the parent company's payroll scheme and are non-pensionable. No other bonus or one-off payments are made. Staff are invited to join CAF's contributory pension scheme.

Cautionary note on forward-looking statements

This document may contain certain forward-looking statements with respect to the financial condition, results of operations and business of CAF Bank Ltd. Generally, words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue', 'project', 'should', 'probability', 'risk', 'value-at-risk', 'target', 'goal', 'objective', 'endeavour', 'outlook', 'optimistic' and 'prospects' or similar expressions or variations on such expressions identify forward-looking statements.

Any forward-looking statement represents the Bank's current expectations or beliefs, as well as assumptions about future expectations or beliefs concerning future events, and involves known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward looking statements are: changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

For further risks and uncertainties faced by the Bank that may impact the statements set out in this document, please read the Bank's Annual Report and Accounts for the year ended 30th April 2020 and any other interim or updated information published by CAF Bank.

Forward-looking statements contained within this document apply only as at the date of this document. Except as required by the Prudential Regulatory Authority, Financial Conduct Authority or other applicable law or regulation, CAF Bank does not have any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, further events or circumstances or otherwise, and expressly disclaims any obligation to do so.