CAF
Bank

CAF BANK LTD
PILLAR 3 DISCLOSURE

30 April 2017

CAF Bank Ltd, 25 Kings Hill Avenue, Kings Hill, West Malling, Kent ME19 4JQ; company registration number 1837656 (England and Wales). Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FRN 204451). CAF Bank Ltd is a subsidiary of the Charities Aid Foundation (registered charity number 268369).

CAF Charities Aid Foundation

Contents

Overview

Purpose of this disclosure

This document is prepared in accordance with the disclosure standards of the Financial Conduct Authority ('FCA') as outlined in the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU 11') of the FCA Handbook, which requires firms to disclose certain regulatory information publicly (known as 'Pillar 3 Disclosure').

General

CAF Bank Limited publishes its Pillar 3 Disclosure annually. This Pillar 3 report is based upon the Bank's financial statements for the year ended 30 April 2017 and is prepared on a solo basis.

CAF Bank Ltd is regulated by the Prudential Regulatory Authority ('PRA') and Financial Conduct Authority ('FCA').

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 Limited provides banking services to charities, social purpose organisations and philanthropically minded individuals. The Bank offers transactional current and deposit accounts and loans and advances to UK customers. Customers have access to HSBC and RBS branches across England, Scotland and Wales.

CAF Bank is a wholly owned subsidiary of the Charities Aid Foundation (CAF).

Capital resources

Capital management

CAF Bank aims to 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 management 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.

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 2017.

Pillar 1 capital requirement		2017	2016
		£000	£000
Risk weighted assets		217,896	216,614
Operational Risk Add-on		16,370	16,375
Total Risk Exposure Amount		234,266	232,989
	Total Pillar 1 capital requirement (8%)	18,741	18,639
Comprising:			
Credit Risk		17,431	17,329
Operational Risk		1,310	1,310
	Total Pillar 1 capital requirement	18,741	18,639

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

Pillar 1 capital requirement: Credit Risk	2017	2016
	£000	£000
Central government and Multilateral Development Banks	-	-
Financial institutions	8,696	10,653
Corporates	2,031	2,671
Loans to charities and personal customers	7,227	4,289
Other items (debtors and prepayments)	9	40
SME deduction	(532)	(324)
Total Pillar 1 capital requirement: Credit Risk	17,431	17,329

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	2017 Capital addition	2016 Capital addition
	£000	£000
Market and interest rate risk	2,000	2,000
Operational risk	2,500	1,500
Concentration Risk	1,250	-
Total	5,750	3,500

The amounts identified above relating to Pillar 2A capital represent additional capital equivalent to 2.3% 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 delay in raising capital, a downgrade in credit ratings of wholesale counterparties, bail in losses affecting counterparties, and an increase in market interest rates. Following implementation of CRR, CAF Bank is progressively introducing 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 recognised buffer rates published by the Bank of England. The Countercyclical Capital Buffer requirement at 30 April 2017 is 0% of Total Risk Exposure Amount.

Pillar 2B Capital Requirement (as % of Total Risk Exposure Amount)	
Capital Conservation Buffer	1.25%
Countercyclical Capital Buffer	0.00%

Total capital requirements

Following implementation of CRR, 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)					2017
	CRD IV minimum requirement	ICG	Capital Conservation Buffer	Countercyclical Buffer	Minimum Requirement
Common Equity Tier 1 (CET1)	4.5%	1.3%	1.3%	0.0%	7.0%
Tier 1 (CET1 + Additional Tier 1)	6.0%	2.3%	1.3%	0.0%	9.6%
Total Capital (Tier 1 + Tier 2)	8.0%	2.3%	1.3%	0.0%	11.6%

Capital resources

The Bank's capital resources and Total Risk Exposure Amounts (risk-weighted assets) 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.

Following regulatory approval, CAF Bank redeemed the preference shares and subordinated liabilities in January/February 2017.

CAF Bank's capital position has been strengthened during 2016/17 following investment by CAF of a further £2m in Ordinary Share Capital and £4m in Additional Tier 1 capital ('AT1').

	2017		2016	
	£000	% of Total Risk Exposure Amount	£000	% of Total Risk Exposure Amount
Common Equity Tier 1 Capital				
Called up ordinary share capital	21,350		19,350	
Qualifying distributable reserves	1,000		1,000	
Total Common Equity Tier 1 Capital	22,350	9.5%	20,350	8.7%
Other Tier 1 Capital				
Additional Tier 1 capital	8,000		4,000	
Called up preference shares	-		1,775	
Less amortisation of preference shares (transferred to Tier 2)	-		(710)	
Total Tier 1 Capital	30,350	13.0%	25,415	10.9%
Tier 2 Capital				
Qualifying subordinated liabilities				
Floating rate subordinated debt	-		1,100	
Fixed rate subordinated debt	-		1,000	
Amortisation of preference shares (transferred from Tier 1)	-		710	
Less amortisation of qualifying subordinated liabilities	-		(840)	
Total Tier 2 Capital	-	0.0%	1,970	0.8%
Total Capital Resources	30,350	13.0%	27,385	11.8%
Total Risk Exposure Amount	234,266	100.0%	232,989	100.0%
Risk weighted assets	217,896		216,614	
Operational risk add-on	16,370		16,375	
Total Risk Exposure Amount	234,266		232,989	

Total Capital Position

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

Capital Surplus	2017		2016	
	%	£000	%	£000
Total capital resources				
CET1	9.5%	22,350	8.7%	20,350
Total T1	13.0%	30,350	10.9%	25,415
Total capital	13.0%	30,350	11.8%	27,385
Total capital requirement				
CET1	7.0%	16,488	6.1%	14,230
Total T1	9.6%	22,372	8.3%	19,365
Total capital	11.6%	27,058	10.3%	24,025
Capital surplus				
CET1	2.5%	5,862	2.6%	6,120
Total T1	3.4%	7,978	2.6%	6,050
Total capital	1.4%	3,292	1.4%	3,360

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.

A transition period has been established running from January 2013 to December 2017 during which firms monitor their leverage against a minimum ratio of 3%. In line with CRR, CAF Bank is planning to reach a minimum leverage ratio of at least 3% by December 2017.

CAF Bank Leverage Ratio	2017	2016
Transitional (Note 1)	2.89%	2.44%
End-point (Note 2)	2.89%	2.33%

Note 1 - Transitional leverage ratio includes the amortised value of preference shares

Note 2 - End-point leverage ratio excludes preference shares

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).

CET1 Capital		2017	2016
Description	Terms	£000	£000
Tier 1 capital			
Ordinary shares	Permanent	21,350	19,350
Distributable reserves		1,000	1,000
Total		22,350	20,350

CAF Bank issued a further £2m of Ordinary share capital to CAF in December 2016.

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

Other Tier 1 Capital			2017	2016
Description	Coupon	Terms	£000	£000
Tier 1 capital				
Additional Tier 1 capital	9.0%	Perpetual, non-cumulative	8,000	4,000
Preference shares	9.5%	Perpetual, non-cumulative, redeemable upon 28 days notice being given by the Bank	-	1,500
Preference shares	8.0%	As above	-	275
Less amortisation (transferred to Tier 2)			-	(710)
Total			8,000	5,065

CAF Bank issued a further £4m of Additional Tier 1 capital to CAF in December 2016. The principal terms of the 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.

Following regulatory approval, CAF Bank redeemed the preference shares in January 2017.

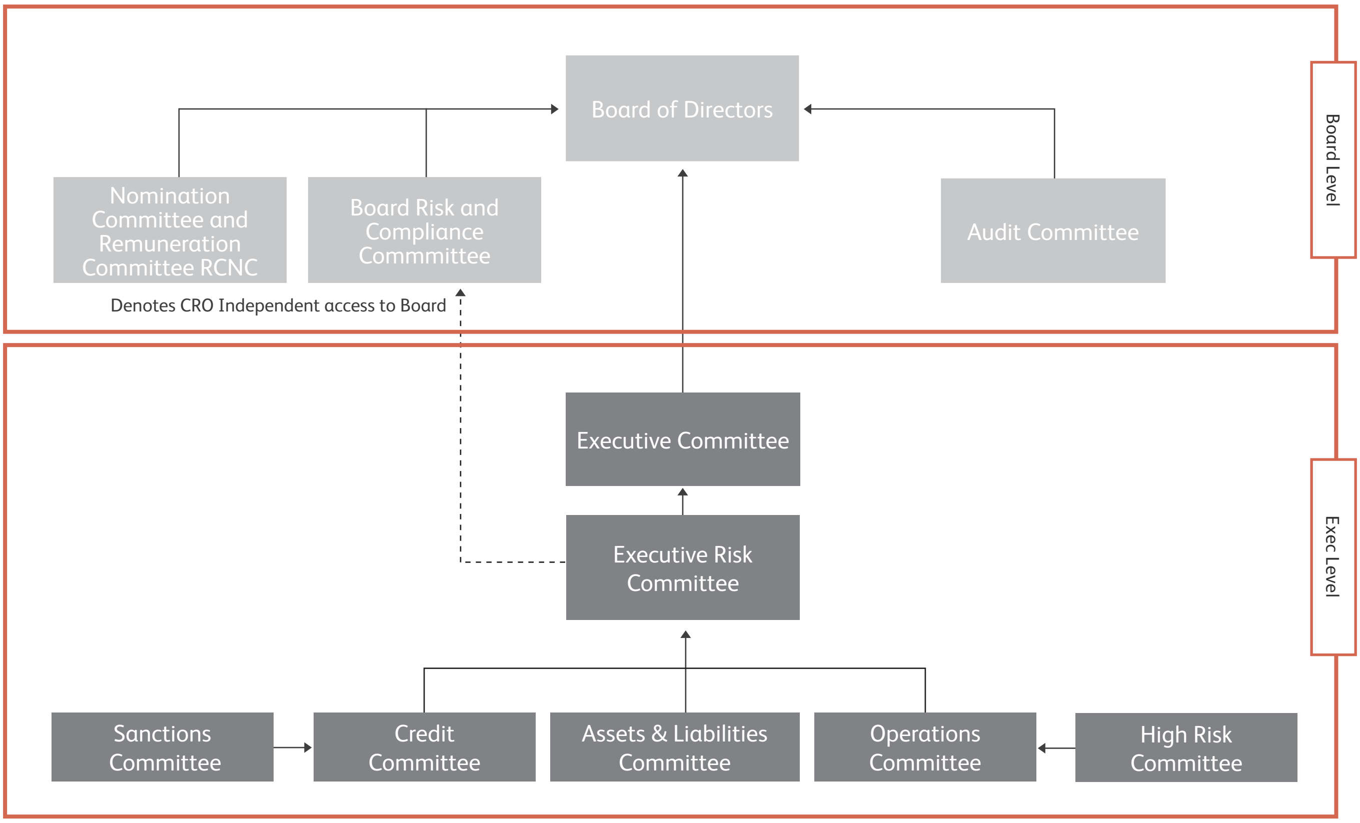
Tier 2 capital

Tier 2 Capital			2017	2016
Description	Term and notice	Interest	£000	£000
6th issue	Perpetual	Three month LIBOR plus 4%	-	250
2nd issue	Five years and one day's notice for stockholder	CAF Bank earned rate plus 2%	-	500
3rd issue		8.71% to 2017, then linked to gilt investment yield	-	1,000
4th issue		3 month LIBOR plus 3%	-	350
Less amortisation of qualifying subordinated liabilities			-	(840)
Amortisation of preference shares (transferred from Tier 1)			-	710
Total			-	1,970

Following regulatory approval, CAF Bank redeemed the subordinated liabilities in February 2017.

Governance

CAF Bank Governance Structure



The Board

The Board is collectively responsible to the shareholders and its other stakeholders for the long term success of the Bank. The Board is committed to implementing and maintaining a well-defined and well-structured corporate governance framework to achieve long term sustainable success. The Board has responsibility for determining the business strategy and related risk appetite and to monitor performance against the plan, objectives and performance indicators for each area.

The Board also has responsibility for ensuring a system of internal controls is maintained, which provide assurance of effective and efficient operations, internal financial controls and compliance with all applicable laws and regulations. Additionally, the Board is responsible for ensuring that the executive maintain an effective risk management and oversight process across the Bank to enable delivery of the strategy and business performance within the approved risk appetite and risk control framework.

Board Composition

The Board consists of twelve non-executive directors and two executive directors.

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

The Board exercises its responsibilities through its own activities and through delegation to its committees and the Chief Executive. The Chief Executive is responsible for delivery of the Bank's operating plan, supported by the Executive Committee and its sub-committees. CAF Bank adopted the Senior Managers Regime in February 2016 and this was fully implemented by 7 March 2017.

The Board Risk and Compliance Committee (BRCC)

The Board Risk Committee is chaired by a Non-Executive Director and comprises two other Non-Executive Directors. The main responsibilities of the Committee include ensuring:

- The development and maintenance of the Bank's risk management framework;
- Monitoring performance and that 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;
- Reviewing policies and recommending these to the Board.

The Board Audit Committee

The Chair and members of the Audit Committee are Non-Executive Directors. The responsibilities of the Committee include:

- The monitoring of the integrity of the annual published report and accounts, Pillar 3 statements and CAF Bank's External Auditors;
- Reviewing the Bank's internal control and risk management systems;
- Focus upon Internal Audit and the assurance given by the third line of defence (currently outsourced externally) on the effectiveness of the first and second line functions and activities;
- The Chair of the Committee also oversees the adoption of whistleblowing across the Bank.

The Nominations and Remuneration Committee

The Nominations and Remuneration Committee, comprising the Chair, CAF Chief Executive and CAF Bank Chief Executive is responsible for:

- Review of Board effectiveness, Board nominations and retirements;
- Conflicts of interest; and
- Remuneration policy and practice.

The Executive Committee

The purpose of the Executive Committee is to assist the Chief Executive Officer in the performance of their duties, including:

- Development and implementation of strategy, operational plans, policies, procedures and budgets;
- Monitoring of operating and financial performance;
- Prioritisation and allocation of resource; and monitoring competitive forces in each area of operation;
- Cascading the 'culture and tone' set by the Board in relation to the conduct of the Bank's Business.

Executive Risk Committee

The purpose of the Executive Risk Committee is to enable the Chief Risk Officer to discharge his duties, under delegated authorities, including:

- Monitoring the Bank's risk management framework and adherence to risk appetite metrics and statements;
- Ensuring the identification, assessment and control of principal risks;
- Act as the senior risk committee receiving reports from and point of escalation for, the Asset and Liability Committee, Credit Committee and High Risk Committee (via the Operations Committee);
- Establishing and maintaining appropriate policies.

The Credit Committee

The purpose of the Credit Committee is to:

- Monitor portfolio performance against approved policies and limits;
- Renew policies and recommending these to the Executive Risk Committee;
- Review credit reports covering each specific business line;
- Review the quality of new lending, credit performance, arrears and non-performing loans and review the detailed composition of the credit portfolios.

The Sanctions Committee

The purpose of the Sanctions Committee is to:

- Review and approval of new credit proposals, in line with appetite and policy and approval levels;
- Review significant rejected applications and any impact upon reputation.

The Asset and Liability Committee (ALCO)

The purpose of ALCO is to:

- Oversee CAF Bank's liquidity, funding and market risks, regulatory and capital requirement within the risk appetite set by the Board;
- Review policies and recommend these to the Executive Risk Committee;
- Oversee, review and make recommendations on the Bank's ILAAP and ICAAP documents which are then presented to Executive Risk Committee for review;
- Monitor the financial risks faced by the Bank including counterparty placements and investments.

Operations Committee

The purpose of the Operations Committee is to:

- Review the level of customer service delivered through analysis of management information relating to service level agreements and complaints and developing relevant action and risk mitigation plans for implementation;
- Review outsourcing arrangements, ensuring compliance with outsourcing policy;
- Review systems and controls ensuring these are appropriate and escalate significant issues.

Risk management

Risk Management Framework

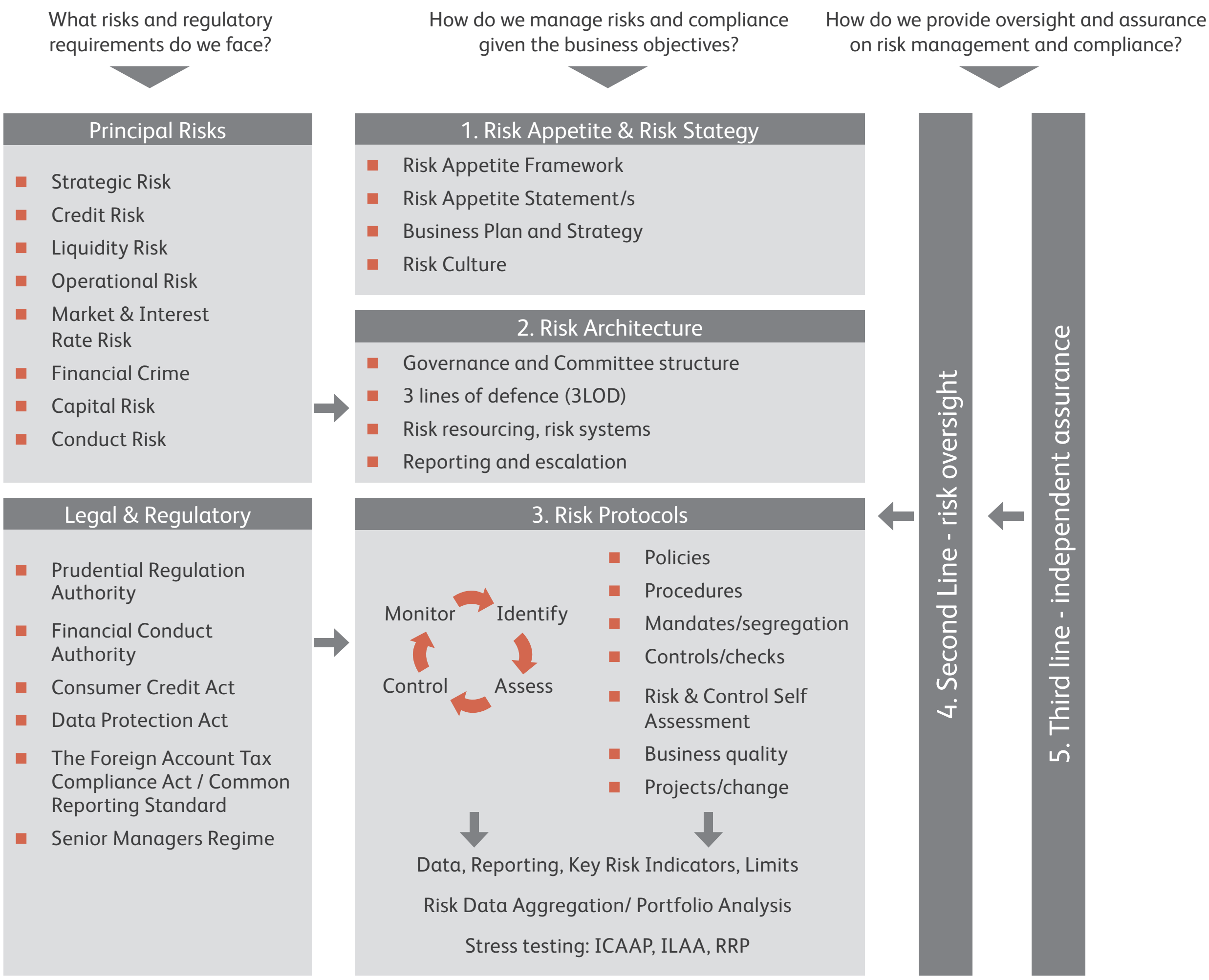
The Risk Management Framework (RMF) outlines the means by which the Board and senior management establish the strategy of the Bank in relation to its risk appetite and articulates how the Bank identifies, measures and manages risk. The RMF explains how the Bank adheres to the monitoring of its risk appetite as well as the policies, procedures, governance, systems and tools that it uses to enable effective risk management at the Bank. Risk management refers to the process of identification, assessment, measurement, control and monitoring of risks to which the Bank is exposed.

The RMF is reviewed and approved by the Board annually following recommendation by the Board Risk and Compliance Committee. The Chief Executive Officer 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 1LOD and 2LOD (First and Second Lines of Defence) activities. The RMF is subject to assurance reviews undertaken by Internal Audit and these are made available to external stakeholders as and when required.

The RMF is supported by detailed policies and procedures. These combine to ensure that risks are managed in a manner which is consistent with the size and nature of the Bank's operations, are aligned to regulatory requirements and reflect industry best practice, as reflected below:

Risk Management Framework



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

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.

This model provides clarity for individuals and functions about their role, where responsibilities and accountabilities lay and is a core component of the RMF. The emphasis on the responsibilities of each line of defence 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 – within 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 issues as necessary and to evidence control;
- To implement and adhere to the mandates, policies and processes that are part of the control environment;
- 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 support a structured approach to risk management by implementing and maintaining a RMF and Bank-wide risk policies, and to monitor their proper execution in the 1LOD;
- To provide independent oversight and guidance on risks relevant to the Bank's strategy and activities;
- Maintain an aggregate view of risk and monitoring performance in relation to the Bank's risk appetite;
- Monitoring changes and compliance to external regulation, and promoting best practices.

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.

Central to the Risk Governance and to the Three Lines of Defence model is the Chief Risk Officer (CRO). The Bank has appointed a CRO (approved by the PRA and FCA) to be responsible to the Board for oversight of bank-wide risk management. The CRO is independent of the 1LOD and has unfettered access to the Board (usually through the Chair of the BRCC); and on a day to day basis reports to the Chief Executive.

The Bank's principal risks are credit risk, liquidity risk, market and interest rate risk, operational risk, financial crime risk, capital risk and conduct risk. Identifying and monitoring current and emerging risks is integral to our approach to risk management.

Credit Risk

Credit risk is the risk of financial loss arising 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 wholesale counterparties and lending to charities and personal customers.

Wholesale assets

Wholesale counterparties are reviewed and approved by the Asset and Liability Committee (ALCO) in accordance with policies and criteria approved by the Board and monitored by the Executive Risk Committee. 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.

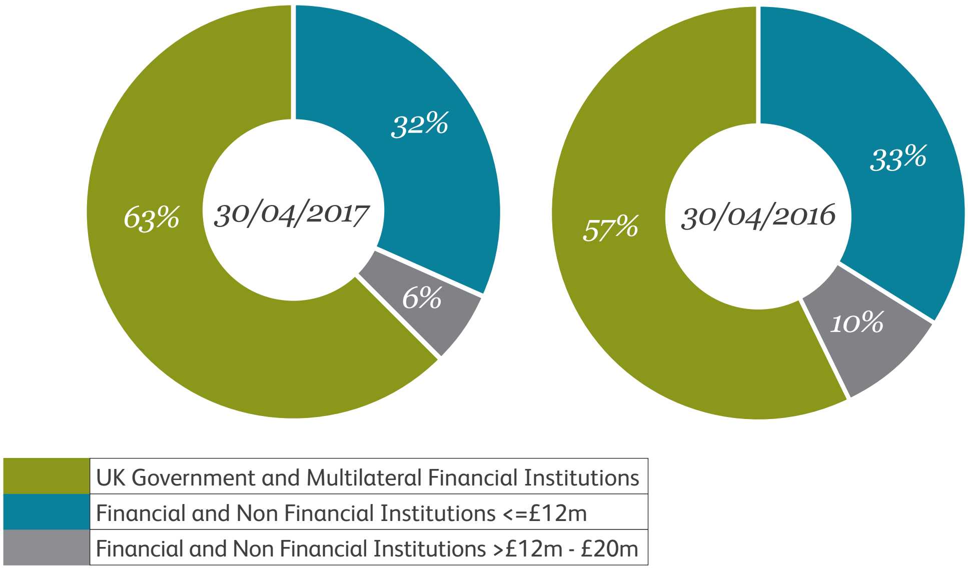
Treasury assets by class

	2017		2016	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
UK government	26,364	26,799	90,028	90,695
Multilateral financial institutions	368,604	370,396	309,297	310,154
Fixed coupon corporate bonds	145,252	146,739	144,042	144,632
Floating rate corporate bonds	174,526	175,355	202,025	201,964
	714,746	719,289	745,392	747,445
Unlisted:				
Certificates of deposit	20,000	20,225	40,000	40,326
Commercial paper	-	-	9,901	9,901
Debt securities	734,746	739,514	795,293	797,672
Balances at Bank of England	203,278	203,278	160,697	160,697
Loans and advances to banks	22,341	22,341	25,996	25,996
	960,365	965,133	981,986	984,365

Treasury assets by credit rating

	2017		2016	
Category (Fitch equivalent lowest credit rating)	Book value £000	% of book %	Book value £000	% of book %
UK government	229,642	23.91%	250,726	25.53%
AAA	358,050	37.28%	284,388	28.96%
AA+	32,395	3.37%	49,482	5.04%
AA	9,620	1.00%	-	0.00%
AA-	104,393	10.87%	137,903	14.04%
A+	38,056	3.96%	48,918	4.98%
A	113,849	11.85%	143,705	14.63%
A-	51,666	5.38%	41,948	4.27%
BBB+	12,173	1.27%	19,179	1.95%
BBB	10,521	1.10%	4,328	0.44%
BBB-	-	0.00%	527	0.05%
BB+	-	0.00%	882	0.09%
	960,365	100.00%	981,986	100.00%

Treasury assets by exposure value:



Lending

CAF Bank has in place a system of limits and controls to manage credit risk on its loan portfolio. Loan applications are reviewed by a credit assessment team and presented for approval to the Credit 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.

The policies include maximum exposure values and limits to manage concentration risk by sector. Exposure to geographical area is monitored. At 30 April 2017, the largest loan was £5m. The maximum aggregate exposures to any one sector and geographical area were 34% and 36% 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 Capita Mortgage Services Ltd who provide regular management information on a loan by loan and aggregated basis. A collective provision of £522k has been made at 30 April 2017 reflecting losses that have been incurred but not yet identified (2015/16: £269k). One overdraft of £5k was written off during the year which was fully provided for (2015/16: £23k). One loan was in arrears at 30 April 2017 (2015/16: none) and is considered impaired as the borrower has decided to cease its activity (2015/16: one). No loss is expected on the impaired loan due to the value of security held by the Bank.

	2017	**2016**
	£000	£000
Gross loans and advances to customers	72,916	46,329
Undrawn overdraft and loan commitments	14,285	9,099
	87,201	55,428
Amounts included within the above:		
Secured on property	86,173	53,660
Unsecured:		
Loans	255	356
Overdrafts	773	1,412
	87,201	55,428

As at 30 April 2017 the CAF Bank loan to value across the lending portfolio was 46%.

Liquidity and 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 and when required.

Liquidity and Funding risk is measured, monitored and reported daily and 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 has a high level of liquidity with a sticky client base, holding buffer eligible assets of £598m. Liquidity buffer assets comprise investments in the Bank of England Reserve Account, UK Gilts, Treasury Bills and multilateral development banks.

	2017 Book Value	2016 Book Value
	£000	£000
Balances at Bank of England	203,278	160,697
UK government	26,364	90,028
Multilateral financial institutions	368,604	309,297
	598,246	560,022

Market and Interest Rate Risk

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

The Bank continues to make returns in the present low interest rate environment. 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 and interest rate 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:

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

Assets and liabilities analysed by interest rate pricing time periods:

As at 30 April 2017	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	202,751	527	-	-	-	-	-	203,278
Loans and advances to banks	4,341	10,000	-	5,000	3,000	-	-	22,341
Loans and advances to customers	71,705	-	-	-	-	-	-	71,705
Debt securities	-	215,565	88,064	142,448	288,669	-	-	734,746
Prepayments and accrued income	-	-	-	-	-	-	7,715	7,715
	278,797	226,092	88,064	147,448	291,669	-	7,715	1,039,785
Liabilities								
Customer accounts	582,092	-	-	42,837	368,409	-	10,295	1,003,633
Other liabilities	-	-	-	-	-	-	5,676	5,676
Accruals and deferred income	-	-	-	-	-	-	126	126
Subordinated liabilities	-	-	-	-	-	-	-	-
Preference shares	-	-	-	-	-	-	-	-
Shareholders' funds	-	-	-	-	-	-	30,350	30,350
	582,092	-	-	42,837	368,409	-	46,447	1,039,785
Interest rate sensitivity gap	(303,295)	226,092	88,064	104,611	(76,740)	-	(38,732)	-
Impact of 2% change in interest rates	-	184	(652)	(1,538)	3,108	-	-	1,102

Assets and liabilities analysed by interest rate pricing time periods:

As at 30 April 2016	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	160,204	493	-	-	-	-	-	160,697
Loans and advances to banks	2,996	-	-	15,000	8,000	-	-	25,996
Loans and advances to customers	45,620	-	-	-	-	-	-	45,620
Debt securities	-	294,335	56,340	150,354	294,264	-	-	795,293
Prepayments and accrued income	-	-	-	-	-	-	7,147	7,147
	208,820	294,828	56,340	165,354	302,264	-	7,147	1,034,753
Liabilities								
Customer accounts	619,242	-	-	41,603	337,906	-	2,853	1,001,604
Other liabilities	-	-	-	-	-	-	4,675	4,675
Accruals and deferred income	-	-	-	-	-	-	249	249
Subordinated liabilities	1,100	-	-	-	-	1,000	-	2,100
Preference shares	-	-	-	-	-	-	1,775	1,775
Shareholders' funds	-	-	-	-	-	-	24,350	24,350
	620,342	-	-	41,603	337,906	1,000	33,902	1,034,753
Interest rate sensitivity gap	(411,522)	294,828	56,340	123,751	(35,642)	(1,000)	(26,755)	-
Impact of 2% change in interest rates	-	271	(417)	(1,807)	3,035	98	-	1,180

Operational Risk

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

The Bank continues to develop systems and controls to increase the probability of success and reduce the likelihood of failure associated with operational risks. Policies and practices are in place to address and mitigate our operational risks, the reporting of which will be enhanced on a continuous improvement basis.

During the year ended 30 April 2017 operational losses totalled £31k (2015/16: £48k). Cyber threats are escalating from an increasingly sophisticated criminal community and we continue to invest in strengthening defences. CAF Bank has also enhanced the level of customer reviews undertaken in line with industry practice.

CAF Bank uses the Basic Indicator Approach for operational risk capital calculations.

Financial Crime

Financial crime is the risk of non compliance with the law, regulations and globally accepted practices that are expected of all financial institutions to combat financial crime that may lead to substantial fines and reputational damage.

The Bank operates with dedicated resources in both the first and second line, with a dedicated Anti-Money Laundering/Know your Customer team headed up by a dedicated Money Laundering Reporting Officer.

Capital Risk

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

An overriding principle is that the Bank operates at all times at levels that are above regulatory minima. The Board views that a strong capital position aids the long term strategy of controlled growth.

Conduct Risk

Conduct risk is the risk of detriment caused to the Bank's customers due to inappropriate execution of its business activities and processes, including the sale of unsuitable products. The Bank aligns its appetite for Conduct risk to the overall values of the Bank, by placing the customer in the centre of everything that we do. Controls and monitoring techniques are in place to minimise this risk and any impact it may have upon the organisation, for example through active complaint monitoring and monitored under the RAF.

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 has no 'risk takers' or staff engaged in control or significant influence functions that would not be among its senior management. Total aggregate fixed remuneration of the Bank's five Code Staff for 2016/17 is £588k. 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 89 staff assigned wholly to CAF Bank in the financial year 2016/17 was £2,963k. 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 2017 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.

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