

CAF
Bank

ANNUAL REPORT

and financial statements for the year ended 30 April 2016



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CHAIRMAN'S STATEMENT

CAF Bank has a special place in the community of charities in the United Kingdom - a Bank wholly owned by a charity, and with the interests of charities at the core of our work.

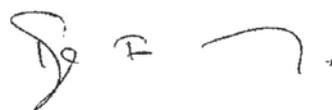
Being part of the Charities Aid Foundation means our mission to help charities make a better society runs through everything we do, whilst being commercially run to protect our customers. CAF Bank is a strong, profitable bank underpinned by highly liquid assets, with additional capital planned to be invested over the coming year to further strengthen our balance sheet and meet our requirement to achieve a 3% leverage ratio by December 2017. We remain thankful to CAF for its continued support and investment in the Bank.

That fundamental strength has allowed us to grow our lending from £20 million to nearly £50m, helping charities invest for the long term; helping them build social housing and develop new facilities that improve services. The executive management team have ensured that the bank has a strong and growing presence in the charity finance sector which has been beneficial in raising our profile. Consequently, we see demand every day from charities who want to use loan finance.

Our strong management team ensures the delivery of our mission and the returns necessary to support the bank's objectives and we will continue to invest in our people upon whose judgement we rely. We have been a trusted and reliable home for charities' money throughout the financial crisis and the personable nature of our staff has been much appreciated by our customers.

Like all banks, we are living through a period of unprecedented low interest rates. This is a challenge, but we continue to make sensible returns through prudent management and diversification of the business while at all times focussing on our mission. We are not complacent and will continue to upgrade our systems, improve services and invest to meet the high expectations of our customers and regulators alike.

I would like to extend my thanks to my fellow CAF Bank Board members and staff who do so much to strengthen and support thousands of charities. Above all, we offer our thanks to the charities we serve. We wish them well, and stand ready to help them aid the millions of people who rely so much on the important work that they do.



Iain MacKinnon
Chair

STRATEGIC REPORT

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).

Strategy and Objectives

As a Bank owned by a charity and run for charities, CAF Bank supports customers to deliver social impact and achieve a fairer society by:

- Providing an ethical and fair approach to banking;
- Offering straightforward and transparent services that customers understand and trust;

CAF Bank's long term objectives are to:

- Diversify into a broader range of services, including lending;
- Strengthen capital and reduce gearing;

CAF Bank aims to make an increasing contribution itself to the charitable sector through the amount of surplus donated to its parent charity, CAF.

Review of the year

The year ended 30 April 2016 marked a key point in CAF Bank's transition to a more diversified business model that was initiated in 2013/14.

The loan book grew significantly during the year, driven by demand from charities for funds to enable them to grow their impact. CAF Bank benefits from a long term loyal base of charity deposit customers who provide a strong and stable source of funds, enabling loans to be advanced to other charities at competitive rates. Loans drawn at 30 April 2016, net of repayments and provisions were £45.6m (2014/15: £20.2m). Lending was primarily to charities and other social purpose organisations. CAF Bank also offered a small number of short term development loans to personal customers during the year, allowing the Bank to cross subsidise and maintain free banking for many smaller charities.

CAF Bank's personal banking service was launched by invitation in January 2015 and offers current account banking in conjunction with a regular tax effective donation to charity, and is complementary to the services offered by CAF to supporters of the sector.

The Bank's income continued to be impacted by low interest rates earned on the treasury portfolio in the ongoing low interest rate environment. The outlook for interest rates remains at low levels for the foreseeable future. Our treasury book is managed in-house, with 52% (2014/15: 54%) of total assets invested in the Bank of England, UK gilts/treasury bills and highly rated multilateral development banks. CAF Bank's policy is to hold investments to maturity.

The Bank reported a profit on ordinary activities before taxation of £3.6m in 2015/16, an increase of £1.5m on 2014/15. The bank benefitted from growth in lending and slightly improved yields on its investment portfolio, while costs were impacted by additional staff to satisfy increased regulatory requirements and IT costs to upgrade infrastructure and payments systems.

Capital and liquidity

CAF Bank's capital position has been strengthened during the year following investment by CAF of a further £2m in Additional Tier 1 capital (AT1), improving the leverage ratio to 2.4%. The Bank continues to manage its capital position and balance sheet to achieve a leverage ratio of over 3% by December 2017. AT1 capital is perpetual, non-cumulative capital that converts to ordinary share capital in the event that Common Equity Tier 1 ratio falls, or is likely to fall, below 7%.

At 30 April 2016 the Bank's total Tier 1 capital ratio was 10.9%, compared to 10.7% at 30 April 2015, reflecting the increase in capital during the year.

Over 50% of CAF Bank's assets are highly liquid, with liquidity buffer eligible assets of £561m at 30 April 2016 (£577m at 30 April 2015). Liquidity buffer assets principally comprise investments in the Bank of England Reserve Account, UK Gilts, T Bills and multilateral development banks.

Lending

There are two principal streams to CAF Bank's lending:

- Loans to charities and social purpose organisations, secured on property, typically for terms of 5-25 years
- Loans to personal customers secured on residential development property for terms up to 3 years funded by the Bank's own resources and personal customer balances

The loan book grew in line with plan in 2015/16. At 30 April 2016 there were 62 drawn loans and 27 sanctioned loans to charities amounting to £38m and £24m respectively to organisations across the UK including social housing, heritage, faith and healthcare sectors. A further 5 loans totalling £5m were committed and expected to draw in 2016/17. Loans are predominantly floating rate, linked to Bank of England Base Rate at loan to value ratios of less than 70% (85% for social housing).

In addition, CAF Bank's personal loan book comprised 11 drawn loans and 10 sanctioned loans amounting to £7.5m and £7.8m (2014/15: £3.9m and £2.1m) respectively. The facilities are short term development loans secured on property at loan to value ratios no greater than 65%. Key elements of the personal loan are a higher rate compared to charity lending and a donation to charity of at least 0.5% of the loan value.

Future developments

Our priority for the future is to continue to diversify the Bank's services to enable customers to achieve their charitable objectives and increase their impact, whether these are charities seeking loan facilities and other services or personal customers looking for banking services with an integral giving commitment in support of their chosen charities.

We have been encouraged by the growth in lending over the last year, and see good levels of demand from charities and social purpose organisations for borrowing funds on straightforward, transparent terms. We will continue to expand CAF Bank's range of services going forwards to meet the demands of charities and philanthropically minded personal customers. Our market penetration is still extremely limited in the sectors we have targeted, offering plenty of scope to grow the loan book. We also plan to extend our lending proposition to other charity/not for profit sectors where we currently have a limited presence, such as education and care homes.

There has continued to be a high level of interest in the Bank's personal secured loans. Again, our offer is straightforward and competitive in the market and we see attractive opportunities. Personal loans are shorter term than loans to charities, and earn a higher yield, cross subsidising the Bank's low cost services to small and medium sized charities. We are optimistic that the strong demand seen since launch will continue and that personal loans linked to a charitable donation will be a successful long term loan product, although representing a smaller proportion of loans than our core charity loan book.

Following a successful launch late in 2014/15, we plan to grow the personal banking service, offering a fee based relationship banking service linked to a monthly charitable donation to the CAF Charity Account. This area complements a range of philanthropic services provided by CAF.

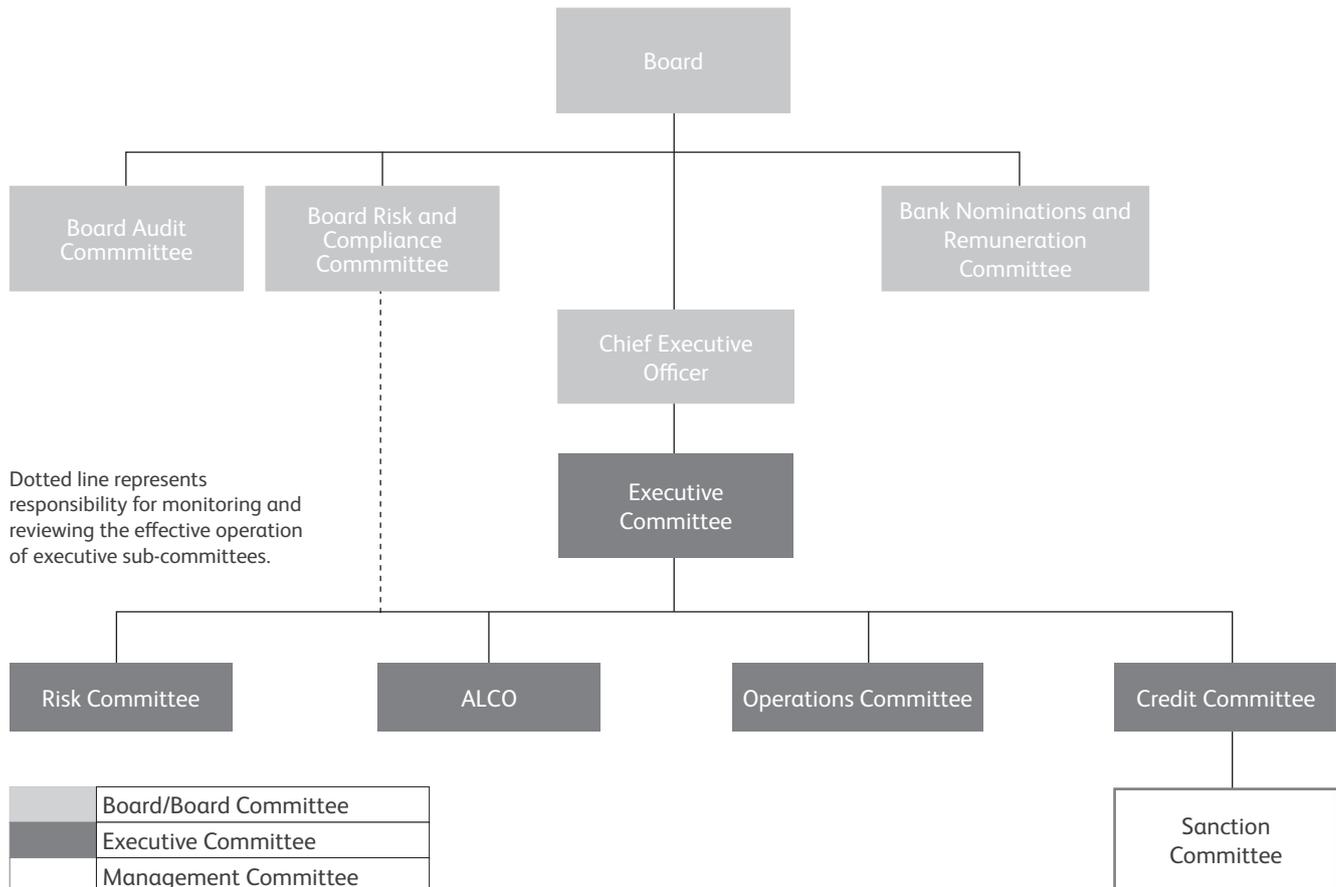
Customers increasingly want to access services online. CAF Bank will invest in upgrading its IT infrastructure and web enabled services to support the provision of 24/7 banking and new payment services as these are introduced, while ensuring the Bank is protected against growing cyber security risks.

CAF Bank will continue to strengthen its capital base to support diversification and comply with higher regulatory requirements following the financial crisis. The Bank will reduce gearing and improve capital ratios, primarily through anticipated subscription of capital from CAF. CAF Bank expects to meet regulatory capital and leverage ratio requirements in line with European Banking Authority timetables.

The result of the recent EU referendum in the UK appeared to take financial markets by surprise. CAF Bank is based in the UK and has no overseas operations. At this early stage, it is unclear how the UK's relationship with the EU will change, and the longer term impact of the vote to leave is uncertain. CAF Bank will monitor the potential impact of developments closely.

GOVERNANCE REPORT

CAF Bank Governance Structure



The Board is responsible for setting the Bank's strategy and maintaining the policy and decision making framework in which the strategy is implemented. It ensures the necessary financial and human resources are in place to meet strategic aims and monitors performance against key financial and non-financial indicators. The Board sets values and standards, approves risk appetites and oversees the system of risk management and control. It ensures that the level of capital held is consistent with the risk appetite of the organisation.

Board composition

The Board consisted of eleven non-executive directors and two executive directors at 30 April 2016. The names of the directors who served throughout the year, except as noted, are as follows:

	Meetings attended	Maximum
Iain MacKinnon **	5	5
Paul Biddle *	4	5
Stuart Barnett** (resigned 1 July 2016)	2	5
Clive Bowles *	4	5
David Dickman *	5	5
Mairi Johnstone *	4	5
Dr Peter Kyle * (resigned 1 July 2016)	1	5
Tiina Lee **	3	5
Dr John Low CBE ** (CAF Chief Executive)	5	5
Dr Steve Perry * (retired 27 September 2015)	2	2
Alistair Ray *	4	5
Mark Sinclair * (appointed 29 March 2016)	1	1
Peter Ostacchini (Chief Executive)	5	5
John Grout (Finance Director)	5	5

* Independent non-executive director

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

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

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.

The Board Risk and Compliance Committee

The Board Risk Committee is chaired by a non-executive director and comprises another non-executive director, the Chief Executive and the Finance Director. The main responsibilities of the Committee are to monitor and review:

- The Risk Management Framework and systems of internal control;
- Key risks and risk appetites;
- Compliance with applicable laws, regulations and internal policies;
- The Bank's ethical and business standards;
- The effective operation of the Risk, Asset and Liability (ALCO), and Credit Committees; and
- ICAAP, ILAAP and RRP process and reporting.

The Audit Committee

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

- The integrity of the annual published report and accounts and Pillar 3 statement;
- The systems of internal control, and internal and external audit processes and
- Whistleblowing policy and arrangements.

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

- Development and implementation of an annual operating plan focused on achieving the strategic vision and goals of the Board;
- Delivery of the operating plan and management and control of the Bank's activities;
- Cascading the 'culture and tone' set by the Board in relation to the conduct of its business.

The Credit Committee

The Credit Committee monitors performance of the Bank's existing and projected loan portfolio against approved policies and limits. It monitors any impaired loans, large exposures and concentration risk. The Credit Sanctions Committee assesses credit applications in line with lending policy and authority levels.

Operations Committee

The Operations Committee advises the Executive Committee on operational improvement and efficiency, arrangements for prevention of financial crime, business continuity, resourcing and staff development and outsourcing.

The Asset and Liability Committee (ALCO)

ALCO advises the Executive Committee on the Bank's asset and liability position, liquidity, capital and treasury management. The committee monitors actual and projected performance and key financial ratios, and ensures assets and liabilities are managed within approved risk and investment policy limits.

Risk Committee

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

RISK MANAGEMENT REPORT

Risk Management Framework

CAF Bank operates a framework that ensures appropriate oversight and accountability for the effective management of risk across all risk types and at all levels of the organisation.

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

The Bank's Risk Management Framework includes a three lines of defence model where:

- First line of defence – through implementation of the Bank's policies, systems and controls, the business identifies, assesses, mitigates and manages its risks;
- Second line of defence – the risk and compliance functions challenge, monitor, guide and support the business in managing its risk exposure; and
- Third line of defence – independent assurance is provided by the internal audit function, which perform a risk-based programme of audits and reports on risk and control matters to the Executive and Audit Committee.

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

Identifying and monitoring current and emerging risks is integral to our approach to risk management.

The following information on pages 10-13 is covered by the external auditors' opinion on page 17.

Credit Risk

Credit risk is the risk of loss as a result of the failure of a borrower or counterparty to meet obligations as they fall due. 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 Board Risk and Compliance 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 Fitch, S&P and Moody's ratings in accordance with the credit quality assessment scale.

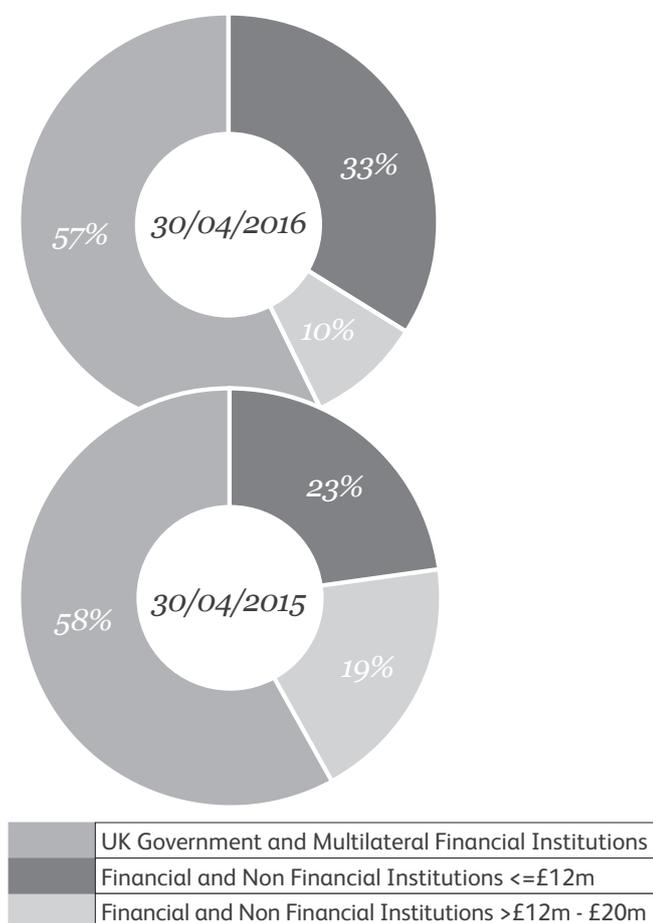
Treasury assets by class:

	2016		2015	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
UK government	90,028	90,695	139,934	140,500
Multilateral financial institutions	309,297	310,154	216,761	217,228
Fixed coupon corporate bonds	144,042	144,632	161,042	161,135
Floating rate corporate bonds	202,025	201,964	174,271	174,885
	745,392	747,445	692,008	693,748
Unlisted:				
Certificates of deposit	40,000	40,326	40,000	40,188
Commercial paper	9,901	9,901	-	-
Debt securities (Note 11)	795,293	797,672	732,008	733,936
Balances at Bank of England	160,697	160,697	219,784	219,784
Loans and advances to banks (Note 9)	25,996	25,996	43,000	43,000
	981,986	984,365	994,792	996,720

Treasury assets by credit rating:

Category (Fitch equivalent lowest credit rating)	2016		2015	
	Book Value £000	% of Book %	Book Value £000	% of Book %
UK Government	250,726	25.53%	359,718	36.16%
AAA	284,388	28.96%	193,621	19.46%
AA+	49,482	5.04%	33,049	3.32%
AA-	137,903	14.04%	125,652	12.63%
A+	48,918	4.98%	79,584	8.00%
A	143,705	14.63%	119,887	12.05%
A-	41,948	4.27%	59,627	5.99%
BBB+	19,179	1.95%	17,749	1.78%
BBB	4,328	0.44%	4,484	0.45%
BBB-	527	0.05%	532	0.05%
BB+	882	0.09%	889	0.09%
	981,986	100.00%	994,792	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 Sanctioning Committee, a sub-committee of the Credit Committee, in accordance with policies and criteria approved by the Board and monitored by the Board Risk and Compliance Committee. 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 2016, the largest loan was £5m. The maximum aggregate exposures to any one sector and geographical area were 30% and 33% 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 £269k has been made at 30 April 2016 reflecting losses that may have been incurred but not yet identified. One overdraft of £23k was written off during the year (2015: nil).

No accounts were in arrears at 30 April 2016 (2015: none). One account is considered impaired as the borrower has decided to cease its activity (2015: none). No loss is expected on the impaired loan due to the value of security held by the Bank.

	2016	2015
	£000	£000
Loans and advances to customers (Note 10)	46,329	20,453
Contingent liabilities and commitments (Note 19)	9,099	7,723
	55,428	28,176
Amounts included within the above:		
Secured on property	53,660	26,788
Unsecured:		
Loans	356	22
Overdrafts	1,412	1,366
	55,428	28,176

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 against daily and intra-day triggers and limits approved by the Board within the Bank's Liquidity Policy. The liquidity position is monitored by ALCO and the Board Risk and Compliance 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, holding buffer eligible assets of £561m. Liquidity buffer assets comprise investments in the Bank of England Reserve Account, UK Gilts, T Bills and multilateral development banks.

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.

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:

CafCash (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 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 (Note 9)	2,996	-	-	15,000	8,000	-	-	25,996
Loans and advances to customers (Note 10)	45,620	-	-	-	-	-	-	45,620
Debt securities (Note 11)	-	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 (Note 12)	619,242	-	-	41,603	337,906	-	2,853	1,001,604
Other liabilities (Note 13)	-	-	-	-	-	-	4,675	4,675
Accruals and deferred income	-	-	-	-	-	-	249	249
Subordinated liabilities (Note 14)	1,100	-	-	-	-	1,000	-	2,100
Preference shares (Note 15)	-	-	-	-	-	-	1,775	1,775
Shareholders' funds (Note 17)	-	-	-	-	-	-	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

Assets and liabilities analysed by interest rate pricing time periods:

As at 30 April 2015	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	219,202	582	-	-	-	-	-	219,784
Loans and advances to banks (Note 9)	-	-	-	40,000	3,000	-	-	43,000
Loans and advances to customers (Note 10)	20,206	-	-	-	-	-	-	20,206
Debt securities (Note 11)	-	280,843	84,849	116,742	249,574	-	-	732,008
Prepayments and accrued income	-	-	-	-	-	-	5,753	5,753
	239,408	281,425	84,849	156,742	252,574	-	5,753	1,020,751
Liabilities								
Bank overdraft	1,226	-	-	-	-	-	-	1,226
Customer accounts (Note 12)	663,936	-	-	23,694	299,830	-	1,819	989,279
Other liabilities (Note 13)	-	-	-	-	-	-	4,002	4,002
Accruals and deferred income	-	-	-	-	-	-	241	241
Subordinated liabilities (Note 14)	1,100	-	-	-	-	1,000	-	2,100
Preference shares (Note 15)	-	-	-	-	-	-	1,775	1,775
Shareholders' funds (Note 17)	-	-	-	-	-	-	22,128	22,128
	666,262	-	-	23,694	299,830	1,000	29,965	1,020,751
Interest rate sensitivity gap	(426,854)	281,425	84,849	133,048	(47,256)	(1,000)	(24,212)	-
Impact of 2% change in interest rates	-	344	(628)	(1,943)	2,953	94	-	820

The following information is not covered by the external auditors' opinion.

Operational Risk

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

Management identifies the current and future operational risks within the business, evaluates the effectiveness of the control framework and identifies appropriate action to mitigate or minimise the risk. Risks are monitored by the Executive Risk and Operations Committees.

Key operational risks monitored include exposure of the Bank and its customers to financial crime, including money laundering. During the year ended 30 April 2016 operational losses totalled £48k (2014/15: £34k). 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, anti-money laundering and prevention of terrorist financing requirements.

CAF Bank uses the Basic Indicator Approach to allocate capital to operational risk exposures.

Regulatory Risk

Regulatory risk is defined as the risk to earnings, capital and reputation associated with a failure to comply with regulatory requirements and expectations. CAF Bank aims to comply with all regulatory requirements to minimise the risk of financial loss, maintain its high reputation and avoid regulatory sanction.

Compliance with regulatory requirements and expectations commences at Board level, is cascaded down throughout the senior management team and is embedded across all areas of operation through the Bank's Risk and Compliance team.

The Bank is committed to ensure that the appropriate resource is made available to adhere to the Bank's regulatory requirements, albeit in a proportionate way.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 30 April 2016.

Results for the Year

CAF Bank made a profit on ordinary activities before taxation for the year of £3,554k (2014/15: £2,098k). Subject to annual Board approval, CAF Bank gifts its profits to its parent charity, Charities Aid Foundation, after ensuring sufficient reserves are available to meet interest payable on capital instruments and taxation. Interest of £160k (2014/15: £159k) was payable to the holders of the 8.00% and 9.15% preference shares. No dividends were paid on ordinary share capital during the year (2014/15: none).

Charitable and Political Donations

CAF Bank donated £3,292k to CAF in the year (2014/15: £2,185k). The Bank did not make political donations or incur any political expenditure during the year (2014/15: none).

Employees

CAF Bank recognises that the development and training of staff is fundamental to its continuing success and provides development opportunities and support to ensure all staff have the knowledge and skills to perform at the highest standard. Each member of staff receives an induction and job related training and resources are made available to enable individuals to develop and improve their performance and keep up-to-date with internal and external developments. CAF Bank, as part of CAF, has been awarded Gold accreditation by Investors in People.

The Bank is committed to offering equal opportunities to all staff and opposes all forms of discrimination. The Bank seeks to provide equal opportunities in training, development and career opportunities to all staff. Two members of the Board and 40% of the Bank's Executive Management are women. CAF Bank, as part of CAF, has been awarded the Two Ticks symbol, which is a national recognition scheme confirming the Bank's commitment to equality of opportunity throughout our recruitment process and employment for disabled people.

CAF Bank regularly provides staff with information including the Bank's progress against objectives, financial position, future aims and strategy. An annual employee engagement survey is undertaken and the results used to improve performance in areas that are important to staff.

All staff are employed by CAF and recharged to CAF Bank where activities have been undertaken on the Bank's behalf.

Going concern

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

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

Auditors

A resolution to appoint auditors and to agree their remuneration will be submitted to the Board.

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

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

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

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

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

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

Directors' interests

The Directors who served during the financial year are reported in the Governance Report. No director had an interest in the share capital of the Bank or any other UK group company.

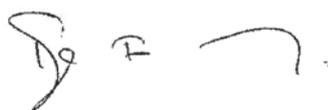
Disclosure of information to auditors

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) each 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 July 2016



Iain MacKinnon
Chair

CAF Bank Limited
Company Number 1837656

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

We have audited the financial statements of CAF Bank Limited for the year ended 30 April 2016 set out on pages 18 to 30. 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 16, 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 2016 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Mike Peck

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 July 2016

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 APRIL 2016

	Notes	2016		2015	
		£000	£000	£000	£000
Interest receivable	3		11,646		10,735
Interest payable	4		(1,973)		(2,242)
Net interest income			9,673		8,493
Fees and commissions receivable		1,117		753	
Fees and commissions payable		(958)		(967)	
Net operating expenditure			159		(214)
Administrative expenses	5		(5,921)		(5,826)
Loan loss provision	10		(267)		(25)
FSCS levy	6		(90)		(330)
Profit on ordinary activities before taxation			3,554		2,098
Tax on profit on ordinary activities	8		(698)		(493)
Profit on ordinary activities after taxation			2,856		1,605
Profit and loss account balance brought forward			(222)		(79)
Charitable donation to parent	7		(3,292)		(2,185)
Current tax credit thereon			658		437
Profit and loss account balance carried forward			-		(222)

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 21 to 30 form an integral part of the financial statements.

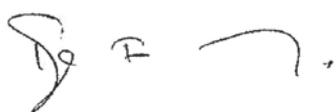
BALANCE SHEET

AS AT 30 APRIL 2016

	Notes	2016		2015	
		£000	£000	£000	£000
Assets					
Balances at Bank of England			160,697		219,784
Loans and advances to banks	9		25,996		43,000
Loans and advances to customers	10		45,620		20,206
Debt securities	11		795,293		732,008
Prepayments and accrued income			7,147		5,753
Total assets			1,034,753		1,020,751
Liabilities					
Bank overdrafts			-		1,226
Customer accounts	12		1,001,604		989,279
Other liabilities	13		4,675		4,002
Accruals and deferred income			249		241
Subordinated liabilities	14		2,100		2,100
Preference shares	15		1,775		1,775
Total liabilities			1,010,403		998,623
Called up share capital	16	19,350		19,350	
Additional Tier 1 capital	16	4,000		2,000	
Distributable reserves	17	1,000		1,000	
Profit and loss account	17	-		(222)	
Shareholders' funds	17		24,350		22,128
Total liabilities and shareholders' funds			1,034,753		1,020,751

The notes on pages 21 to 30 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 11 July 2016 and signed on its behalf by



Iain MacKinnon
Chair



John Grout
Finance Director

CAF Bank Limited
Company Number 1837656

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 APRIL 2016

	2016		2015	
	£000	£000	£000	£000
Cash flows from operating activities				
Profit on ordinary activities before taxation	3,554		2,098	
Adjustments for:				
Amortisation of investments	2,846		708	
Corporation tax paid	(62)		(42)	
Increase in prepayments and accrued income	(1,394)		(577)	
Increase/(decrease) in accruals and deferred income	8		(56)	
Decrease/(increase) in Cash Ratio Deposit with Bank of England	89		(306)	
Decrease in loans and advances to banks	20,000		11,000	
Increase in loans and advances to customers	(25,658)		(14,701)	
Increase in loan loss provision	267		25	
Loans written-off during the year	(23)		-	
Increase/(decrease) in customer accounts	12,325		(21,534)	
Decrease in FSCS levy liability	(261)		(61)	
(Decrease)/increase in other liabilities	(151)		136	
Net cash generated from operating activities		11,540		(23,310)
Cash flows from investing activities				
Acquisitions of debt securities	(556,930)		(342,560)	
Redemptions of debt securities	490,799		105,222	
Net cash from investing activities		(66,131)		(237,338)
Cash flows from financing activities				
Charitable donations paid	(2,185)		(1,844)	
Issue of ordinary share capital	-		2,000	
Issue of additional tier 1 capital	2,000		2,000	
Net cash from financing activities		(185)		2,156
Change in cash and cash equivalents in the year		(54,776)		(258,492)
Cash and cash equivalents at beginning of year		217,976		476,468
Cash and cash equivalents at end of year		163,200		217,976
Represented by:				
Balances at Bank of England repayable on demand		160,204		219,202
Bank overdrafts		-		(1,226)
Loans and advances to banks repayable on demand (Note 9)		2,996		-
		163,200		217,976

The notes on pages 21 to 30 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

1. Accounting policies

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 (as issued by the Financial Reporting Council, the Financial Reporting Standard applicable in the UK and Republic of Ireland), which replaces the former UK GAAP.

Where information in the risk management report on pages 10 to 13 is marked as audited, it is incorporated into these financial statements by this cross reference and is covered by the independent auditors report on page 17.

The going concern basis was adopted in preparing the annual report and accounts as described on page 15.

1.2 Reconciliation with previous Generally Accepted Accounting Practice

In the transition to FRS 102 from the former UK GAAP, the Bank has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Bank is provided in note 23.

1.3 Interest and fee income and expenditure recognition

Income is recognised once the Bank has entitlement to the income, it is probable that the income will be received and the amount can be measured reliably.

(a) Interest income

Interest receivable on financial assets is recognised using the effective interest method over the term of the loan.

(b) Fee Income

Loan arrangement fees are recognised using the effective interest method over the term of the loan. Non-utilisation fees on undrawn loans are recognised as income in the period they are earned.

(c) Expenditure recognition

Expenditure is recognised as soon as there is a legal or constructive obligation to make a payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

Irrecoverable VAT is charged as a cost.

1.4 Pension costs

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

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

1.5 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 in accordance with IFRIC21 using information provided by the FSCS, forecast future interest rates and the Bank's historic share of industry protected deposits.

1.6 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.

1.7 Basic financial instruments

Loans and advances to banks comprise the Bank's cleared and uncleared balances held at HSBC and deposits with an original maturity of three years or less. These are shown at the lower of cost or estimated realisable value.

Interest-bearing loans are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost using the effective interest method, less any impairment losses.

Debt securities held for investment purposes are held to redemption at par and recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The amortisation of premiums or discounts is included in interest income in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

Debtors are recognised at the settlement amount due after any discount offered. Prepayments are valued at the amount prepaid.

Customer account balances represent the value of deposits by account holders and are recorded as liabilities.

Creditors are recognised where there is a present obligation resulting from a past event that will probably result in a transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors are normally recognised at their settlement amount after allowing for any discounts due.

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.

1.8 Impairment of assets

Financial assets including loans are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence can include default or delinquency by a borrower, restructuring of a loan or advance on terms the Bank would otherwise not consider, indications that a borrower or issuer may become insolvent, or a reduction in marketability of security.

The Bank considers evidence for impairment for loans and advances (including on-demand commitments) at both specific and collective level. If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan, including accrued interest, and the estimated recoverable amount. The estimated recoverable amount is measured as the present value of expected future cash flows discounted at the loan's original effective interest rate, including cash flows that may result from foreclosure less costs for obtaining and selling collateral. The carrying amount of the loan is reduced by the use of an allowance account and the amount of the loss is recognised in the in the profit and loss account.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset,

it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account collateral type and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and loss experience for assets with credit risk characteristics similar to those in the Bank. In addition, the Bank uses its judgement to estimate the amount of an impairment loss, supported by historic loss experience data for similar assets. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process

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

	2016	2015
	£000	£000
Interest receivable and similar income arising from debt securities	8,986	7,452
Other interest receivable and similar income	2,660	3,283
	11,646	10,735

4. Interest payable

	2016	2015
	£000	£000
Customer accounts	1,504	1,957
AT1 shareholders	183	-
Preference shareholders	160	159
Loan stock holders	126	126
	1,973	2,242

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

5. Administrative expenses

	2016	2015
	£000	£000
Staff costs		
Wages and salaries	2,457	2,197
Social security costs	210	205
Other pension costs	152	141
	2,819	2,543
Other administrative expenses	3,102	3,283
	5,921	5,826

All staff are employed by CAF. Total employment costs are recharged where activities have been undertaken for CAF Bank. Staff costs (above) represent 79 (2015: 75) employees of CAF who were assigned wholly to duties relating to the activities of the Bank.

Creditors include £13,000 (2015: £12,000) in respect of pension contributions payable.

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

	2016	2015
	Number	Number
Management	16	18
Information Systems	3	5
Administration	60	52
	79	75

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

	2016	2015
	£000	£000
Indirect staff costs	1,013	1,010
Management charges	527	490
	1,540	1,500

None of the directors who served during the year were remunerated directly by the Bank (2015: none). During the year, the Bank reimbursed CAF with £302,647 (2015: £297,188) including national insurance and pension contributions in respect of services rendered by two executive directors (2015: two). Non-executive directors were not remunerated.

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

	2016	2015
	£000	£000
Audit fees payable to the company's auditor for the audit of the company's financial statements	70	51
Audit related assurance services	-	5
Other non audit services	-	10
	70	66

6. FSCS levy

The Financial Services Compensation Scheme ('FSCS') levy 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 31 December. The provision at 30 April 2016 represents the estimated amounts due in respect of the Bank's participation in the scheme for the years ending 31 March 2016 and 2017.

	2016	2015
	£000	£000
Provision at 1st May	672	733
Paid during the year	(351)	(391)
Provided during the year	90	330
Provision at 30th April	411	672

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

7. Charitable donation to parent

The Bank donated a surplus to CAF of £3,292,000 (2015: £2,185,000) during the year, with £3,292,000 remaining to be paid at 30 April 2016.

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: 20% (2015: 20%). The differences are explained below.

	2016	2015
	£000	£000
Tax expense:		
UK corporation tax	698	493
Reconciliation to tax expense:		
Tax at 20% on:		
Profit on ordinary activities before tax	711	419
FRS 102 adjustment	(45)	29
Interest payable to preference shareholders	31	31
	697	479
Expected tax charge on disallowable expenditure	3	10
Tax (over)/under accrued in previous year	(2)	4
	698	493

There is no unprovided deferred taxation.

9. Loans and advances to Banks

	2016	2015
	£000	£000
Repayable on demand	2,996	-
Remaining maturity of other loans and advances:		
Over 6 months to 1 year	15,000	40,000
Over 1 year to 5 years	8,000	3,000
Loans and advances to banks	25,996	43,000

10. Loans and advances to Customers

	2016	2015
	£000	£000
Remaining maturity of loans and advances		
Repayable within 3 months	395	764
Repayable within 5 years	16,447	7,323
Repayable over 5 years	29,487	12,366
	46,329	20,453
Loan loss provision: Charity Loans	(75)	(5)
Loan loss provision: Personal Loans	(194)	(20)
Deferred income: Charity Loans	(52)	(37)
Deferred income: Personal Loans	(388)	(185)
At 30 April 2016	45,620	20,206
	2016	2015
	£000	£000
Loan loss provision at 1st May	(25)	-
Provided during the year: individual provision	(23)	-
Provided during the year: collective provision	(244)	(25)
Written off during the year	23	-
Loan loss provision at 30th April	(269)	(25)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

11. Debt securities

11.1 Investments

	2016		2015	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
Listed:				
UK government	90,028	90,695	139,934	140,500
Multilateral financial institutions	309,297	310,154	216,761	217,228
Fixed coupon corporate bonds	144,042	144,632	161,042	161,135
Floating rate corporate bonds	202,025	201,964	174,271	174,885
	745,392	747,445	692,008	693,748
Unlisted:				
Certificates of deposit	40,000	40,326	40,000	40,188
Commercial paper	9,901	9,901	-	-
	795,293	797,672	732,008	733,936

11.2 Maturity

	2016	2015
	Book Value £000	Book Value £000
1 day to 8 days	9,972	9,974
Over 8 days to 3 months	85,345	61,667
3 months to 6 months	76,340	119,852
6 months to 1 year	152,355	153,885
	324,012	345,378
1 year to 5 years	471,281	386,630
	795,293	732,008
5 years and over	-	-
	795,293	732,008
Unamortised premiums	(7,789)	(7,849)

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

11.3 Movements

	Cost £000	Amortisation £000	Book Value £000
At 1 May 2015	738,578	(6,570)	732,008
Acquisitions	556,930	(664)	556,266
Redemptions	(490,799)	1,968	(488,831)
Amortisation	-	(4,150)	(4,150)
At 30 April 2016	804,709	(9,416)	795,293

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

12. Customer accounts

	2016	2015
	£000	£000
Repayable on demand	948,335	905,532
Repayable within 7 days	-	-
Repayable within 30 days	53,269	83,747
Repayable within 3 months	-	-
Repayable within 6 months	-	-
	1,001,604	989,279
Amounts include:		
Amounts owed to CAF	1,516	21,985

13. Other liabilities

	2016	2015
	£000	£000
Amounts due within one year:		
Amounts owed to CAF	3,526	2,464
Sundry creditors	720	826
FSCS Levy	411	672
Taxation	18	40
	4,675	4,002

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:

		2016	2015
	Notes	£000	£000
Floating rate:			
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 of 0.5% over a reference gilt rate until the redemption date of that gilt.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

15. Preference Shares

	2016		2015	
	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 and additional Tier 1 securities

	2016		2015	
	Number	£000	Number	£000
Allotted, issued and fully paid:				
Ordinary shares of £1 each	19,350,000	19,350	19,350,000	19,350
Additional Tier 1 securities of £1 each	4,000,000	4,000	2,000,000	2,000
		23,350		21,350

Following regulatory approval, CAF Bank issued £2m of Additional Tier 1 capital to CAF in April 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.

17. Reconciliation of shareholders' funds

	Called-up share capital	Additional Tier 1 securities	Distributable reserves	Profit and loss account
	£000	£000	£000	£000
At 1 May 2015	19,350	2,000	1,000	(222)
Issued during the year	-	2,000	-	-
Profit during the year	-	-	-	222
At 30 April 2016	19,350	4,000	1,000	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

18. Financial instruments

18.1 Market and interest rate risk

Market and interest rate risk is described on page 12.

18.2 Currency profile

The Bank has an exposure of US\$486k held as a collateral deposit for the Bank's Mastercard operations. Other than this exposure all assets and liabilities are denominated in sterling.

18.3 Instruments held for trading

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

18.6 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 11). Unlisted debt securities are bank certificates of deposit and commercial paper and fair values are as book values.

	2016		2015	
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Assets				
Balances at central banks	160,697	160,697	219,784	219,784
Loans and advances to banks	25,996	25,996	43,000	43,000
Debt securities	795,293	797,672	732,008	733,936
	981,986	984,365	994,792	996,720

19. Off-balance sheet commitments

Commitments comprise amounts yet to be drawn under loan or overdraft agreements.

	2016	2015
	£000	£000
Undrawn overdraft and loan commitments	9,099	7,723
	9,099	7,723

18.4 Investments held to maturity

The Bank's policy is to hold investment securities to redemption at par (note 1.7). Any movements in interest rates are therefore not anticipated to materially affect the Bank's profits.

18.5 Hedging

CAF Bank does not hold financial instruments for hedging purposes.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2016

21. Related party transactions

One of the Bank's directors was appointed a director of SofGen (UK) Limited on 14 March 2014 and resigned on 30 April 2015. SofGen (UK) Limited is a supplier of IT software to CAF Bank. All services were provided on commercial arm's length terms.

During 2014/15 the Bank terminated an agreement with Charity Bank (which is an associated undertaking of CAF) to provide loan administration and credit service. The agreement was on commercial arm's length terms. No costs were paid to Charity Bank from this agreement during the year (2015: £10,970).

There are no other related party transactions.

22. Country by country reporting

The Capital Requirements (Country by Country Reporting) Regulations came into effect on 1 January 2014 and place certain reporting obligations on financial institutions within CRD IV.

The activities of the Bank are described in the Strategic Report. All of the Bank's activities are carried out in the United Kingdom.

	2016	2015
	UK	UK
Number of employees (average FTE)	79	75
	£000	£000
Turnover (total income)	9,832	8,279
Profit on ordinary activities before tax	3,554	2,098
Corporation tax paid	62	42
Public subsidies received	-	-

23. Reconciliation with previous Generally Accepted Accounting Practice

In accordance with the requirements set out in the basis of preparation in note 1.1, a reconciliation of opening balances and net income/(expenditure) for the year is provided with the net income/(expenditure) under previous GAAP.

Loan arrangement fees are recognised using the effective interest method over the term of the loan, rather than at the time of the initial advance as under former UK GAAP, resulting in income being deferred.

The effect of the reclassification on the profit and loss account for the year ended 30 April 2015 is to:

- Reduce fee income by £143,000
- Profit and loss account balance brought forward of £79,000
- Profit and loss account balance carried forward of £222,000

The effect of the reclassification on the balance sheet for the year ended 30 April 2015 is to:

- Reduce loans and advances to customers with deferred income by £222,000
- Decrease profit and loss account by £222,000

The effect of the reclassification on the cash flow statement for the year ended 30 April 2015 is to:

- Decrease adjustments for profit before tax by £79,000
- Increase adjustments for loans and advances to customers by £222,000

	2015	2014
	£000	£000
Fee income as previously stated	896	787
Lending fees - deferred income	(143)	(79)
Fee income	753	708
Profit and loss account balance brought forward as previously stated	-	-
Lending fees adjustment as above	(79)	-
Profit and loss account balance brought forward	(79)	-
Loans and advances to customers as previously stated	20,428	5,530
Lending fees adjustment as above	(222)	(79)
Loans and advances to customers	20,206	5,451

DIRECTORS, COMMITTEES AND ADVISERS

Registered Office

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

Telephone: 03000 123 456
Fax: 03000 123 600
Email: cafbank@cafonline.org
Website: www.cafonline.org/banking

Company Number

1837656

Directors (at 30 April 2016)

Non-Executive Directors

Iain MacKinnon (*Chair and CAF Trustee*)
Stuart Barnett (*CAF Trustee*)
Paul Biddle
Clive Bowles
David Dickman
Mairi Johnstone
Dr Peter Kyle
Tiina Lee (*CAF Trustee*)
Dr John Low CBE (*CAF Chief Executive*)
Alistair Ray
Mark Sinclair

Executive Directors

Peter Ostacchini (*Chief Executive*)
John Grout (*Finance Director*)

Audit Committee

Paul Biddle (*Chair*)
Stuart Barnett
David Dickman

Risk & Compliance Committee

Tiina Lee (*Chair*)
Alistair Ray
Peter Ostacchini
John Grout

Nominations and Remuneration Committee

Iain MacKinnon (*Chair*)
Dr John Low CBE
Peter Ostacchini

Executive Committee

Peter Ostacchini (*Chief Executive*)
John Grout (*Finance Director*)
Dina Henry (*Chief Commercial Officer*)
Chris Kairis (*Head of Operations*)
Paul White (*Chief Risk Officer*)

Bankers

HSBC Bank plc
City of London Branch
Ground Floor, 60 Queen Victoria Street
London EC4N 4TR

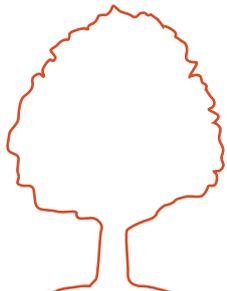
Nominee and Custodian

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.



CAF Bank Ltd
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Company number 1837656

CAF Charities Aid
Foundation