COMPANY NUMBER 1837656

CAF BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 APRIL 2021

CAF Bank Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2021

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CAF Bank Limited

CHAIR'S STATEMENT

This report is meant to reflect on the past year, both high points and challenges, in our journey as the UK's dedicated bank for charities and social purpose enterprises. It has, inevitably, been a time of uncertainty across the charitable sector as the initial shock of the pandemic gave way to the repercussions that COVID-19 has had on the tremendous organisations that CAF Bank exists to support.

For CAF Bank, it has also been a story of resilience as we took inspiration from the work that was happening as thousands of community organisations defied the odds to find new and creative ways to serve their beneficiaries. At every turn, we also searched for innovative ways in which we could support them.

We provided uninterrupted banking services for our 14,000 existing customers and were able to open new accounts for charities and social purpose enterprises, many of which had been turned away by other banks. In lending, we continued to provide secured loans to help charities and worked with them to modify terms, including proactively offering six-month capital repayment holidays and further extensions if requested. This was initially taken up by around 30% of our borrowers. We also provided access to the Coronavirus Business Interruption Loan Scheme ('CBILS'). We took great care to proactively speak to our clients about the risks of fraud in turbulent times and used all of our communication channels to keep them informed. Along the way, Charity Finance magazine's Charity Banking Survey 2021 recognised us as top for 'Sector knowledge' and 'Commitment to CSR'.

Looking to the future, we have taken the next major step in our transformation programme to deliver a new banking platform and a more fluid banking experience for our clients, be it on mobile, online or through telephone banking. The signing of an agreement with our primary supplier has set the wheels of this multi-year programme fully in motion and while it will take time to be fully implemented, our customers can be confident that an enhanced banking experience lies ahead.

While both the loan and deposit balances on our balance sheet have continued to grow, like many organisations, our profitability has been impacted by falling interest rates and the impact of COVID-19 on our customers. While the profits we can reinvest directly in the charity sector through direct contributions to CAF have fallen, we are taking steps to mitigate this where possible and within our risk appetite, including realigning our treasury activity to secure additional income and focussing on growing our lending portfolio to charities and social purpose enterprises.

The reduction in profitability noted this year is driven predominantly by the fall in gilt yields and base rates to an all-time low in March 2020, together with continued exceptional levels of investment in our IT infrastructure and regulatory compliance.

Notwithstanding the short-term nature of the challenge we face to profitability, our balance sheet and lending growth plans are supported by a strong risk-weighted capital surplus position compared to the minimum requirement set by our regulators. CAF Bank continues to be prudently managed with a high degree of liquidity and Bank of England reserves.

The work detailed on these pages stems from the dedication of a team of people who share a common purpose and the 2020 Banking Standards Board Employee Survey found that 97% of CAF Bank employees were proud of how we helped customers throughout this crisis. Those of us who work alongside the team at CAF Bank were not surprised by these extraordinary results. Along the way, we wished Finance Director John Grout the happiest of well-earned retirements and welcomed Phil Alvey to the board as our new Chief Finance Officer. Phil brings with him a wealth of experience in the financial services industry. We also welcomed Neil Heslop, the new Chief Executive of the Charities Aid Foundation ('CAF') – CAF Bank's parent charity – to our board. Neil's energy, experience and leadership is already making a difference as the wider CAF Group seeks to fulfil its mission to ensure the safe and effective delivery of donor funds to charities and, in so doing, to accelerate social progress across the world.

It remains only for me to thank my fellow board members for their support and, above all else, extend my gratitude to our clients who place their trust in us, safe in the knowledge that we share their values; helping them realise their mission is where our purpose lies.

Janet Pope
Chair

CAF Bank Limited

STRATEGIC REPORT

Principal activities

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

CAF Bank is a wholly owned subsidiary of CAF.

Strategy and Objectives

Following a review of CAF Bank's strategy in 2019, the Bank's core principles were agreed by the Board as follows:

- Providing services for small and medium sized charities and organisations with social purpose;
- Offering services that our customers want at a fair and transparent cost;
- Progressively realigning our lending activity around the single aim of supporting social purpose organisations and projects;
- Improving customer service and customer satisfaction; and
- Continuing to drive efficiency and improvement through process simplification and investment in technology.

The Bank's objective is to deliver continual improvements to customer service and efficiency, thereby maintaining a financially robust and sustainable business model. A key aspect of meeting this objective is through delivery of the Bank's transformation project which was initiated in 2020. This project will combine investment in a new banking platform with remodelled processes and a new mobile customer channel.

In addition, CAF Bank aims to make a direct contribution to the charitable sector through donating any residual profit each year, after meeting interest payable on capital instruments, to CAF.

In 2021, CAF completed a broader strategic review, in conjunction with the Bank, defining the CAF Group's purpose, vision, propositions and values. The key objectives for the Bank coming out of this review, in addition to the core principles outlined above, are to deliver a seamless and cohesive service to our charity customers, across the Bank and the broader CAF Group.

Review of the year

COVID-19 has had a significant impact on the Bank since March 2020. To protect our staff, and in line with Government policy, 90% of employees relocated to working from home from mid-March 2020. Although staff have had to adapt to different ways of working we have successfully continued operations and have maintained strong support for our customers.

We have moved ahead with a strategic partner for our new IT platform and transformation. We are currently moving out of design and in to the implementation phase of the project. Our current plan is that the new platform and much of the enhanced functionality for customers will be delivered in the first half of 2022.

Our lending book continued to grow during the year and we were pleased to close the year with total committed loans and advances to customers of £164m compared to £139m the previous year. Just as importantly, our pipeline of sanctioned loans was £24m by year end, providing a strong base for further growth in lending.

The impact on our loan customers from COVID-19 has been marked, with several temporarily closing their operations, particularly in the faith and education sectors. Housing and social developments have experienced delays due to lockdown restrictions and materials supply constraints. Our response included offering our borrowing clients 6-month capital repayment holidays. We held 2 such loans totalling £1.8m at 30 April 2021, compared to 26 customers with loans totalling £15.0m as at 30 April 2020.

STRATEGIC REPORT

In addition to the lending and operational support provided by the Bank, 145 of our customers benefited from £4.4m of grants distributed from the CAF Resilience Fund. A further £1.0m was distributed to over 600 of the Bank's customers as part of the CAF Emergency Fund.

The ultimate impact of COVID-19 on the social purpose sectors remains uncertain. We have increased provisions on our loan book to £2.2m to reflect the estimated impact on our customers' ability to repay loans in the present economic situation. This resulted in a 2020/21 profit and loss charge of £0.5m for loan loss provisions, £0.7m lower than in 2019/20.

We are grateful to our charity customers for continuing to provide us with a strong and stable base of deposits and our robust liquidity position underpins CAF Bank. During the year, deposits have increased by 21% to £1.4bn in spite of a challenging interest rate environment, which has seen the Bank of England Base Rate remain at a historic low and which, in common with many other banks, required us to reduce interest rates paid to our customers.

The Bank made an overall profit of £0.9m in 2020/21, before payment of interest on capital instruments. This represents a reduction from the £1.3m profit in 2019/20.

The Bank's income has been impacted by the Bank of England's decision to reduce Base Rate to 0.1% in March 2020 and reductions in yields across investments. Overall, the Bank's net interest income of £9.8m is £1.7m lower or 15% than 2019/20. Net fee income increased £0.3m to £1.4m as a result of lower fees payable during UK lockdowns when transactional activity was muted.

Administrative expenses reduced by 3% from £10.1m to £9.8m in 2020/21.

Administrative expenses for 2020/21 include £2.1m (2019/20: £2.6m) in intra-Group recharges paid to our parent, Charities Aid Foundation, for the cost of shared services. Our shared services model provides the Bank with IT, HR, premises, marketing and communications. The largest element of the charge is in respect of IT and the overall cost reduction for the year reflects our prioritisation of our Transformation project over other IT projects that would be delivered through the shared service model.

Also included within administrative expenses are project and IT costs associated with our Transformation programme and other significant one-off regulatory projects. These costs totalled £0.6m in 2020/21 compared with £0.9m in 2019/20.

Excluding the shared services recharge and Transformation and project costs, direct administrative expenses increased by £0.5m from £6.6m to £7.1m in 2019/20. This reflected investments in our current IT infrastructure and increases in audit and other professional services, all largely related to supporting a robust control environment and meeting regulatory and compliance standards.

In light of the overall net loss, after meeting interest payable on capital instruments, a donation was not made to our parent. CAF Bank contributed £3.1m to its parent charity in 2020/21, comprising £1.0m coupons paid on 'additional tier 1 capital' and £2.1m contribution to shared service costs.

Lending

Despite an extremely challenging economic environment, committed loans and advances to customers grew steadily in 2020/21, increasing from £139m at 30 April 2020 to £164m at 30 April 2021. Within this total, loans to charities and social housing organisations have increased by £19m during 2020/21, following continuing demand from housing associations in particular. Social housing associations now represents 53% of our drawn lending book by value.

We are encouraged by the lending pipeline. At 30 April 2021, the Bank has £24m of loans sanctioned pending final agreement and commitment (at 30 April 2020: £31m).

Following the impact of COVID-19, we have continued to closely monitor and analyse the collective and specific loan provisions. A number of our customers temporarily closed their operations and have only recently started to reopen. Despite this, the quality of the loan book remains strong resulting in a modest loan loss charge.

We have sought to ensure property valuations are up to date, in determining loss given default, either by obtaining new valuations or through indexing older valuations by reference to commercial and residential property indices. For assessing the collective provision, we have considered the impact of previous economic downturns on probability of default and loss given default values. On this basis, the collective provision is determined as £0.8m (at 30 April 2020: £0.7m).

To assess specific provision requirements, we have reviewed 'watchlist' loans and compared the estimated recoverable amount to the carrying value of the loans where there is evidence that the loan is impaired. This has resulted in specific provisions of £1.4m at 30 April 2021 (at 30 April 2020: £0.9m).

The Bank successfully supported and offered the Government backed CBILS and at year end had £0.2m drawn CBILS lending with a further £0.6m committed.

Capital and liquidity

CAF Bank's capital position remains strong relative to the risk weighting of its assets. At 30 April 2021, the Bank's total capital ratio was 31.4% compared to 27.9% at 30 April 2020, reflecting a decrease in risk weighted assets on credit institutions. The Bank's minimum regulatory capital requirement decreased to 15.6% at 30 April 2021 (*30 April 2020: 16.0%*) which translates to a capital requirement of £19.9m at 30 April 2021 compared to £23.7m last year. Further detail about the Bank's capital position is outlined in the Pillar 3 document which can be found at https://www.cafonline.org/about-us/about-caf-bank.

CAF Bank is reporting under the UK Leverage Ratio framework which results in a leverage ratio of 3.81% (at 30 April *2020: 4.6%)* compared to a minimum of 3.25%.

Capital includes £11m of 'Additional Tier 1' equity which 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%. The Bank has no Tier 2 capital.

In liquidity terms, approximately 90% of CAF Bank's assets are highly liquid, with liquidity buffer eligible assets of £1,174m at 30 April 2021 (*£916m at 30 April 2020*). Liquidity buffer assets comprise investments in the Bank of England Reserve Account, Multilateral Development Banks and UK Gilts and Treasury Bills.

Environment and society

As a bank wholly owned by a charity with social purpose enterprises and charities as our customers, CAF Bank is attuned to the work that many of them are doing as leading voices in the battle against climate change. Through our range of not-for-profit banking services, we are aiding them in their work and continuously searching for new ways in which we can offer our support.

Internally, we have reflected upon the past year since the onset of COVID-19 and are determined to retain the environmental benefits that resulted from our sudden shift in ways of working. As part of our shared services with our parent charity, CAF, we embarked on an organisation-wide effort, asking our employees to help us identify instances of wasteful practices, old habits or ways of working that had become outdated and set about eliminating those that had clearly become redundant. Many of the more than 300 suggestions from staff resulted in a change to internal policies, a reduction in the use of paper and other energy-consuming practices that had outlived their usefulness. It was a reminder of the need to routinely review how we go about our day to day business and to remain vigilant in identifying and reducing waste. The number of staff who were able to work from home throughout the pandemic has also led to a shift away from the reliance on paper-based documentation whenever possible and the reduction in commuting has reduced what was already a relatively modest travel footprint.

The Bank continues to manage and monitor the impact of climate change on its lending and treasury activities and is aware the resulting policies require constant review as they evolve over time. The relevant policies state the Bank's risk appetite for exposures to climate change, and continue to be monitored by Credit Risk Committee and ALCo.

STRATEGIC REPORT

The Bank continues to maintain the highest possible standards of governance. As charities across the UK faced an unprecedented fundraising crisis, the value of a prudent, trusted banking partner who shares their sense of purpose has never been more important.

Our non-executive directors and executives are accomplished leaders in financial services, the third sector and several other fields. Their expert scrutiny and strategic direction informs everything we do and ensures our compliance and reporting protocols are fully fit for purpose and that our staff feel empowered to raise any concerns about internal practice. They set an impressive level of robust, transparent governance that is upheld throughout the organisation.

Through our support for our clients during times of such uncertainty, be it through offering bank accounts to newly-formed non-profit organisations that had been turned away by other banking providers, considered lending, including payment holidays and access to the Government's Business Interruptions Loan Scheme and sign-posting to grant opportunities, we have been able to play our part in ensuring the sustainability of these vital contributors to our wider society.

Equality and diversity

CAF Bank, as with our parent charity, asks our staff to simply 'be who you are, we like you that way'. We are an equal opportunities employer with staff from a wide variety of backgrounds and we believe in the importance of every employee having the same access to opportunities for advancement. This not only creates a better working environment but also means we are more likely to reflect the different values, experiences and cultures of our clients and the people they are helping. Bank staff also participate in the Employee Council, which is formed of volunteers who liaise with management to ensure the voices of staff at all levels of our organisation are heard and any concerns are brought to the attention of the executive. A regular staff engagement programme has proven popular and recognition of those who have gone above and beyond for our customers has become a feature of our work.

CAF Bank does not tolerate any form of intimidation, bullying or harassment and staff are urged to raise any concerns. A whistleblowing policy is promoted to ensure staff feel empowered to speak out should they encounter discrimination or any other form of inappropriate behaviour. All grievances are managed promptly and fairly.

We continue to place strategic importance on the need for diversity across our organisation, including at Board level. When filling Board positions, diversity is actively considered as part of the selection process with measures in place to ensure an appropriate diversification is maintained. In the second year after adopting our Board Diversity policy, 45% of the Board and 80% of the Executive Committee are women.

Stakeholder engagement to promote the success of the Bank

Under Section 172(1) of the Companies Act 2006, the directors are required to describe how they consider a broad range of stakeholders when performing their duty to promote the success of the Bank. We have developed into a successful and profitable business, driven by focus on core values, a clear strategy and efforts to consider our stakeholders' interests throughout our decision making process.

In this statement we have detailed our key stakeholders, their importance to our business and how we have engaged with them throughout the year. We then provide examples of key decisions we have made in the year, describing how we considered stakeholders in these decisions and how the decisions will add long-term value.

Stakeholder engagement

We recognise and promote the importance of strong relationships with our stakeholders across all of our activities, and we are committed to engaging with them to ensure we maintain long-term relationships and add lasting value to the charity community in which we operate. Below we give examples of stakeholder engagement:

STRATEGIC REPORT

Employees
Our employees are usually the first point of contact customers have with the Bank and therefore are critical to our success. Many employees have a deep knowledge of our charity customers and their requirements, and perform key roles requiring specific knowledge and expertise. We aim to ensure that all of our employees feel valued and appreciated while working for us.

The Directors and the Executive engage with our employees through regular meetings and feedback sessions; through a structured appraisal process; and through annual employee surveys, to help understand any issues or changes they would like to see implemented within the organisation. This year, CAF Bank was delighted to join the Financial Services Conduct Board ("FSCB", previously the Banking Standards Board) and to offer all employees the opportunity to participate in the annual FSCB staff survey. Participation was high and the results were excellent, and helpfully provided some areas of feedback for greater improvement that are now being worked through across the organisation.

A particular area we have focussed on this year has been the impact of COVID-19. Senior managers have communicated extensively with staff to implement working from home arrangements, listening to and acting on feedback at all stages of the process while supporting changes in working arrangements. More recently, we have formally asked all staff to submit their views on the successes and challenges of working arrangements over the past year, as well as their wishes for the future. The responses will help inform our long-term, future state working environment.

Customers
Our charity and social purpose customers remain at the heart of our business. This year we have a renewed customer-focused strategy and mission. We have increased our customer engagement through continuous interaction with customers via regular meetings with borrowers and deposit customer surveys which take place throughout the year. These programmes allow us to have a deep understanding of our customer's needs and values and provide the opportunity for us to act upon the feedback they have given.

Following feedback from customers, this year we have improved our customer take-on process and improved our KYC processes to streamline information required from customers. Feedback from customers is also informing our transformation project and will underpin the requirements for our new systems and customer channels.

Suppliers
We recognise that our suppliers are crucial to the success of CAF Bank and we understand the importance of maintaining strong lines of communication. Many perform critical out-sourced functions and are subject to regular formal review. Directors and senior managers engage with suppliers regularly throughout the year and feedback is continuously communicated and monitored through governance committees.

This year we have particularly focused on strengthening our relationships with our clearing bank and credit card provider which has resulted in a better understanding and resolution of any issues that might arise.

Regulators
It is within the Bank's culture of fairness and transparency to promote high standards of conduct within the Bank and with all external parties. In particular, as directors of a regulated bank, holding customer deposits, safety, soundness and adherence to all relevant aspects of regulation is key to the Bank's business model.

Directors and the executive maintain close awareness of this through engagement with regulators, primarily the Prudential Regulation Authority (PRA) and also the Financial Conduct Authority (FCA). This involves regular, direct contact with regulators, and is supported by interactions with industry bodies, specialist advisors, regulatory seminars, online forums and round table events. This has allowed us to remain informed on increasing regulatory requirements and ensure we operate to the standard required.

STRATEGIC REPORT

Key decisions

Our strategy is to be the preferred bank for small and medium sized charities. We aim to deliver a cycle of improving customer service quality and efficiency, leading to improved profitability which in turn funds investment in the Bank.

The Bank is privately owned and can therefore take a longer term view than a publicly quoted company. We make careful decisions to maintain strategic focus, control costs, invest and ensure sufficient capital and liquidity is held. All of the decisions we make consider the regulatory context and the full range of stakeholders mentioned previously.

Technology investment
The decision last year to invest significantly in technology was driven by our need to maintain compliance with regulatory changes, to upgrade our IT platforms to maintain operational resilience, and to ensure our customers enjoy an efficient and modern customer experience.

We are well advanced in the work on our Transformation Project and are currently moving out of the design phase and in to the implementation phase of the project for our replacement suite of banking systems. These will provide the foundation for modernising our customer proposition to ensure we are able to offer efficient, up-to-date banking services in a mobile, 24/7 digital world.

Senior management appointments
The Finance Director retired on 13 April 2021 and a new Chief Finance Officer ('CFO') was appointed on 29 April 2021. The new CFO has a strong record in Finance roles within financial services, including at an executive level.

Future developments

The Bank's strategy is to be the preferred bank for small and medium size charities, providing services our customers want at fair and transparent cost. The aim of the strategy is to deliver a cycle of improving efficiency and service quality leading to improved profitability and funds for investment.

The Bank's Transformation project underpins our plans to deliver service excellence and improve the efficiency of our operations. The Bank's existing IT platform provides limited scope to update our services for today's digital environment.

The Board continues to closely monitor the economic uncertainty resulting from COVID-19, working with the Executive on a range of scenario plans to ensure the Bank is well prepared to deal with any eventuality that might arise

The strategy is underpinned by maintaining a strong capital position to support growth and provide resilience against a range of possible stresses. The Bank plans to maintain a strong liquidity position with a significant portion of funds continuing to be invested with the Bank of England and other highly liquid investments.

This report has been approved by the board of directors and signed by order of the board

Janet Pope
Chair

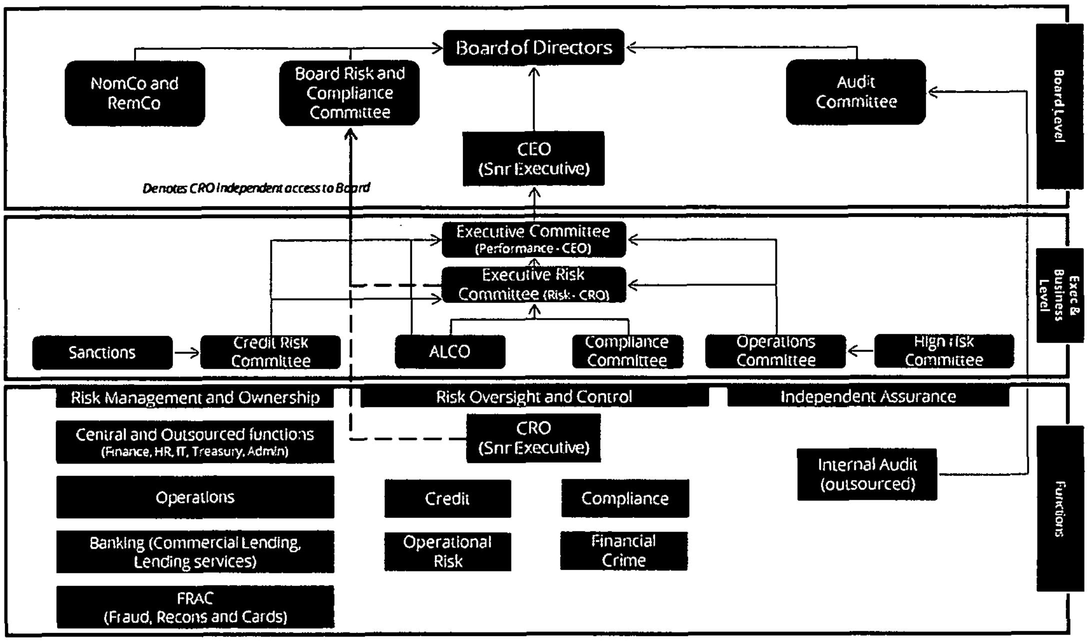
12 August 2021

GOVERNANCE REPORT

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

The Board

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



In addition to the above, for a fixed time period until the Bank's Transformation Project has been concluded, there is an additional executive committee reporting into the Executive Committee which will be the Transformation Steerco with delegated responsibilities for governance and oversight of the Transformation Project.

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

GOVERNANCE REPORT

The following directors served throughout the year, except as noted:

	Meetings attended	Maximum
Janet Pope *(Chair)* [1,2]	8	8
Malcolm Himsworth *(Deputy Chair)* [1]	8	8
Martyn Beauchamp [1]	7	8
Kees Diepstraten [1]	8	8
Astrid Grey (appointed 01 June 2020) [1]	7	7
Neil Heslop *(CAF Chief Executive)* (appointed 15 October 2020)	4	4
Mairi Johnstone [1]	8	8
Sir John Low CBE [3] *(CAF Chief Executive)* (retired 1 October 2020)	4	4
Carole Machell (retired 8 September 2020) [1,2]	3	4
Samantha Seaton (appointed 29 June 2020) [1]	6	6
Graham Toy [1]	8	8
Alison Taylor *(CEO)*	8	8
Philip Alvey *(Chief Finance Officer)* (appointed 29 April 2021)	1	1
John Grout *(Finance Director)* (retired 13 April 2021)	8	8

[1] Independent non-executive director (INED)
[2] CAF Trustee
[3] Non-executive director having served for 9 years or more

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

The Board is supported by Kate Mayor, Company Secretary.

How the Board discharged its responsibilities:

During the year the Board:

- Approved the Bank's strategy, operating plans, budgets and forecasts;
- Approved the Bank's Transformation Plan for its banking system to enhance our customer proposition;
- Approved the Risk Appetite Framework and policies to maintain an effective and appropriate governance and control structure for managing the business;
- Reviewed and challenged the operating activities of the Bank compared to plans and changes in the wider economic environment;
- Monitored the conduct of business to ensure adherence to approved risk appetite and compliance with applicable regulations;
- Monitored the impact of COVID-19 and operational resilience;
- Monitored reputational risk and brand issues;
- Reviewed, challenged and approved the capital and liquidity adequacy assessments and policies (ICAAP and ILAAP) including the gifting of annual profits to its parent, the Charities Aid Foundation;
- Reviewed and approved a new capital policy, and agreed this with the Bank's parent, CAF.
- Reviewed, challenged and approved the Recovery Plan and Resolution Framework;
- Approved the composition, membership and terms of reference of Board sub-committees;
- Reviewed reports and recommendations from Board sub-committees, taking action as appropriate;
- Reviewed and approved the Annual Report and Financial Statements;
- Set an appropriate 'tone from the top' and ensured alignment of values and behaviours in the Bank relating to the conduct of its business; and
- Kept the PRA and FCA informed of the Bank's strategy, operations and risks during the year.

Board Committees

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

I. Board Risk and Compliance Committee;
II. Audit Committee; and
III. Nominations and Remuneration Committee.

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

The Board Risk and Compliance Committee (BRCC)

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

How the BRCC discharged its responsibilities:

During the year the BRCC:

- Reviewed the Risk Appetite Statement and recommended these for approval by the Board;
- Monitored risk reporting and ensured the Bank's strategy, principles, policies and resources are aligned to the Bank's risk appetite, as well as to regulatory and industry best practices;
- Reviewed and challenged capital and liquidity adequacy assessments, the Recovery Plan and Resolution Framework and recommended these for approval by the Board;
- Monitored compliance with legislation, regulation and internal policy;
- Focused on Business (including the impact of COVID), Credit and IT risks including oversight of the Transformation Project, and
- Reviewed policies and recommended these to the Board.

The Board Audit Committee

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

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

How the Committee discharged its responsibilities:

Financial Reporting

The Committee reviewed and challenged:

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

Internal Audit

During the year the Committee:

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

Whistleblowing

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

The Nominations and Remuneration Committee

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

The Committee comprises the Chair, an INED, the CEO and CAF Chief Executive.

How the Committee discharged its responsibilities:

During the year the Committee:

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

CAF Bank Limited

RISK MANAGEMENT REPORT

Risk Management Framework

The Risk Management Framework (RMF) outlines how CAF Bank Ltd (the "Bank") manages risks that are relevant to our chosen sectors, business model and operations.

Risk-taking is an inherent part of banking, and the Bank aims to make a profit from taking risks in a controlled way. Excessive and poorly managed risks can have a negative impact, increasing the risk to the Bank's customers and shareholder, that shareholder being CAF (Charities Aid Foundation).

Risk is the combination of the probability of an event and its consequences. Consequences can range from positive to negative. In the context of this document, the focus is risks that could have an impact on the Bank's customers, capital, liquidity, profitability, reputation and ultimately its viability.

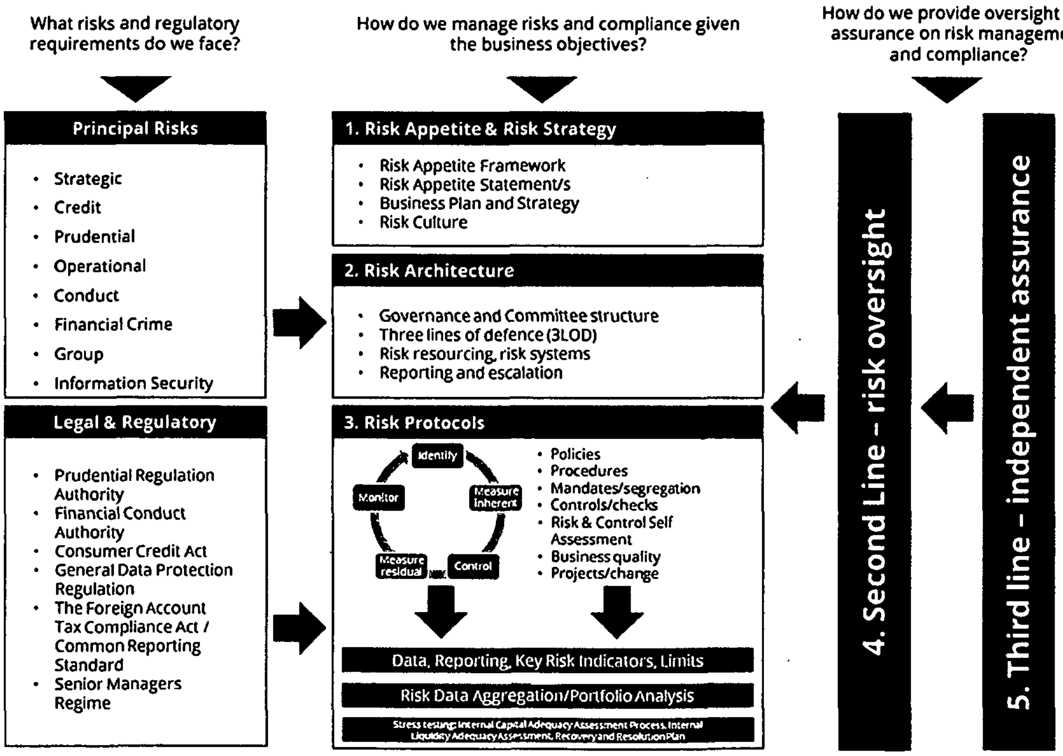
Risk management refers to the process of identification, assessment, measurement, control and monitoring of risks.

The Board, directors and senior management ensure the risks taken are manageable. We consider risks manageable when they are defined, understood, measurable and controllable. We control risks by ensuring the Bank's resources are capable of withstanding both expected and unexpected impacts.

The senior executives and managers of the Bank ensure embedding of Risk Management in day-to-day management and control activities, with a clear separation between First Line of Defence and Second Line of Defence activities (1LOD and 2LOD).

CAF Bank establishes and maintains risk culture by the adoption of a set of values, risk principles and setting the correct "tone at the top" of the Bank.

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



RISK MANAGEMENT REPORT

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 3LOD model is important as it 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 defences is as follows:

First line of defence – Business lines and centralised functions

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

- To run the business in a safe but profitable fashion to enable sustainability – linked to the Risk Appetite Framework and Statements;
- To manage the risks in the business, to within tolerances or limits;
- To act in an "early warning" role in terms of ongoing client relationship management;
- Identify, measure, control and monitor risks within each area of the business, reporting and escalation of incidents and to evidence control;
- As part of the controls, the 1LOD needs to implement and adhere to the mandates, policies and processes that are part of the control environment; and
- Identify and assess new or emerging risks as internal activities or the external environment changes.

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

- To provide independent oversight and guidance on risks relevant to the Bank's strategy and activities;
- 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; and
- To support a structured approach to risk management by implementing and maintaining a risk management framework (RMF) and bank-wide risk policies, and to monitor their proper execution in the 1LOD.

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

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

Central to the Risk Governance and to the Three Lines of Defence model is the CRO. The CRO will be responsible for monitoring exposures to the Board approved Risk Appetites and reporting to the management risk committee (ERC) as well as the Board's risk committee (BRCC).

RISK MANAGEMENT REPORT

Risk Appetite Statement

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

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

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

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

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

The following information on pages 14-19 is covered by the external auditors' opinion on page 25.

Strategic Risk

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

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

Credit Risk

Credit or default risk is the potential of financial loss from a borrower or counterparty failing to meet their financial obligations to the Bank to repay in accordance with agreed terms

Treasury assets

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

Credit Risk (continued)

Treasury assets by class:

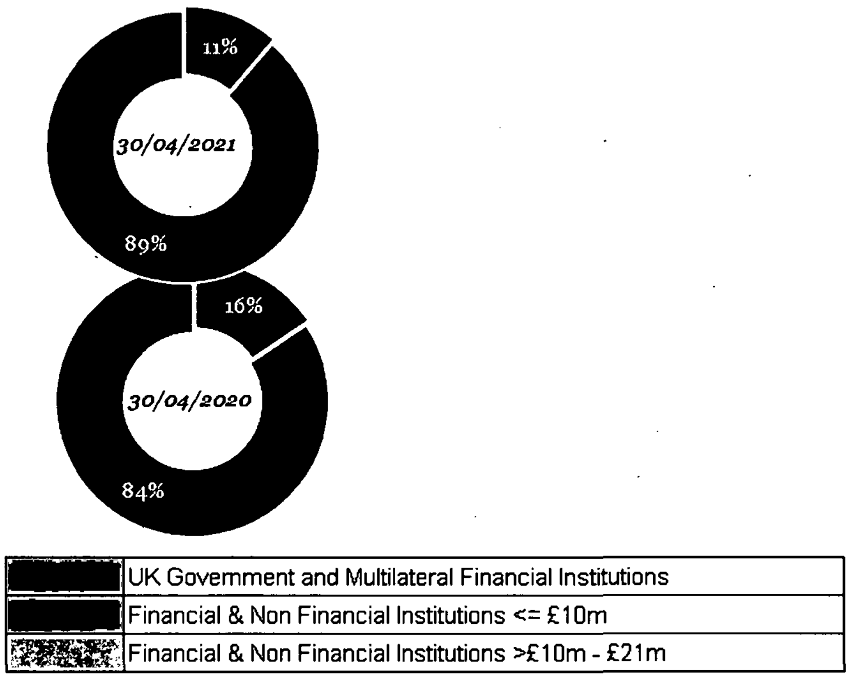
	2021 Book Value £000	2021 Market Value £000	*2020 Book Value £000*	*2020 Market Value £000*
Listed:				
UK government	-	-	*63,036*	*63,102*
Multilateral financial institutions	758,564	760,657	*536,545*	*540,386*
Fixed coupon corporate bonds	24,093	24,399	*43,521*	*43,657*
Floating rate corporate bonds	83,398	84,458	*107,981*	*107,876*
	866,055	869,514	*751,083*	*755,021*
Unlisted:				
Certificates of deposit	19,821	19,983	*20,000*	*20,029*
Debt securities (Note 11)	885,876	889,497	*771,083*	*775,050*
Balances at Bank of England	417,756	417,756	*327,571*	*327,571*
Loans and advances to banks (Note 9)	7,897	7,897	*6,273*	*6,273*
	1,311,529	1,315,150	*1,104,927*	*1,108,894*

Treasury assets by credit rating:

Category **(Fitch equivalent lowest credit rating)**	2021 Book Value £000	2021 % of Book %	*2020 Book Value £000*	*2020 % of Book %*
UK Government	417,756	31.87%	*390,607*	*35.35%*
AAA	752,985	57.41%	*526,187*	*47.62%*
AA+	83,071	6.33%	*82,893*	*7.50%*
AA	-	0.00%	*4,238*	*0.38%*
AA-	25,485	1.94%	*48,937*	*4.43%*
A+	22,351	1.70%	*52,065*	*4.72%*
A	9,881	0.75%	-	*0.00%*
A-	-	0.00%	-	*0.00%*
BBB+	-	0.00%	-	*0.00%*
BBB	-	0.00%	-	*0.00%*
	1,311,529	100.00%	*1,104,927*	*100.00%*

Credit Risk (continued)

Treasury assets by exposure value



Lending

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

The policies include maximum exposure values and limits to manage concentration risk by sector. Exposure to geographical area is monitored. At 30 April 2021, the largest loan was £4.8m (*2019/20: £4.9m*). The maximum aggregate exposures to any one sector (Social Housing) and geographical area were 53% and 29% respectively (*2019/20: 55% and 26% 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 BCM Global Mortgage Management Ltd which provides regular management information on a loan-by-loan and aggregated basis. A provision of £802k has been made at 30 April 2021 reflecting losses that have been incurred but not yet identified (*2019/20: £707k*) and £1,376k has been provided for specific loan provisions (*2019/20: £938k*). No overdrafts were written off during the year (*2019/20: nil*). One loan was in arrears at 30 April 2021 (*2019/20: none*).

Credit Risk (continued)

	2021 £000	*2020 £000*
Gross loans and advances to customers (Note 10)	127,937	*106,400*
Undrawn overdraft and loan commitments (Note 19)	36,779	*33,439*
	164,716	*139,839*
Amounts included within the above:		
Secured on property	164,716	*139,805*
Unsecured:		
Loans	-	-
Overdrafts	-	*34*
	164,716	*139,839*

As at 30 April 2021 the average loan to value ratio across the lending portfolio was 53% (*2019/20: 54%*).

LTV Range	Amount
<=10%	£572,926
<=20%	£3,617,491
<=30%	£6,168,395
<=40%	£21,424,237
<=50%	£24,571,373
<=60%	£28,892,154
<=70%	£18,521,525
<=80%	£14,174,382
<=90%	£9,744,315
<=100%	£0
Unsecured	£0
Totals	£127,686,798

Prudential Risk

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

Capital Risk

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

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

Liquidity Risk (including Funding Risk)

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

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

CAF Bank holds liquidity buffer eligible assets of £1,174m (*2019/20: £916m*), excluding assets pledged as security under repurchase agreements. Liquidity buffer assets comprise investments in the Bank of England Reserve Account, UK Gilts, Treasury Bills and multilateral development banks.

	2021 Book Value £000	***2020 Book Value £000***
Balances at Bank of England	415,462	*326,104*
UK government	-	*63,036*
Multilateral financial institutions	758,564	*526,501*
	1,174,026	*915,641*

Market Risk (including Interest Rate Risk)

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

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

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

Non-maturity (on-demand) deposits are behaviouralised in to time bandings:

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

Market Risk (continued)

Assets and liabilities analysed by interest rate pricing time periods:

As at 30 April 2021	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	415,461	2,295	-	-	-	-	-	417,756
Loans and advances to banks (Note 9)	7,897	-	-	-	-	-	-	7,897
Loans and advances to customers (Note 10)	115,004	-	-	-	9,502	-	-	124,506
Debt securities (Note 11)	-	337,166	32,012	207,175	202,453	106,641	429	885,876
Prepayments and accrued income	-	-	-	-	-	-	4,067.	4,067
Intangible Assets	-	-	-	-	-	-	1,194	1,194
	538,362	339,461	32,012	207,175	211,955	106,641	5,690	1,441,296
Liabilities								
Customer accounts (Note 13)	788,350	-	-	84,088	525,704	-	4	1,398,146
Repurchase agreements (Note 14)	-	-	-	-	-	-	-	-
Other liabilities (Note 15)	-	-	-	-	-	-	1,848	1,848
Accruals and deferred income	-	-	-	-	-	-	13	13
Shareholders' funds (Note 17).	-	-	-	-	-	-	41,289	41,289
	788,350	-	-	84,088	525,704	-	43,154	1,441,296
Interest rate sensitivity gap	(249,988)	339,461	32,012	123,087	(313,749)	106,641	(37,464)	-
Impact of 2% change in interest rates	-	(234)	(236)	(1,809)	13,479	(11,310)	-	(110)

Assets and liabilities analysed by interest rate pricing time periods:

As at 30 April 2020	*Next day £000*	*Up to 3 months £000*	*3 months to 6 months £000*	*6 months to 1 year £000*	*1 year to 5 years £000*	*Over 5 years £000*	*Other items £000*	*Total £000*
Assets								
Balances at Bank of England	*326,104*	*1,467*	-	-	-	-	-	*327,571*
Loans and advances to banks (Note 9)	*6,273*	-	-	-	-	-	-	*6,273*
Loans and advances to customers (Note 10)	*95,473*	-	-	-	*8,152*	-	-	*103,625*
Debt securities (Note 11)	-	*236,724*	*49,952*	*69,858*	*413,576*	-	*973*	*771,083*
Prepayments and accrued income	-	*240*	-	-	-	-	*4,138*	*4,378*
	427,850	*238,431*	*49,952*	*69,858*	*421,728*	-	*5,111*	*1,212,930*
Liabilities								
Customer accounts (Note 13)	*662,804*	-	-	*52,429*	*430,289*	-	*11,473*	*1,156,995*
Repurchase agreements (Note 14)	-	*10,142*	-	-	-	-	-	*10,142*
Other liabilities (Note 15)	-	-	-	-	-	-	*4,197*	*4,197*
Accruals and deferred income	-	-	-	-	-	-	*246*	*246*
Shareholders' funds (Note 17)	-	-	-	-	-	-	*41,350*	*41,350*
	662,804	*10,142*	-	*52,429*	*430,289*	-	*57,266*	*1,212,930*
Interest rate sensitivity gap	*(234,954)*	*228,289*	*49,952*	*17,429*	*(8,561)*	-	*(52,155)*	-
Impact of 2% change in interest rates	-	*6*	*(370)*	*(257)*	*635*	-	-	*14*

RISK MANAGEMENT REPORT

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

Operational Risk

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

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

During the year ended 30 April 2021 operational losses totalled £17k (*2019/20: £4k*).

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

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

Financial Crime

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

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

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

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

Bank losses to fraud in the year ended 30 April 2021 were £43k (*2019/20 £33k*).

Conduct Risk

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

COVID-19

Since mid-March 2020 the UK Government has been responding to the COVID-19 pandemic with a range of measures which are impacting the Bank, our customers and the wider UK economy. The impact has been, and continues to be, rapidly evolving and difficult to predict with certainty.

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

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

The UK now has a well advanced vaccination programme yet risks remain around further mutations that vaccines may not respond to. Government support has made it difficult to determine how many businesses are struggling and therefore the full impact of COVID-19 on the economy cannot yet be determined.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 30 April 2021.

Results for the Year

CAF Bank made a profit on ordinary activities before taxation for the year of £915k (*2019/20: £1,290k*). CAF Bank donates its surplus profits to its parent charity, Charities Aid Foundation, after ensuring it has retained what is required to support capital adequacy and agreed investment programmes, and after maintaining sufficient reserves to meet interest payable on capital instruments and taxation. Interest of £990k *(2019/20: £993k)* was payable to AT1 holders. No dividends were paid on ordinary share capital during the year (*2019/20: none*).

Charitable and Political Donations

CAF Bank did not make a donation to CAF in the year (*2019/20: £297k*). The Bank did not make political donations or incur any political expenditure during the year (*2019/20: none*).

Employees

CAF Bank recognises that the development and training of staff is critical 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. As part of the CAF Group, we are pleased to report CAF Bank's commitment to staff is evidenced by the Bank's contribution to the Group achieving the Investors in People Silver Standard.

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. 45% of members of the Board and 80% 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

To assess going concern the Directors have reviewed the adequacy of the Bank's capital and liquidity positions, and the Bank's operational resilience, including the ability of CAF to continue to provide shared services.

COVID-19 presents an uncertain environment, and the Directors have considered the impact of a severe economic outcome on the Bank and the effectiveness of management actions that might be taken to mitigate the impact of this stress. The Directors have also reviewed the level of stresses which would result in the Bank going into resolution and assessed the likelihood of these stresses occurring.

The Directors have concluded the Bank's capital position can withstand a severe economic outcome from COVID-19, and further concluded that the likelihood of CAF Bank going into resolution due to a capital shortfall is remote.

Liquidity stress tests for varying levels of deposit outflows show the Bank is able to survive an outflow of deposits exceeding 35% of balances.

The directors have concluded the Bank's parent will continue as a going concern providing shared services to the Bank. Other suppliers are closely monitored and there are no indications of issues which would threaten the Bank's going concern.

The Directors have therefore adopted the going concern basis in preparing the financial statements.

Auditors

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

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 on page 8. 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 are 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 him/her 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 12 August 2021

J Pope

Janet Pope
Chair

CAF Bank Limited
Company Number 1837656

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

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of CAF Bank Ltd (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 30 April 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the sections of the risk management report identified as audited and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.
We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was valuation of loan impairment provisions.
Materiality	The materiality that we used in the current year was £400,000 which was determined on the basis of 1% of equity. We determined materiality at the planning stage and did not elect to adjust materiality based on final equity as this would have resulted in a higher materiality.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There were no significant changes in our approach compared to the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We obtained an understanding of the process and relevant controls over the preparation of the assessment of going concern;
- We involved our regulatory specialists to provide challenge over the liquidity and capital stress testing assumptions used by management, including consideration of management actions and whether the probability of the reverse stress scenario is remote;
- We agreed the key information used in the assessment to supporting evidence; and
- We evaluated the appropriateness of the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.
Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of loan impairment provisions

Refer to note 1.8 on page 39 and note 10 on page 43

Key audit matter description	The value of CAF Bank's loan book grew in the current year to £124m as at 30 April 2021 (2020: £104m) driven by an increase in both charitable and social purpose lending. Loan balances comprise lending to charities and to finance property developments for social purpose organisations. Loans are assessed during the year and at each reporting date to determine whether there is evidence of impairment. Where impairment triggers are identified, loans must be assessed for impairment and appropriate loan impairment provisions are recorded based on discounted expected future cash flows.. The process for establishing impairment provisions for loan balances involves management judgement to both identify potential impairment triggers and to estimate the amount of impairment losses. The economic fallout of Covid-19 has increased the risk of counterparty default, and this was evident in both 2020 and 2021 where individual provisions were recorded for a small number of loans. This represented an area of judgement and estimation for management. The Company is also required to provide for loan losses that may have been incurred but not reported (IBNR). The IBNR provision is modelled based on loan data and assumptions for probability of default (PD) and loss given default (LGD). These assumptions are subjective, and the IBNR provision is particularly sensitive to the LGD assumption which is based on both the value of underlying collateral and management's estimate of the realisable value of that collateral after costs. The impairment provision as at 30 April 2021 was £2,178k (2020: £1,645k), of which £802k (2020: £707k) relates to the IBNR provision and £1,376k (2020: £938k) relates to provisions for individually assessed loans.
How the scope of our audit responded to the key audit matter	Our audit procedures included: • obtaining an understanding of the relevant controls relating to both IBNR and individual loan impairment provisioning; • testing a sample of performing loans to assess whether there is objective evidence that impairment has arisen and not been identified; • reperforming the IBNR model calculation and challenging a sample of model inputs through comparison to available market data; • challenging the key assumptions applied to estimate the IBNR impairment provision by comparing the assumptions to historical data and industry information; and • challenging the calculation of the individual provision balances by testing the appropriateness of key inputs and mathematical accuracy of the calculation.
Key observations	Based on the procedures performed and evidence obtained, we found the company's assumptions, judgements and approach to estimating loan impairment provision to be reasonable and therefore we consider the level of provision to be appropriate.

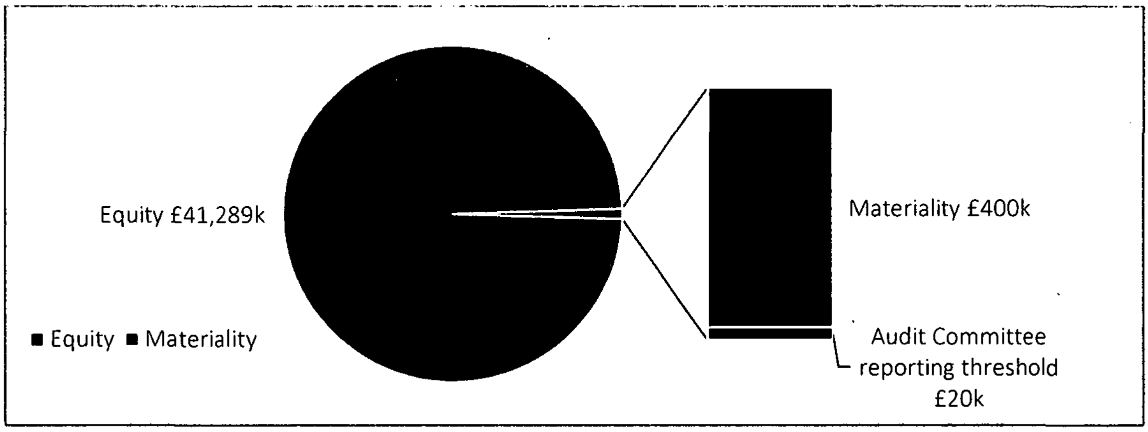
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£400,000 (2020: £410,000)
Basis for determining materiality	We have used 1% (2020: 1%) of equity as a basis for determining materiality as we considered this to be the most appropriate. Our approach to determining materiality is consistent with the prior year. We determined materiality at the planning stage and did not elect adjust materiality based on final equity as this would have resulted in a higher materiality.
Rationale for the benchmark applied	We consider equity to be the most relevant benchmark for users of the financial statements given that the company is a regulated bank and a wholly owned subsidiary.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors: our risk assessment, including the company's control environment and our past experience of the audit which has indicated a low number of corrected and uncorrected misstatements identified in previous years. We determined a lower performance materiality % compared to the 2020 audit in order to take account of the potential increase in operational risk resulting from remote working.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,000 (2020: £20,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

8. Our consideration of the control environment

We obtained an understanding of the relevant controls in key business process, including lending, customer deposits, and loan provisioning. We also obtained an understanding of the relevant IT systems, including SAGE and BM+. We did not rely on internal controls to reduce the extent of our testing in any of the key business processes.

9. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained in the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

10. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

11. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

12. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

12.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies;
- results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in valuation of loan impairment provisions. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the company's compliance with the requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

12.2. Audit response to risks identified

As a result of performing the above, we identified valuation of loan impairment provisions as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

13. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

14. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 22 to the financial statements for the financial year ended 30 April 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the directors on 22 February 2017 to audit the financial statements for the year ending 30 April 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 30 April 2017 to 30 April 2021.

16.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

17. Use of our report

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.

Giles Lang

Giles Lang FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
12 August 2021

PROFIT AND LOSS ACCOUNT
for the year ended 30 April

	Notes	2021 £000	2021 £000	*2020 £000*	*2020 £000*
Interest receivable	3		10,059		*12,534*
Interest payable	4		(263)		*(1,035)*
Net interest income			9,796		*11,499*
Fees and commissions receivable		2,230		*2,109*	
Fees and commissions payable		(815)		*(1,008)*	
Net fee income			1,415		*1,101*
Net operating income			11,211		*12,600*
Administrative expenses	5		(9,763)		*(10,109)*
Loan loss provision	10		(533)		*(1,200)*
Profit on ordinary activities before taxation			915		*1,291*
Tax on profit on ordinary activities	7		14		*(1)*
Profit on ordinary activities after taxation			929		*1,290*

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 37 to 48 form an integral part of the financial statements.

BALANCE SHEET
as at 30 April

	Notes	2021 £000	2021 £000	*2020 £000*	*2020 £000*
ASSETS					
Balances at Bank of England			417,756		*327,571*
Loans and advances to banks	9		7,897		*6,273*
Loans and advances to customers	10		124,506		*103,625*
Debt securities	11		885,876		*771,083*
Prepayments and accrued income			4,067		*4,378*
Intangible asset	12		1,194		
Total assets			1,441,296		*1,212,930*
LIABILITIES					
Customer accounts	13		1,398,146		*1,156,995*
Repurchase agreements	14		-		*10,142*
Other liabilities	15		1,848		*4,197*
Accruals and deferred income			13		*246*
Total liabilities			1,400,007		*1,171,580*
Called up share capital	16	29,350		*29,350*	
Additional Tier 1 capital	16	11,000		*11,000*	
Distributable reserves	17	939		*1,000*	
Shareholders' funds	17		41,289		*41,350*
Total liabilities and shareholders' funds			1,441,296		*1,212,930*

The notes on pages 37 to 48 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 12 August 2021 and signed on its behalf by

Janet Pope
Chair

Philip Alvey
Chief Finance Officer

CAF Bank Limited
Company Number 1837656

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 April

	Notes	Called-up share capital	Additional Tier 1 Securities	Distributable Reserves	Profit and loss account	Total
		£000	£000	£000	£000	£000
At 30 April 2019		*29,350*	*11,000*	*1,000*	-	*41,350*
Total comprehensive profit for the financial year		-	-	-	*1,290*	*1,290*
Charitable donation to parent	6	-	-	-	*(297)*	*(297)*
AT1 dividends payable	8	-	-	-	*(993)*	*(993)*
Issue of share capital	17	-	-	-	-	-
Issues of additional tier 1 capital	17	-	-	-	-	-
At 30 April 2020		*29,350*	*11,000*	*1,000*	-	*41,350*
Total comprehensive profit for the financial year		-	-	-	929	929
Charitable donation to parent	6	-	-	-	-	-
AT1 dividends payable	8	-	-	-	(990)	(990)
Issue of share capital	17	-	-	-	-	-
Issues of additional tier 1 capital	17	-	-	-	-	-
At 30 April 2021		29,350	11,000	1,000	(61)	41,289

The notes on pages 37 to 48 form an integral part of the financial statements.

CASH FLOW STATEMENT
for the year ended 30 April

	2021 £000	2021 £000	*2020 £000*	*2020 £000*
Cash flows from operating activities				
Profit on ordinary activities	929		1,291	
Adjustments for:				
Amortisation of investments	21,919		2,451	
Decrease in prepayments and accrued income	311		206	
(Decrease)/increase in accruals and deferred income	(98)		4	
Increase in Cash Ratio Deposit with the Bank of England	(828)		(242)	
Decrease in loans and advances to banks	-		-	
Increase in loans and advances to customers	(21,414)		(14,363)	
Increase in loan loss provision	533		1,200	
Increase in customer accounts	241,151		122,767	
(Decrease)/increase in other liabilities	(2,052)		2,335	
Net cash generated from operating activities		240,451		*115,649*
Cash flows from investing activities				
Acquisitions of debt securities	(293,668)		*(514,420)*	
Redemptions of debt securities	156,956		*408,809*	
Disposals of debt securities	-		*2,163*	
Redemption of repurchase agreements	(10,142)		-	
Acquisition of intangible assets	(1,194)			
Net cash from investing activities		(148,048)		*(103,448)*
Cash flows from financing activities				
Charitable donations paid	(297)		*(4,908)*	
AT1 dividend paid	(1,126)		*(858)*	
Net cash from financing activities		(1,423)		*(5,766)*
Change in cash and cash equivalents in the year		90,980		*6,435*
Cash and cash equivalents at beginning of year		332,378		*325,943*
Cash and cash equivalents at end of year		423,358		*332,378*
Represented by:				
Balances at Bank of England repayable on demand (Note 9)		415,461		*326,105*
Loans and advances to banks repayable on demand (Note 9)		7,897		*6,273*
		423,358		*332,378*

The notes on pages 37 to 48 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 APRIL 2021

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).

Where information in the risk management report on pages 12 to 19 is identified as audited, it is incorporated into these financial statements by this cross reference and is covered by the independent auditors report on pages 25 to 32.

The going concern basis was adopted in preparing the annual report and accounts as described on page 22.

1.2 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 expected life of the financial asset. Loan arrangement fees are recognised using the effective interest method over the expected life of the loan.

(b) Fee Income
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.

1.3 Pension costs

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

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

1.4 Financial Services Compensation Scheme ('FSCS') Levy

The amount of the FSCS levy is determined by the value of the Bank's protected deposits at 31 December each year. The levy is accounted for on an accruals basis using information provided by the FSCS, forecast future interest rates and the Bank's historical share of industry protected deposits.

1. **Accounting policies** (continued)

1.5 ***Taxation***

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

1.6 ***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 stated at amortised cost.

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.

Interest receivable on interest-bearing loans and debt securities is recognised on an accruals basis using the effective interest rate method.

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Repos are measured at amortised cost. The difference between the sale and repurchase price is treated as interest and recognised in net interest income over the life of the agreement.

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.

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. Further details of the terms and conditions of the additional Tier 1 securities, which are classified as equity, can be found in note 16.

1.7 ***Impairment of financial 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.

1. Accounting policies (continued)

*1.7 **Impairment of financial assets*** (continued)

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 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 historical 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.

1.8 **Intangible asset**

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis and charged to the profit and loss over the asset's estimated economic life, 12 years, in the case of our new core banking system. Intangible assets are assessed for impairment at each balance sheet date.

External spend to suppliers relates to software and system development. This is capitalised as the recognition criteria is always satisfied for assets that are separately acquired. Internal spend relates to staff costs that can be directly attributed to the project. These costs are also being capitalised as the recognition criteria for these are also met.

Research costs are recognised in the profit and loss when incurred.

1.9 **Significant estimates and judgements**

The preparation of the Bank's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense.

Estimates

Specific provisions for impaired assets involve estimating the valuation of properties held as security, the time taken to sell property, and costs of holding and selling property. Given the subjective nature of such judgments and uncertainty around COVID-19 there may be changes to these estimates that could result in a material adjustment in the next financial year.

1.9 **Significant estimates and judgements** (continued)

Estimation uncertainty also relates to the collective loan loss provision. To determine the collective provision, assumptions are made about variables including the probability of default, the loss given default and the loss emergence period. These variables are based on historical loss experience data for similar assets. Estimations are made with regards to the expected future cash flows relating to the sale of the security, with judgement required (consistent with for specific provisions) of the valuation of properties held as security and the costs of holding and selling property.

Total loan loss provisions were £2,178k at 30 April 2021 (2020: £1,645k), with the analysis between specific and collective provisions disclosed in note 10.

The key variables in the measurement of provisions are:

Gross property valuation: our provision estimates are based on the most recent valuation, indexed where relevant to current values. If estimates of property valuations were to reduce by 10%, an additional £641k loan loss provision would be required; if valuations increased by 10%, the provision would be reduced by £550k.

Discount to gross property valuation: for commercial and specialist properties held as security, our estimates assume a one-third discount to the most recent open market valuation to reflect the sale of a foreclosed property in an acceptable timeframe. If this 33% discount was reduced to 25% on commercial and specialist properties, total loan loss provisions would reduce by £399k; if the discount increased to 40%, provisions would increase by £420k.

Costs to sell: we estimate legal, administrative and marketing costs of 10% of the gross property valuation are incurred in disposing of the property, based on historic precedent. If these costs were 5% higher, loan loss provisions would increase by £365k; if selling costs were 5% lower, provisions would be £324k lower.

Probability of default: the collective loan loss provision is based on assessing our lending portfolio against the criteria used by external rating agencies, and using the corresponding historical probabilities of default ('PDs'). If estimated PDs were 50% higher, additional loan loss provisions of £401k would be required; if PDs were 50% lower, provisions would reduce by £401k.

Other judgements

The Bank's credit risk team exercises judgement when determining triggers to monitor the underlying performance of a loan. This judgement could result in a loan being added to the "watch list" and an impairment provision being required when a loss event is deemed to have occurred.

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

	2021 £000	*2020* *£000*
Interest receivable and similar income arising from debt securities	6,290	*7,273*
Other interest receivable and similar income	3,769	*5,261*
	10,059	*12,534*

4. Interest payable

	2021 £000	*2020* *£000*
Customer accounts	212	*897*
Repurchase agreements	51	*138*
	263	*1,035*

5. Administrative expenses

	2021 £000	*2020* *£000*
Staff costs		
Wages and salaries	4,168	*3,792*
Social security costs	392	*318*
Other pension costs	324	*259*
	4,884	*4,369*
Other administrative expenses	4,879	*5,740*
	9,763	*10,109*

All staff are employed by CAF. Total employment costs are recharged where activities have been undertaken for CAF Bank. Staff costs (above) represent 112 *(2020: 115)* employees of CAF who were assigned wholly to duties relating to the activities of the Bank.

Creditors include £36,000 (*2020: £21,000*) in respect of pension contributions payable.

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

	2021 Number	*2020* *Number*
Management	17	*15*
Administration	95	*100*
	112	115

Other administrative expenses include the following amounts paid to CAF in respect of directors' 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. Information systems staff costs are included in indirect staff costs (below).

	2021 £000	*2020* *£000*
Indirect staff costs	1,568	*2,473*
Management charges	524	*527*
	2,092	*3,000*

Directors' emoluments

None of the directors who served during the year were remunerated directly by the Bank *(2019/20: none)*. During the year, the Bank reimbursed CAF with £358,317 *(2019/20: £213,345)* including pension contributions in respect of services rendered by two executive directors *(2019/20: two)*. No amounts were paid to third parties for directors' services *(2019/20: £240,828)*. The total remuneration of the highest paid director during the year was £224,951 *(2019/20: £240,828)*. Non-executive directors were not remunerated.

5. **Administrative expenses** (continued)

Auditor's remuneration

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

	2021 £000	*2020 £000*
Audit fees payable to the company's auditor for the audit of the company's financial statements	153	*114*
	153	*114*

6. **Charitable donation to parent**

The Bank has not accrued a donation to CAF at 30 April 2021 (*30 April 2020: £297,000*).

7. **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: 19% *(2019/20: 19%)*. The differences are explained below.

	2021 £000	*2020 £000*
Tax expense:		
UK corporation tax	(14)	*1*
Reconciliation to tax expense:		
Tax at 19%:		
Profit on ordinary activities before tax	174	*245*
Charitable donation to CAF	-	*(56)*
AT1 dividends payable	(188)	*(189)*
Tax (credit)/charge	(14)	*1*

A deferred tax asset has been recognised for unused tax losses at it is probable that taxable profits will be available in the future to utilise these.

8. **AT1 Dividends Payable**

	2021 £000	*2020 £000*
AT1 dividends payable	990	*993*
	990	*993*

9. Loans and advances to banks

	2021 £000	*2020 £000*
Repayable on demand	7,897	*6,273*
Loans and advances to banks	7,897	6,273
Balances at Bank of England - Reserve account	415,461	*326,105*
Balances at Bank of England - Cash ratio deposit	2,295	*1,466*
	425,653	*333,844*

10. Loans and advances to customers

	2021				*2020*			
	Charity £000	SPP £000	Overdrafts £000	Total £000	*Charity £000*	*SPP £000*	*Overdrafts £000*	*Total £000*
Remaining maturity of loans and advances								
Repayable within 3 months	1,162	756	249	2,167	*1,105*	*310*	*36*	1,451
Repayable within 5 years	25,859	4,358	-	30,217	*20,868*	*2,660*	-	23,528
Repayable over 5 years	95,553	-	-	95,553	*81,421*	-	-	81,421
	122,574	5,114	249	127,937	*103,394*	*2,970*	*36*	*106,400*
Loan loss provision	(2,031)	(147)	-	(2,178)	*(1,447)*	*(198)*	-	*(1,645)*
Deferred income	(1,195)	(58)	-	(1,253)	*(1,074)*	*(56)*	-	*(1,130)*
Unamortised premiums	119,348	4,909	249	124,506	*100,873*	*2,716*	*36*	*103,625*

Individual impairments provision

	2021 £000	*2020 £000*
Loan loss provision at 1 May	(938)	-
Released during the year	539	-
Provided during the year	(977)	*(938)*
Loan loss provision at 30 April	(1,376)	*(938)*

Collective impairments provision

	2021 £000	*2020 £000*
Loan loss provision at 1 May	(707)	*(445)*
Provided during the year	(95)	*(262)*
Loan loss provision at 30 April	(802)	*(707)*

11. **Debt securities**

11.1 Investments

	2021 Book Value £000	2021 Market Value £000	*2020 Book Value £000*	*2020 Market Value £000*
Listed:				
UK government	-	-	*63,036*	*63,102*
Multilateral financial institutions	758,564	760,657	*536,545*	*540,386*
Fixed coupon corporate bonds	24,093	24,399	*43,521*	*43,657*
Floating rate corporate bonds	83,398	84,458	*107,981*	*107,876*
	866,055	869,514	*751,083*	*755,021*
Unlisted:				
Certificates of deposit	*19,821*	*19,983*	*20,000*	*20,029*
	885,876	889,497	*771,083*	*775,050*

No debt securities (*2019/20: £10,044,000*) have been sold under repurchase agreements (note 14). These assets were not derecognised as the Bank had retained substantially all the risks and rewards of ownership. The Bank was unable to use, sell or pledge the transferred assets for the duration of the transaction and remained exposed to any associated interest rate risk or credit risk of the assets.

11.2 Maturity

	2021 Book Value £000	*2020 Book Value £000*
less than 6 months	98,024	*97,274*
6 months to 1 year	238,470	*79,858*
	336,494	*177,132*
1 year to 5 years	442,742	*593,951*
	779,236	*771,083*
5 years and over	106,640	-
	885,876	*771,083*
Unamortised premiums	(4,203)	*(3,328)*

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

11. **Debt securities** (continued)

11.3 Movements

	Cost £000	Amort-isation £000	Book Value £000
At 1 May 2020	*774,047*	*(2,964)*	*771,083*
Acquisitions	293,668	(505)	293,163
Redemptions	(178,308)	21,352	(156,956)
Amortisation	-	(21,414)	(21,414)
At 30 April 2021	889,407	(3,531)	885,876

12. **Intangible asset**

	Develop-ment cost £000
At 1 May 2020	-
Additions	1,194
Amortisation	-
At 30 April 2021	1,194

Development costs are associated with the development costs of a banking system expected to be available for use in the first half of 2022. They have been capitalised in accordance with FRS 102 Section 18, Intangible Assets other than Goodwill. They are therefore not treated, for dividend purposes, as a realised loss. Costs relate to those paid to suppliers for the new system and its project management as well as staff costs that can be directly attributed to the project.

13. **Customer accounts**

	2021 £000	***2020 £000***
Repayable on demand	1,380,980	*1,137,840*
Repayable within 30 days	17,166	*19,155*
	1,398,146	*1,156,995*
Amounts include:		
Amounts owed to CAF	1,289	*522*

Amounts owed to CAF include current account balances payable on demand.

14. **Repurchase agreements**

The repurchase agreement matured in December 2020 (*2019/20: £10,142,000*).

15. **Other liabilities**

Other liabilities

	2021	2020
Amounts due within one year:	**£000**	***£000***
Amounts owed to CAF	794	*3,092*
Sundry creditors	1,051	*1,102*
Taxation	3	*3*
	1,848	*4,197*

Amounts owed to CAF include invoices for both direct and indirect costs payable on demand.

16. **Called up share capital and additional tier 1 securities**

	2021		2020	
	Number	**£000**	***Number***	***£000***
Allotted, issued and fully paid:				
Ordinary shares of £1 each	29,350,000	29,350	*29,350,000*	*29,350*
Additional Tier 1 securities of £1 each	11,000,000	11,000	*11,000,000*	*11,000*
		40,350		*40,350*

There was no additional capital issued during the year. The principal terms of the AT1 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.

It was identified in 2020 that, as a result of a Deed of Charitable Covenant between CAF Bank and CAF, which required transfer of CAF Bank's annual profit to CAF, the Bank was not in full compliance with European capital regulations. Following legal advice on the steps necessary to achieve compliance, we terminated the Deed of Charitable Covenant in late 2020. Following a full appraisal of this incident, including discussions with its regulators, the Bank does not anticipate any material adverse consequences arising therefrom.

17. Reconciliation of shareholders' funds

	Called-up share capital £000	Additional Tier 1 securities £000	Distributable reserves £000	Profit and loss account £000
At 1 May 2020	*29,350*	*11,000*	*1,000*	-
Issued during the year	-	-	-	(61)
At 30 April 2021	29,350	11,000	1,000	(61)

18. Financial instruments

18.1 Market and interest rate risk

Market and interest rate risk is described on page 18.

18.2 Currency profile

The Bank has an exposure of US $508k (*2019/20: $508k*) 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.

18.4 Investments held to maturity

The Bank's policy is to hold investment securities to redemption at par (note 1.6). The impact of any movements in interest rates on fixed rate instruments is therefore not anticipated to affect the Bank's profits.

18.5 Hedging

CAF Bank does not hold financial instruments for hedging purposes.

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).

	2021		*2020*	
	Book Value	Fair Value	*Book Value*	*Fair Value*
Assets	£000	£000	*£000*	*£000*
Balances at central banks	417,756	417,756	*327,571*	*327,571*
Loans and advances to banks	7,897	7,897	*6,273*	*6,273*
Debt securities	885,876	889,497	*771,083*	*775,050*
Loans and advances to customers	124,506	124,506	*103,625*	*103,625*
	1,436,035	1,439,656	*1,208,552*	*1,212,519*

	2021		*2020*	
	Book Value	Fair Value	*Book Value*	*Fair Value*
Liabilities	£000	£000	*£000*	*£000*
Customer accounts	1,398,146	1,398,146	*1,156,995*	*1,156,995*
	1,398,146	1,398,146	*1,156,995*	*1,156,995*

19. Off-balance sheet commitments

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

	2021	*2020*
	£000	*£000*
Undrawn overdraft commitments	676	*1,113*
Undrawn charity loan commitments	32,263	*29,194*
Undrawn personal loan commitments	3,840	*3,132*
	36,779	*33,439*

20. Parent trust

Charities Aid Foundation (CAF), registered charity number 268369, is the immediate and ultimate parent and controlling party of CAF Bank (registered office: 25 Kings Hill Avenue, Kings Hill, West Malling, ME19 4TA).

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

21. Related party transactions

CAF Bank has taken advantage of exemptions available under section 33 of FRS 102 not to disclose transactions with other group entities.

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.

	2021	*2020*
	UK	*UK*
Number of employees (average FTE)	112	*115*
	£000	*£000*
Turnover (total income)	11,211	*12,600*
Profit before tax	915	*1,291*
Corporation tax paid	-	-
Public subsidies received	-	-

DIRECTORS, BOARD COMMITTEES AND ADVISERS

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Website: www.cafonline.org/caf-bank

Company Number
1837656

Directors (at 30 April 2021)
Non-Executive Directors

Janet Pope *(Chair)*
Malcolm Himsworth *(Deputy Chair)*
Martyn Beauchamp
Kees Diepstraten
Astrid Grey
Neil Heslop *(CAF Chief Executive)*
Mairi Johnstone
Samantha Seaton
Graham Toy

Executive Directors
Alison Taylor *(CEO)*
Philip Alvey *(Chief Finance Officer)*

Company Secretary
Kate Mayor

Audit Committee
Malcolm Himsworth *(Chair)*
Kees Diepstraten
Mairi Johnstone

Board Risk & Compliance Committee
Astrid Grey *(Chair)*
Malcolm Himsworth
Samantha Seaton
Graham Toy

Nominations and Remuneration Committee
Janet Pope *(Chair)*
Mairi Johnstone
Neil Heslop
Alison Taylor

Executive Committee
Alison Taylor *(CEO)*
Philip Alvey *(Chief Finance Officer)*
Gill Baldry *(Chief Information Officer)*
Alison Carpenter *(Chief Risk Officer)*
Dina Henry *(Chief Operating Officer)*

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Nominee and Custodian
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Auditors
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London EC4A 3BZ

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.