Charity bank
a bank for good

Charity Bank
Annual Report 2015

A bank for good

The Charity Bank Limited

The Charity Bank is regulated by the Prudential Regulation Authority ("PRA") and authorised by the Financial Conduct Authority ("FCA") as a depositing-taking institution under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012)

Charity Bank's mission is to attract share capital from social investors, take savings from socially conscious individuals and lend solely to social purpose organisations, and, as a result, be the most admired bank in the UK

CHAIRMAN

George Blunden

CHIEF EXECUTIVE

Patrick Crawford

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Registered company number 4330018

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2015

Chairman's Report

In my report last year I highlighted that our goal is to grow so that more charities and social enterprises can borrow from a bank that exists to support their aims That goal is unchanged.

I am pleased to report that we continue to make progress towards this goal although 2015 raised some challenges The size of our loan book increased by more than a quarter from £53 6 million in 2014 to £67 8 million. Since our foundation in 2002, we have now lent over £140 million, which has helped charities and social enterprises across the UK to improve lives and communities.

But uncertainties created by the measures on welfare and social housing announced in the Budget in July, with far-reaching implications for charities and the people they support, followed by those in the Comprehensive Spending Review in November and by the implementation of the Etherington Report on fundraising published in September undermined the confidence of our borrowers Trustees were less willing to take on loans to finance new projects. This caused the encouraging growth in demand for our loans in the first six months of the year to fall back in the second half of the year.

We remained confident, however, that the social sector's need for loans would return as a result of lower levels of government spending and the ambition of charities to do more, and so we continued to invest by taking on new people to strengthen our resources and capacity. That confidence was justified by the increase in demand for our loans that started again in December 2015 and has continued in 2016. We have approved new loans of £19 5m for the first three months of 2016, over £10.4m more than the same period of last year

As a bank for good, our loans are a tool that charitable organisations can use to achieve their goals as part of a mix of funding sources Our job is to be there when those organisations need our support. Despite the lower demand for our loans in the second six months of 2015 our aims are clear and our plans remain the same. we are here for the long term and we will stand by the sector as it faces its challenges, offering our loans and support when they are needed.

The loss that we are reporting in 2015 is higher as a result of our drawn loan book being lower than we had expected and the conversion of our financial reporting framework from Generally Accepted Accounting Practice in the UK (UK GAAP) to International Financial Reporting Standards (IFRS) When calculated under UK GAAP, we made a loss in 2015 of £1.8 million (2014. loss of £1 1m); this was then increased by £283,000 to £2 1 million under IFRS (2014 loss of £1.2m). The reasons for this change are provided in the Chief Executive's report

We announced in 2014 that we had received an investment commitment of £14.5 million from Big Society Capital, and that it had invested the first £4.5 million of that commitment in our ordinary shares to become our largest shareholder. In 2015 The Mercers' Charitable Foundation invested a further £1 million in Charity Bank. And following discussions in 2015, the Barrow Cadbury Trust gave further backing to us through a £250,000 investment in the first week of January 2016 These investments provided a strong endorsement of what we do and expressed confidence in our future

Between 2011 and 2014 Charity Bank's activities were restricted by a lack of capital I am pleased to report that following these injections of capital we now have the opportunity to build on our track record of effective and responsible lending in the social sector We have begun to offer larger loans to larger organisations, while continuing to provide loans to smaller charities and social enterprises in the way we have always done.

Chairman's Report (continued)

Investment readiness support provided under such programmes as Big Potential, funding and investment readiness support from new bodies such as Access: The Foundation for Social Investment, and the high levels of activity of investing in new or smaller ventures at an early stage of development that is being experienced by other social finance intermediaries with an appetite for higher risks than banks should all make a significant contribution to the ability of smaller organisations to grow in the future and to become potential borrowers from social purpose lenders such as Charity Bank.

The launch of our new brand as 'a bank for good', our new website and our higher levels of activity in the social media have already begun to create greater awareness of Charity Bank and encouraged people to visit our website where they can read about our loans and savings accounts. The resulting levels of activity tell us that there is a strong appetite for a bank that exists to help charities achieve their missions.

We were named Charity Times' Bank of the Year in 2015 and were placed in the top 10 ethical brands or companies in the world for the second year in succession, following research carried out by The Good Shopping Guide between September 2014 and May 2015.

January 2016 brought the sad news of the sudden and unexpected death of David Tinker, our Finance Director. David used his experience and skills unstintingly and was passionate about what the bank stood for. He was highly respected, liked by everyone he met and is sorely missed by all of us at Charity Bank.

I am very grateful to all the staff at Charity Bank and my colleagues on the board for their enthusiasm and support, to our shareholders and savers for providing the funds that allow us to pursue our goals, and for the extraordinary work of our borrowers.

We are focused on our plans for controlled growth, whilst maintaining the quality of our lending. And we do so as a bank run for social purpose organisations and owned by them.

We will continue to work side by side with charities and social enterprises, so that they can be there when people and communities need them

George Blunden
Chairman
14th April 2016

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2015

Chief Executive's Report

2015 was a year of challenge and difficulty for the social sector. This has strengthened our resolve to support charities and social enterprises as they work to maintain support for the people they serve.

We exist to provide affordable and flexible loans to help charities and social enterprises achieve their goals Our team of regional managers is dedicated to understanding our borrowers' needs and visit those considering loan finance to set out how we can make a loan available, or to signpost them to others who can provide the assistance that we cannot provide. This underlines our commitment to work within the social sector, as a responsible lender, and whatever the difficulties it faces

In 2015 £21 million of loans were drawn down which increased the value of our drawn loan assets by 26% These loans were for diverse purposes, from funding day-to-day operations to buying or refurbishing properties

Despite this high rate of growth, our progress was still slower than we hoped at the start of the year due to the external factors that are set out in our Chairman's report. Whilst the full effects on public services from the Comprehensive Spending Review are not yet clear with more decision-making being passed down from central government, stability has begun to return to the social sector which has enabled trustees and directors to start planning with greater confidence.

This is reflected in our pipeline of applications for new loans which has never been as strong and we expect that, unless the sector faces new shocks, the growth of loan commitments and drawn loans in 2016 should materially exceed those in 2015.

A new UK GAAP financial reporting framework was introduced for accounting periods from 1st January 2015 This presented Charity Bank with two options to adopt this new UK GAAP or to move straight to IFRS Charity Bank chose to adopt IFRS, as it is the set of reporting standards most commonly used by banks. Note 3 in the Notes to the Financial Statements explains the resulting changes in detail.

The adoption of IFRS has increased our losses by £283,000 in 2015 (from £1,815,000 under UK GAAP to £2,098,000). This is primarily due to the fact that fee income is recognised in full when charged under UK GAAP but is spread over the expected life of the loan under IFRS This does not impact on the underlying sustainability of Charity Bank as the total amount of income recognised over the life of the loan remains the same

Despite the growth in the loan book, our balance sheet contracted by 7.9% during 2015 to £104 5 million, with deposits from our customers reducing by 7 4% to £89 9 million This was due to a decision to operate a leaner balance sheet Deposit balances are expected to grow in 2016.

Step by step we are proving that banking for good is possible Since our foundation in 2002 we have incurred loan losses of no more than 0 4% of our loan commitments. This demonstrates the prudence of our credit policies and our credit assessment processes. It also highlights that our customers manage their organisations well and that they are responsible borrowers, despite the uncertain nature of some of many of their funding streams.

Let me give a few examples

Adrenaline Alley, the skate park in Corby that is run as a charitable enterprise, now owns its premises after our loan enabled it to buy the 7.5 acre site Our loan to social landlords, Proffitts, is helping to provide a further three homes to shelter young homeless people While EVA Women's Aid opened the first specialist safe house for women aged over 45 in the UK with our loan securing the purchase of the property.

Chief Executive's Report (continued)

The capital that we received in 2014 from Big Society Capital, in 2015 from The Mercer's Charitable Foundation and in 2016 from Barrow Cadbury has enabled us to grow our team and build our capacity to help more organisations reap the benefits that loan finance can offer As a result of this investment our administrative expenses have increased by 16 8% in 2015 to £5 1 million.

In October 2015 Peter Kelly joined us in the new role of Business Development Director from Unity Trust Bank and brings a wealth of knowledge and experience, including the setting up of the first financial inclusion unit in the UK at Barclays Bank. We have taken steps to strengthen our team of regional managers.

Our approach to lending is resource-intensive as we often work with borrowers who have not borrowed before, whilst we seek to maintain sound standards in our decisions to lend and closely monitor our borrowers' performance once we have lent.

The first month of 2016 brought the sad news of the unexpected death of our Finance Director David Tinker David made a great contribution to the work and life of Charity Bank and he will be sorely missed as a colleague and as a friend to us all.

We are pleased that our former Financial Controller, Gillian Howell, has agreed to fulfil the role of Acting Financial Director pending the appointment of a permanent successor to David.

It is our overwhelming sense at Charity Bank that the ambition, passion and professionalism of charities and social enterprises will continue undiminished and in spite of the challenges faced by the sector. Meanwhile, we will be here standing by the social sector when we are needed, offering loans as a tool to help our customers support people and communities across the UK.

Patrick Crawford
Chief Executive
14th April 2016

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2015

Strategic Report

Financial review

The Report and Accounts for the year ended 31st December 2015 have been prepared in accordance with statutory requirements and comply with International Financial Reporting Standards.

Key performance indicators (KPI's) are produced on a bi-monthly basis and are monitored by the Executive Committee (EXCO) The following table explains the changes in the KPI's between 2014 and 2015.

	2015 £'000	2014 £'000	% Increase/ (Decrease)	
Balance sheet				
High quality liquid assets	14,712	14,178	3 8%	As defined under prudential regulations
Other investments	17,703	43,931	(59 7%)	Investment of our surplus liquidity
Loans and advances to customers before provisions	68,462	54,221	26 3%	What we are about - support and finance for charities
Deposits	89,946	97,168	(7 4%)	Funded by private individuals, companies and charities
Subordinated loan notes	2,008	2,511	(20 0%)	From Charitable foundations and an individual
Called-up share capital	12,622	11,622	8 6%	Contributed by CAF, Big Society Capital and other charities and trusts
Total Shareholders' funds	11,555	12,652	(8 7%)	Amount of unrestricted funds deployed by the Bank
Balance sheet total assets	104,458	113,381	(7 9%)	
Comprehensive income				
Net interest income	3,509	3,145	11 6%	What we earn from lending after the cost of our funds
Other income	(212)	(43)	(393 0%)	Revenue grants, fees and comission income, loss on available-for-sale financial assets
Administrative expenses	(5,090)	(4,359)	16 8%	Total costs for operating and managing the bank
Total comprehensive loss for the year	(2,097)	(1,184)	77 1%	

Strategic Report (continued)

Financial review (continued)

How the numbers relate	2015	2014
Loans to customers as a proportion of balance sheet before impairment	65 5%	47 8%
Deposits as a proportion of balance sheet	86 1%	85 7%
Interest yield	3 61%	3 75%
Average cost of funds	0 93%	1 11%
Return on total funds	(18 1%)	(9 4%)

Charity Bank made a total loss for the year of £2,098,000, compared to a loss in 2014 of £1,183,000. This loss was a function of a slow rate of increase in our drawn loan book towards the end of the year, due to uncertainty faced by many of our prospective borrowers in the light of the challenges faced by the sector and to our continued investment in our staff resources and infrastructure to support our plans for growth

Charity Bank's low cost of funds was achieved mainly through deposits received under the Community Investment Tax Relief ("CITR") Scheme.

Balance sheet

Charity Bank's balance sheet fell by 7.9% (2014- 13.6% increase) during 2015.

On the assets side, loans (after provisions) to charities, community groups and social enterprises increased by 26 4% (2014: 0.8% increase) following the investment by Big Society Capital with 68 9% (2014: 47.3%) of the balance sheet being used to make charitable loans. We now have a growing pipeline of loans at various stages of the approval and commitment process and are receiving a high level of enquiries. On top of the liquidity reserves that we are required to maintain by the PRA, we hold a high level of liquid assets to service our expected volume of loan commitments and drawn loan assets in 2016 and we expect to be readily able to raise sufficient deposits to fund our business growth in 2016 and beyond.

With respect to liabilities, deposits levels dropped during the year, falling by 7.4% in 2015 (2014. 11 3% increase) with decreases across most deposit products as we chose not to replace them in the short term.

We have seen the lengthening of the maturity profile of our customer deposits with savers withdrawing funds from their Individual Savings Accounts alongside an increase in the demand for our longer term fixed rate products. This is shown by the growth of £3 5 million in the maturity band deposits of a maturity of between one and five years A detailed analysis can be found in note 19 in the Notes to the Financial Statements.

The longer-term outlook for our ability to raise deposits is encouraging as the CITR Scheme, which enables us to obtain deposits at a low cost to fund our loans, continues to be supported by the Government

Strategic Report (continued)

Financial review (continued)

Profit and loss

Our net interest income increased by 11 6% (2014. 8.3% increase) as a result of the slow growth in our drawn loan portfolio during the year This rate of growth was mainly due to the time it takes for loans to be approved and then to become drawn from the point of commitment We have been able to maintain a healthy net interest margin, aided by our ability to raise CITR Scheme deposits

Fee income decreased by 39% (2014: 67% decrease) This is a positive change which was due to a higher proportion of loans being drawn after approval. Fees are reflected in the value of loans and receivables when the loan draws and apportioned over the expected life of the loan..

Grants and donation income decreased by 49 2% (2014: 3.8% increase) This large reduction was due to the completion of some long-standing grant-funded revenue programmes which have not been replaced.

On the expenditure side, our administrative expenses and depreciation and amortisation, increased by 18%, from £4.4 million to £5 2 million (2014: 12 5% increase) This increase was driven by the investment in the infrastructure of Charity Bank, including staff resources, in preparation for the expected growth following the receipt of new investment. The general impairment charge for loans increased by £225,000 (from a credit of £133,000 in 2014 to a charge of £92,000 in 2015), in line with the increase in the total loan portfolio

The level needed for the specific impairments remained unchanged between 31st December 2014 and 31st December 2015 (2014 £94,000 write-off)

Looking forward

Since 2013 Charity Bank has taken a number of steps to restructure its capital and attract new investment. On 4th January 2016 an investment of £250,000 was made by the Barrow Cadbury Trust. The Board is confident that, with the support of further new capital, Charity Bank can increase its lending and its related social impact over the next five years, building upon its established business

According to the NCVO UK Civil Society Almanac, 2015, social sector organisations were estimated to have had approximately £3 5 billion in loans in 2012/13 To achieve the planned increase in our lending to those organisations from £68 5 million at 31st December 2015 to around £200 million by December 2019, we will now pursue four tasks simultaneously·

- grow our lending over the next five years, while maintaining consistent disciplines on asset quality, sound operational standards and adherence to our regulatory capital requirements;
- seek to bring in new investment capital as we grow;
- introduce worthwhile innovations to the social sector that are consistent with our business model, risk appetite and achievement of our financial targets, and the expectations of our regulators; and
- promote greater awareness of Charity Bank in order to facilitate our loan and deposit growth targets, and to increase our social impacts with all relevant partners.

Management of Charity Bank

Unusually for a bank, but in keeping with its former charitable status, Charity Bank's non-executive members of the Board are unpaid. They contribute actively to the oversight of the bank through membership of Board committees, supporting and challenging management, and also through direct meetings with customers, attending 'open days' and through the arrangements we make for our stakeholders to visit borrowers every other year.

Day-to-day management of Charity Bank is delegated by the Board to the Chief Executive, who is supported by the executive management team

Charity Bank appointed the Chief Executive and Deputy Chief Executive to the Board in January 2014 as Charity Bank's first Executive Directors following the surrender of its charitable status. The other members of the management team (together forming the Executive Committee) are also in attendance at Board meetings. Despite the change in its charitable status, Charity Bank remains the bank for the social sector, and continues to focus on lending which is expected to have a worthwhile social impact

Committee structure

Charity Bank is governed by a Board that is empowered to take such steps as are necessary to achieve the Bank's objectives These include the making of appropriate arrangements for the sound management of the Charity Bank's business with the overall responsibility for day-to-day management delegated to the Chief Executive who is authorised to maintain an appropriate management structure.

The Board delegates some of its powers to the following committees

- *Assets and Liabilities Committee*: responsible for policies on the investment of capital and liquid resources, Charity Bank's exposures to interest rate risk and to financial counterparty risk, and for monitoring that Charity Bank's management of liquidity fits the nature of its business and its regulatory requirements. The committee meets no fewer than four times a year.
- *Audit, Risk and Compliance Committee*· responsible for advising on accounting policies and disclosures; supervising the issue of the audited financial statements of Charity Bank and the performance of the external auditors; review and challenge of the overall effectiveness of Charity Bank's systems, processes and controls; and the provision of advice on regulatory and risk strategies including exposure to risks; and monitoring the performance and reports of the internal audit function The committee meets no fewer than three times a year.
- *Credit Committee*: responsible for setting credit risk policies; monitoring compliance with portfolio limits, reviewing movements in the overall balance of credit grades and risk concentrations by types and amounts of exposure within the portfolio, approving large or novel loans and novel credit limits; monitoring all potentially impaired exposures on Charity Bank's watch lists, and making recommendations on the setting of specific impairments on exposures. This committee is expected to continue to have a mix of Board members and co-opted independent advisers It met on twelve occasions in 2015.
- *Governance Committee* responsible for the maintenance of good Board and Board committee governance, succession-planning and nomination of non-executive Board members and senior executives, and remuneration of the executive management and applicable policy for other members of staff The committee meets no fewer than two times a year.

Strategic Report (continued)

Committee structure (continued)

The Chief Executive oversees the day-to-day management of Charity Bank with the support of the Executive Committee, which is chaired by the Chief Executive. Its members currently consist of the Deputy Chief Executive and the Business Development, Finance and Banking Directors, the Heads of the Communications & Marketing and of the Credit Departments, with the General Counsel and Company Secretary in attendance The Executive Committee meets at least fortnightly, or as required.

Principal risks and uncertainties

The Board recognises that Charity Bank's concentration of lending activities in one sector, its standing as a mission-led enterprise and the standards expected of such an entity, and its small size give rise to inherent risk and the need to maintain close vigilance over its activities.

The Board takes the view that Charity Bank's principal risks and uncertainties lie in its exposures to:

- credit risk and the concentration of that exposure in one sector, with resulting lack of portfolio diversification;
- the mismatch between the tenor of its loans and the maturity of its deposits and the risk of depositors withdrawing deposits upon notice ('liquidity risk');
- interest rate mismatches on its assets and liabilities;
- funding risk, particularly the need to fund increases in the loan book with capital raising and deposits from savers, and
- key person dependencies, arising from its small size.

These risks are mitigated in various ways as set out below.

Credit risk and concentration risk

Charity Bank has in place a system to control its exposure to credit risk, including the taking on of new loans in line with its credit policy and the reporting on and monitoring of its exposure to the risk of financial loss from the incidence of credit risk The Board accordingly, amongst other measures, approves any changes in credit policy and new loans in excess of limits delegated to the Board Credit Committee The Board Credit Committee approves new loans within its delegated limits; monitors the quality of the loan portfolio and any concentrations of risk and trends in the related risk environment; reviews the quality of existing loans whose value is impaired or loans where a payment has not been received on its due date from the borrower; and considers related reports and management information

The Board reviews regularly Charity Bank's exposure to credit risks and this system of control.

Charity Bank is exposed to concentration risk from its remit to lend to social sector organisations ("SSOs")

Charity Bank's exposure to this risk is mitigated in a number of ways, including:

- utilising sector expertise and relevant experience through its staff and through its Board members, and
- ensuring that all lessons drawn from any loss experience have been incorporated in its credit policy.

As a result of its understanding of SSOs, Charity Bank expects that both the probability of defaults and the size of any losses incurred as a result of given defaults on its portfolio will continue to be lower than in the wider SME sector

Strategic Report (continued)

Credit risk and concentration risk (continued)

In pursuit of this goal:

- Charity Bank sets limits on the top twenty borrowers as a proportion of its loan book and regulatory capital, limits on its aggregate exposure to individual sectors, and a single borrower limit set in relation to its regulatory capital; and
- Charity Bank makes its credit decisions primarily on the basis of the ability of its borrowers to repay; it also generally requires security over related real estate assets as a secondary source of repayment

As a result of its expertise in and understanding of SSOs, its cautious stance on the maximum ratio of the amount of its loan to the value of the related security, and the low volume of unsecured lending that it has undertaken, the credit quality of Charity Bank's loan exposures has remained stable and performed well.

The Board expects this outcome to continue in future in the light of Charity Bank's system of control for managing credit risk.

Liquidity risk

The Assets and Liabilities Committee sets and reviews (on not less than four occasions a year) Charity Bank's appetite for liquidity risk in a liquidity policy and advises the Board accordingly. The expression of appetite and capacity is translated into limits, thresholds and other indicators, for example, monitoring the worst case asset / liability maturity profile.

These take into account capital adequacy and liquidity levels (including short-term cash flow forecasting), and threats to stakeholder value and reputation. Appetite is also a determinant in corporate planning and identifying future liquidity requirements.

The Board has assessed its overall appetite for liquidity risk overall as 'moderate'

Risk mitigation arrangements are in place through reporting Charity Bank's exposure to liquidity risks by means of key performance indicators in management information packs for the Board and through regular monitoring by the Board of Charity Bank's risk profile.

Interest rate risk

Charity Bank seeks to mitigate the effects of its exposure to the risk of loss from adverse changes in interest rates in a number of ways, including:

- loans are negotiated and agreed by the bank with each individual borrower and the bank will price its loans in light of market conditions, as it deems appropriate at the time;
- the bank's standard form of loan agreements under which it provides an uncommitted fixed interest rate includes a clause that permits the bank to change its lending rate; and
- the bank is able to amend its deposit rates, other than on fixed rate products, upon notice in order to remain competitive.

Strategic Report (continued)

Funding risk

It is Charity Bank's experience that the actual tenor of its loan book has been approximately eleven years as in practice charities often use legacies or other unexpected receipts of income to repay a loan early

Charity Bank is exposed to the risk of customers withdrawing their deposits at short notice. This is mitigated in two ways.

- the bank will continue to develop promote its deposit products rather than its instant access accounts; and
- the bank will seek to attract savers who identify with its mission

Charity Bank retains the ability, under its loan documentation, to require a borrower to refinance its loan on each five-year anniversary of the signature of the loan agreement

Key person dependencies

While its exposure is mitigated by Charity Bank's business model, the identification of staff with its mission, its supportive internal culture, and a strengthened focus of management on communication and transparency in staff relations, this risk will continue to be a challenge for a bank of its size Hence Charity Bank draws on approved contract staff and volunteers as well as specialist advice from external parties to supplement its own resources from time to time, it can and does recruit new staff from the wider financial services industry and can benefit from the appeal of its mission in doing so.

Approved by the Board of Directors on 14th April 2016 and signed on its behalf.

George Blunden
Chairman
The Charity Bank Limited
182 High Street
Tonbridge
Kent TN9 1BE

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2015

Directors' Report

Introduction

Charity Bank is authorised by the Prudential Regulation Authority ("PRA") as a deposit-taking institution under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012), and is regulated by the Financial Conduct Authority ("FCA") and the PRA It was established in 2002 with a mission to lend to charities, community organisations and social enterprises, and in particular to those that find it difficult to secure funding from the traditional banking sector, with the support of investors and depositors who want to encourage more responsible and transparent use of their money.

Charity Bank uses financial leverage to create social leverage in the community. Since 2002, Charity Bank's innovative approach to lending and its mission to benefit society have enabled it to approve over £250 million worth of loans to more than 1,000 social sector organisations across the UK. It has well-established processes and controls over both the advancing of loans and the taking of deposits developed by its executive management team under the strategic direction of its board of directors (the "Board")

Charity Bank has experienced a low rate of loss on its loans since its foundation.

Given the stresses being faced by the social sector, Charity Bank continues to exercise close vigilance over the quality of exposures within its existing portfolio.

The Board believes that the combination of the increased demand on social sector services and reduction in public funding will create a sustainable pipeline of loan demand for Charity Bank from enterprises throughout the UK The Board is confident that Charity Bank is well-placed to respond to this demand, given its track-record of innovation, its public reputation, and its growing strength as an institution.

The Report and Accounts for the year ended 31st December 2015 have been prepared in accordance with statutory requirements and Charity Bank's Articles of Association and comply with International Financial Reporting Standards (IFRSs) as adopted by the European Union

Share capital, reserves and dividends

As at the Balance Sheet date, Charity Bank had issued 12,622,011 ordinary shares, though it also has the option of issuing additional ordinary shares and 'B' and 'C' preference shares all of £1 each.

Although the Articles of Association permit payment of a dividend to shareholders at the discretion of the Board of Directors, no dividend has been declared (2014: £nil)

Directors' Report (continued)

Substantial shareholdings

As at 31st December 2015 Charity Bank was aware of the following substantial holdings in its ordinary share capital:

Name	Ordinary shares	Percentage of issued ordinary share capital
The Big Society Capital Limited	4,500,000	34.96%
CAF Nominees Ltd - beneficial owner Charities Aid Foundation	4,000,011	31.08%

Directors

The names of the Directors who served during the year and at the date of this report are as follows:

Board of Directors as at 31st December 2015	
Name of Director	**No. of meetings attended during 2015 - a maximum of 8**
George Blunden (Chair of the Board)	8/8
Clive Bowles (Chair of the Assets and Liabilities Committee)	7/8
Robin Budenberg	6/7
Patrick Crawford *	8/8
Malcolm Elliott *	8/8
David Godfrey (Chair of the Credit Committee)	8/8
Alan Graham (Chair of the Audit, Risk and Compliance Committee)	8/8
Sara Llewellin	8/8
John Low	8/8
Stephen Morrison	8/8
Martin Mosley (Chair of the Governance Committee)	6/8
Mary O'Connor	4/8
Kate Sayer	5/7
Anna Shiel	8/8
Chris Vermont	5/8
Karl Wilding	8/8

Robin Budenberg and Kate Sayer joined the Board on 18th February 2015
(* = Executive Director)

Directors' Report (continued)

Directors (continued)

A connected director is defined in our Articles of Association as a Director nominated to the Board of Directors by a shareholder.

Two shareholders are entitled to nominate non-executive directors ("connected directors") for appointment to the Board under the agreements Charity Bank entered into in relation to the making of the investment by Big Society Capital in its ordinary shares. As a result during the year, Big Society Capital nominated Anna Shiel, the Head of Origination at Big Society Capital, and Stephen Morrison, a partner and the Chief Operating Officer at Bridges Ventures, and the Charities Aid Foundation nominated John Low, its Chief Executive, and an employee of other members of the Charities Aid Foundation group.

Directors' responsibilities in relation to the financial statements

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 the International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under company law, the Directors must not approve the financial statements, unless they are satisfied that they give a true and fair view of the state of affairs of Charity Bank 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 estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare financial statements on a '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 Charity Bank'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 are also responsible for safeguarding the assets of Charity Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Going concern

Charity Bank has sufficient resources to continue its operations for the foreseeable future It plans to grow its business significantly in the coming years in order to respond to the need for finance in the social sector. On 28th March 2014, Charity Bank signed agreements under which Big Society Capital subscribed £4 5 million in ordinary shares and agreed conditionally to invest a further £10 million This enabled the bank to start to implement its growth plan to achieve a balance sheet with a value in excess of £200 million by 2019. The Directors believe that Charity Bank is taking the right steps to manage its business risks successfully

Directors' Report (continued)

Going concern (continued)

Charity Bank has, therefore, adopted the going concern basis for preparing its financial statements. In reaching this conclusion the Directors have prepared and considered detailed profit & loss, balance sheet and cash flow forecasts for a four-year period and the underlying assumptions have been scrutinised. Sensitivities to critical assumptions have been assessed. The Directors have taken into account the size of the social sector finance market, its strength, Charity Bank's market share, and the economic, political and other factors which may cause the market to change The Directors have also considered operational risks and contingent liabilities and other financial risks

Internal control

The Board manages the risks to which Charity Bank is exposed through a system of internal controls that has the following main elements

- the setting of policies by the Board for the key activities of the bank and its management of risks, and the review and oversight by the Board of the practices of the executive management team in applying them;
- the delegation of authority by the Board to its Committees and to the Chief Executive,
- an internal organisational structure characterised by functional separation of activities and decision-making,
- executive decision-making through the Executive Committee, chaired by the Chief Executive, and the Internal Credit Committee;
- the appointment of staff who have the requisite skills, experience and integrity, who are supported by the provision of access to training where necessary, well-designed IT systems and process manuals, and a sound system of performance management; and who are overseen by competent senior staff,
- the issue of operations manuals which set out all key procedures and approval authorities, including a lending manual which prescribes the bank's credit policy and its procedures when it makes loans;
- the allocation of responsibility for compliance with applicable laws and regulations to designated individuals and in accordance with the requirements of the FCA and the PRA,
- disaster recovery and business interruption plans and arrangements and daily back-up of data from the bank's accounting and other systems,
- the regular and timely provision of management information to the Executive Committee and to the Board in a form that is consistent with good practice in the finance industry, and
- the issue of staff policies and procedures

Charity Bank uses a 'three lines of defence' model as a key principle of its management of risk:

- managers within the business have primary 'first line' responsibility for the day to day management of risk,
- a 'second line of defence' is provided by the Compliance function (Deputy Chief Executive, Compliance Officer and Money Laundering Reporting Officer), which also oversees risk; management arrangements: where appropriate, line management and staff expertise are used to monitor and assess risk, and
- the 'third line of defence' is provided by the Internal Audit function, which has responsibility for providing independent assurance over the risk management and business processes

Internal control (continued)

The Board and its Committees, and the management team and its committees, provide oversight and challenge across all three lines of defence

Risk management policy

Charity Bank considers risk under three broad categories

- Strategic risk: the risks arising from either the external environment serving to prevent the bank realising its strategy, or internally from a poor choice or execution of strategy.
- Financial risk: the credit and liquidity risks the bank takes in its activities or transactions to drive the bank's financial performance.
- Operational risk. the risk of loss from inadequate internal processes and failures in relation to the people or systems or from external events, including legal and documentation risk.

The Risk Management Policy (the "policy") provides a framework for ensuring that risks that could have a significant adverse impact on the ability of Charity Bank to meet its objectives are identified, measured, quantified where possible, monitored, managed and reported.

The policy sets out Charity Bank's risk management system which incorporates:

- a risk management strategy;
- risk policies;
- risk appetite framework;
- risk measurement and quantification,
- risk processes which enable it to identify, assess, manage, monitor and report the risks it is or might be exposed to;
- risk reporting to Board and Committees; and
- roles and responsibilities.

The policy is intended to support appropriate management of risk exposures that is proportionate to the nature, scale and complexity of the risks faced by Charity Bank

Charity Bank's risk management framework is key to the assessment by the Board of Charity Bank's capital adequacy requirements in its Internal Capital Adequacy Assessment Process (ICAAP), which is prepared in light of its business plans and the risks it faces.

Investment powers, policies and performance

The Directors have delegated the task of advising on investment policy to the Board's Assets and Liabilities Committee.

Charity Bank must maintain a level of liquidity that will enable it to repay maturing deposits and meet drawdowns of loan commitments as they fall due

Charity Bank has outsourced the management of its surplus liquidity to Royal London Asset Management ("RLAM"). Investment criteria set by the bank guide the investment of its funds by RLAM; these continue to follow the conservative approach adopted in the past, in terms of eligible counterparties, maturities and products in which surplus funds can be invested

Charity Bank continues to comply with the regulatory requirement to hold investments in assets which qualify as High Quality Liquid Assets (HQLAs)

Investment powers, policies and performance (continued)

A table summarising responsibilities for different aspects of liquidity management is provided below.

SUMMARY OF RESPONSIBILITY FOR OVERSIGHT OF LIQUIDITY MANAGEMENT		
	Policy	Day-to-day management
ASSETS		
Money market position	Recommended by the Assets and Liabilities Committee ("ALCO") and approved by the Board Counterparty list is approved by the Credit Committee ("CCO")	Finance Team
Cash at bank	Recommended by ALCO and approved by the Board	Cash funds management is performed by the Finance Team
Loans receivable	Recommended by CCO and approved by the Board	Credit Team
LIABILITIES		
Deposits (under the CITR scheme)	Recommended by ALCO and approved by the Board	Savings Strategy Manager and the Customer Services Team
Deposits (other)	Recommended by ALCO and approved by the Board	Savings Strategy Manager and the Customer Services Team
LIQUIDITY		
	Recommended by ALCO and approved by the Board	Finance Team

Public disclosure

Details of Charity Bank's Public Disclosure (Pillar 3) can be obtained from its registered office or viewed on the web site https.//charitybank org/

Directors' indemnity

Charity Bank has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and which remain in force at the date of this report.

Equal opportunity and diversity

Charity Bank is committed to ensuring that all employees, job applicants and workers are treated fairly in an environment which is free from any form of discrimination with regard to all nine of the protected characteristics as outlined by the Equality Act 2010, age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (includes colour, nationality and ethnic origins), religion and or belief, sex and sexual orientation

The bank aims to ensure equality of opportunity to all and to provide employees with the opportunity to develop and realise their full potential The bank values diversity and is committed to eliminating unlawful and unfair discrimination Appointment will always be on merit, within relevant legislative and statutory obligations

Directors' Report (continued)

Political and charitable donations

Charity Bank made no political donations this year (2014 – £nil). Charitable donations were made of £1,820 (2014 - £1,136). These were made through matching staff fund raising and Give As Your Earn matching contributions.

Disclosure of information to auditor

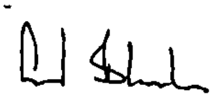
As far as each of the Directors are aware, at the date when this report was approved

- there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditor is unaware, and
- each of the Directors has taken all the steps they ought to have taken as a Director to become aware of any relevant audit information (as defined) and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 14th April 2016 and signed on its behalf.



George Blunden
Chairman
182 High Street,
Tonbridge
Kent TN9 1BE

Independent Auditor's Report

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

We have audited the financial statements of Charity Bank Limited for the year ended 31st December 2015 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 29 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of. whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CHARITY BANK LIMITED (continued)

Matters on which we are required to report by exception

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

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

Alastair Morley (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
14th April 2016

Statement of Comprehensive Income

For the year ended 31st December 2015

	Note	2015 £'000	2014 £'000
Continuing activities			
Interest income	5	4,311	4,181
Interest expense	5	(802)	(1,036)
Net interest income		**3,509**	**3,145**
Fee income	6	46	76
Loss on available-for-sale financial assets		(359)	(279)
Other operating income		38	36
Net operating income		**3,234**	**2,978**
Grants and donations		63	124
Net total income		**3,297**	**3,102**
Administrative expenses	7	(5,090)	(4,359)
Depreciation and amortisation	16, 17	(142)	(74)
Impairment (charge)/release	24	(92)	126
Loss on ordinary activities before taxation		**(2,027)**	**(1,205)**
Tax expense	10	-	5
Loss on ordinary activities after taxation		**(2,027)**	**(1,200)**
Other comprehensive (expense)/income:			
Items that may subsequently be transferred to the income statement:			
Available for sale financial assets.			
Revaluation of available-for-sale financial assets		(70)	21
Tax effect of other comprehensive income	10	-	(5)
Total other comprehensive (loss)/income		**(70)**	**16**
Total comprehensive loss for the year		**(2,097)**	**(1,184)**

The notes and information on pages 26 to 64 form part of these financial statements.

All income and expenses are derived from continuing operations

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2015

Balance Sheet

As at	Note	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Assets				
Cash and cash equivalents	12	3,603	1,182	594
Available-for-sale financial assets	13	32,415	58,109	45,638
Loans and advances to customers	14	67,785	53,636	53,208
Prepayments		139	150	147
Other assets	15	214	127	56
Property and equipment	16	266	126	70
Intangible fixed assets	17	36	51	86
Total assets		**104,458**	**113,381**	**99,799**
Liabilities				
Deposits by banks	18	-	-	50
Customer accounts	19	89,946	97,168	87,225
Deferred income		166	191	74
Other liabilities	20	255	260	250
Accruals		528	599	349
Subordinated debt	21	2,008	2,511	3,515
Total liabilities		**92,903**	**100,729**	**91,463**
Called up share capital	22	12,622	11,622	6,122
Distributable reserve		(1,013)	1,014	2,214
Available-for-sale reserve		(54)	16	-
Equity shareholders' funds	23	**11,555**	**12,652**	**8,336**
Total liabilities and shareholders' funds		**104,458**	**113,381**	**99,799**

These financial statements were approved by the Board of Directors and authorised for issue on 14th April 2016. They were signed on their behalf by:

George Blunden - Director

Alan Graham - Director

The notes and information on pages 26 to 64 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31st December 2015

	Share capital £'000	Distributable reserve £'000	Available-for-sale reserve £'000	Total equity £'000
Balance attributable to equity shareholders as at 1st January 2014	**6,122**	**2,214**	**-**	**8,336**
Loss for the year	-	(1,200)		(1,200)
Other comprehensive income:				
- revaluation of available-for-sale financial assets	-	-	21	21
- Tax effect of other comprehensive income	-	-	(5)	(5)
Transactions with shareholders	5,500	-	-	5,500
Balance attributable to equity shareholders as at 31st December 2014	**11,622**	**1,014**	**16**	**12,652**
Loss for the year	-	(2,027)	-	(2,027)
Other comprehensive income:				
- revaluation of available-for-sale financial assets	-	-	(70)	(70)
- Tax effect of other comprehensive income	-	-	-	-
Transactions with shareholders	1,000	-	-	1,000
Balance attributable to equity shareholders as at 31st December 2015	**12,622**	**(1,013)**	**(54)**	**11,555**

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2015

Cash Flow Statement

For the year ended 31st December 2015

	Note	2015 £'000	2014 £'000
Cash flow from operating activities			
Loss before tax		(2,027)	(1,205)
Adjustment to reconcile net loss to cash flow used in operating			
Interest expense		802	1,036
Depreciation of property and equipment		102	39
Depreciation of intangible assets		40	35
Revaluation of available-for-sale assets		(70)	21
Movement in impairment provision		92	(220)
		(1,061)	(294)
Net (increase)/decrease in assets relating to operating activities			
Loans and advances to customers		(14,241)	(208)
Available-for-sale financial assets		(565)	4,653
Other assets		(87)	(71)
Movement in accruals and accrued interest		(71)	250
Movement in prepayments		11	(3)
		(14,953)	4,621
Net (decrease)/increase in liabilities relating to operating activities			
Due to banks		-	(50)
Due to customers		(7,222)	9,943
Interest paid		(707)	(937)
Deferred income		(25)	117
Other liabilities		(5)	10
		(7,959)	9,083
Net cash (outflow)/inflow from operating activities		**(23,973)**	**13,410**
Cash flow from investing activities			
Acquisition of fixed assets		(267)	(95)
Net cash used in investing activities		(267)	(95)
Cash flow from financing activities			
Proceeds from issue of share capital		1,000	8,622
Repurchase of preference shares		-	(3,122)
Redemption of subordinated loan stock		(500)	(1,000)
Interest on subordinated loan stock		(95)	(99)
Net cash from financing activities		405	4,401
Net (decrease)/increase in cash and cash equivalents		**(23,835)**	**17,716**
Cash and cash equivalents at the beginning of the year	28	45,248	27,532
Cash and cash equivalents at the end of the year	**28**	**21,413**	**45,248**

The notes and information on pages 26 to 64 form part of these financial statements

Notes to the Financial Statements

1 Basis of preparation

General information

The Charity Bank Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the bank's operations and its principal activities are set out in the Directors' report.

Basis of preparation

These financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and therefore comply with Article 4 of the EU International Accounting Standards regulation Comparative numbers have been restated from UK GAAP.

Going Concern

Charity Bank's business activities, together with the factors likely to affect its future development, finances, performance and position, are set out in the Chairman's Report, the Chief Executive's Report, the Strategic Report and the Directors' Report. The financial position of Charity Bank and its cash flow and prospective liquidity position are described in the Strategic and Directors' Reports. Charity Bank's objectives, policies and processes for managing its capital, risk management objectives and its exposures to credit risk and liquidity risk are set out in note 27.

Charity Bank has the resources to enable it to continue its operations for the foreseeable future and plans to raise additional capital to implement its growth plan. The Directors believe that Charity Bank is well placed to manage its business risks successfully within this economic climate. They continue, therefore, to adopt the going concern basis in preparing the annual report and financial statements.

In reaching this conclusion the Directors have prepared and considered detailed statements of comprehensive income, balance sheet and cash flow forecasts for a four-year period and the underlying assumptions have been scrutinised. Sensitivities to critical assumptions have been assessed The Directors have taken into account the size of the social sector finance market, its strength, Charity Bank's market share and the economic, political and other factors which may cause the market to change The Directors have also considered operational risks and contingent liabilities and other financial risks

Basis of measurement

The financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are valued at fair value through other comprehensive income.

Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates It also requires management to exercise judgement in the process of applying the accounting policies. Judgements have been made in the calculation of loan impairment provisions Refer to note 2 for details of the loan impairment accounting policy

1 Basis of preparation (continued)

Future accounting developments

Charity Bank has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the bank:

a) IFRS 9 'Financial Instruments' (IFRS 9)

In July 2014, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 which includes the completion of all phases of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement' as discussed below

Phase 1· Classification and measurement of financial assets and financial liabilities. Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics The standard also introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

Phase 2: Impairment methodology. IFRS 9 fundamentally changes the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. It is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting. These requirements align hedge accounting more closely with risk management and establish a more principle-based approach to hedge accounting. Dynamic hedging of open portfolios is being dealt with as a separate project and until such time as that project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39. The revised hedge accounting requirements in IFRS 9 are applied prospectively.

The effective date of IFRS 9 is 1st January 2018. For annual periods beginning before 1st January 2018, an entity may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss At the date of publication of these Financial Statements, the standard is awaiting EU endorsement and the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 9 on these Financial Statements.

b) IFRS 15 'Revenue from Contracts with Customers' (IFRS 15)

In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1st January 2018. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges At the date of publication of these Financial Statements the standard is awaiting EU endorsement Whilst it is expected that a significant proportion of the Company's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on these Financial Statements

1 Basis of preparation (continued)

Future accounting developments (continued)

c) IFRS 16 'Leases' (IFRS 16)

In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1st January 2019. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure for both lessees and lessors.

For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value.

For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

At the date of publication of these Financial Statements the standard is awaiting EU endorsement. The impact of the standard is currently being assessed; however, it is not yet practicable to quantify the effect of IFRS 16 on these Financial Statements.

d) Other standards

There are a number of other standards which have been issued or amended that are expected to be effective in future periods However, it is not practicable to provide a reasonable estimate of their effects on Charity Bank's Financial Statements until a detailed review has been completed.

2 Accounting policies

Income recognition

a) Interest income and expense

Interest income on financial assets and interest expense on financial liabilities are recognised in 'interest income' and 'interest expense' in the income statement using the 'effective interest rate' method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. The effective interest rate incorporates fees receivable that are an integral part of the 'effective interest rate' of a financial instrument.

All income derives from banking business carried out in the United Kingdom.

b) Fee income

Fees are accounted for depending on the services to which the income relates to as follows

- fees earned on the execution of a significant act are recognised in 'fee income' when the act is completed;
- fees earned in respect of services are recognised in 'fee income' as the services are provided, and
- fees which form an integral part of the 'effective interest rate' of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in 'interest income'.

2 Accounting policies (continued)

Income recognition (continued)

c) Donations

Donations are recognised in the period in which funds are received except where the funds received are for a specified period in which case the portion of donations which pertain to the current accounting period is taken to income and the balance amount included in liabilities as unearned income

Financial instruments

Financial assets and liabilities are recognised in Charity Bank's balance sheet when the bank becomes a party to the contractual provisions of the instrument

Charity Bank classifies its financial assets into the following categories:

- loans and receivables, and
- available-for-sale investments

Management determines the classification of financial assets at the time of initial recognition. Reclassification is not made between asset classes.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified upon initial recognition as available-for-sale or at fair value through profit and loss.

Loans and receivables are initially recognised at fair value, including directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses.

Available-for-sale investments

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are recognised on trade date and are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are generally recognised directly in equity until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit and loss.

Impairment of financial assets held at amortised cost

Charity Bank's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost A loan is impaired when there is evidence that events since the loan was granted have affected expected cash flows from the loan. Factors considered when assessing whether a loan is impaired are loans where there has been a material default or covenant breach which is continuing and/or deteriorating (for example, a persistent breach of debt service cover, severe liquidity concerns, insolvency, loss of a significant contract or revenue streams, or significant management/governance issues)

The impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate and proceeds from any security held.

2 Accounting policies (continued)

Impairment of financial assets held at amortised cost (continued)

Amounts are finally written-off when any security has been realised and the final exposures, including costs, are known

The actual amount of the future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

Charity Bank also makes provision for incurred but not reported ('IBNR') losses IBNR provisions are maintained to cover loans which are impaired at the balance sheet date, and while not specifically identified, are known to be present in any portfolio of loans IBNR impairment provisions are only made for incurred losses and are not allowed for losses that are expected to happen as a result of likely future events

If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the loan amount up to the amount of the impairment previously recognised but not more than the amortised cost of the asset The amount of the reversal is recognised in the income statement

In certain cases Charity Bank may use forbearance measures to assist borrowers experiencing significant financial distress. The bank's policy is to work with borrowers and their trustees to seek solutions to their financial problems, and to subscribe fully to the six Treating Customers Fairly outcomes in its approach to recovery management. Experience suggests that borrowers, even those in severe financial difficulties, can often secure grants and other funding to overcome such problems, the accessibility to such funding is unique to the sector. Loan rescheduling may be considered on an exceptional basis if considered appropriate by the Board Credit Committee or Internal Credit Committee. Any forbearance measures agreed are assessed on a case by case basis.

Impairment of financial assets available-for-sale

Charity Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired In the case of investments classified as available-for-sale, a significant or proportioned decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired If any such evidence exists for available-for-sale financial assets, the cumulative loss measured is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss which is removed from the balance sheet and recognised in the income statement. If in the subsequent period, the fair value of the investment classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised as profit or loss, the impairment loss is reversed through the income statement.

Financial liabilities

Charity Bank classifies its financial liabilities as other financial liabilities.

Management determines the classification of financial liabilities at initial recognition

2 Accounting policies (continued)

Other financial liabilities

Other financial liabilities are initially recognised at fair value including directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Charity Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of Charity Bank's own equity instruments is recognised and deducted directly in equity No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of Charity Bank's own equity instruments

Fair value

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price.

Subsequently, the fair values of financial instruments that are quoted in an active market are based on bid price (for assets) and offer price (for liabilities). Where there is no quoted market price in an active market, fair values are determined using valuation techniques including discounting future cash flows, option pricing models and other methods used by market participants.

Where the fair value cannot be reliably determined for an investment in an equity instrument, the instrument is measured at cost.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on a straight-line basis at the following rates to write off the cost of the fixed assets over their estimated useful life as follows:

Leasehold improvement	10 years (or lease period if shorter)
Premises fittings	5 years
Office equipment/furniture	3 years

At each balance sheet date, property and equipment are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

2 Accounting policies (continued)

Property and equipment (continued)

The carrying values of fixed assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount The carrying amount of the fixed asset will only be increased up to the amount that it would have been had the original impairment not been recognised

Intangible assets

Intangible assets are stated at cost less amortisation and provisions for impairment. The assets are primarily computer software and amortised on a straight-line basis over their estimated useful life which has been calculated as three years, in a manner that reflects the pattern to which they contribute to future cash flows.

Leases

A lease is classified as a finance lease when the risks and rewards of ownership are substantially transferred to the lessee All other leases are classified as operating leases (operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term)

Leases held by Charity Bank are all classified as operating leases. Total rentals payable under the operating lease are recognised on a straight-line basis over the life of the lease.

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Charity Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

2 Accounting policies (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Pension costs

Charity Bank makes contributions to the Pensions Trust in respect of defined contribution personal pension arrangements. One of the plans offered by the Pensions Trust, the Growth Fund, offers guarantees, however, to its members as to capital and pensions. As a participating employer, Charity Bank may be liable to fund any shortfalls in the scheme if it decides to withdraw from the scheme. As advised by the Pensions Trust, at 30th September 2014, Charity Bank's default liability on withdrawal from the scheme amounted to £134,962. This was based on an actuarial valuation of employer's liability. Pensions Trust has, based on its estimate, advised that this figure would have increased by approximately 4% at 31st March 2015. Charity Bank has no plans to withdraw from the scheme and therefore a liability has not been accrued as at the Balance Sheet date.

The amount charged in the comprehensive income statement in respect of pension costs is the contribution payable in the year. No provision has been made to account for any potential shortfall in the fund attributable to the Growth Fund. Differences between contributions payable and the year-end contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The amount of contributions upon which the benefits are calculated is 17.00% of basic salary. Charity Bank contributes 11.33% and its employee up to 5 67%

Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks.

Capital instruments

Charity Bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms An instrument is classified as equity if it evidences a residual interest in the assets of Charity Bank after the deduction of liabilities. The components of a compound financial instrument issued by Charity Bank are classified and accounted for separately as financial liabilities or equity as appropriate.

3 Effects of first time adoption of IFRSs on 1st January 2015

Charity Bank adopted IFRSs on 1st January 2015, with a date of transition to IFRSs of 1st January 2014.The last financial statements under UK GAAP were for the year ended 31st December 2014 The impact of adopting IFRSs is shown in the following reconciliations

Effect of IFRS adoption for the statement of financial position

		As at 1st Jan 2014			As at 31st Dec 2014		
	Notes	Previous GAAP £'000	Effect of transition to IFRSs £'000	Opening IFRS statement of financial position £'000	Previous GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
Assets							
Cash and balances at banks		594	-	594	1,182	-	1,182
Available-for-sale financial assets	d	45,494	144	45,638	57,973	136	58,109
Loans and advances to customers	a,c,e	53,854	(646)	53,208	54,286	(650)	53,636
Prepayments	d,e	475	(328)	147	464	(314)	150
Other assets		56	-	56	127	-	127
Property and equipment	f	-	70	70	-	126	126
Intangible fixed assets	f	-	86	86	-	51	51
Fixed assets	f	155	(155)	-	177	(177)	-
Total assets		**100,628**	**(829)**	**99,799**	**114,209**	**(828)**	**113,381**
Liabilities							
Deposits by banks		50	-	50	-	-	-
Customer accounts	g,h,i	87,366	(141)	87,225	97,342	(174)	97,168
Deferred income	b	-	74	74	-	191	191
Other liabilities	h	45	205	250	26	234	260
Accruals	g	428	(79)	349	669	(70)	599
Subordinated debt	i	3,500	15	3,515	2,500	11	2,511
Total liabilities		**91,389**	**74**	**91,463**	**100,537**	**192**	**100,729**
Called-up share capital		6,122	-	6,122	11,622	-	11,622
Distributable reserve	a,b,c	3,117	(903)	2,214	2,050	(1,036)	1,014
Available-for-sale reserve	j	-	-	-	-	16	16
Equity shareholders' funds		**9,239**	**(903)**	**8,336**	**13,672**	**(1,020)**	**12,652**
Total liabilities and shareholders' funds		**100,628**	**(829)**	**99,799**	**114,209**	**(828)**	**113,381**

3 Effects of first time adoption of IFRSs on 1st January 2015 (continued)

Reconciliation of equity

	Notes	As at 1st Jan 2014 (date of transition) £'000	As at 31st Dec 2014 (end of last period presented under previous GAAP) £'000
Total equity under previous GAAP		9,239	13,672
Loans receivable measured at amortised cost instead of nominal value	a	(986)	(907)
Deferral of arrangement and commitment fees	b	(74)	(317)
Adjustment to specific provision accounted for under old UK GAAP	c	157	204
		(903)	**(1,020)**
Tax effect of the above		-	-
Total adjustment to equity		**(903)**	**(1,020)**
Total equity under IFRSs		**8,336**	**12,652**

3 Effects of first time adoption of IFRSs on 1st January 2015 (continued)

Effect of IFRSs adoption for the consolidated statement of comprehensive income for the year ended 31st December 2014

	Year ended 31st Dec 2014 (latest period presented under previous GAAP)		
	Previous GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
Continuing activities			
Interest income	3,844	337	4,181
Interest expense	(1,036)	-	(1,036)
Net interest income	**2,808**	**337**	**3,145**
Fee income	355	(279)	76
Loss on available-for-sale financial assets		(279)	(279)
Other operating income	-	36	36
Net operating income	**3,163**	**(185)**	**2,978**
Grants and donations	124	-	124
Net total income	**3,287**	**(185)**	**3,102**
Administrative expenses	-	(4,359)	(4,359)
Expenses for banking operations	(4,364)	4,364	-
Depreciation and amortisation	(74)	-	(74)
Provision for bad and doubtful debts	178	(178)	-
Bad debts written off	(94)	94	-
Impairment charge	-	126	126
Loss on ordinary activities before taxation	**(1,067)**	**(138)**	**(1,205)**
Tax expense	-	5	5
Loss on ordinary activities after taxation	**(1,067)**	**(133)**	**(1,200)**
Other comprehensive income/(expense):			
Items that may subsequently be transferred to the income statement:			
Available for sale financial assets:			
Revaluation of available-for-sale financial assets	-	21	21
Tax effect of other comprehensive income	-	(5)	(5)
Total other comprehensive income	-	**16**	**16**
Total comprehensive loss for the year	**(1,067)**	**(117)**	**(1,184)**

3 Effects of first time adoption of IFRSs on 1st January 2015 (continued)

Reconciliation of loss

£'000	Notes	Year ended 31st Dec 2014 (latest period presented under previous GAAP) Loss before tax £'000	Loss for the year £'000
Previous GAAP loss on ordinary activities		**(1,067)**	**(1,067)**
Loans receivable measured at amortised cost instead of nominal value	a	79	79
Deferral of arrangement and commitment fees	b	(243)	(243)
Adjustment to specific provision accounted for under old UK GAAP	c	47	47
Movement of unrealised gain on investments to other comprehensive income		(21)	(21)
Total adjustment to loss on ordinary activities		**(138)**	**(138)**
Loss under IFRSs		**(1,205)**	**(1,205)**
Other comprehensive income			21
Total comprehensive expense under IFRSs			**(1,184)**

Effect of IFRSs adoption for the statement of cash flows

£'000		31st December 2014 (latest period presented under previous GAAP) Previous GAAP £'000	Effect of transition to IFRSs £'000	IFRSs £'000
Net cash flows from operating activities	k	(3,816)	17,226	13,410
Net cash flows from investing activities		(96)	1	(95)
		(3,912)	17,227	13,315
Net cash flows from financing activities		4,500	(99)	4,401
Net increase in cash and cash equivalents	k	588	17,128	17,716
Cash and cash equivalents at beginning of period		594	26,938	27,532
Cash and cash equivalents at end of period		1,182	44,066	45,248

3 Effects of first time adoption of IFRSs on 1st January 2015 (continued)

Analysis of cash and cash equivalents under IFRSs

	1st Jan 2014 £'000	31st Dec 2014 £'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	594	1,182
Money market funds and certificates of deposits	26,938	44,066
Total cash and cash equivalents	**27,532**	**45,248**
Money market funds and certificates of deposits consist of:		
With a maturity of less than three months	23,943	44,066
With a maturity above three months	2,995	-
	26,938	**44,066**

Notes to the reconciliations

The transition to IFRSs has resulted in the following changes in accounting policies:

a) Under previous GAAP, loans and advances to customers were measured at nominal value with interest and fee income recognised in the profit and loss on an accruals basis. Under IFRSs, loans and advances to customers are measured at amortised cost using the effective interest method Interest income on loans and advances to customers is recognised in interest income in the income statement using the effective interest rate method. Arrangement and commitment fees are recognised as an adjustment to the effective interest rate and recorded in interest income i e. the fees are moved into the value of the loan and are recognised as interest income over the expected life of the loan The effect of this change is a decrease in equity of £1,032k at 31st December 2014 (£986k at 1st January 2014) and a corresponding decrease in loans and advances to customers

b) As noted in a) above, under IFRSs, arrangement and commitment fees are recognised as an adjustment to the effective interest rate and recorded in interest income. If a loan has not yet drawn, the arrangement and commitment fees are transferred to deferred income on the balance sheet until the loan draws When the loan draws the fee is taken to the effective interest rate calculation The effect of this is a decrease in equity of £191k at 31st December 2014 (£74k at 1st January 2014)

c) Under previous GAAP, specific provision was made against loans and other assets where, in the opinion of the Directors, the debt was not fully recoverable. Under IFRSs, a loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan The impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows at the loan's original effective interest rate. The effect of this is an increase in equity of £205k at 31st December 2014 (£157k at 1st January 2014) and a corresponding increase in loans and advances to customers.

3 Effects of first time adoption of IFRS on 1st January 2015 (continued)

Notes to the reconciliations (continued)

d) Under previous UK GAAP, accrued interest on investments was disclosed under prepayments. Under IFRSs this is disclosed under available for sale financial assets. The effect of this is an increase in available for sale financial assets of £136k at 31st December 2014 (£144k at 1st January 2014) and a corresponding decrease in prepayments.

e) Under previous UK GAAP, accrued interest on loans was disclosed under prepayments Under IFRSs this is disclosed under loans and advances to customers. The effect of this is an increase in loans and advances to customers of £178k at 31st December 2014 (£183k at 1st January 2014) and a corresponding decrease in prepayments

f) Under previous UK GAAP, software was treated as a fixed asset, if it was directly attributable to bringing a computer system into working condition for its intended use within the business Under IFRSs, software costs that are not an integral part of the related hardware are classified as intangible fixed assets

g) Under previous UK GAAP, accrued interest on customer accounts was disclosed under accruals Under IFRSs this is disclosed under customer accounts. The effect of this is an increase in customer accounts of £70k at 31st December 2014 (£79k at 1st January 2014) and a corresponding decrease in accruals.

h) Under previous UK GAAP, deposits received as security for loans was disclosed under customer accounts. Under IFRSs, these deposits are disclosed as other liabilities. The effect of this is a decrease in customer accounts of £234k at 31st December 2014 (£205k at 1st January 2014) and a corresponding increase in other liabilities.

i) Under previous UK GAAP, accrued interest payable on subordinated debt was disclosed under customer accounts Under IFRSs, these are disclosed as subordinated debt The effect of this is a decrease in customer accounts of £11k at 31st December 2014 (£15k at 1st January 2014) and a corresponding increase in subordinated debt.

j) Under previous UK GAAP, unrealised profit or loss on investments was disclosed in the distributable reserves account. Under IFRSs, this amount is restricted and not distributable and should be shown separately in an available-for-sale reserve The effect of this is a credit in to the available-for-sale reserve at 31st December 2014 (£216k charge at 1st January 2014) and a corresponding movement in distributable reserves.

k) Under previous UK GAAP, the movement in money market funds and certificates of deposits were reflected in net cash flows from operating activities. Under IFRSs they are included in the value of cash and cash equivalents.

4 Segmental information

In the opinion of the Directors, Charity Bank carries on one principal class of business, banking, and operates almost entirely within one geographical segment, the United Kingdom Deposits are drawn from throughout the United Kingdom together with a small amount of funds from abroad Charity Bank lends in every county and region of the United Kingdom, with a small proportion committed in support of UK non-governmental organisations working internationally.

5 Net Interest Income

(a) Net interest income

Interest and similar income	2015 £'000	2014 £'000
Loans and advances to customers	3,645	3,503
Available-for-sale financial assets	666	678
	4,311	**4,181**

Interest expense and similar charges	2015 £'000	2014 £'000
Due to customers	707	937
Debt issued	95	99
	802	**1,036**

6 Fee income

	2015 £'000	2014 £'000
Loans	46	76
	46	**76**

7 Administrative expenses

	2015	2014
Average number of employees:		
Retail banking	77	55
	77	**55**

	2015 £'000	2014 £'000
Wages and salaries (including Executive Directors)	2,500	2,093
Social security costs	284	240
Pension costs	192	125
Other staff costs	371	291
Total staff costs	**3,347**	**2,749**
Other administrative expenses	1,743	1,610
	5,090	**4,359**

The total number of employees at 31st December 2015 was 78 and at 31st December 2014 were 64. Full-time equivalents at 31st December 2015 were 59 and at 31st December 2014 were 49. Headcount was increased mainly to drive growth in the business with an increase in the number of assessors and within the Business Development and Relationship Management teams

7 Administrative expenses (continued)

Employee emoluments

The number of staff whose salary exceeded £60,000 as at 31st December 2015 and at 31st December 2014 were as follows:

	2015 Number	2014 Number
£60,001 - £70,000	7	4
£70,001 - £80,000	-	1
£80,001 - £90,000	1	-
£90,001 - £100,000	2	2
£100,001 - £110,000	1	-
£130,001 - £140,000	1	1
	12	**8**

Employees

The Directors consider the mission of Charity Bank will be best achieved if the staff work together as a team and that the reward structure should reflect this There is a fixed link between the highest and lowest paid member of staff. Within a cap of nine times, the current ratio is nine times (2014 – six times). The gap has grown during 2015 as a result of an increase in junior members of staff.

Pension contributions were made to The Pensions Trust or other approved pension scheme in respect of the employees and directors included above.

Directors

In 2015 four Directors (2014. two) were reimbursed expenses totalling £208 (2014. £44), relating primarily to travel expenses incurred in attending Board meetings and events arranged by Charity Bank.

8 Pension costs

Charity Bank operates a defined contribution pension scheme for staff Charity Bank contributed £191,850 during the year (31st December 2014. £124,891). This amount forms part of total staff costs recorded under administrative expenses.

There were no outstanding or prepaid contributions at the balance sheet date.

9 Loss on activities before taxation

	2015 £'000	2014 £'000
Operating profit is stated after charging:		
Depreciation - property and equipment	102	39
Depreciation - intangible assets	40	35
Auditor's remuneration:		
- audit of annual accounts	50	35
- financial and regulatory assurance	-	16
- tax advisory services	12	13
Rental of premises held under operating leases	169	84

10 Taxation

	2015 £'000	2014 £'000
Current tax:		
Current year	-	5
Prior period current tax adjustment	-	-
Total current tax	-	5
Deferred Tax:		
Current year	-	-
Effect of tax rate change	-	-
Prior year adjustments	-	-
Total deferred tax	-	-
Total income tax expense	-	5

In addition to the tax expense shown above, Charity Bank recognised the following amounts in other comprehensive income:

	2015 £'000	2014 £'000
(Charged)/credited to other comprehensive income		
Revaluation of available for sale assets	(70)	21
Current tax (charge)/credit on revaluation	-	(5)
Total current tax	(70)	16

The charge for tax is based upon a UK corporation tax rate of 20 25% for the period 1st January 2015 to 31st December 2015.

10 Taxation (continued)

The effective tax rate for the year is lower than the standard UK corporation tax rate of 20 25% (2014: 21.5%). The differences are explained below:

	2015 £'000	2014 £'000
Loss on ordinary activities before tax	(2,027)	(1,205)
Tax credit at average UK corporation tax rate of 20.25% (2014: 21 5%)	(410)	(259)
Effects of:		
- Non-deductible expenses/(taxable income)	34	(7)
- depreciation in excess of capital allowances	29	16
- losses carried forward not recognised for deferred tax purposes	348	347
Tax expense for the year	-	97

The Finance Act 2013 enacted a reduction in the UK corporation tax rate to 20% with effect from 1st April 2015. This reduction in the tax rate impacted the current tax charge in 2015.

The Finance Act (No2) 2015 enacted reductions in the UK corporation rate to 19% with effect from 1st April 2017 and 18% with effect from 1st April 2020.

11 Deferred tax

A net deferred tax asset at 19% has not been recognised in respect of the following temporary differences:

	31st Dec 2015 £'000	31st Dec 2014 £'000
Deferred income tax assets		
Carried forward tax losses	711	344
Pensions deductible on a paid basis	9	4
Accelerated capital allowances	7	2
Net deferred tax assets	**727**	**350**

12 Cash and cash equivalents

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Cash	3,603	1,182	594
Short-term balances with other banks	-	-	-
	3,603	**1,182**	**594**

13 Available-for-sale financial assets

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Bank certificates of deposits	-	-	26,793
Money Market Funds	17,703	43,930	-
UK Treasury Stock	11,605	11,043	15,699
European Investment Bank ("EIB") floating rate note	3,000	3,000	3,001
Accrued interest	107	136	145
	32,415	**58,109**	**45,638**
Maturity:			
- less than three months	32,415	58,109	39,642
- one year or less but over three months	-	-	2,995
- between one year and five years	-	-	3,001
- more than five years	-	-	-
	32,415	**58,109**	**45,638**

The UK Treasury stock and EIB floating rate note are held to meet regulatory liquidity requirements

Charity Bank assesses at each balance sheet date whether there is objective evidence of impairment.

14 Loans and advances to customers

	Performing loans 31st Dec 2015 £'000	Impaired loans 31st Dec 2015 £'000	Total 31st Dec 2015 £'000	Performing loans 31st Dec 2014 £'000	Impaired loans 31st Dec 2014 £'000	Total 31st Dec 2014 £'000	Performing loans 1st Jan 2014 £'000	Impaired loans 1st Jan 2014 £'000	Total 1st Jan 2014 £'000
Remaining maturity:									
- three months or less excluding on demand or at short notice	438	-	438	127	-	127	458	-	458
- one year or less but over three months	243	-	243	1,216	-	1,216	1,818	19	1,837
- five years or less but over one year	2,150	-	2,150	2,582		2,582	3,533	216	3,749
- over five years	65,525	106	65,631	50,187	109	50,296	47,805	164	47,969
	68,356	**106**	**68,462**	**54,112**	**109**	**54,221**	**53,614**	**399**	**54,013**
Less allowance for collective impairment	(643)	-	(643)	(551)	-	(551)	(684)		(684)
Less allowance for specific impairment	-	(34)	(34)	-	(34)	(34)	-	(121)	(121)
	67,713	**72**	**67,785**	**53,561**	**75**	**53,636**	**52,930**	**278**	**53,208**

As at 31st December 2015, Charity Bank had advanced £68,060k variable rate loans (31st December 2014: £53,774k, 1st January 2014: £53,537k) and £358k fixed rate loans (31st December 2014 £404k, 1st January 2014: £441k) to customers. £44k was granted as staff loans (31st December 2014. £43k, 1st January 2014: £35k).

Loans and advances to customers are categorised as loans and receivables in accordance with IAS 39.

Total impaired loans and advances to customers was £106k (31st December 2014: £109k, 1st January 2014: £399k) of which an allowance for £34k (31st December 2014: £34k, 1st January 2014. 121k) was made.

15 Other assets

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Fees receivable	98	66	-
Sundry debtors	116	61	56
	214	**127**	**56**

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Analysis of sundry debtors			
Sundry debtors	207	157	156
Provision	(91)	(96)	(100)
	116	**61**	**56**

15 Other assets (continued)

Within sundry debtors, after provisions, an amount of £66k (31st December 2014: £61k, 1st January 2014: £56k) is due in relation to a company voluntary arrangement which became effective on 29th July 2013 and is due to be repaid to Charity Bank on 1st April 2018

16 Property and equipment

	Equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1st January 2015	246	83	329
Additions	104	138	242
Disposals	(13)	(16)	(29)
At 31st December 2015	**337**	**205**	**542**
Accumulated depreciation			
At 1st January 2015	187	16	203
Charged in year	64	38	102
Released for disposals	(13)	(16)	(29)
At 31st December 2015	**238**	**38**	**276**
Net book value			
At 31st December 2015	**99**	**167**	**266**
At 31st December 2014	**59**	**67**	**126**

16 Property and equipment (continued)

	Equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1st January 2014	254	16	270
Additions	28	67	95
Disposals	(36)	-	(36)
At 31st December 2014	**246**	**83**	**329**
Accumulated depreciation			
At 1st January 2014	184	16	200
Charged in year	39	-	39
Released for disposals	(36)	-	(36)
At 31st December 2014	**187**	**16**	**203**
Net book value			
At 31st December 2014	**59**	**67**	**126**
At 1st January 2014	**70**	**-**	**70**

17 Intangible fixed assets

	Computer software £'000
Cost	
At 1st January 2015	301
Additions	25
At 31st December 2015	**326**
Accumulated depreciation	
At 1st January 2015	250
Charged in year	40
At 31st December 2015	**290**
Net book value	
At 31st December 2015	**36**
At 31st December 2014	**51**

17 Intangible fixed assets (continued)

	Computer software £'000
Cost	
At 1st January 2014	301
At 31st December 2014	301
Accumulated depreciation	
At 1st January 2014	215
Charged in year	35
At 31st December 2014	250
Net book value	
At 31st December 2014	51
At 1st January 2014	86

18 Deposits by banks

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Repayable - over three months to six months	-	-	50
	-	-	50

Deposits by banks are categorised as other liabilities in accordance with IAS 39

19 Customer accounts

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
With agreed maturity dates or periods of notice by remaining maturity			
- three months or less but not repayable on demand	41,564	56,587	36,469
- one year or less, but over three months	27,597	25,760	12,586
- more than one year but less than five years	20,783	14,819	38,169
- more than five years	2	2	1
	89,946	97,168	87,225

20 Other liabilities

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Social security and other taxes	10	18	17
Cash collateral	233	232	205
Other payables	12	10	28
	255	**260**	**250**

Cash collateral held is in the form of deposits received from loan borrowers.

21 Subordinated debt

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Subordinated debt			
Principal	2,000	2,500	3,500
Accrued Interest	8	11	15
	2,008	**2,511**	**3,515**

For the period ending 31st December 2014, all loans notes carried a fixed interest at the rate of 4% p.a During 2015, two loan notes were repaid early – one for £0 5 million and one for £1 million. A new loan note for £1 million was issued and carries a fixed interest rate of 2%.

In the event of Charity Bank's liquidation before the loans mature, the repayment of capital and outstanding interest will rank behind ordinary creditors. Charity Bank is entitled to include these loans as eligible capital for capital adequacy calculations, as long as the remaining maturity on the loans exceeds five years, after which the amount of eligible capital is calculated on a sliding scale based on the remaining maturity of the loan notes.

The Charities Aid Foundation's holding of subordinated loan stock of £1 million was converted into 1 million ordinary shares of £1 each on 28th March 2014.

22 Called-up share capital

	No. of shares	31st Dec 2015 £'000	No. of shares	31st Dec 2014 £'000	No. of shares	1st Jan 2014 £'000
Authorised, issued, allotted and fully paid						
Ordinary shares of £1 each	12,622,011	12,622	11,622,011	11,622	2,999,900	3,000
A' shares of £1 each	-	-	-	-	11	-
Non-cumulative 'B' preference shares of £1 each	-	-	-	-	3,122,100	3,122
	12,622,011	**12,622**	**11,622,011**	**11,622**	**6,122,011**	**6,122**

No dividend has been declared (2014. £nil)

All of the issued ordinary shares are equity shares

Ordinary shares carry one vote each. Upon a winding up ordinary shareholders will only be paid after repayment of capital to non-cumulative preference shareholders.

'A' shares carried one vote each but were not entitled to a share of surplus assets in a winding up. 'A' shareholders were not entitled to receive dividends Under the amended Articles of Association, there are no longer any 'A' shares.

Non-cumulative 'B' preference shares may only vote on resolutions to appoint and remove non-connected Directors and on a resolution at a general meeting for the winding up of the company and on the election of a chairman at such a meeting or a motion to adjourn such a meeting. In a winding up non-cumulative preference shareholders have priority for payment of their capital ahead of ordinary shareholders.

Non-cumulative 'B' preference shareholders are entitled to dividends at the same rate as ordinary shareholders (which may not exceed 10%).

There were no 'A' or 'B' shares in issue as at 31st December 2015 (2014: nil). They were converted into ordinary shares on 28th March 2014.

On 4th January 2016 an investment of £250,000 was received from Barrow Cadbury Trust for 250,000 ordinary shares of £1 each.

23 Reconciliation of movements in shareholders' fund and reserves

	At 1st January 2014 £'000	Incoming resources £'000	Loss for the year £'000	Revaluation of available-for-sale financial assets £'000	At 31st December 2014 £'000
Called up share capital					
Fully paid ordinary shares	3,000	8,622	-	-	11,622
Non-cumulative 'B preference shares	3,122	(3,122)	-	-	-
Distributable reserve					
Capital contribution	8,042	-	-	-	8,042
Accumulated loss	(5,828)	-	(1,200)	-	(7,028)
Total unrestricted equity shareholders' funds	**8,336**	**5,500**	**(1,200)**	-	**12,636**
Available-for-sale reserve	-	-	-	16	16
Total equity shareholders' funds	**8,336**	**5,500**	**(1,200)**	**16**	**12,652**

	At 1st January 2015 £'000	Incoming resources £'000	Loss for the year £'000	Revaluation of available-for-sale financial assets £'000	At 31st December 2015 £'000
Called up share capital					
Fully paid ordinary shares	11,622	1,000	-	-	12,622
Distributable reserve					
Capital contribution	8,042	-	-	-	8,042
Accumulated loss	(7,028)	-	(2,027)	-	(9,055)
Total unrestricted equity shareholders' funds	**12,636**	**1,000**	**(2,027)**	-	**11,609**
Available-for-sale reserve	16	-	-	(70)	(54)
Total equity shareholders' funds	**12,652**	**1,000**	**(2,027)**	**(70)**	**11,555**

24 Financial instrument impairment

	31st Dec 2015 £'000	31st Dec 2014 £'000
Opening balance	585	805
Charge to income statement	92	(126)
Amount written off	-	(94)
Closing balance	**677**	**585**

Charity Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or portfolio of financial assets is impaired.

The total impairment amount includes £643k (31st December 2014: £551k, 1st January 2014: £684k) of an incurred but not reported provision made in respect of the performing asset portfolio.

In 2015 no bad debts were written off (2014: two bad debts were written off amounting to £94k)

25 Contingent liabilities and commitments

a) Legal issues

At 31st December 2015, there were no pending legal cases or issues in progress which may have a material impact on the financial statements of Charity Bank (2014: none).

b) Operating lease commitments

At 31st December 2015 Charity Bank has one operating lease (2014 – two) Of the two leases existing at 31st December 2014, one lease expired on 20th April 2015. The other lease expired on 30th April 2015 as a result of the break clause available in the lease being exercised on 10th October 2014, the original expiry date of this lease was 4th December 2017

A ten year lease for a new head office was signed on 2nd February 2015. At 31st December 2015 Charity Bank was committed to making the following future annual payments in respect of operating leases for land and buildings

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Within one year	127	81	58
Between one and five years	509	25	53
More than five years	519	-	-
	1,155	**106**	**111**

25 Contingent liabilities and commitments (continued)

c) Off-balance sheet liabilities

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Loan commitments			
Undrawn irrevocable loan commitments	17,189	19,014	4,107

Commitments comprise amounts yet to be drawn under loan agreements issued with borrowing customers or where formalities, for example, completion of security arrangements, have yet to be finalised

26 Related party transactions

Directors' remuneration

	2015 £'000	2014 £'000
Directors' emoluments	262	246
Contribution to a defined contribution pension scheme	11	11
	273	**257**

The directors' emoluments and pension contribution for 2014 were not for a full calendar year but from the date that they became Executive Directors. This was 9th January 2014. Two directors received pension benefits in the year to December 2015 (2014· two).

Directors' expense reimbursements are disclosed in note 7. Some directors have savings and deposit accounts. These are on the same terms as other customers of the bank.

Key management personnel

	2015 £'000	2014 £'000
Emoluments	342	310
Contribution to a defined contribution pension scheme	32	26
	374	**336**

Key management personnel comprise members of the Executive Committee who are not Executive Directors.

There are no other related party transactions.

27 Financial Risk Management

Interest rate risks

Charity Bank reduces its exposure to interest rate risk by maintaining a clear positive differential between interest paid on deposits and interest charged on loans made. It reserves the right to adjust rates to borrowers as well as depositors to preserve the differential The following assets and liabilities are analysed in time bands according to the maturity date.

As at 31st December 2015	Next day £'000	Up to 3 months £'000	3 - 6 months £'000	6 months to 1 year £'000	1 - 5 years £'000	Over 5 years £'000	Non-int. bearing £'000	Total £'000
Assets								
Cash and balances at banks	3,603	-	-	-	-	-	-	3,603
Available for sale financial assets	-	32,415	-	-	-	-	-	32,415
Loans and advances to customers	-	67,785	-	-	-	-	-	67,785
Prepayments and other assets	-	-	-	-	-	-	353	353
Property and equipment	-	-	-	-	-		266	266
Intangible fixed assets	-	-	-	-	-	-	36	36
	3,603	100,200	-	-	-	-	655	104,458

As at 31st December 2015	Next day £'000	Up to 3 months £'000	3 - 6 months £'000	6 months to 1 year £'000	1 - 5 years £'000	Over 5 years £'000	Non-int. bearing £'000	Total £'000
Liabilities								
Customer accounts	-	41,564	9,519	18,078	20,783	2	-	89,946
Accruals and deferred								-
income	-	-	-	-	-	-	694	694
Other liabilities	-	-	-	-	-	-	255	255
Subordinated debt	-	-	-	-	502	1,506	-	2,008
Shareholders funds	-	-	-	-	-	-	11,555	11,555
	-	41,564	9,519	18,078	21,285	1,508	12,504	104,458
Interest rate sensitivity gap	3,603	58,636	(9,519)	(18,078)	(21,285)	(1,508)	(11,849)	

27 Financial Risk Management (continued)

As at 31st December 2014	Next day £'000	Up to 3 months £'000	3 - 6 months £'000	6 months to 1 year £'000	1 - 5 years £'000	Over 5 years £'000	Non-int. bearing £'000	Total £'000
Assets								
Cash and balances at banks	1,182	-	-	-	-	-	-	1,182
Available for sale financial assets	-	58,109	-	-	-	-	-	58,109
Loans and advances to customers	-	53,636	-	-	-	-	-	53,636
Prepayments and other assets	-	-	-	-	-	-	277	277
Property and equipment	-	-	-	-	-		126	126
Intangible fixed assets							51	51
	1,182	111,745	-	-	-	-	454	113,381

As at 31st December 2014	Next day £'000	Up to 3 months £'000	3 - 6 months £'000	6 months to 1 year £'000	1 - 5 years £'000	Over 5 years £'000	Non-int. bearing £'000	Total £'000
Liabilities								
Customer accounts	-	56,587	16,402	9,358	14,819	2	-	97,168
Accruals and deferred income	-	-	-	-	-	-	790	790
Other liabilities	-	-	-	-	-	-	260	260
Subordinated debt	-	-	-	-	2,009	502	-	2,511
Shareholders funds	-	-	-	-	-	-	12,652	12,652
	-	56,587	16,402	9,358	16,828	504	13,702	113,381
Interest rate sensitivity gap	1,182	55,158	(16,402)	(9,358)	(16,828)	(504)	(13,248)	

Charity Bank has the option to change the interest rate on its managed loans by giving 90 days' notice to its borrowing customers

For loans and advances, if Base Rate were to fall from 0.50% to zero, the main group of loans that would be impacted are the variable rate loans. The impact would be a reduction in our interest received income of £340k p a. (2014 £269k) There would be no impact to the income stream from our fixed loans.

For our customer accounts, if there were any increase in Base Rate, management would review our rates and take appropriate action For every 0.5% increase in Base Rate, the interest paid would increase by £216k based on the customer accounts open as at 31st December 2015 (2014:£254k).

27 Financial risk management (continued)

Interest rate risks (continued)

For our available-for-sale financial assets the sensitivity is that for every 1% decrease in the interest rates paid by instruments in the fixed bond and Gilt markets, the maximum impact would be that interest income received would reduce by £324k (2014 £581k)

Credit risk

Charity Bank is exposed to credit risk, which is the risk that counterparties will not be able to meet their obligations as they fall due Charity Bank is exposed to both retail credit risk, through loans and advances to customers, and wholesale credit risk, via treasury operations.

The Bank uses collateral to mitigate against credit risk. Within loans and advances to customers non-cash collateral is in the form of residential and commercial property. Collateral is professionally valued on origination of the loan unless the LTV is less than 33 3% or other exceptional reasons, in which case an informal valuation is accepted The collateral is reviewed annually using BOE indices and in certain circumstances is professionally revalued triennially or as needed in accordance with the Credit Policy.

Some cash collateral is held by Charity Bank against a small proportion of its drawn loans For 2015 this equated to 0 3% of the total loans and advances to customers (2014, 0 4%)

The main credit risk sensitivities on loans and advances for the bank are as follows:

- probability of default: a downgrade of one level in credit grading would result in an increase in the IBNR impairment provision of £827k
- loss given default: a decrease in the value of security of 5% would result in an increase in the IBNR impairment provision of £62k

All loan applications are assessed with reference to Charity Bank's lending policy, including the use of a credit grading model. Wherever possible, Charity Bank obtains security in the form of a charge on sufficient assets of the borrower to cover the full value of the loan. In most cases, the secured assets are freehold and long-term leasehold property Credit risk is also managed through continuous engagement with borrowers. Charity Bank maintains a latent loan loss provision for unidentified credit risks as well as specific provisions against loans where it is doubtful of recovering the full amount outstanding. Changes to the policy are approved by the Board, and the approval of loan applications within specified limits is delegated to the credit committees There have been no material changes in policies, procedures, risk appetite and objectives relating to credit risk during the year

Money market investments are principally in the form of units in the Royal London Asset Management Cash Plus Fund which invests in cash, deposits, money market instruments and short-dated government securities UK Government stock and other approved investments are held for managing Charity Bank's High Quality Liquid Assets (HQLAs).

For the available-for-sale financial assets, any credit risk would be negated at an early point by exiting the appropriate market

Money market investments can be with a range of counterparties approved by the Board upon the recommendation of the Board Credit Committee and the Assets and Liabilities Committee Each counterparty has a credit limit set by the Board based upon advice from the Board Credit Committee which is fixed in relation to its credit rating as assessed by reputable rating agencies and tempered by management knowledge and soundings. Charity Bank follows a low risk policy in relation to its treasury activities and only places funds with counterparties with acceptable credit ratings

27 Financial risk management (continued)

Age analysis of past due but not impaired assets

The table below shows the age analysis of past due but not impaired risk assets.

Past due but not impaired

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Neither past due or impaired	68,356	53,889	53,040
Past due			
Within three months	-	-	-
Between three to six months	-	-	-
Over six months but less than one year	-	-	230
Over one year	-	223	344
Total past due	-	223	574
Impaired	106	109	399
	68,462	**54,221**	**54,013**

Charity Bank held security that fully covered the past due but not impaired values.

Security against past due but not impaired

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Neither past due or impaired	252,284	177,557	162,164
Past due			
Within three months	-	-	-
Between three to six months	-	-	-
Over six months but less than one year	-	-	925
Over one year	-	667	1,600
Total past due	-	667	2,525
Impaired	-	-	1,215
	252,284	**178,223**	**165,904**

Analysis of impaired financial assets

Refer to note 15 for detailed analysis of impaired financial assets.

27 Financial risk management (continued)

Credit exposure by sector

	31st Dec 2015 £'000	31st Dec 2014 £'000	1st Jan 2014 £'000
Banks	3,603	1,182	27,418
Corporates	20,707	46,932	3,003
Government	11,708	11,177	15,811
Loans and advances to customers	67,785	53,636	53,208
Other	655	454	359
	104,458	**113,381**	**99,799**

The above sector analysis includes cash and balances at banks, available-for-sale financial assets and loans and receivables.

A sizeable percentage, 33% (31st December 2014 53%, 1st January 2014 47%) of Charity Bank's total financial assets was to high quality financial institutions, the majority of which had ratings of between A- and AA+

Liquidity risk

Charity Bank is exposed to liquidity risk. The liquidity policy approved by the Board on the recommendation of its Assets and Liabilities Committee details Charity Bank's approach to mitigating this risk The policy is reviewed quarterly by the Assets and Liabilities Committee and at least annually by the Board There have been no material changes in policies, procedures and objectives during the year.

The liquidity policy requires that sufficient high quality liquid assets are held in a form and at a level which reflects prudent banking practice and regulatory criteria to meet fully and promptly all deposits and liabilities as they mature under normal and abnormal circumstances In particular, the levels of liquid assets in approved investments held to cover Charity Bank's assessment of its High Quality Liquid Assets (HQLAs) are currently higher than the minimum levels needed by liquidity regulations. The risk of not being able to meet all deposits and liabilities is small given the current levels of surplus HQLAs. The day-to-day management of Charity Bank's liquid assets has been outsourced to Royal London Asset Management.

Currency profile

As at the year end, Charity Bank was not exposed to foreign exchange risk

Instruments held for trading

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

Hedging

Financial instruments are not held for hedging purposes.

27 Financial risk management (continued)

Market price risk

Charity Bank is exposed to market price risk. Treasury management is outsourced to Royal London Asset Management. Charity Bank's investment portfolio consists of two distinct parts. The first part consists of investments in approved securities, principally high quality securities issued by the government or central Banks of an European Economic Area member state, Canada, Australia, Japan, Switzerland or the United States of America, or securities issued by multilateral development Banks. These investments represent Charity Bank's requirements to invest its High Quality Liquid Assets (HQLAs) in accordance with regulatory requirements. The balance of the funds, representing surplus liquidity, are invested mainly in Money Market Funds which invest in Certificates of Deposit ("CDs") issued by highly rated UK and non-UK credit institutions.

The investments are subject to price fluctuations and therefore Charity Bank is exposed to loss on these investments. Investments representing surplus liquidity are less prone to price fluctuations, though prices do tend to move in response to interest rate expectations in the market Investment securities are traded to enable Charity Bank to take advantage of favourable conditions in the market, and minimise losses in adverse market conditions At 31st December 2015, the value of the investment portfolio is the market value.

The sensitivity to market risk can be mitigated by a prompt exit from the market by management For every 1% fall in market prices, the value of our available-for-sale assets would fall by £324k (2014: £581k) These losses would only become realised at the point that the investment positions were sold. Until that time, they would remain unrealised and would be shown in the other comprehensive income section of the Statement of Comprehensive Income.

27 Financial risk management (continued)

Categories of financial instruments

The table below represents Charity Bank assets and liabilities carrying amounts, classified by the categories as defined in IAS 39.

	31 Dec 2015 £'000	31 Dec 2014 £'000	1 Jan 2014 £'000
Financial assets			
Cash and balances at banks	3,603	1,182	594
Available-for-sale financial assets	32,415	58,109	45,638
Loans and advances to customers	67,785	53,636	53,208
Other assets	214	127	56
	104,017	**113,054**	**99,496**
Financial liabilities			
Deposits by banks	-	-	50
Customer accounts	89,946	97,168	87,225
Other liabilities	255	260	250
Accruals	528	599	349
Subordinated debt	2,008	2,511	3,515
	92,737	**100,538**	**91,389**

Fair values of financial instruments

Set out below is a year-end comparison of carrying values and fair values of all the Charity Bank's financial instruments by category. The fair values are determined as stated below

	Carrying value 31st Dec 2015 £'000	Carrying value 31st Dec 2014 £'000	Carrying value 1st Jan 2014 £'000	Fair value 31st Dec 2015 £'000	Fair value 31 Dec 2014 £'000	Fair value 1st Jan 2014 £'000
Financial assets						
Cash and balances at banks	3,603	1,182	594	3,603	1,182	594
Available-for-sale financial assets	32,415	58,109	45,638	32,415	58,109	45,638
Loans and advances to customers	67,785	53,636	53,208	67,268	53,241	52,991
Other assets	214	127	56	214	127	56
	104,017	**113,054**	**99,496**	**103,500**	**112,658**	**99,279**
Financial liabilities						
Deposits by banks	-	-	50	-	-	50
Customer accounts	89,946	97,168	87,225	89,946	97,168	87,225
Other liabilities	255	260	250	255	260	250
Accruals	528	599	349	528	599	349
Subordinated debt	2,008	2,511	3,515	2,008	2,511	3,515
	92,737	**100,538**	**91,389**	**92,737**	**100,538**	**91,389**

27 Financial risk management (continued)

Fair values of financial instruments (continued)

Basis of determination of fair values

Cash and balances at banks: these consist of cash held in hand and balances held with other banks The carrying amount of the cash balances is deemed to be a reasonable representation of the fair value.

Available-for-sale financial assets: these comprise mainly marketable debt securities. The basis of estimating the fair value of these assets is by ascertaining the market value as at the balance sheet date. The carrying value represents the fair value of the asset as at the balance sheet date as there is a definite market available for these assets.

Loans and advances to customers these comprise loans and other facilities granted to non-bank customers. The fair value shown assumes a discount of 3 33% when selling loans over a six month period.

Customer accounts: these comprise deposits made with Charity Bank by all depositors. The basis of fair value is the cash value of the deposit held at Charity Bank.

Subordinated debt: these are long-term debt liabilities; the basis of fair value is the cash value of the subordinated debt currently held by Charity Bank.

Fair value measurement recognised in the statement of financial position

The following tables provide an analysis of financial instruments for Charity Bank that are measured subsequent to initial recognition at amortised cost, available-for-sale, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i e. derived from prices)
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

27 Financial risk management (continued)

Fair values of financial instruments (continued)

As at 31st December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Amortised cost				
Loans and advances to customers	-	-	67,268	67,268
Available-for-sale				
Available-for-sale financial assets	32,415	-	-	32,415
	32,415	-	67,268	99,683
Financial liabilities				
Amortised cost				
Deposits by banks	-	-	-	-
Customer accounts	89,946	-	-	89,946
Subordinated liabilities	-	-	2,008	2,008
	89,946	-	**2,008**	**91,954**

As at 31st December 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Amortised cost				
Loans and advances to customers	-	-	53,241	53,241
Available-for-sale				
Available-for-sale financial assets	58,109	-	-	58,109
	58,109	-	53,241	111,350
Financial liabilities				
Amortised cost				
Deposits by banks	-	-	-	-
Customer accounts	97,168	-	-	97,168
Subordinated liabilities	-	-	2,511	2,511
	97,168	-	**2,511**	**99,679**

27 Financial risk management (continued)

Fair values of financial instruments (continued)

As at 1st January 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Amortised cost				
Loans and advances to customers	-	-	52,991	52,991
Available-for-sale				
Available-for-sale financial assets	45,638	-	-	45,638
	45,638	-	**52,991**	**98,629**
Financial liabilities				
Amortised cost				
Deposits by banks	50	-	-	50
Customer accounts	87,225	-	-	87,225
Subordinated liabilities	-	-	3,515	3,515
	87,275	-	**3,515**	**90,790**

28 Analysis of balances of cash and cash equivalents in the bank cash flow statements

	31 Dec 2015 £'000	31 Dec 2014 £'000	1 Jan 2014 £'000
Cash at bank and in hand	3,603	1,182	594
Money market funds and certificates of deposits	17,810	44,066	26,938
Cash and cash equivalents at 31st December	**21,413**	**45,248**	**27,532**

29 Post-balance sheet events

On 4th January 2016 an investment of £250,000 was received from Barrow Cadbury Trust for 250,000 ordinary shares of £1 each

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2015

Directors, Committees and Advisers

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Statutory Auditor
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Principal Banker
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Investment Manager
Royal London Asset Management
55 Gracechurch Street
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Company Secretary

Amanda Gibbs (to 20th May 2016)

Board of Directors
George Blunden (Chair)
Clive Bowles
Robin Budenberg [2]
Patrick Crawford
Malcolm Elliott
David Godfrey
Alan Graham
Sara Llewellin
John Low [1]
Stephen Morrison [1]
Martin Mosley
Mary O'Connor
Kate Sayer [2]
Anna Shiel [1]
Chris Vermont
Karl Wilding

Audit, Risk &Compliance Committee
Alan Graham (Chair)
Mary O'Connor
Kate Sayer [2]

Credit Committee
David Godfrey
(Chair)
Patrick Crawford
Malcolm Elliott
Sara Llewellin
Martin Mosley
Karl Wilding

[1] a Connected Director
[2] Robin Budenberg and Kate Sayer joined the Board on 18th February 2015

Governance Committee
Martin Mosley (Chair)
George Blunden
John Low [1]

Executive Management Committee
Patrick Crawford (CEO)
Malcolm Elliott (Deputy CEO)
Gillian Howell (from 1st February 2016)
Mark Howland
Peter Kelly (from 19th October 2015)
Caspar Mackay
Carolyn Sims
David Tinker (to 28th January 2016)

Assets & Liabilities Committee
Clive Bowles (Chair)
George Blunden
Patrick Crawford
Anna Shiel [1]

David Tinker (to 28th January 2016)
Gillian Howell (from 1st February 2016)