Charity bank
a bank for good

Charity Bank
Annual Report 2018

A bank for good

The Charity Bank Limited

The Charity Bank Limited is a UK incorporated company limited by shares, regulated by the Prudential Regulation Authority ('PRA') and authorised by the Financial Conduct Authority ('FCA') as a deposit-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

Edward Siegel

REGISTERED OFFICE

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Registered company number: 4330018

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

Statement from the Chairman

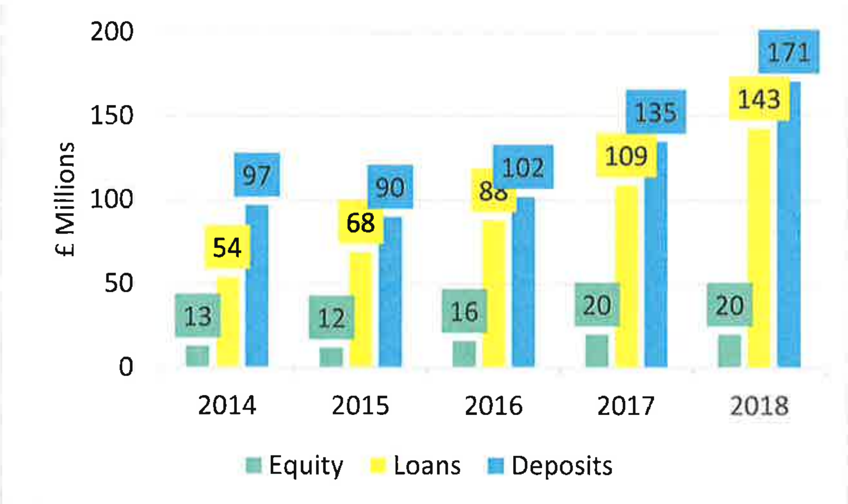
Charity Bank is dedicated to supporting, through its lending operations, charities and other social purpose organisations that are working to improve lives and strengthen communities. Driven by a shared belief in a financial system which prioritises social value creation alongside profit, we connect our savers' and investors' money with organisations delivering positive social change across the UK.

As I write my last report before handing over the reins to a new Chair at our AGM in May 2019, I am pleased to report that Charity Bank continues to maintain the impressive growth path that it set out for itself several years ago. This growth has been enabled by an increasing number of people and organisations that are making socially conscious choices about where to keep their savings and investments.

Steady growth

We achieved record levels of drawn loans in 2018 for the fourth consecutive year: our book of drawn loans has now grown by 165% from £54 million at the start of 2015 to £143 million at the end of 2018, an average annual growth rate of 28%.

In 2018 we lent £49 million to 82 different charities and social enterprises (2017: £34 million). Our loans continue to support social change across all sectors, with a focus on social housing, health and social care, faith, leisure and education.



Our community of savers also continues to grow, with the deposit book up by 27% (£36 million) in 2018 to £171 million (2017: £135 million). Our biggest area of growth in this respect has been from charities and businesses. The product attracting the most attention is our Ethical Easy Access Account, for organisations seeking same-day access to their money, which has raised balances of over £15 million since its launch in 2017.

In order to sustain our growth and enable us to continue to expand our provision of finance to organisations addressing social issues, we will aim to raise new investment into the bank in 2019-2020. We plan to invite both our existing shareholders as well as new socially-minded investors to support Charity Bank in helping to create a better society for all.

Statement from the Chairman (continued)

Social impact

At the heart of Charity Bank and our future strategy is the social impact that we help to create.

One of the highlights of 2018 was our Follow the Money campaign, which saw us visit 38 inspiring projects across the UK that are supported by Charity Bank loans.

Let me give some examples of the organisations we support:

Choices, a North Kent domestic abuse charity, drew down our loan in December 2018 towards the purchase of a 9-bed property to extend its supported accommodation for young women aged 18-25, who become homeless because of familial breakdown. Causes include childhood trauma, coercive control through gang violence or domestic abuse. Domestic violence and abuse can happen to anyone, yet the problem is often overlooked, excused, or denied. Choices seeks to address the problem with education and awareness raising in schools, training for professionals and help to all those who are experiencing domestic abuse.

Parchment Trust provides day care services for people with learning and physical disabilities in East Sussex. A Charity Bank loan helped the charity to purchase the freehold at its Friary Gardeners site, a Victorian farm complex used to develop horticultural skills, whilst encouraging greater independence and community interaction. The purchase has had a transformational impact on Parchment Trust and its sustainability, with a 78% increase in turnover since the purchase and renovation of the Friary Gardeners buildings.

Big Creative Education was founded to support young people aged 16 and over who might otherwise struggle to engage with mainstream education. This social enterprise offers young people from the Waltham Forest area the chance to re-engage with education and pursue a career in the creative industries. A Charity Bank loan enabled Big Creative Education to purchase a building for its new creative co-working space which opened in January 2019.

Financial results

During 2018 there was a net loss for the year of £0.6 million (2017: £0.6 million). Much of this was due to the interest rate uncertainty seen during the final quarter of 2018 which had a negative impact on bond prices (see note 6). We have subsequently seen some of this uncertainty receding and flattening out in the first quarter of 2019. Market volatility did impact our results but with the steadying of market prices on our investments and with the growth of our balance sheet it is encouraging that the underlying trend continues to move us closer to sustained profitability and we expect this to continue into 2019 and beyond.

New Chief Executive

At the end of July 2018, Edward Siegel joined Charity Bank as our new Chief Executive. He replaced Patrick Crawford, who retired, standing down after almost six years at the helm of Charity Bank.

Ed is an exceptional choice for Charity Bank given his experience and understanding of the financial needs of the social sector. He joins us from Big Issue Invest, the social investment arm of The Big Issue Group, where he had been Managing Director since 2008. We believe that Ed is the right person to lead Charity Bank as we enter a new phase in our development, and act to address the expectations and needs of the social sector. Ed will lead the delivery of Charity Bank's strategy to continue to grow our loan book and to present an ethical savings choice to a wider audience, building on the strong foundations that have been laid.

Statement from the Chairman (continued)

Brexit and a challenging economic outlook

Whilst the UK's plan to exit from the European Union currently remains unclear, what is certain is that we will continue to depend on the social sector to help people struggling in our communities.

Charities and social enterprises have never been more needed, but also never more challenged. Yet we have seen in the past that a challenging economic environment can often result in mainstream financial institutions withdrawing support for the social sector. That is why, now more than ever, our commitment to our borrowers and the wider social sector must remain steadfast.

Despite the challenging outlook, we have seen many organisations continue to take on new projects to address societal needs. The resulting loan demand has continued and shows no sign of slowing, resulting in a healthy loan pipeline for Charity Bank with undrawn loan commitments of £45 million at the end of 2018, giving us confidence that we will achieve our business targets for 2019.

Strategy for the future

At a time when charities and social enterprises are dealing with an array of urgent issues, our goal remains to increase the financial options available to them, so they can make a bigger difference to the people and communities they serve. We have engaged with our borrowers, our Advisory Panel and the wider social sector as we build on a strategy to meet its needs.

As part of our commitment to improve our systems and processes and, therefore, the customer experience, we recently initiated a major new investment to replace our core banking system. We aim to continue to build on our status as a trusted partner for ethical savers and social purpose organisations (fast, friendly, safe and efficient) and make our loan and savings processes as helpful and customer-friendly as possible.

Thanks

We pay tribute to Mary O'Connor who retired as a Director since our last annual report. Mary devoted much time and wise counsel in helping to build and guide the bank.

We pay particular thanks to Patrick Crawford who led Charity Bank with great aptitude and passion. Patrick played an invaluable role in building the solid operational and financial foundation of the bank and led us to the position we are in today, poised for continued growth both financially and in terms of the social impact that we can facilitate through our borrowers and savers. I join with my fellow directors and Charity Bank staff in expressing our sincere gratitude, and we wish Patrick all the best in his retirement.

I have been extremely fortunate to be Chair of such a fantastic organisation as Charity Bank. It has been both an honour and a pleasure to work with an extraordinary group of Board members and staff. All of whom work tirelessly to provide finance to a remarkable diverse range of organisations, whose work improves so many lives. I applaud their commitment and the support of our fantastic savers without whom the bank could not exist.

Statement from the Chairman (continued)

Thanks (continued)

After nine exciting years, my time at Charity Bank ends. I am sorry to leave but I am certain that the new Chair will be as enthusiastic as I am about Charity Bank's future as it continues to develop and use its savers' and investors' money as a powerful force for good.

George Blunden
Chairman
26th April 2019

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

Strategic Report

Financial review

The Report and Accounts for the year ended 31st December 2018 have been prepared in accordance with statutory requirements and comply with International Financial Reporting Standards ('IFRS'). Key performance Indicators ('KPIs') are produced on a monthly basis and are monitored by the Executive Committee ('EXCO'). The following table lists the KPI's for 2017 and 2018.

	2018 £'000	2017 £'000	% Increase/ (Decrease)	
Balance sheet				
High quality liquid assets	6,136	5,115	20.0%	As defined under prudential regulations
Other investments	34,646	37,413	(7.4%)	Investment of our surplus liquidity
Loans and advances to customers before impairments	142,553	109,369	30.3%	What we are about - support and finance for charities
Deposits	170,930	134,873	26.7%	Funded by private individuals, companies and charities
Subordinated loan notes	1,504	1,504	0.0%	From charitable foundations and an individual
Called-up share capital	12,077	12,077	0.0%	Contributed by Big Society Capital, CAF and other charities and trusts
Total shareholders' funds	19,763	20,368	(3.0%)	Representing share capital and retained earnings
Balance sheet total assets	194,095	158,610	22.4%	
Comprehensive income				
Net interest income	3,939	3,335	18.1%	What we earn from lending and interest earned (from cash & balances at banks, other assets & financial assets at amortised cost) after the cost of our funds
Other income	425	882	(51.8%)	Fees and commission income, profit on financial assets
Administrative expenses	(4,792)	(4,816)	(0.5%)	Total costs for operating and managing the bank
Total comprehensive loss for the year	(608)	(571)	6.5%	
Loan origination and progression				
Approvals	82,995	73,129	13.5%	Loans approved during the year for progression to be drawn down
Committed loans	44,785	46,417	(3.5%)	Approved loans on which offers have been made to borrowers and are available to be drawn

Strategic Report (continued)

Financial review (continued)

How the numbers relate	2018	2017
Loans to customers as a proportion of balance sheet before impairment	73.4%	69.0%
Deposits as a proportion of balance sheet	88.1%	85.0%
Interest yield	3.54%	3.51%
Average cost of funds	0.96%	0.90%
Return on total funds	(3.1%)	(2.8%)

Charity Bank made a total loss for the year of £0.6 million compared to a loss in 2017 of £0.6 million.

Charity Bank's low cost of funds was achieved mainly through deposits received under the Community Investment Tax Relief accounts ('CITR') scheme, product suite differentiation and shortening of the average tenor of non-CITR accounts.

Balance sheet

Charity Bank's gross assets increased by 22.4% (2017: 31.1%) during 2018.

On the assets side, loans (after impairments) to charities, community groups and social enterprises increased by 30.5% (2017: 24.8%), with 73.4% (2017: 69.0%) of the balance sheet being used to make charitable loans. We now have a growing pipeline of loans at various stages of our approval and commitment processes and are receiving a high level of enquiries. On top of the minimum liquidity reserves that we are required to maintain by the Prudential Regulation Authority (the 'PRA'), we hold a high level of liquid assets to service our expected volume of loan commitments and drawn loan assets in 2019.

With respect to liabilities, our deposits increased during the year, growing by 26.7% in 2018 (2017: 32.8%).

We have seen a net shortening of the maturity profile of our deposit book. The average residual maturity of our term deposits has decreased from twenty-two months to seventeen months, reflecting how a greater proportion of our CITR deposits and CITR qualifying deposits have been in account for longer; this pattern was mirrored by the average notice period reducing from 52 to 41 days, reflecting growth in easy access deposits. A more detailed analysis of our deposits is provided in note 18 in the Notes to the Financial Statements.

The longer-term outlook for our ability to raise deposits to fund the continuing growth in our loans 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.

Profit and loss

Our net interest income increased by 18.1% (2017: 8.2%) primarily as a result of the growth in our drawn loan portfolio during the year.

Fee income increased by 85.4% from £213k to £395k (2017: 4.4%).

The decrease in other income was due to the movement in unrealised losses on our Open Ended Investment Vehicles held of £817k (2017: gain £22k). The full impact of this was slightly mitigated by an increase from fee income of £182k (2017: £9k).

Strategic Report (continued)

Profit and loss (continued)

On the expenditure side, our administrative expenses, depreciation and amortisation, decreased by 1% from £4.98 million to £4.93 million (2017: 3.1% decrease). Headcount has been consistent throughout the year.

There was a £46k impairment charge for loans and non-lending assets (2017: £166k release).

Loan origination and progression

Our loan origination activities for the year have continued to be successful, with approvals in the year of £83.0 million, an increase of 13.5% on the previous year (2017: £73.1 million, a decrease of 1.7% on 2016). Our loan undrawn commitments of £44.8 million at 31st December 2018 decreased by 3.5% during 2018 (2017: £46.4 million, an increase of 25% on 2016). Such commitments consist of those transactions where we have made an offer to the borrower, where we are awaiting for the loan documentation to be finalised, or where the available loan amount has not been fully drawn down.

Viability statement

The Directors have assessed Charity Bank's projected viability over the next five years to 31st December 2023. They believe this period to be appropriate as it corresponds to the tenor of Charity Bank's current business plan and related assumptions on future inflows of capital.

In making this assessment, the Directors have considered Charity Bank's planning process and the principal risks it faces as detailed on pages 9 to 14 in this Strategic Report. The planning process includes budgets and a projected capital and liquidity assessment of Charity Bank and takes into account regulatory requirements. The business plan includes five-year forecasts showing the expected financial impact of different assumptions and sensitivities. The plan is further tested in a series of robust downside financial stress scenarios as part of the annual regulatory reviews undertaken by the Directors. Financial modelling is used to quantify these risks with the intent that sufficient regulatory capital should be held to mitigate the impact of these risks.

The Directors consider that this approach represents a sound assessment of the principal risks faced by Charity Bank and any mitigating actions that Charity Bank would take as required is appropriately documented.

The Directors issue a revised business plan at least annually and regularly monitor performance against the current plan.

The Directors have therefore concluded that, based on the financial planning process and the projected growth in Charity Bank's balance sheet and maintenance of a secure regulatory capital position, there is a reasonable expectation that Charity Bank will have adequate resources and will continue to operate and meet its liabilities as they fall due over the period of their assessment.

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.

Strategic Report (continued)

Management of Charity Bank (continued)

The Chief Executive and Deputy Chief Executive are Executive Directors. The other members of the management team (together forming the Executive Committee) are also in attendance at Board meetings.

Committee structure

Charity Bank is governed by a Board that is empowered to take such steps as are necessary to achieve Charity 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:

- **Audit Committee:** responsible for oversight and challenge of the accounting policies and disclosures; supervising the issue and integrity of the audited financial statements of Charity Bank and the performance of the external auditors; reviewing and challenging the overall effectiveness of Charity Bank's systems, processes and controls; overseeing whistleblowing arrangements; and monitoring the performance and reports of the internal audit function.
- **Governance Committee:** responsible for overseeing good Board and Board committee governance; reviewing succession-planning, nominations and the skills mix of non-executive Board members and senior executives; and approving remuneration of the executive management and the reward policy for other members of staff.
- **Risk Committee:** responsible for the oversight of risk management systems, policies and procedures; monitoring the operation of the risk management framework; reviewing key risks; overseeing and challenging liquidity and capital adequacy (including regulatory documents such as the Internal Capital Adequacy Assessment Process ('ICAAP') and the Internal Liquidity Adequacy Assessment Process ('ILAAP'); recommending the setting of risk appetite statements to the Board; approving credit, liquidity, market (interest rate) risk and operational risk policies; monitoring financial crime and regulatory risks; and setting policy on asset and liability management, interest rate risk and exposures to financial counterparties.
- **Credit Sub-Committee:** a sub-committee of the Risk Committee, responsible for approving large, novel or contentious loans and variations under the delegated authority of the Board; and monitoring the work of the Internal Credit Committee.

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 Chief Risk Officer, the Director of Lending, the Finance Director and the Director of Credit, 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:

- uncertainties in the political and economic environment for the social sector and changes in the government's approach to social policy;
- credit risk and the concentration risks of that exposure in one sector, with resulting lack of portfolio diversification;

Strategic Report (continued)

Principal risks and uncertainties (continued)

- liquidity risk, particularly the need to fund increases in the loan book with more capital and deposits from savers and the mismatch between the tenor of loans and the maturity of its deposits;
- interest rate mismatches on its assets and liabilities;
- capital risk; to meet its minimum regulatory capital requirements and to support its future growth plans; and
- operational risk, particularly in the form of IT and cyber risks and the key person dependencies arising from its small size.

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

Political and economic environment risk (including Brexit)

An adverse impact from continuing political and economic uncertainty on the bank and social sectors remains a risk. Demand for new loans from social sector organisations is holding up despite a lack of clarity in government policy on funding projected shortfalls in health, housing and social care budgets.

Charity Bank Risk Committee and Board have also considered the potential impact of Brexit on its operations. As a UK based organisation offering savings and loans accounts to UK resident individuals and organisations, Charity Bank's operational model is not considered to be affected directly by Brexit. It is recognised, however, that Charity Bank may experience impacts to its business performance resulting from changes to the wider UK political and economic environment arising from Brexit which may affect the behaviour and performance of its savers and borrowers. Such economic stresses are modelled and assessed in the capital and liquidity adequacy assessments described 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 Risk Policy and the reporting on and monitoring of its exposure to the risk of financial loss from the incidence of credit risk. The setting of credit risk policy is delegated to the Risk Committee in accordance with the risk appetite set by the Board. New loans are approved by the Credit Sub-Committee, Internal Credit Committee or members of the Credit Department in accordance with their delegated authority limits. The Risk Committee, assisted by the Credit Sub-Committee, the Internal Credit Committee and the Director of Credit, monitors the quality of the loan portfolio and any concentrations of risk and trends; 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 Risk Committee regularly reviews Charity Bank's exposure to credit risks and its system of internal 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, its Board members and its advisers;
- ensuring that all lessons drawn from any loss experience have been incorporated in its credit policy; and
- diversification of exposure within the sector.

Strategic Report (continued)

Credit risk and concentration risk (continued)

As a result of its understanding of SSOs, Charity Bank expects that both the probability of defaults and the size of any related incurred losses incurred on its portfolio will continue to be lower than in the wider small and medium-sized enterprise ('SME') sector.

In pursuit of this goal, Charity Bank:

- sets limits on its exposure to its 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
- 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 light of Charity Bank's system of internal control for managing credit risk.

Liquidity risk

Liquidity risk is the risk of loss from Charity Bank's failure to maintain liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

Charity Bank is exposed to the risk of not being able to raise sufficient deposits to fund its growing loan book or to meet an unexpectedly high level of deposit withdrawals by customers. This is mitigated by:

- seeking to maintain a prudent balance of deposits with different maturities by offering term and notice deposit products at the correct price; and
- attracting personal depositors, charities and clubs, and business depositors who identify with its mission and who are apt to keep their deposits with the bank when they reach maturity.

The ILAAP document is a firm's own internal assessment which evaluates liquidity risk, funding mismatch and the management of these risks within Charity Bank.

The Risk Committee sets and reviews 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 a worst-case asset/liability maturity profile. These take into account 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.

Management oversight of liquidity risk is undertaken through the Assets and Liabilities Committee ('ALCO') which is responsible for assisting the Finance Director to manage financial risks; recommending policies on the investment of capital and liquid resources to the Risk Committee; reviewing exposures to interest rate risk and financial counterparty risk; and monitoring that management of liquidity and capital meets business and regulatory requirements.

Risk management and 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 Risk Committee of Charity Bank's risk profile.

Strategic Report (continued)

Interest rate risk

Interest rate risk refers to the current or prospective risk to a bank's capital and earnings arising from adverse movements in interest rates, which affect exposures in its banking book.

The Risk Committee sets and reviews Charity Bank's appetite for interest rate risk and articulates this through a policy on Interest Rate Risk in the Banking Book ('IRRBB'). The Finance Director is responsible for this policy and the Risk Committee approves it on behalf of the Board.

The expression of appetite for each type of interest rate risk is translated into appropriate limits and thresholds by the ALCO for review and approval by the Risk Committee.

Day-to-day management oversight of interest rate risk is undertaken through the ALCO.

The Executive Committee has responsibility for:

- ensuring that Charity Bank offers the appropriate type and mix of loans and deposits products to its customers; and,
- setting interest rates on Charity Bank's loans, deposits and loan notes.

When making decisions in respect of these responsibilities, the Executive Committee considers the impact on Charity Bank's exposure to interest rate risk.

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

Capital risk

Capital requirements

Charity Bank is required to hold sufficient capital to meet its minimum regulatory capital requirements at all times; and it expects to hold such further amounts as will support its growth plans, enable it to withstand adverse stress scenarios and continue to meet its Total Capital Requirement ('TCR') from the PRA, and provide comfort on its resilience to depositors, borrowers, shareholders and other key stakeholders.

Capital regulatory framework

Charity Bank operates under the CRD IV CRR regulatory framework of the European Banking Authority (the 'EBA') as required by its regulators: the FCA and the PRA.

The prudential regulatory framework applicable to Charity Bank is designed to assess the adequacy of a firm's 'own funds' ('Capital Resources') by considering all material risks to its business, including those not covered or otherwise not adequately addressed by credit risk, market risk and operational risk, and the impact of stress tests conducted across a variety of different scenarios. Additionally, the regulatory requirements for assessing additional risks provide encouragement to firms to develop, operate and continuously improve their risk management techniques for monitoring, measuring and managing their specific material risks.

Charity Bank's Capital Resources requirement is split into two categories: the Pillar 1 Capital Resources Requirement ('Pillar 1') being the sum of the credit risk capital requirement, the market risk capital requirement and the operational risk capital requirement; and the Pillar 2 Capital Resources Requirement ('Pillar 2A and Pillar 2B') which includes assessments for liquidity risk, concentration risk, earnings risk, interest rate risk, business risk, buffer requirements and an internal view of the effect of selected stress events.

Strategic Report (continued)

Capital risk (continued)

There are two stages to determining the final level of Pillar 2: the first being the analysis and conclusions in Charity Bank's current ICAAP document, and the second being the PRA's expression of its view which takes account of its oversight of Charity Bank and the results of its supervisory review meetings with Charity Bank.

The ICAAP document is a firm's own internal assessment of the overall adequacy of its capital strength in the context of the material risks it has identified and of the outcome of the assessment of stress scenarios it has identified and quantified taking into account regulatory guidance. The ICAAP process also includes the identification and evaluation of the impact of appropriate stress conditions, which are sets of sensitivities and scenarios designed to show the ability of Charity Bank to continue to meet its capital requirements under adverse (firm-specific and/or market-wide) conditions.

A review meeting is part of a regular supervisory review and evaluation process conducted by the PRA in order both to review and evaluate a firm's ICAAP processes and documentation, and to assess the quality of the firm's risk management systems and internal controls. Based on this, the PRA makes its own determination of the capital adequacy of the firm and sets a minimum capital requirement for the firm through the issue of its 'total capital requirement'.

Pillar 1

The Pillar 1 capital requirement is the sum of the credit risk capital requirement, market risk capital requirement and the operational risk capital requirement. Under Pillar 1 Charity Bank calculates its credit risk requirement using the 'standardised approach' and its operational risk requirement in accordance with 'the basic indicator approach'. Under CRD IV, Charity Bank must hold total capital equal to 8% of its total risk-weighted assets to cover its Pillar 1 capital requirements.

Pillar 2A

The Pillar 2A capital requirement is set by the PRA as part of its supervisory review and evaluation process and covers additional risks not deemed to be included appropriately within the Pillar 1 capital requirement.

Charity Bank's internal assessment of its Pillar 2A capital requirement includes assessments for liquidity risk, concentration risk, interest rate risk in the non-trading book and business risk.

Pillar 2B

The Pillar 2B capital requirement reflects the amount of additional capital required under the Combined Buffer Requirement (being the aggregate of the Capital Conservation Buffer and the Countercyclical Capital Buffer) in addition to a further individual buffer set by the PRA.

Pillar 2B also includes an internal assessment of capital stresses, which articulates Charity Bank's own view of the potential impact on its capital of varying stress events.

Further details of Charity Bank's capital requirements and resources are provided in note 27 in the Notes to the Financial Statements and also in annual Pillar 3 public disclosures which are available on our website at: www.charitybank.org

Strategic Report (continued)

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 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 in doing so can benefit from the appeal of its mission.

Approved by the Board of Directors on 26th April 2019 and signed on its behalf.

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

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

Directors' Report

Introduction

Charity Bank is authorised by the 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 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 lend over £250 million worth of loans to hundreds of 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.

This Report and Accounts for the year ended 31st December 2018 have been prepared in accordance with statutory requirements and Charity Bank's Articles of Association and comply with IFRS as adopted by the EU.

Share capital, reserves and dividends

As at the Balance Sheet date, Charity Bank had issued 24,154,946 ordinary shares; it also has the ability to issue additional ordinary shares and 'B' and 'C' preference shares, all of £0.50 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 (2017: £nil).

Substantial shareholdings

As at 31st December 2018 Charity Bank was aware of the following substantial holdings in its ordinary share capital:

Shareholder name	Ordinary shares	Percentage of issued ordinary share capital	Percentage of voting rights
The Big Society Capital Limited	15,782,935	65.34%	49.99%
CAF Nominees Ltd - beneficial owner Charities Aid Foundation	4,000,011	16.56%	23.89%

Directors' Report (continued)

Directors

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

Board of Directors		
Name of Director	**Chair and Senior Independent Director positions held**	**No. of meetings attended during 2018**
George Blunden	Chairman of the Board	6/6
Robin Budenberg CBE	Senior Independent Director & Chairman of the Governance Committee	5/6
Michael Crabb	Chairman of the Credit Sub-Committee	5/6
Patrick Crawford CB	Executive Director (to 29th June 2018)	3/3
Malcolm Elliott	Executive Director	6/6
David Godfrey CBE	Chairman of the Risk Committee	6/6
Sara Llewellin	Non-Executive Director	3/6
Sir John Low CBE	CAF-Connected Non-Executive Director	6/6
Mary O'Connor	Non-Executive Director (to 26th July 2018)	2/3
Kate Sayer	Chair of the Audit Committee	4/6
Anna Shiel	BSC-Connected Non-Executive Director	5/6
Ed Siegel	Executive Director (from 26th July 2018)	3/3
Toby Walter	BSC-Connected Non-Executive Director	6/6

Two shareholders are entitled to nominate Non-Executive 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. These individuals are defined in our Articles of Association as 'Connected Directors'.

Directors' responsibilities in relation to the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. In accordance with that law the Directors have elected to prepare the financial statements in accordance with the IFRSs as adopted by the EU 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.

Directors' Report (continued)

Directors' responsibilities in relation to the financial statements (continued)

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 the Directors to be satisfied 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

On 28th March 2014, Charity Bank entered into agreements under which Big Society Capital ('BSC') subscribed £4.5 million in ordinary shares as part of a conditional commitment to invest up to £14.5 million. BSC subsequently invested a further £5 million in each of 2016 and 2017 and has therefore fully met this commitment.

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 of organisations within the social sector.

The Directors believe that Charity Bank is currently taking the right steps to manage its business risks successfully.

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 projections for a twelve-month period and assessed the underlying assumptions. The effect of changes in key assumptions has been taken into account. The Directors have also taken into account the size and nature of the social sector finance market, Charity Bank's market share, and economic, political and other factors which might cause the market to change. The Directors have also considered Charity Bank's exposure to operational risks, contingent liabilities and other financial risks.

Internal control

The Board of Directors 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, the Internal Credit Committee chaired by the Director of Credit, and the Assets and Liabilities Committee chaired by the Finance Director;
- 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 credit risk policy and lending manual which prescribes the procedures for making loans;

Directors' Report (continued)

Internal control (continued)

- 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, cyber security controls, 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 adapted to be proportional to the nature and scale of its business. In this context:

- 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 and Risk function, overseen by the Deputy Chief Executive in his capacity as Chief Risk Officer and Compliance Officer: 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.

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, liquidity and interest rate the bank takes in its activities or transactions to drive the bank's financial performance (see pages 9 to 13).
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and including the incidence of legal risk.

The Risk Management 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.

This 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 to which it might be exposed;
- risk reporting to the Board and to its Committees; and
- specified roles and responsibilities held by staff.

Directors' Report (continued)

Risk management policy (continued)

This policy is intended to support appropriate management of risk exposures and 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 ICAAP document and of its exposure to liquidity risk as evaluated in its ILAAP document which are prepared in light of its business plans and the risks it faces.

Investment powers, policies and performance

Charity Bank seeks to maintain a sufficient level of available liquidity that will enable it to repay maturing deposits as they fall due and to meet drawdowns on loan commitments as they arise.

The Board has specified Charity Bank's investment risk appetite and delegated the task of overseeing the policies implementing this appetite to the Risk Committee.

Charity Bank continues to comply with the regulatory requirement to hold a minimum level of investments in assets that qualify as High Quality Liquid Assets ('HQLAs'), which are selected and managed by Royal London Asset Management ('RLAM') on behalf of Charity Bank.

Surplus amounts above this minimum level are deposited with banking counterparties at various tenors or invested in selected funds managed by RLAM.

Investment criteria set by Charity Bank guide the investment of its funds by RLAM; these continue to follow the conservative approach adopted in the past in terms of liquidity, eligible counterparties, maturities and products in which such surplus funds can be invested.

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		
Liquidity investments	Risk appetite is set by Board and the policies are set by the Risk Committee	Finance Team
Cash at bank		Cash funds management is performed by the Finance Team
Loans receivable		Credit Team
LIABILITIES		
Deposits (under the CITR scheme)	Risk appetite is set by Board and the policies are set by the Risk Committee	Head of Savings and the Customer Services Team
Deposits (other)		
LIQUIDITY		
Liquidity management	Risk appetite is set by Board and the policies are set by the Risk Committee	Finance Team

Directors' Report (continued)

Public disclosure

Details of Charity Bank's Pillar 3 public disclosure document can be obtained from its registered office or viewed on the website www.charitybank.org

Directors' indemnity

Charity Bank has qualifying third party indemnity provisions in its Articles of Association for the benefit of its Directors during the year and these 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 (which include 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.

Political and charitable donations

Charity Bank made no political donations this year (2017 – £nil). Charitable donations of £nil (2017: £45,000) were made during the year.

Disclosure of information to auditor

As far as each of the Directors is 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.

Directors' Report (continued)

Disclosure of information to auditor (continued)

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

The Board will propose a resolution to the shareholders to appoint auditors at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 26th April 2019 and signed on its behalf.

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

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Charity Bank Limited (the 'company'):

- **give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements 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 27 (excluding that relating to Capital Risk as indicated in Note 27).

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: Loan Loss Provisioning ('Staging of Loans') Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .

Materiality	The materiality that we used in the current year was £399k which is 2% of the Equity Shareholder's Balance for December 2018.
Scoping	The scope of our audit covers the financial statements and disclosures for Charity Bank Limited. All of the audit work of the company was performed directly by the audit team.
Significant changes in our approach	In the prior year we reported that revenue recognition, specifically the calculation of the Effective Interest Rate (EIR) was a key audit matter. We do not consider this to be a key audit matter in 2018.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In assessing the key audit matters we have considered the impact of Britain exiting the European Union. We concur with management's view that Brexit will not have a direct effect on the company's operations, but its business performance may be affected by the impact on the UK economy and political environment as a result of Brexit.

In the prior year we reported that revenue recognition, specifically the calculation of the EIR was a key audit matter. This was due to the manual nature of the calculation. As management have a control implemented over the calculation of EIR, no issues being identified either in our control or substantive testing in the prior year audit, and the impact of the adjustment on the company's profit not being material, we do not consider this to be a key audit matter in 2018.

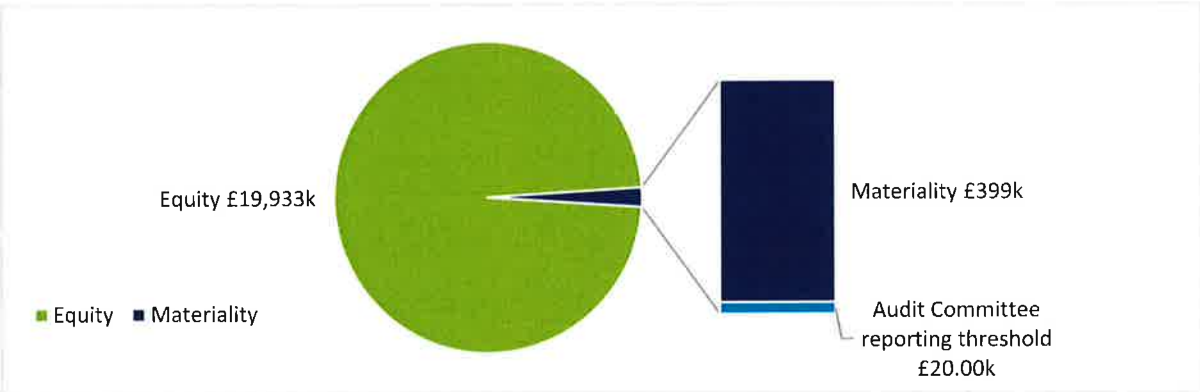
Loan Loss Provisioning	
Key audit matter description	Loan loss provisioning is a presumed risk of fraud for banks and significant judgement is required regarding the quantum of known loan impairments and estimated future losses. IFRS 9 is the new standard effective from 1 January 2018 that requires 'expected' credit losses to be estimated, and is therefore a change from the IAS 39 'incurred' loss model. The standard requires the Company to determine the appropriate stage for each of its loans. The staging drives the provision calculation. Accordingly, the number of loans in each stage drives the provision output and therefore can have a significant impact on the provision figure. Charity Bank monitor credit performance of each loan through a combination of annual credit assessments and 'watchlists' of more risky borrowers, as the outcome of this monitoring process determines the staging of each loan. We have identified a significant risk around the appropriateness of the staging for loans that have a significant impact on the provision. Accordingly, our procedures focussed on ensuring that impaired loans are appropriately identified and therefore reflective of the underlying credit quality of the book. Further details are included within notes 2 and 27 to the financial statements
How the scope of our audit responded to the key audit matter	In responding to the key audit matter we have performed the following: • Assessed the design and implementation of relevant controls within the credit risk function that support the loan impairment provision as it relates to the determination of each borrower's credit assessment and allocation to a watchlist. • Challenged the judgements made by management in performing the credit assessments and in particular challenged management to assess whether that assumptions are sufficiently supported, including agreeing key inputs to third party or other supporting evidence. • Assessed the triggers that drive the staging of each loan against the requirements of IFRS 9 to assess whether this is compliant with the accounting requirements.
Key observations	We consider management's judgements in relation to the staging of the loans to be appropriate and did not identify any material differences between our assessment and the provision recognised by management.

Our application of materiality

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

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

Materiality	£399k (2017: £339k)
Basis for determining materiality	2% of equity for 2018 (2017: 2% equity (excluding the capital investment made in the last month of the year).
Rationale for the benchmark applied	We consider equity to be a key factor of interest to users of the accounts. Typically we would base materiality on profit before tax or another profit and loss measure. However, given the nature of the bank's lending and business model, and the year on year losses made, this was not considered the most appropriate benchmark.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,000 (2017: £7,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including controls and assessing the risks of material mistatment in the financial statements.

We have scoped in the relevant financial statement line items and disclosures that are material to the users of the accounts and determine level of testing required for each.

We have also evaluated controls over key business cycles in our areas of significant risk in the company. This was supported by evaluation of controls over specific IT applications and computer generated reports, and the general information technology control environment. This was completed by our IT Audit Specialists similar to previous years.

We have continued to place appropriate emphasis on the use of specialists. All core members of the audit team have been drawn from our financial services audit practice and have been supported by IT audit specialists throughout.

Other information

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

We have nothing to report in respect of these matters.

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

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

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the area of loan loss provisioning due to the subjectivity involved in determining the appropriate staging of loans; and
- obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, tax legislation and regulations from the Financial Conduct Authority and the Prudential Regulation Authority. In addition, compliance with regulatory solvency requirements were fundamental to the company's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified 'loan loss provisioning' as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors to audit the financial statements for the year ending 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 December 2002 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

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

Use of our report

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

Alastair Morley FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

26th April 2019

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2018

Statement of Comprehensive Income

	Note	2018 £'000	2017 £'000
Continuing activities			
Interest income	4	5,418	4,446
Interest expense	4	(1,479)	(1,111)
Net interest income		**3,939**	**3,335**
Fee income	5	395	213
Profit/(loss) on available-for-sale financial assets	6	-	543
Profit/(loss) on financial assets at fair value through profit & loss	6	(9)	-
Other operating income		39	78
Net operating income		**4,364**	**4,169**
Grants and donations		-	48
Net total income		**4,364**	**4,217**
Administrative expenses	7	(4,792)	(4,816)
Depreciation and amortisation	16, 17	(134)	(160)
Impairment (charge)/release	24	(46)	166
Loss on ordinary activities before taxation		**(608)**	**(593)**
Tax expense	10	-	-
Loss on ordinary activities after taxation		**(608)**	**(593)**
Other comprehensive income:			
Items that may subsequently be transferred to the income statement:			
Available-for-sale financial assets:			
Fair value movements		-	(38)
Amounts transferred to the income statement		-	60
Total other comprehensive income		-	**22**
Total comprehensive loss for the year		**(608)**	**(571)**

The notes and information on pages 34 to 75 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 2018

Balance Sheet

As at

	Note	31st Dec 2018 £'000	31st Dec 2017 £'000
Assets			
Cash and balances at banks	11	10,740	6,479
Available-for-sale financial assets	12	-	40,265
Financial assets	13	39,510	-
Loans and advances to customers	14	142,022	108,797
Prepayments		258	354
Other assets	15	1,373	2,407
Property and equipment	16	170	275
Intangible fixed assets	17	22	33
Total assets		**194,095**	**158,610**
Liabilities			
Customer accounts	18	170,930	134,873
Deferred income		362	314
Other liabilities	19	1,114	930
Accruals		422	621
Subordinated debt	20, 23	1,504	1,504
Total liabilities		**174,332**	**138,242**
Called-up share capital	21	12,077	12,077
Retained earnings		3,327	3,688
Share premium		4,359	4,359
Available-for-sale reserve		-	244
Equity shareholders' funds	22	**19,763**	**20,368**
Total liabilities and shareholders' funds		**194,095**	**158,610**

These financial statements were approved by the Board of Directors and authorised for issue on 26th April 2019. They were signed on their behalf by:

George Blunden – Director

Kate Sayer – Director

Registered company number: 4330018

The notes and information on pages 34 to 75 form part of these financial statements.

Statement of Changes in Equity

	Note	Share capital £'000	Retained earnings £'000	Share premium £'000	Available-for-sale reserve £'000	Total equity £'000
Balance attributable to equity shareholders as at 31st December 2017		**12,077**	**3,688**	**4,359**	**244**	**20,368**
Changes on initial application of IFRS 9		-	247	-	(244)	3
Opening balance at 1st January 2018		**12,077**	**3,935**	**4,359**	**-**	**20,371**
Loss for the year		-	(608)	-	-	(608)
Total comprehensive loss for the year		-	(608)	-	-	(608)
Capital received	21	-	-	-	-	-
Balance attributable to equity shareholders as at 31st December 2018		**12,077**	**3,327**	**4,359**	**-**	**19,763**

	Note	Share capital £'000	Retained earnings £'000	Share premium £'000	Available-for-sale reserve £'000	Total equity £'000
Balance attributable to equity shareholders as at 31st December 2016		**9,153**	**4,281**	**2,283**	**222**	**15,939**
Loss for the year		-	(593)	-	-	(593)
Other comprehensive income:						
- available-for-sale financial assets fair value movement		-	-	-	(38)	(38)
- available-for-sale financial assets amounts transferred to income statement		-	-	-	60	60
Total comprehensive loss/(profit) for the year		-	(593)	-	22	(571)
Capital received	21	2,924	-	2,076	-	5,000
Balance attributable to equity shareholders as at 31st December 2017		**12,077**	**3,688**	**4,359**	**244**	**20,368**

The notes and information on pages 34 to 75 form part of these financial statements.

Cash Flow Statement

For the year ended 31st December 2018

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Loss before tax		(608)	(593)
Adjustment to reconcile net loss to cash flow used in operating activities			
Interest expense		1,479	1,111
Depreciation of property and equipment		106	132
Amortisation of intangible assets		28	28
Revaluation of available-for-sale assets		-	22
Movement in impairment		31	(259)
		1,036	441
Net increase in assets relating to operating activities			
Loans and advances to customers		(33,184)	(21,329)
Financial assets (previously 'Available-for-sale financial assets')		736	(13,172)
Other assets		1,034	(846)
Movement in prepayments		96	(66)
		(31,318)	(35,413)
Net increase in liabilities relating to operating activities			
Due to customers		36,057	33,311
Interest paid		(1,439)	(1,058)
Deferred income		48	36
Movement in accruals and accrued interest		(199)	(46)
Other liabilities		176	413
		34,643	32,656
Net cash inflow/(outflow) from operating activities		**4,361**	**(2,316)**
Cash flow from investing activities			
Acquisition of fixed assets		(18)	(17)
Net cash used in investing activities		(18)	(17)
Cash flow from financing activities			
Proceeds from issue of share capital		-	5,000
Redemption of subordinated loan stock		-	(500)
Interest on subordinated loan stock		(40)	(56)
Net cash from financing activities		(40)	4,444
Net increase in cash and cash equivalents		**4,303**	**2,111**
Cash and cash equivalents at the beginning of the year	11	6,479	4,368
Cash and cash equivalents at the end of the year	**11**	**10,782**	**6,479**

The notes and information on pages 34 to 75 form part of these financial statements.

Notes to the Financial Statements

1 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' ('EIR') method. Interest income is calculated by applying the EIR to the gross carrying amount for Stage 1 and 2 assets but Stage 3 assets (excluding purchased or originated credit-impaired financial assets) is calculated by applying EIR rate to the amortised cost (i.e. carrying amount after the deduction of the loss allowance). For purchased or originated credit-impaired financial assets, where such assets are held, a credit-adjusted effective interest rate is applied to the amortised cost of the financial asset at initial recognition.

Profit/(loss) on financial assets at amortised cost is recognised using the 'effective interest rate' method. Profit/(loss) on financial assets at fair value through the profit or loss ('FVPL') is recognised when Charity Bank is to receive the coupon and the unrealised profit/(loss) on the financial assets at FVPL for the period.

The EIR 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 yield 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'.

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. Donations made are expensed during the period when they are committed to being made.

Financial assets

Financial assets are recognised in Charity Bank's balance sheet when the bank becomes a party to the contractual provisions of the instrument. Financial assets measured at FVPL are initially recognised at fair value and financial assets measured at amortised costs are initially recognised at amortised cost. Immediately after initial recognition, an expected credit loss allowance ('ECL') is recognised for financial assets measured at amortised cost. No ECL is recognised for financial assets measured at FVPL.

All financial assets measured at amortised cost are assessed if there has been a significant increase in credit risk since initial recognition. Refer to note 27 providing more detail on the significant increase in credit risk ('SICR') and the factors considered.

1 Accounting policies (continued)

Financial assets (continued)

i) Classification and subsequent measurement

From 1st January 2018, Charity Bank has applied IFRS 9 and classifies its financial assets into the following categories:

- Amortised cost; and
- Fair value through profit or loss.

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

The classification and subsequent measurement of financial assets depend on:

i. The business model for managing the asset; and
ii. The cash flow characteristics of the asset

- Amortised cost: Assets that are held for collection of contractual cash flows where the cash flows solely represent payments of principal and interest ('SPPI') and not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any credit loss allowances recognised. Interest income from the financial assets is included in profit using the effective interest rate method.
- Fair value through profit or loss: Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income ('FVOCI') are measured at FVPL. A gain or loss is recognised in the profit or loss and presented within 'Profit/(loss) on derecognition of financial assets measured at FVPL' in the period in which it arises.

Business model: The business model reflects how the assets are managed to generate cash flows. That is, if the objective is solely to collected contractual cash flows from the assets or collect both contractual cash flows and cash flows arising from the sale of assets.

SPPI: Charity Bank assesses whether the financial asset cash flows represent solely payments of principal and interest using the SPPI test.

ii) Impairment

Charity Bank assesses on a forward-looking basis the ECL associated with its financial assets carried at amortised cost and with the exposure arising from loan commitments. A loss allowance is recognised at each reporting date. The measurement of ECL reflects:

- The unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

1 Accounting policies (continued)

Financial assets (continued)

iii) Modification

Charity Bank sometimes renegotiates or modifies the contractual cash flows of loans to borrowers. When this happens, Charity Bank assesses whether or not the new terms are substantially different from the original terms. This is done by considering, but not limited to, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to pay;
- Whether any substantial new terms are introduced that affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change to the interest rate; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the original financial asset is derecognised and the bank recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be that date of initial recognition for the impairment calculation purposes, including if there has been a significant increase in credit risk. Charity Bank also considers if the new financial asset is deemed to be credit-impaired at initial recognition, considering the factors of the renegotiation.

If the terms are not substantially different, there is no derecognition and the carrying amount is recalculated.

iiii) Derecognition other than modification

Financial assets are derecognised when the contractual rights to receive the cash flows from the assets have expired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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 expected credit losses.

1 Accounting policies (continued)

Impairment of loans and advances to customers held at amortised cost

Charity Bank's loan impairments are established to recognise impairment losses in its portfolio of loans carried at amortised cost. Charity Bank maintains an 'ECL' loan loss impairment for unidentified credit risks as well as specific impairments against loans where it is doubtful of recovering the full amount outstanding. Refer to note 14 detailing the loan loss impairments.

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.

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 boards 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 social sector. Loan rescheduling may be considered on an exceptional basis if considered appropriate by the relevant delegated authority. Any forbearance measures agreed are assessed on a case by case basis. Forbearance accounts are monitored regularly by the Credit Sub-Committee and the Internal Credit Committee.

A loan will be credit-impaired when there is evidence that events since the loan was granted have affected expected cash flows from the loan and the full value of the loan is not considered recoverable.

Write off policy

Charity Bank performs an impairment assessment at each balance sheet date. Charity Bank writes off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Financial liabilities

Financial 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 liabilities as 'other liabilities'.

Management determines the classification of financial liabilities at initial recognition. 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 date the proceeds are 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.

1 Accounting policies (continued)

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.

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 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 being the higher of the asset's net selling price or 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.

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.

1 Accounting policies (continued)

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 (and 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.

Taxation

A tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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. 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. Recognition of both deferred tax assets and deferred tax is reviewed on an annual balance at the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

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.

Pension costs

Charity Bank makes contributions to the Pensions Trust in respect of defined contribution personal pension arrangements. One of the schemes offered historically by the Pensions Trust, the Growth Plan series 3, offered guarantees to its members as to capital and pensions and is, therefore, considered to be a defined benefit scheme based on a change in legislation in 2014. Only a few employees are still members of that scheme, which is now closed, but 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, Charity Bank's default liability on withdrawal from the scheme amounted to £82,970 at 30th September 2017. This was based on an actuarial valuation of employer's liability.

Charity Bank is not required to make deficit contributions, has no plans to withdraw from the scheme and a liability has not therefore been accrued as at the balance sheet date.

1 Accounting policies (continued)

Pension costs (continued)

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 up to 11.33% and its employee up to 5.67%.

Cash and balances at banks

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.

2 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 IFRS as adopted by the EU and therefore comply with Article 4 of the EU International Accounting Standards regulation.

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 Statement by the Chairman, 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 future and plans to raise additional capital to implement its growth plans.

2 Basis of preparation (continued)

Going concern (continued)

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 this annual report and these financial statements.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial assets which are valued at amortised cost or FVPL.

Use of estimates and judgements

Judgements are deemed to relate to how accounting policy is applied whereas estimates relate to quantification of amounts included within the Annual Report. The preparation of the company's financial statements requires management to make judgements, estimates and assumptions regarding the valuation of certain financial instruments (see fair value in note 1 and note 13) and impairment of assets (see loan impairment in note 1, sub-section 'Impairment of financial assets held at amortised cost', and note 14 and 24). Key judgments also include: the recognition of deferred tax assets which are recognised only to the extent sufficient future taxable profit is probable (see note 10); the outcome of litigation (although this is not applicable in the current financial year, see note 25); and other matters that affect the financial statements and related disclosures. The company believes that the estimates utilised in preparing the financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

Interest income on financial assets that are classified as loans and receivables, or as amortised cost, are determined using the effective interest method ('EIM'). The EIM is a method of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income or interest expense over the expected life of the asset. The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the EIR rate takes into account fees receivable that are an integral part of the instrument's yield and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Negative effective interest accruing to financial assets is presented in interest payable.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost requires assumptions about the future economic conditions and credit behaviour. Judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for a significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

2 Basis of preparation (continued)

Application of revised International Financial Reporting Standards ('IFRSs')

In the current year, Charity Bank has applied an amendment to the IFRSs issued by the International Accounting Standards Board ('IASB') that is mandated to be effective for an accounting period that begins on or after 1st January 2018.

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

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. Charity Bank has adopted the new standard on 1st January 2018.

As permitted by the transitional provisions of IFRS 9, Charity Bank has elected not to restate comparative figures. Any adjustment to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves in the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) have only been applied for the current period. The comparative period notes disclosures repeat the disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and the impairment of financial assets.

(i) Classification and measurement

The measurement category and carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 on 1st January 2018 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	**Carrying**	**Measurement category**	**Carrying**
		£'000		**£'000**
Cash and balances at banks	Available for sale (Loans and receivables)	6,479	Amortised cost	6,466
Financial assets	FVOCI (Available for sale)	40,265	FVPL	35,149
			Amortised cost	5,138
Loans and advances to customers	Amortised cost (Loans and receivables)	108,797	Amortised cost	108,715
Other assets	Amortised cost (Loans and receivables)	2,407	Amortised cost	2,399

There were no changes to the classification and measurement of financial liabilities.

The following table reconciles the carrying amount of the financial assets from their previous measurement category in accordance with IAS 39 to their new measurement category upon transition to IFRS 9 on 1st January 2018.

2 Basis of preparation (continued)

Application of revised International Financial Reporting Standards ('IFRSs') (continued)

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

	IAS 39 carrying 31st Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying 1st Jan 2018
	£'000	£'000	£'000	£'000
Amortised cost				
Cash and balances at banks				
Opening balance under IAS 39	6,479			
Remeasurement: ECL allowance			(13)	
Closing balance under IFRS 9				6,466
Financial assets				
Opening balance under IAS 39	-			
Addition: From FVPL		5,116		
Remeasurement: From FVPL to			25	
Remeasurement: ECL allowance			(3)	
Closing balance under IFRS 9				5,138
Loans and advances to customers				
Opening balance under IAS 39	108,797			
Remeasurement: ECL allowance			(82)	
Closing balance under IFRS 9				108,715
Other assets				
Opening balance under IAS 39	2,407			
Remeasurement: ECL allowance			(8)	
Closing balance under IFRS 9				2,399
FVPL (Mandatory)				
Financial assets				
Opening balance under IAS 39	40,265			
Less: To amortised cost		(5,116)		
Closing balance under IFRS 9				35,149

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held as shown in the table above:

Financial assets previously classified as available for sale

After assessing the business model for the financial assets held, the HQLAs are held to collect contractual cash flows and payments received consist only of principal and interest. These assets, which amounted to £5,116k on 31st December 2017 and were previously classified as available for sale, were classified as amortised cost from the date of initial application. The remainder of the portfolio are held to collect contractual cash flows and sell, but failed to meet the 'solely payments of principal and interest' requirement and were classified as FVPL.

2 Basis of preparation (continued)

Application of revised International Financial Reporting Standards ('IFRSs') (continued)

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

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 to the new impairment allowance measured in accordance with IFRS 9 expected loss model on 1st January 2018:

	Loan loss allowance under IAS 39 31st Dec 2017	Remeasurement through profit & loss	Remeasurement through retained earnings	Loan loss allowance under IFRS 9 1st Jan 2018
	£'000	£'000	£'000	£'000
Loans and receivables (IAS 39)/				
Cash and balances at banks	-	(13)	-	(13)
Loans and advances to customers	(572)	(82)	-	(654)
Other assets	-	(8)	-	(8)
Total	(572)	(103)	-	(675)
Available for sale financial assets (IAS 39)/ Financial assets at amotised cost (IFRS 9)				
Financial assets	-	-	(3)	(3)
Available for sale financial assets (IAS 39)/ Financial assets at FVPL (IFRS 9)				
Financial assets	-	-	-	-
Loan commitments				
Impairments (Loan commitments)	-	(14)	-	(14)
Total	-	(14)	(3)	(17)

(i) Impairments

IFRS 9 requires Charity Bank to record expected credit losses on all financial assets, either on a 12-month or lifetime basis. Charity Bank will apply the simplified approach under IFRS 9 for *Trade Receivables* and will therefore record lifetime expected losses on sundry debtors. The impairments calculations also includes:

(i) Additional forward-looking modelling and data. This includes consideration of significant movements in the credit worthiness of borrowers and in the value of security held.

(ii) Expected credit loss allowances on all financial assets, not just loans; and this will also be extended to lending commitments.

2 Basis of preparation (continued)

Future accounting developments

The following are significant new or revised standards and interpretations, and amendments thereto, which have been issued but which have not yet come into effect. Once they do so, Charity Bank will adopt them.

a) 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 16 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.

Charity Bank does not expect a material impact on its balance sheet or reserves from implementing the requirements of IFRS 16. There will be an opening balance adjustment to the retained earnings of £32k which is the release of the straight lining adjustment from the operating lease being reclassified as a finance lease and a right-of-use asset and lease liability will be recognised for £691k. Charity Bank only has one lease on the office premise in Tonbridge which will be affected by IFRS 16. The exemption for smaller items such as the lease on office printers has been used, as it is considered that these leases are low in value. Charity Bank will be applying the modified retrospective approach, with no comparatives being restated.

b) 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.

3 Segmental reporting

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.

4 Net Interest Income

Interest and similar income	2018 £'000	2017 £'000
Loans and advances to customers	5,298	4,374
Cash and balances at banks	19	3
Other assets	14	20
Financial assets at amortised cost	87	49
	5,418	**4,446**

The interest income of £87k from Financial assets at amortised cost relates to the UK Treasury stock and European Investment Bank ('EIB') floating rate note. The total interest income of £5,418k is calculated using the EIR method and relates to income from all financial assets measured at amortised cost.

Interest expense and similar charges	2018 £'000	2017 £'000
Due to customers	1,439	1,058
Debt issued	40	53
	1,479	**1,111**

5 Fee income

	2018 £'000	2017 £'000
Arrangement fees	14	21
Non-utilisation fees	381	192
	395	**213**

6 Profit/(loss) on financial assets at fair value through profit and loss (formally available-for-sale financial assets)

	2018 £'000	2017 £'000
Distributable income from Open Ended Investment Vehicles ('OEIVs')	803	469
Realised and unrealised gains and losses on OEIVs	(812)	74
	(9)	**543**

The change in classification from available-for-sale financial assets to financial assets at fair value through profit and loss is a result of the implementation of IFRS9 (see note 1 page 35).

7 Administrative expenses

	2018	2017
Average number of employees	64	63
	64	**63**

	2018 £'000	2017 £'000
Wages and salaries (including Executive Directors)	2,543	2,480
Social security costs	278	283
Pension costs	236	194
Other staff costs	248	349
Total staff costs	**3,305**	**3,306**
Other administrative expenses	1,487	1,510
	4,792	**4,816**

Total number of employees at 31st December 2018 were 62 and at 31st December 2017 were 62. Full-time equivalents at 31st December 2018 were 53 and at 31st December 2017 were 53.

Employee emoluments

The number of staff whose annualised emoluments exceeded £60,000 as at 31st December 2018 and at 31st December 2017 were as follows:

	2018 Number	2017 Number
£60,001 - £70,000	4	7
£70,001 - £80,000	2	1
£80,001 - £90,000	1	2
£90,001 - £100,000	2	-
£100,001 - £110,000	1	2
£120,001 - £130,000	1	-
£130,001 - £140,000	-	1
	11	**13**

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. The current ratio between the highest and lowest paid member of staff is eight times (2017: nine times). Pension contributions were made to The Pensions Trust or other approved pension scheme in respect of employees and Directors included above.

Directors

In 2018, one Non-Executive Director (2017: 1) was reimbursed expenses totalling £285 (2017: £1,230), relating primarily to travel expenses incurred in attending Board meetings and events arranged by Charity Bank. Emoluments are not paid to Non-Executive Directors.

7 Administrative expenses (continued)

Directors' remuneration

	2018	2017
	£'000	£'000
Directors' emoluments	211	236
Contribution to a defined contribution pension scheme	18	11
Medical insurance	5	-
	234	**247**

During 2018, there was a change in CEO with Patrick Crawford resigning on 26th June 2018 and Ed Siegel joining on 26th July 2018.

The highest paid Director during the year received a total remuneration package of £114k (2017: £134k). Two Executive Director received pension benefits in the year to December 2018 (2017: one). Directors do not receive any share options and no share options were awarded under long term incentive plans.

Key management personnel

	2018	2017
	£'000	£'000
Emoluments	518	601
Contribution to a defined contribution pension scheme	51	38
	569	**639**

Key management personnel comprise the Board of Directors and all members of the Executive Committee.

Key management loans and deposit accounts are held. These are on the same terms as other customers of the bank where the equivalent products are on offer. All loans are in the form of staff loans and total £nil (2017: £3k) and are unsecured. Deposits held by key management personnel total £227k (2017: £134k).

8 Pension costs

Charity Bank operates a defined contribution pension scheme for staff. Charity Bank contributed £236k during the year (31st December 2017: £194k). 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

	2018 £'000	2017 £'000
Operating profit is stated after charging:		
Depreciation - property and equipment	106	132
Depreciation - intangible assets	28	28
Auditor's remuneration:		
- audit of annual accounts	95	65
	95	65
Rental of premises held under operating leases	156	144

10 Taxation

The company's profits for the financial year are taxed at the standard rate of UK Corporation Tax of 19%.

Future changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 7th September 2016). These include reductions to the main rate to reduce the rate to 17% from 1st April 2020.

Deferred taxes at the balance sheet date have been measured using these enacted tax rates and are not recognised on the balance sheet due to uncertainty around future utilisation.

	2018 £'000	2017 £'000
Current tax:		
Current tax on profits for the year	-	-
Total current tax	-	-
Tax per income statement	-	-

Factors Affecting Total Tax Charge for the Current Period

The charge for the year can be reconciled to the profit per the income statement as follows:

	2018 £'000	2017 £'000
Loss for the period - continuing activities	(608)	(593)
Tax on loss at standard UK tax rate of 19.00% (2017: 19.25%)	(116)	(114)
Effects of:		
Expenses not deductible	15	15
Amounts not recognised	103	98
Asset-for-sale adjustments	(2)	1
Tax charge for the period	-	-

Unrecognised deferred tax

	2018 £'000	2017 £'000
Carried forward tax losses	1,125	1,011
Accelerated capital allowances	38	39
IFRS change in basis adjustment	137	140
Available-for-sale investments	-	43
Temporary trading differences	58	76
	1,358	**1,309**
Deferred tax rate	17%	17%

11 Cash and balances at banks

	31st Dec 2018 £'000	31st Dec 2017 £'000
Cash	6,565	6,479
Short-term balances with other banks	4,217	-
Less expected credit loss	(42)	-
	10,740	**6,479**

Management have reassessed the classification of Cash and Cash Equivalents under IAS 7 in the year and have determined that the investments held in OEIVs did not qualify as a Cash Equivalents at the prior year Balance Sheet date. Accordingly, the prior year comparative of the Cash Flow Statement has been revised. There is no impact on the prior year or earlier Balance Sheet. The following table shows the impact as a result of this change.

Cash Flow item	**2017 (revised)**	**2017 (as reported in 2017)**
Financial assets (previously 'Available-for-sale financial assets')	(13,172)	1,992
Cash and cash equivalents at the beginning of the year	4,368	24,354
Cash and cash equivalents at the end of the year	6,479	41,629

12 Available-for-sale financial assets

	31st Dec 2018 £'000	31st Dec 2017 £'000
Open Ended Investment Vehicles	-	35,150
UK Treasury Stock	-	3,617
European Investment Bank ("EIB") floating rate note	-	1,498
	-	**40,265**
Maturity:		
- less than three months	-	35,150
- one year or less but over three months	-	5,115
- between one year and five years	-	-
	-	**40,265**

13 Financial assets

	31st Dec 2018 £'000	31st Dec 2017 £'000
Financial assets at FVPL		
Open Ended Investment Vehicles	33,387	-
	33,387	**-**
Financial assets at amortised cost		
UK Treasury Stock	3,649	-
Less expected credit loss	(8)	-
European Investment Bank (EIB) floating rate note	2,487	-
Less expected credit loss	(5)	-
	6,123	**-**
	39,510	**-**
Maturity:		
- less than three months	33,387	-
- one year or less but over three months	6,136	-
- between one year and five years	-	-
Less expected credit loss	(13)	-
	39,510	**-**

Available-for-sale financial assets have been reclassified during the year in accordance with IFRS 9 as financial assets. The Open Ended Investment Vehicles ('OEIV') has been reclassified as FVPL and the UK Treasury stock and EIB floating rate note has been reclassified as amortised cost. Refer to note 1. The UK Treasury stock and EIB floating rate note are held to meet regulatory liquidity requirements for HQLAs.

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 2018 £'000	Impaired loans 31st Dec 2018 £'000	Total 31st Dec 2018 £'000	Performing loans 31st Dec 2017 £'000	Impaired loans 31st Dec 2017 £'000	Total 31st Dec 2017 £'000
Remaining maturity:						
- three months or less excluding on demand or at short notice	517	-	517	306	-	306
- one year or less but over three months	212	-	212	628	-	628
- five years or less but over one year	3,433	-	3,433	1,878	-	1,878
- over five years	137,244	1,147	138,391	105,529	1,028	106,557
	141,406	**1,147**	**142,553**	**108,341**	**1,028**	**109,369**
Less allowance for collective impairment	(280)	-	(280)	(331)	-	(331)
Less allowance for specific impairment	-	(251)	(251)	-	(241)	(241)
	141,126	**896**	**142,022**	**108,010**	**787**	**108,797**

As at 31st December 2018, Charity Bank had advanced variable and managed rate loans amounting to £139.5 million (31st December 2017: £107.2 million) and fixed rate loans amounting to £3.1 million (31st December 2017: £2.1 million) to customers. £39k was the balance granted as staff loans (31st December 2017: £49k).

Total impaired loans and advances to customers amounted to £1,147k (31st December 2017: £1,028k), within which an allowance for specific impairment of £251k (31st December 2017: £241k) was included.

15 Other assets

	31st Dec 2018 £'000	31st Dec 2017 £'000
Bank placements	1,259	2,263
Less expected credit loss	(3)	-
Fees receivable	122	68
Less expected credit loss	(7)	-
Interest receivable	2	26
Sundry debtors	-	50
	1,373	**2,407**

	31st Dec 2018 £'000	31st Dec 2017 £'000
Analysis of sundry debtors		
Sundry debtors	-	50
	-	**50**

16 Property and equipment

	Equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1st January 2018	407	333	740
Additions	1	-	1
Disposals	(20)	-	(20)
At 31st December 2018	**388**	**333**	**721**
Accumulated depreciation			
At 1st January 2018	306	159	465
Charged in year	51	55	106
Released for disposals	(20)	-	(20)
At 31st December 2018	**337**	**214**	**551**
Net book value			
At 31st December 2018	**51**	**119**	**170**
At 31st December 2017	**101**	**174**	**275**

17 Intangible fixed assets

	Computer software £'000
Cost	
At 1st January 2018	385
Additions	17
At 31st December 2018	**402**
Accumulated depreciation	
At 1st January 2018	352
Charged in year	28
At 31st December 2018	**380**
Net book value	
At 31st December 2018	**22**
At 31st December 2017	**33**

18 Customer accounts

	31st Dec 2018 £'000	31st Dec 2017 £'000
With agreed maturity dates or periods of notice by remaining maturity:		
- three months or less but not repayable on demand	73,998	57,782
- one year or less, but over three months	59,178	38,773
- more than one year but less than five years	37,752	38,316
- more than five years	2	2
	170,930	**134,873**

19 Other liabilities

	31st Dec 2018 £'000	31st Dec 2017 £'000
Social security and other taxes	184	193
Cash collateral	922	737
Expected credit loss on commitments	8	-
	1,114	**930**

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

An expected credit loss charge has been raised on commitments in accordance with IFRS 9. Refer to note 25 for the commitments balance at 31st December 2018. The expected credit loss on commitments has been included in the 'Charge/(release) to income statement' in note 24.

20 Subordinated debt

	31st Dec 2018 £'000	31st Dec 2017 £'000
Subordinated debt		
Principal	1,500	1,500
Accrued Interest	4	4
	1,504	**1,504**
Maturity:		
- less than three months	4	4
- one year or less but over three months	-	-
- between one year and five years	1,000	1,000
- more than five years	500	500
	1,504	**1,504**

20 Subordinated debt (continued)

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 regulatory 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.

21 Called-up share capital

	No. of shares	31st Dec 2018 £'000	No. of shares	31st Dec 2017 £'000
Authorised, issued, allotted and fully paid				
Ordinary shares of £0.50 each	24,154,946	12,077	24,154,946	12,077
	24,154,946	**12,077**	**24,154,946**	**12,077**

	Number of shares	Share capital £'000	Share premium £'000
At 1st January 2017	18,306,794	9,153	2,283
Capital received	5,848,152	2,924	2,076
At 31st December 2017	**24,154,946**	**12,077**	**4,359**
At 31st December 2018	**24,154,946**	**12,077**	**4,359**

No dividend has been declared (2017: £nil).

All of the issued ordinary shares are equity shares.

Ordinary shares carry one vote each up to a maximum of 49.9%. Any excess votes over and above the 49.9% are reapportioned across the remaining voting shares. Upon a winding-up, ordinary shareholders will only be paid after repayment of capital to non-cumulative preference shareholders.

During 2017, Charity Bank received the third tranche of an investment by Big Society Capital in two phases.

On 1st June 2017, an investment of £2.5 million was received from Big Society Capital for 2,906,976 ordinary shares of £0.50 each. As a result, £1,046,512 was transferred into a share premium account.

On 27th November 2017, an investment of £2.5 million was received from Big Society Capital for 2,941,176 ordinary shares of £0.50 each. As a result, £1,029,412 was transferred into a share premium account.

22 Reconciliation of movements in shareholders' fund and reserves

	At 1st January 2018 £'000	Incoming resources £'000	Loss for the year £'000	Changes on initial application of IFRS 9 £'000	At 31st December 2018 £'000
Called-up share capital					
Fully paid ordinary shares	12,077	-	-	-	12,077
Retained earnings					
Capital contribution	14,478	-	-	-	14,478
Accumulated loss	(10,790)	-	(608)	247	(11,151)
Total unrestricted equity shareholders' funds	**15,765**	**-**	**(608)**	**247**	**15,404**
Share premium	4,359	-	-	-	4,359
Available-for-sale reserve	244	-	-	(244)	-
Total equity shareholders' funds	**20,368**	**-**	**(608)**	**3**	**19,763**

	At 1st January 2017 £'000	Incoming resources £'000	Loss for the year £'000	Revaluation of available-for-sale financial assets £'000	At 31st December 2017 £'000
Called-up share capital					
Fully paid ordinary shares	9,153	2,924	-	-	12,077
Retained earnings					
Capital contribution	14,478	-	-	-	14,478
Accumulated loss	(10,197)	-	(593)	-	(10,790)
Total unrestricted equity shareholders' funds	**13,434**	**2,924**	**(593)**	**-**	**15,765**
Share premium	2,283	2,076	-	-	4,359
Available-for-sale reserve	222	-	-	22	244
Total equity shareholders' funds	**15,939**	**5,000**	**(593)**	**22**	**20,368**

23 Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes.

	Note	1st Jan 2018 £'000	Cash changes	Non-cash changes	31st Dec 2018 £'000
Subordinated debt	20	1,504	-	-	1,504
		1,504	**-**	**-**	**1,504**

	Note	1st Jan 2017 £'000	Cash changes	Non-cash changes	31st Dec 2017 £'000
Subordinated debt	20	2,007	(500)	(3)	1,504
		2,007	**(500)**	**(3)**	**1,504**

24 Impairment (charge)/release

	31st Dec 2018 £'000	31st Dec 2017 £'000
Opening balance	572	831
Bad debts written off	(15)	(93)
Charge/ (release) to income statement	46	(166)
Closing balance	**603**	**572**

The total impairment amount includes £280k (31st December 2017: £331k) for an impairment in respect of Loans and advances to customers.

In 2018, £15k of bad debts was written off (2017: £93k).

25 Contingent liabilities and commitments

a) Legal issues

At 31st December 2018, there were no pending legal cases or issues in progress which might have a material impact on the financial statements of Charity Bank (2017: none).

25 Contingent liabilities and commitments (continued)

b) Operating lease commitments

At 31st December 2018 Charity Bank had one operating lease (2017 – one).

A ten-year lease for a new head office was entered into by Charity Bank on 2nd February 2015. At 31st December 2018 Charity Bank was committed to making the following future annual payments in respect of operating leases for land and buildings:

	31st Dec 2018 £'000	31st Dec 2017 £'000
Within one year	127	127
Between one and five years	509	509
More than five years	138	265
	774	**901**

The lease expense for 2018 for the head office in Tonbridge was £127k (2017: £127k). Refer to note 1 which provides details on the new leasing standard, IFRS 16, which becomes effective on 1 January 2019.

c) Off-balance sheet liabilities

	31st Dec 2018 £'000	31st Dec 2017 £'000
Loan commitments		
Undrawn irrevocable loan commitments	44,785	46,417

Commitments comprise amounts yet to be drawn under loan offers or agreements issued to borrowing customers or where formalities, for example, completion of security arrangements, have yet to be finalised. Refer to note 19 where an impairment has been raised for the expected credit loss on commitments in accordance with IFRS 9.

26 Related party transactions

Directors and key management personnel emoluments are disclosed in note 7.

27 Financial Risk Management

Interest rate risks

A robust understanding of the drivers and manifestation of the various interest rate risks to which Charity Bank is exposed is required to facilitate good risk management, supervision and potentially capital adequacy.

Charity Bank reduces its exposure to interest rate risk by actively managing the maturity buckets of its assets and liabilities. In addition, in managing interest rate risks Charity Bank considers the economic impact on its capital of a range of non-parallel shift in interest rates and the capacity of its capital to support a range of extreme interest rate and balance sheet structural stresses.

27 Financial Risk Management (continued)

Interest rate risks (continued)

The following tables show the interest rate sensitivity profiles of assets and liabilities, demonstrating the sensitivity of a change in rate.

As at 31st December 2018	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	No specific repricing £'000	Total £'000
Assets								
Cash and balances at banks	10,740	-	-	-	-	-	-	10,740
Financial assets	-	33,387	2,482	3,641	-	-	-	39,510
Loans and advances to customers	-	139,183	-	-	2,839	-	-	142,022
Prepayments and other assets	-	-	-	-	1,256	-	375	1,631
Property and equipment	-	-	-	-	-	-	170	170
Intangible fixed assets	-	-	-	-	-	-	22	22
	10,740	172,570	2,482	3,641	4,095	-	567	194,095

As at 31st December 2018	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	No specific repricing £'000	Total £'000
Liabilities								
Customer accounts	13,717	59,776	21,771	37,407	37,752	2	505	170,930
Accruals and deferred income	-	-	-	-	-	-	784	784
Other liabilities	-	922	-	-	-	-	192	1,114
Subordinated debt	-	-	-	-	1,000	500	4	1,504
Shareholders funds	-	-	-	-	-	-	19,763	19,763
	13,717	60,698	21,771	37,407	38,752	502	21,248	194,095
Interest rate sensitivity gap	(2,977)	111,872	(19,289)	(33,766)	(34,657)	(502)	(20,681)	

27 Financial Risk Management (continued)

Interest rate risks (continued)

As at 31st December 2017	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	No specific repricing £'000	Total £'000
Assets								
Cash and balances at banks	6,479	-	-	-	-	-	-	6,479
Available-for-sale financial assets	-	35,150	1,498	3,617	-	-	-	40,265
Loans and advances to customers	-	92,680	450	1,123	7,290	7,254	-	108,797
Prepayments and other assets	-	2,263	-	-	-	-	498	2,761
Property and equipment	-	-	-	-	-	-	275	275
Intangible fixed assets	-	-	-	-	-	-	33	33
	6,479	130,093	1,948	4,740	7,290	7,254	806	158,610

As at 31st December 2017	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	No specific repricing £'000	Total £'000
Liabilities								
Customer accounts	1,275	66,961	7,923	19,788	38,316	2	608	134,873
Accruals and deferred income	-	-	-	-	-	-	935	935
Other liabilities	-	737	-	-	-	-	193	930
Subordinated debt	-	-	-	-	1,000	500	4	1,504
Shareholders funds	-	-	-	-	-	-	20,368	20,368
	1,275	67,698	7,923	19,788	39,316	502	22,108	158,610
Interest rate sensitivity gap	5,204	62,395	(5,975)	(15,048)	(32,026)	6,752	(21,302)	

Charity Bank has the option to change the interest rate on its managed loans by giving 90 days' notice to its borrowing customers. Charity Bank has the option to change the deposit rate on the customer accounts by giving 30 days' notice to its savings customers.

For loans and advances, if Base Rate were to fall from 0.75% to zero, the main group of loans that would be impacted are variable rate loans. The impact would be a reduction in interest received income of £605k p.a. (2017: £425k). There would be no impact on the income stream from fixed loans.

For Charity Bank's customer accounts, if there were an increase in Base Rate, management would review the bank's rates and take appropriate action. For every 0.5% increase in Deposit Rate, the interest paid would increase by £333k based on the customer accounts open at 31st December 2018 (2017: £264k).

27 Financial Risk Management (continued)

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 credit risk through loans and advances to its customers, and wholesale credit risk from its treasury operations.

Charity 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 loan to value of the collateral is less than 33.3% or for other exceptional reasons, in which case an informal valuation or estimate is accepted. The collateral is reviewed annually using indices and in certain circumstances is professionally revalued triennially or as needed in accordance with the bank's Credit Risk Policy.

Some cash collateral is held by Charity Bank against a small proportion of its drawn loans. For 2018 this equated to 0.6% of the total loans and advances to customers (2017: 0.7%)

The main credit risk sensitivities on loans and advances for Charity Bank are as follows:

- probability of default: a decrease in the internal credit score of 10% of all borrowers would result in an increase in the impairment of £34k; and
- loss given default: a decrease in the value of security of 5% across all loans would result in an increase in the impairment of £71k, 10% would increase the impairment by £148k

All loan applications are assessed with reference to Charity Bank's Credit Risk Appetite and Credit Risk Policy, including the use of an internal credit grading model. Wherever possible, Charity Bank takes security in the form of a legal charge over fixed property assets of the borrower. In most cases, the secured assets are freehold or long-term leasehold property. Credit risk is also managed through continuous engagement with borrowers. Charity Bank maintains an 'ECL' loan loss impairment for unidentified credit risks as well as specific impairments against loans where it is doubtful of recovering the full amount outstanding. The impairment methodology and key assumptions are reviewed annually by the Risk Committee and Audit Committee. The approval of loans is delegated to the Credit Sub-Committee, the Internal Credit Committee and members of the Credit Department. There have been no material changes in the Credit Risk Appetite or Credit Risk Policy during the year.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the likelihood of defaults occurring. Charity Bank measures credit risk using Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD').

Charity Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The credit grades are calibrated such that the risk of default increases as the credit risk (credit grade) increases. The credit score is reviewed annually and compared to the credit score at sanction (or 31 December 2015, whichever is later) to assess whether a significant increase in credit risk has occurred.

27 Financial risk management (continued)

Credit risk (continued)

OEIV are principally in the form of units in the Royal London Asset Management's 'Cash Plus Fund' (which invests in cash, deposits, money market instruments and short-dated government securities) and units in the Royal London Asset Management's 'Investment Grade Short Dated Credit Fund' (longer tenor, investment grade bonds). UK Government stock and other approved investments are held within Charity Bank's HQLAs.

For the financial assets, any credit risk exposure is mitigated by the high degree of internal diversification within any fund and could be mitigated further at an early point by selling out of the relevant fund.

OEIV can be with a range of counterparties approved by the ALCO under a framework approved by the Risk Committee. Each counterparty has a credit limit as a percentage of capital and based on a combination of the tenor and the counterparty credit rating as assessed by well-established rating agencies and tempered by management knowledge and soundings. Charity Bank follows a low risk policy in relation to its treasury activities and places funds only with counterparties with sound external credit ratings.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and its credit risk is continuously monitored
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is moved to 'Stage 3'

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Significant increase in credit risk ('SICR')

Charity Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

- The borrower's account has been classified as high risk (being Out of Order, Full Watch List or Internal Watch List); and
- The borrower's credit score has fallen by at least 15% since sanction date (or 31 December 2015, whichever is later).

27 Financial risk management (continued)

Expected credit loss measurement (continued)

Definition of default

A default is not defined in IFRS 9 as the IASB considered that banks should adopt their own definition as internally for credit management, considering qualitative as well as quantitative measures. Accordingly, being in default may or may not lead to a loss or change in the contractual cash flows. If a payment is missed then that would impact the cash flows, but the failure to provide management information in accordance with the terms of the loan agreement would not affect cash flows. Also, being in default may not be sufficient for a transfer to Stage 2 or Stage 3.

For example, if a payment is missed due to an administrative failure and it is corrected within ten working days, the account is not considered to be Out of Order and so would not be transferred to Stage 2.

Charity Bank has not defined default, but instead considers whether a loan is impaired as a result. 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).

Forward-looking information incorporated in the ECL model

Charity Bank has used reductions in property values and a decrease in credit grade as a result of worsening financial performance of the borrower to introduce the necessary forward-looking element into the impairment methodology.

Charity Bank uses a five-year horizon for business planning purposes. This five-year horizon is not used for the purpose of estimating the probability of default on loans, which instead is based on the lifetime of the loan.

27 Financial risk management (continued)

Expected credit loss measurement (continued)

Maximum exposure to credit risk

The following table contains an analysis of the credit risk exposures of financial assets for which an ECL allowance is recognised.

	2018				2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
	£'000	£'000	£'000	£'000	£'000
Gross carrying amount	10,764	18	-	10,782	6,479
Expected credit loss	(42)	-	-	(42)	-
Carrying amount	**10,722**	**18**	-	**10,740**	**6,479**
Gross carrying amount	39,523	-	-	39,523	40,265
Expected credit loss	(13)	-	-	(13)	-
Carrying amount	**39,510**	-	-	**39,510**	**40,265**
Gross carrying amount	124,659	16,747	1,147	142,553	109,369
Expected credit loss	(43)	(237)	(251)	(531)	(572)
Carrying amount	**124,616**	**16,511**	**896**	**142,022**	**108,797**
Gross carrying amount	1,383	-	-	1,383	2,407
Expected credit loss	(10)	-	-	(10)	-
Carrying amount	**1,373**	-	-	**1,373**	**2,407**
Gross carrying amount	44,785	-	-	44,785	46,417
Expected credit loss	(8)	-	-	(8)	-
Carrying amount	**44,777**	-	-	**44,777**	**46,417**

Loss allowance

The loss allowance recognised in the period is impacted by many factors, as described below:

- Transfers between Stages 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decrease) of credit risk with a consequent of a 'step up' (or 'step down') between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the period and well as releases for financial instruments derecognised in the period;
- Impact on the measurement of the ECL due to changes in PDs, EADs and LGDs in the periods from regularly refreshing the model;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were derecognised during period.

The table on the following page explains the change in the loss allowance between the beginning and end of the period due to these factors:

27 Financial risk management (continued)

Loss allowance (continued)

Loans and advances to customers impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1 January 2018	36	377	241	654
Loans drawn and recognised	9	44	-	53
Loans repaid and derecognised	(1)	(131)	-	(132)
Write-offs	-	-	(15)	(15)
Change in credit risk	32	(53)	(19)	(40)
Transfer between stages				
- Transfer to Stage 1	29	(29)	-	-
- Transfer to Stage 2	(66)	66	-	-
- Transfer to Stage 3	-	(44)	44	-
Other movements	4	7	-	11
Expected credit loss as at 31 December 2018	**43**	**237**	**251**	**531**

Other movements comprise of adjustments based on the ICAAP stress scenarios which incorporate macro economic forecasts.

Non lending financial assets impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1 January 2018	24	-	-	24
Financial assets purchased and recognised	9	-	-	9
Financial assets sold and derecognised	(2)	-	-	(2)
Change in credit risk	34	-	-	34
Expected credit loss as at 31 December 2018	**65**	**-**	**-**	**65**

Commitments impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1 January 2018	5	9	-	14
Commitments approved and recognised	10	-	-	10
Commitments drawn and derecognised	(6)	(1)	-	(7)
Change in credit risk	(8)	-	-	(8)
Transfer between stages				
- Transfer to Stage 1	8	(8)	-	-
Commitments not proceeding	(1)	-	-	(1)
Expected credit loss as at 31 December 2018	**8**	**-**	**-**	**8**

27 Financial risk management (continued)

Loss allowance (continued)

The following table further explains changes in the gross carrying amount to help explain their significance to the changes in the loss allowances as above:

Loans and advances to customers	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Loans and advances to customers at 1 January 2018	94,964	13,377	1,028	109,369
Loans drawn and recognised	45,284	3,449	-	48,733
Loans repaid and derecognised	(18,085)	(2,308)	(73)	(20,466)
Interest charged	4,509	723	66	5,298
Write-offs	-	-	(15)	(15)
Transfer between stages				
- Transfer to Stage 1	4,502	(4,502)	-	-
- Transfer to Stage 2	(6,081)	6,081	-	-
- Transfer to Stage 3	-	(140)	140	-
Other movements	(434)	67	1	(366)
Loans and advances to customers at 31 December 2018	**124,659**	**16,747**	**1,147**	**142,553**

Other movements comprise of arrangment and legal fees being transferred to the carrying value of the loans.

Non lending financial assets	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Non lending financial assets at 1 January 2018	13,985	20	-	14,005
Financial assets purchased and recognised	5,602	-	-	5,602
Financial assets sold and derecognised	(1,307)	(1)	-	(1,308)
Non lending financial assets at 31 December 2018	**18,280**	**19**	**-**	**18,299**

Commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Commitments at 1 January 2018	45,830	587	-	46,417
Commitments approved and recognised	37,395	-	-	37,395
Commitments drawn and derecognised	(33,953)	(580)	-	(34,533)
Commitments not proceeding	(4,487)	(7)	-	(4,494)
Commitments at 31 December 2018	**44,785**	**-**	**-**	**44,785**

27 Financial risk management (continued)

Credit risk by asset class

Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Good quality	105,442	7,613	-	113,055
Satisfactory quality	17,701	5,042	-	22,743
Lower quality	1,516	4,081	1,147	6,744
Below standard	-	11	-	11
Gross carrying amount	124,659	16,747	1,147	142,553
Expected credit loss	(116)	(164)	(251)	(531)
Carrying amount	**124,543**	**16,583**	**896**	**142,022**

Non lending financial assets	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Investment grade accounts	18,280	19	-	18,299
Gross carrying amount	18,280	19	-	18,299
Expected credit loss	(65)	-	-	(65)
Carrying amount	**18,215**	**19**	**-**	**18,234**

Commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Good quality	43,202	-	-	43,202
Satisfactory quality	1,583	-	-	1,583
Gross carrying amount	44,785	-	-	44,785
Expected credit loss	(8)	-	-	(8)
Carrying amount	**44,777**	**-**	**-**	**44,777**

Charity Bank uses an internal credit grading method considering financial, quality of income, qualitative and general factors.

The table below categorises the levels of credit risk.

Credit risk	Internal credit grading	Investment grading
Good quality	A, B1, B2	Investment grade
Satisfactory quality	C1, C2	Non Investment grade
Lower quality	D, E	
Below standard	F	

Age analysis of past-due but not impaired assets

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

27 Financial risk management (continued)

Past-due but not impaired

	31st Dec 2018 £'000	31st Dec 2017 £'000
Neither past-due or impaired	141,395	108,065
Past-due		
Within three months	11	276
Between three to six months	-	-
Over six months but less than one year	-	-
Over one year	-	-
Total past-due	11	276
Impaired	1,147	1,028
	142,553	**109,369**

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

Security against past-due but not impaired

	31st Dec 2018 £'000	31st Dec 2017 £'000
Neither past-due or impaired	446,888	208,257
Past-due		
Within three months	86	621
Between three to six months	-	-
Over six months but less than one year	-	-
Over one year	-	-
Total past-due	86	621
Impaired	1,717	1,918
	448,691	**210,796**

Analysis of impaired loans and advances to customers

Refer to note 14 for a detailed analysis of impairments.

27 Financial risk management (continued)

Credit exposure by sector

	31st Dec 2018 £'000	31st Dec 2017 £'000
Banks	12,041	8,742
Corporates	35,874	36,649
Government	3,649	3,617
Loans and advances to customers	142,022	108,797
Other	564	805
	194,150	**158,610**

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

A proportion, 6% (31st December 2017: 8%) of Charity Bank's total financial assets was to high quality financial institutions, the majority of which had external ratings as defined by the PRA of between A- and AA+.

Liquidity risk

Charity Bank met all its regulatory liquidity requirements throughout the year ended 31st December 2018.

Charity Bank is exposed to liquidity risk. The liquidity policy is reviewed at least annually by the ALCO before being reviewed by the Risk Committee, with final review and approval by the Board. There have been no material changes in policies, procedures and objectives during the year.

The liquidity policy requires that sufficient HQLAs are held in a form and at a level which reflects prudent banking practice and regulatory criteria to meet funding requirements under normal and abnormal circumstances. In particular, under internal policies the required levels of HQLAs in approved investments are higher than the minimum levels required by prudential regulation. The risk of not being able to meet all funding requirements is small in the opinion of the Directors given the current levels of this surplus.

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. Charity Bank's investment portfolio consists of two distinct parts.

The first part consists of investments in approved debt securities, principally high quality securities issued by the government or central Banks of a European Economic Area member state, or securities issued by multilateral development banks. These investments represent Charity Bank's policy to invest in HQLAs in accordance with regulatory requirements.

The second part, being the balance and representing liquidity that is over and above that held as HQLAs, is invested mainly in funds investing in debt securities.

Both these sets of investments are subject to market price fluctuations in response to interest rate expectations and Charity Bank is therefore exposed to potential gains or losses on these investments. But the resulting price exposure is mitigated by the high credit rating of the holdings and their relatively short maturity profile.

This exposure to the risk of adverse market price movements is mitigated by Charity Bank's ability to sell some or all of its holding of a fund. For every 1% fall in market prices, the value of Charity Bank's financial assets would fall by £373k (2017: £405k). These losses would be recognised in the Statement of Comprehensive Income as they are classified as FVPL in accordance with IFRS 9.

Categories of financial instruments

The table below represents Charity Bank assets and liabilities carrying amounts, classified by the categories as defined in IFRS 9.

	31 Dec 2018 £'000	31 Dec 2017 £'000
Financial assets		
Cash and balances at banks	10,740	6,479
Available-for-sale financial assets	-	40,265
Financial assets at FVPL	33,387	-
Financial assets at amortised cost	6,123	-
Loans and advances to customers	142,022	108,797
Other assets	1,373	2,407
	193,645	**157,948**
Financial liabilities		
Customer accounts	170,930	134,873
Other liabilities	922	737
Subordinated debt	1,504	1,504
	173,356	**137,114**

27 Financial risk management (continued)

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	Carrying value	Fair value	Fair value
	31st Dec 2018 £'000	31st Dec 2017 £'000	31st Dec 2018 £'000	31st Dec 2017 £'000
Financial assets				
Cash and balances at banks	10,740	6,479	10,740	6,479
Available-for-sale financial assets	-	40,265	-	40,265
Financial assets at FVPL	33,387	-	33,387	-
Financial assets at amortised cost	6,123	-	6,103	-
Loans and advances to customers	142,022	108,797	149,859	107,375
Other assets	1,373	2,407	1,373	2,407
	193,645	**157,948**	**201,462**	**156,526**
Financial liabilities				
Customer accounts	170,930	134,873	170,930	134,873
Other liabilities	922	737	922	737
Subordinated debt	1,504	1,504	1,409	1,504
	173,356	**137,114**	**173,261**	**137,114**

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 from quoted prices. As these financial assets are measured at fair value, the fair value is equal to the carrying value.

Financial Assets at FVPL: these comprise of OEIV which were reclassified from available-for-sale financial assets on implementation of IFRS 9. The basis of estimating the fair value of these assets is by ascertaining the market value as at the balance sheet date from quoted prices. As these financial assets are measured at fair value, the fair value is equal to the carrying value.

Financial Assets at amortised cost: these comprise of HQLAs which were reclassified from available-for-sale financial assets on implementation of IFRS 9. The basis of estimating the fair value of these assets is by ascertaining the market value as at the balance sheet date from quoted prices.

Loans and advances to customers: these comprise of loans and other facilities granted to non-bank customers. The fair value is derived using a discounted cash flow technique. The discount factor is derived using observable market rates for similar products which are then adjusted for liquidity and other premiums based on the characteristics of Charity Bank's portfolio.

27 Financial risk management (continued)

Basis of determination of fair values (continued)

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 and is deemed to be a reasonable representation of the fair value.

Subordinated debt: these are long-term debt liabilities. The debt is convertible at the request of the note holder into preference shares, which in turn Charity Bank automatically convert into ordinary shares, on the basis of one share per £1.00 of loan note. Since the capital reduction in October 2016, 50% of the investment would be allocated to share capital and 50% to share premium.

Whilst shareholders have the right to receive a dividend when one is declared, if a loan note holder converted the loan note into shares, they would no longer receive the coupon rate in the loan note. Subordinated notes are valued using a discounted cash flow technique. The discount factor is derived using management's best estimate of what the market rate would be for a debt instrument with similar characteristics taking into account what the primary market is in which such instruments would be traded.

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 and fair value through profit or loss. These are 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 value measurement recognised in the statement of financial position (continued)

As at 31st December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Amortised cost				
Loans and advances to customers	-	-	139,621	139,621
Financial assets	6,123	-	-	6,123
Fair value through profit or loss				
Financial assets	33,387	-	-	33,387
	39,510	-	139,621	179,131
Financial liabilities				
Amortised cost				
Customer accounts	-	170,930	-	170,930
Subordinated liabilities	-	-	1,504	1,504
	-	**170,930**	**1,504**	**172,434**

As at 31st December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Amortised cost				
Loans and advances to customers	-	-	107,375	107,375
Fair value through 'Other comprehensive income'				
Available-for-sale financial assets	40,265	-	-	40,265
	40,265	-	107,375	147,640
Financial liabilities				
Amortised cost				
Deposits by banks	-	-	-	-
Customer accounts	-	134,873	-	134,873
Subordinated liabilities	-	-	1,504	1,504
	-	**134,873**	**1,504**	**136,377**

27 Financial risk management (continued)

Capital risk (unaudited)

Charity Bank met all its regulatory capital requirements throughout the year ended 31st December 2018.

Charity Bank's Capital Resources and resulting capital ratios at the year-end were as follows:

	31st Dec 2018 £'000	31st Dec 2017 £'000
Tier 1		
Prudent valuation impact	(33)	-
IFRS9 Transtional relief	131	-
Intangible assets	(22)	(33)
Ordinary share capital	12,077	12,077
Retained earnings	3,327	3,688
Share premium	4,359	4,359
Available-for-sale reserve	-	244
Total Common Equity Tier 1 capital (CET1)	**19,839**	**20,335**
Additional Tier 1	-	-
Total Tier 1 capital	**19,839**	**20,335**
Tier 2 capital		
Collective impairment allowance	-	331
Subordinated loan notes	1,266	1,466
Total Tier 2 capital	**1,266**	**1,797**
Total capital resources	**21,105**	**22,132**

	31st Dec 2018 £'000	31st Dec 2017 £'000
Risk-weighted assets	121,812	87,331
Leverage exposure	199,147	163,789

CRD IV capital ratios	**%**	**%**
CET1 ratio	16.29	23.28
Leverage ratio	9.96	12.42

As stated in note 21, Charity Bank's capital position was strengthened by further investments of £5 million in aggregate by Big Society Capital which constitutes Core Equity Tier 1 ('CET1') capital during 2017. These investments took place following receipt of all necessary regulatory approvals.

The CET1 ratio measures a banks CET1 capital against its risk weighted assets. The leverage ratio is a non-risk-based ratio which aims to ensure that a bank's assets are in line with its capital levels. For Charity Bank the leverage ratio is defined as Tier 1 capital as a percentage of total assets before impairments (including a percentage of on and off-balance sheet exposures).

For Charity Bank, the leverage exposure is defined as being total assets plus 10% of its committed loan offers.

The Charity Bank Limited

ANNUAL REPORT FOR THE YEAR ENDED 31st DECEMBER 2018

Directors, Committees and Advisers

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Website: www.charitybank.org

Registered Company No. 4330018
PRA No. 207701

Auditor
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Statutory Auditor
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Principal Banker
NatWest (National Westminister Bank)
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Investment Manager
Royal London Asset Management
55 Gracechurch Street
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Company Secretary
Jenny Edwards

Board of Directors
George Blunden (Chair)
Robin Budenberg CBE
Michael Crabb
Patrick Crawford CB (to 29th June 2018)
Malcolm Elliott
David Godfrey CBE
Sara Llewellin
Sir John Low CBE - a connected Director
Mary O'Connor (to 26th July 2018)
Kate Sayer
Anna Shiel - a connected Director
Ed Siegel (from 26th July 2018)
Toby Walter - a connected Director

Audit Committee
Kate Sayer (Chair)
George Blunden
Mary O'Connor (to 26th July 2018)
David Godfrey CBE (from 1st October 2018)

Risk Committee
David Godfrey CBE (Chair)
Michael Crabb
Mary O'Connor (to 26th July 2018)
Anna Shiel - a connected Director

Credit Sub-Committee
Michael Crabb (Chair)
Patrick Crawford CB (to 29th June 2018)
Malcolm Elliott
Sara Llewellin
Ed Siegel (from 26th July 2018)

Governance Committee
Robin Budenberg CBE (Chair)
George Blunden
Sir John Low CBE - a connected Director

Executive Management Committee
Patrick Crawford CB (CEO) (to 29th June 2018)
Malcolm Elliott (Deputy CEO & Chief Risk Officer)
Gillian Howell
Peter Kelly (to 1st June 2018)
Caspar Mackay
Ed Siegel (CEO) (from 26th July 2018)
Carolyn Sims

Internal Credit Committee
Membership is split into two lists and a meeting requires three members, two of which must be from List One and one of which must be the Head of Credit or Senior Credit Manager
List One
Director of Credit (Chair)
Senior Credit Manager
CEO
Deputy CEO
Finance Director
List Two
Director of Lending
Business Development Director (to 1st June 2018)
Loans Administration Manager

Assets & Liabilities Committee
Gillian Howell (Chair)
Patrick Crawford CB (to 29th June 2018)
Malcolm Elliott
Ed Siegel (from 26th July 2018)
Kirstie Smith
Susan Terblanche