Crown Agents
Bank

Crown Agents Bank Limited

Annual Report and Financial Statements

For the year ended 31st December 2018

Registered Number

2334687

Registered Office:

Quadrant House

The Quadrant

Sutton

Surrey SM2 5AS

Contents

Chairman’s Report for the year ended 31 December 2018

I am pleased to report that Crown Agents Bank Limited (“the Bank”) has again continued to perform well in 2018 , building on a successful year in 2017. The Bank has thereby achieved a strong return to profitability, recording a pre tax/ pre exceptional item profit of £4.9 million for the year. This marks a complete reversal of the £4.6 million pre tax loss recorded by the Bank in 2016 - a substantial turnaround in 2 years.

This noteworthy achievement is the product of hard and dedicated work by all of our teams; and could only be achieved through exceptional individual performances from all our people. Coupled to this, we have made further significant progress with the execution of our transformation strategy, as we establish the Bank as the leading payments and FX provider in our chosen markets.

The management team, under the leadership of Albert Maasland and with the strong support and encouragement of the Board, has re-positioned the Bank as a key player in supporting financial institutions , central banks, NGOs and other institutions as they drive their business both into and out of Africa, the Caribbean and our other regional markets.

Of particular note is the strong relationship we enjoy with our key clients across these markets, in many cases established for decades, and our increasing ability and determination to offer our highly valued clients more and more innovative and highly competitive products and solutions - thereby contributing to the further development of their own business activity. We are proud of our long term commitment to these clients and to our focus markets, and we are excited about what the future holds as we continue to serve our clients better and more comprehensively.

The Bank operates in some of the most exciting and dynamic markets in the world, and these are markets that willingly embrace technology and new channels for the financial execution of their business. Our goal is to establish the Bank as a potent, client-centric, fully digital and agile Bank - whilst retaining in full all the benefits of our legacy and our strong and widely recognised brand. We believe this represents a unique proposition, and it is one that we intend to develop further over the next few years.

We are excited about 2019, and I am pleased to advise that we have already seen substantial further growth in our business volumes and client base in the first months of the year.

I am pleased to welcome Susanne Chishti to the Board. She is recognised as a leading participant in the continually evolving Fintech arena.

We have also successfully relocated our business and our people to new premises close to Sutton station, and this has already resulted in a significant further improvement in morale within our teams. I firmly believe that this investment in our people will lead to increased client satisfaction and therefore business volume growth.

I would like to close by thanking all of our highly professional staff for their dedication and performance in 2018 and I and the Board look forward to 2019 being yet another successful and transformational year for the Bank.

Jeremy Parrish

Chairman

1 April 2019

Chief Executive Officer's Report for the year ended 31 December 2018
Performance Report

Overview

I am pleased to report significant progress in 2018 against the execution of our strategic plan established after the acquisition of the Bank by funds managed by Helios Investment Partners in 2016.

Our overarching philosophy is to do simple things in a transparent and effective manner, albeit sometimes in challenging places. We aspire to be the 'go to' payment and FX banking partner for institutions wishing to make any number and size of transaction into, between and out of frontier and other developing nations, particularly in our focus markets across Africa, the Caribbean and Asia Pacific region. We are committed to supporting greater levels of financial inclusion across our focus markets by encouraging adoption of international standards of compliance and controls whilst using new technologies and processes to allow greater scale and cost reduction in payment and FX activities.

We are very conscious of the trust we have earned over decades serving governments, financial institutions and international development organisations. Our strategy is to leverage our unique network with focused investment in all aspects of our business process to achieve our aspirations. I look forward with confidence as we become the preferred payment gateway for our chosen markets and wholesale customer segments.

Key profitability highlights

- In 2018, we recorded sustained growth finishing the year with £22.9 million in operating income (up from £14.7 million in 2017), resulting in +66% compound annual growth rate since change of control.
- We are now solidly profitable with Profits Before Taxation and Exceptional Items increased to £4.9 million in 2018 (vs £0.5 million in 2017). At the same time, we continue to invest heavily in all aspects of our business including staff, infrastructure, compliance and control environment and business development capabilities.
- Our business model is concentrated on scaling our non capital-intensive cross-border payment services particularly leveraging our strength in frontier and emerging market deliverable spot FX.

The continued focus on payments, spot FX and building more predictable, recurring, fee-based revenues, means that as of the end of 2018:

- Approximately 60% of operating income now comes from non capital-intensive activities (up from c. 51% in 2017) with these proportions expected to increase as we gain further traction in the marketplace.
- Income from fee-driven payment and spot deliverable FX businesses grew respectively by +96% and +62%.
- Our FX volumes grew 100% year on year driven by a growing number of clients who recognise our strength in illiquid Frontier market currency pricing and settlement.
- The value of trusted relationships with our expanding network of central banks and domestic banks ensures a unique position for the Bank to act as a trusted conduit of payment flows into a broad range of developing markets including across Africa as well as the Caribbean and parts of the Asia Pacific region.
- Ongoing extension of our settlement network, is fuelling a steady increase in opportunities to continue to expand our business.

Chief Executive Officer's Report for the year ended 31 December 2018 (continued)
Performance Report (continued)

Key balance sheet highlights
Our strategy with respect to our Balance sheet is to be entirely liability led. We do not need to fund a traditional bank loan book but aim to support our customers primarily through the provision of current account and short term deposits in order to facilitate payment and spot FX flows.

- In 2018, our balance sheet grew by 14% to £1.1 billion. We continued to expand and diversify our wholesale customer base geographically, balancing deposits from our traditional central bank and governmental clients with growing level of deposits from Banks and other regulated financial institutions across our network.
- Our focus remains on maintaining very high levels of liquidity with 68% of our balance sheet at year end placed in High Quality Liquid Assets including deposits held with Bank of England and US Treasury holdings. The move into US Treasury holdings provides the Bank with highly liquid USD denominated assets more correlated with our significant USD deposit base.
- Given our growth rate and conservative risk appetite we are consciously maintaining strong surplus capital levels well in excess of our regulatory requirements in order to maintain flexibility.
- Our trade finance activities are designed to support key customer relationships and transactions that directly support financial development of the markets that we serve. Approximately 82% of trade finance assets at year-end were fully cash collateralised or guaranteed by supra national or similar highly rated counterparties.

Key operational highlights

- We have significantly strengthened our governance framework and compliance infrastructure with particular focus on our enhanced due diligence process for the on-boarding of new clients, the implementation of powerful transaction monitoring tools and an upgrade in cyber-security controls – all of which are subject to continuous refinement and improvement.
- As part of our strategic plan to fully digitise our organisation we have taken further important steps in implementing a next-generation digital infrastructure to better serve the needs of our existing and growing client franchise. This process is expected to accelerate in 2019, in particular as we implement a next generation payment gateway.
- Our ambition and growth plans are underpinned and predicated on uncompromising commitment to the highest level of governance, anti financial crime and compliance controls. We have further strengthened our team and our processes in this area and have engaged in a number of countries both with Central Bank and domestic bank management to support capacity development initiatives to enhance their capabilities in this crucial area.
- We encourage everyone in the organisation to challenge current practices and techniques to find better solutions for our clients and to foster a culture of vigilance, continuous improvement and operational excellence. We are committed to supporting diversity in its broadest form and are making steady progress in achieving improvements in all of our metrics in this regard.
- Finally, I am pleased to announce that in December 2018, as part of our transformation plans, we moved into new, fit for purpose, premises better capable of supporting the digital transformation and overall growth of our business. The new premises next to Sutton station in Greater London create a much better working environment for our staff with better access and transport connectivity for all our stakeholders.

Chief Executive Officer's Report for the year ended 31 December 2018 (continued)

Key Performance Indicators

Fig. 1: Operating Income (£m)

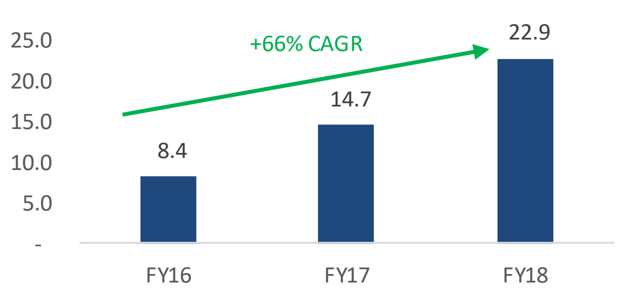


Fig. 2: Operating Income Mix (£m)

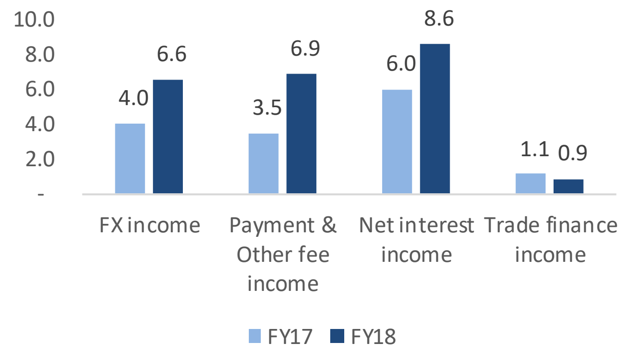


Fig. 3: Profit before exceptional item and tax (£m)

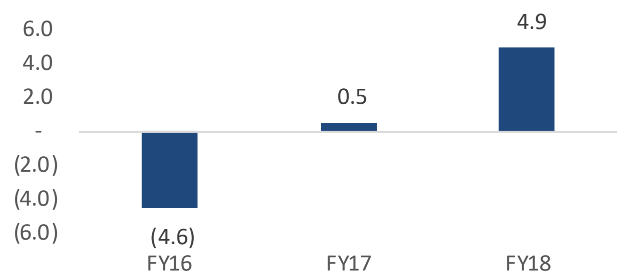


Fig. 4: Total Assets (£m)

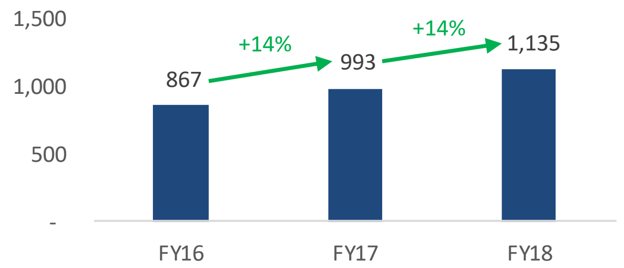


Fig. 5: Processed FX volume (£bn)

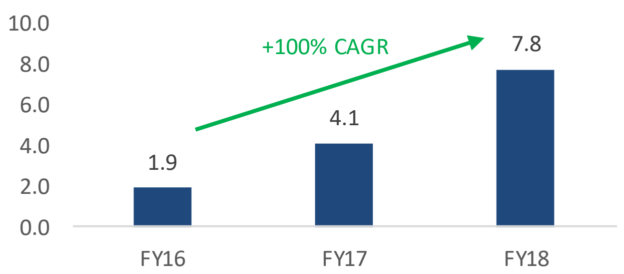
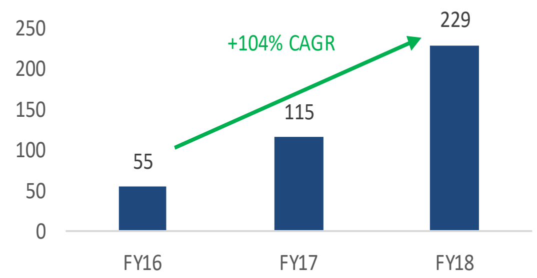


Fig. 6: Processed payments ('000 transactions)



Chief Executive Officer's Report for the year ended 31 December 2018 (continued)
Strategic Report for the year ended 31 December 2018

The Bank is committed to be the preferred wholesale B2B financial institution trusted to move money where it is needed – to, from and across our chosen frontier and developing markets.

We do this by leveraging trusted relationships with government, supranational, development organisation and regulated financial institutions in developed markets and our Central Bank and regulated domestic financial institution clients across frontier and developing markets.

As of year-end 2018 we are sending money to or providing transaction banking and FX services across 57 nations including many small states and fragile states. Our specialist ability to reliably and cost effectively send money to some of the more remote and challenging destinations in the world creates a unique platform from which to expand our FX and payment business.

Our success is defined by a strong governance framework, commitment to supporting the development and adherence to rigorous levels of compliance by the institutions we serve, technological leadership and client focus.

Post change of control in 2016, we invested heavily in a fit for purpose governance and control environment, a robust, best of breed compliance and on-boarding process, and technology developments to drive operational excellence across the Bank. Process improvement initiatives have played a significant role in facilitating planned scalability of transaction banking business volumes with subsequent emphasis on business development initiatives beginning to take hold from 2017 onwards.

Central to this programme was an investment in talent as we transformed the Executive Management team and the Board as well as targeted recruiting of subject matter experts across key areas of the organisation, laying the foundations for sustained future growth.

After laying the groundwork in 2016-2017 I am pleased to report that the Bank has successfully leveraged these significant and ongoing investments with noteworthy improvement in performance in 2018. The strategy to focus on becoming the market leader in international payments and spot deliverable FX specialising in our unique area of expertise in Frontier and developing markets is gaining significant traction.

I would also like to highlight the focus the Bank has on capacity building initiatives with commercial banks and other institutions in our focus geographies in Africa, the Caribbean and other select regions of the world.

Often working in conjunction with the local supervisory authorities, the Bank is playing a positive role in mitigating some of the negative impact of the wider international banking community's de-risking activities which have created serious challenges across many of our markets.

Investment in compliance capacity building initiatives and digitisation in order to connect to the rapidly expanding range of fintech initiatives across our markets will play an increasingly important role in the successful execution of our strategic plan.

Our commitment to reinforcing the trusted reputation we have built in many small and mid-sized developing markets, helping to reopen or maintain payment and transaction banking access to and from international markets is supporting our clients achieve better and safer outcomes. This has helped reduce the cost, speed and complexity of transaction banking services and supports the development of greater levels of financial inclusion across these markets. The Bank remains committed to working with our clients across the globe and leveraging the resources of the firm to help them successfully achieve their goals.

Chief Executive Officer's Report for the year ended 31 December 2018 (continued)
Strategic Report for the year ended 31 December 2018 (continued)
Principal risks and uncertainties

The principal risks facing the Bank are those relating to liquidity, credit, operational (including operational resilience), market, financial crime and compliance. Further details are provided in note 19 on pages 50-53.

The Board is responsible for determining the long-term strategy of the business, the markets in which it will operate and the level of risk acceptable to the Bank. Responsibility for the management of the Bank's exposure to liquidity, interest rate and currency risk is delegated to the Bank's Asset and Liability Committee, and that relating to credit risk is delegated to the Credit Committee. Responsibility for the monitoring and reporting of operational and compliance risk is delegated to the Compliance and Operational Risk Committee with all residual risks being delegated to the Executive Committee. Furthermore, all these committees report to the Audit and Risk Committee.

Albert Maasland

Chief Executive Officer

1 April 2019

Directors for the year ended 31 December 2018

Jeremy Parrish – Chairman and Independent Non-Executive Director

Jeremy Parrish joined the boards in 2017 with over four decades of banking experience. After starting his career with the ANZ Grindlays Group (which included postings to Hong Kong and Switzerland), he joined Standard Chartered Bank in 1994 as Head Of Corporate Banking, Europe. Following further international postings to Singapore and Tokyo, he returned to London as the Regional Head of Wholesale Banking for Europe. In 2005, after five years in the role, he was transferred to Abu Dhabi as CEO for Standard Chartered Bank UAE with particular responsibility for the UAE area. In 2011 he returned to Switzerland as CEO of Standard Chartered Bank, Switzerland. He is currently a non-executive director and Chairman of the Risk and Audit Committee of Julius Baer International Ltd. He is also Chairman of both the Challenger Trust and Raphaels Bank plc, Chairman designate of Anglo Gulf Trade Bank in Abu Dhabi , UAE and an advisor to Deloitte Financial Advisory.

Nick Beecroft – Senior Independent Non-Executive Director

Nick Beecroft joined the Bank's Board in March 2010. He brings over 30 years of international experience within the financial services industry, including senior managerial roles within Global Markets at Standard Chartered Bank, Deutsche Bank and Citibank. Nick was a member of the Bank of England's Foreign Exchange Joint Standing Committee, and is currently a Non-Executive Director at National Bank of Egypt UK Ltd (where he is the Senior Independent Non-Executive Director and Chair of the Audit & Risk Committee).

Rajesh Bhatia - Independent Non-Executive Director

Rajesh Bhatia joined the Bank's Board in 2016 bringing with him 30 years of international banking experience. He has held senior Risk Management positions at Standard Chartered, ING, and Australia New Zealand Bank. He was the Group Treasurer at Standard Chartered during the financial crisis.

Susanne Chishti - Independent Non-Executive Director

Susanne joined the Bank's Board in June 2018. Susanne brings over 20 years of financial expertise, board-level experience focused on organisational governance, and a strong understanding of the small/medium size enterprise market. Her experience draws on 14 years in banking with senior positions at Morgan Stanley, Lloyd's Banking Group and Deutsche Bank. As CEO of FINTECH Circle she is an award winning entrepreneur and global expert in financial technology, new business models and a bestselling Editor of The FINTECH Book Series published by Wiley. The latest book on new payment innovation, called The PAYTECH Book will be published by Wiley in 2020.

Carole Machell - Independent Non-Executive Director

Carole Machell is a chartered accountant and experienced business leader combining P&L responsibility with end to end infrastructure experience. Carole has held senior executive roles in Merrill Lynch, JP Morgan and Barclays. She joined Barclays in 2006 in the Investment Bank then transitioned to the Corporate Bank in 2010. As global COO of the Corporate Bank she had responsibility for all infrastructure groups. Later as Head of the International Corporate Bank she had responsibility for Europe, Asia, Africa and North America. Later roles included COO and Deputy CEO of Barclay's Wealth Business.

Directors for the year ended 31 December 2018 (continued)

Carole Machell - Independent Non-Executive Director (continued)

Carole has extensive experience as a Non-Executive Director. She currently sits on the Board of Weatherby's Bank and Chairs their Risk Committee. She is also a member of their Audit and Remuneration Committees. She is a Trustee for the Charities Aid Foundation, 'CAF' and a Non-Executive Director for CAF Bank where she chairs the Risk Committee. She is a Non-Executive Director of Distribution Finance Capital Limited for which she chairs the Audit Committee and is a member of both the Risk and Remuneration Committees. She is also a Non-Executive Director of Sainsbury's Bank PLC for which she similarly chairs the Audit Committee and is a member of both the Risk and Remuneration Committees.

Derek McMenamin – Independent Non-Executive Director

Derek McMenamin joined the Bank's Board in June 2013. He is a retired solicitor and former partner of Linklaters LLP where he specialised in all aspects of corporate work, including mergers and acquisitions as well as public offerings of securities. He has a wide experience of corporate and corporate finance transactions in the UK, Europe and the Far East, as well as experience of the Middle East and India. He was a non-executive director of Crown Agents Limited until July 2014 and is a director of the Scotts Project Trust, a corporate charity for adults with learning disabilities.

Arnold Ekpe – Non-Executive Director

Arnold Ekpe joined the Board in April 2016 and has degrees in engineering and business administration. He has over 30 years of experience of international banking. He has previously served as the CEO of the two leading Pan African banks, Ecobank and UBA and was responsible for developing Citibank's corporate and structured trade finance business in Sub Saharan Africa.

He is currently the Chairman of Microcred, the leading France based pan African Microfinance Banking Group; non-executive director of Dangote Flour Mills and Senior Adviser to the Dangote Group, the leading pan-African industrial group; Senior Adviser and member of the Investment Committee of US based Equator Capital Partners LLC; and non-executive director of Aavishkaar Venture Management Services, India.

Simon Poole – Non-Executive Director

Simon Poole joined the Board in April 2016 bringing with him broad finance and administration experience across a range of businesses in numerous African countries. Previously, he was a CFO with Intela Global Ltd, Lawson's Corporation and Celtel International (in Burkina Faso, Chad and DRC). Earlier in his career he held finance and accounting roles with Price Waterhouse, Bank of America and BT. He currently serves on the boards of directors of Helios Towers Africa Limited, Mall for Africa Ltd and Solevo B.V. He received his BSc in Geography from Exeter University, UK. He qualified as a Chartered Accountant with Price Waterhouse and is a member of the Institute of Chartered Accountants in England and Wales. Simon is fluent in French.

Directors for the year ended 31 December 2018 (continued)

Albert Maasland – Chief Executive Officer

Albert Maasland started his career in banking at Chase Manhattan Bank – later JP Morgan – and during his 11 years career there, was involved in transforming and building a range of highly successful and profitable business units, including launching the first generation of cross-border electronic transaction banking services in Europe. After roles in global cash management, institutional and Global Custody areas he moved to the Markets division as Head of FX sales for Chase.

Subsequently, Albert took over as Global Head of Business Development at HSBC Markets before moving to Deutsche Bank where he was involved in the transformation of their FX business, steering them from 24th to the number one FX provider worldwide. From FX he took increasingly senior roles ultimately joining the Management Committees of the wholesale and Investment Bank.

Albert spent a number of years developing various private businesses before returning to banking, helping establish the global e-commerce business at Standard Chartered before moving to Saxo Bank where he fulfilled numerous roles including CEO of Saxo Bank UK and then Chairman of Saxo Capital Markets UK. Albert was CEO of Knight Capital Europe and subsequently KCG Europe and is on the Board of EASDAQ NV, which is the parent company of Equiduct, a pan-European Regulated Market, operated by Bourse Berlin.

He joined the Board of the Bank as a Non-Executive Director in 2016 and was appointed as Group Chief Executive Officer in February 2017.

Richard Hallett – Chief Financial Officer

Richard Hallett is the Chief Financial Officer of the Bank and of Crown Agents Investment Management Limited, having joined in June 2016. Richard's career spans more than 25 years in top tier financial services organizations with an extensive track record across Investment Banking, Commercial and Retail Banking sectors both regionally and globally. He was formally CFO of Barclays Africa and CFO of Absa Capital. Previous roles to this include UK & Europe CFO and Global Business Unit Controller at RBS, Managing Director, European Head of Fixed Income Product Control and Global Head of Interest Rates Product Control at Morgan Stanley, and Director and Global Head of Expense Management at Credit Suisse First Boston. Richard started his career at Price Waterhouse, is a qualified accountant and holds a BSc. (Hons) in Chemistry from the University of East Anglia.

Doug MacLennan – Chief Risk Officer

Doug MacLennan joined the Bank in December 2012 as both CFO and CRO. He stepped down from the CFO position in June 2016 to focus on the development of the risk management function within the Bank.

He has been involved in the UK Financial Services Industry for over 30 years within Investment Banking, Broking, and Global Custody, including previous appointments as Director of Finance at Merrill Lynch Limited; Deputy Managing Director at Sanwa International; Finance Director at the Bank of China International; and Senior Vice President of Risk Management at Northern Trust. Doug is a member of the Institute of Chartered Accountants of Scotland, and a Fellow of the Chartered Institute for Securities and Investments.

Directors' Report for the year ended 31 December 2018

The directors submit their report and the audited financial statements of the Bank for the year ended 31 December 2018.

Principal Activity

The Bank provides banking services notably to customers in the overseas financial services sector. The Bank is authorised by the Prudential Regulation Authority (PRA), and regulated by the PRA and the Financial Conduct Authority (FCA).

Future Developments

Future Developments are discussed in the Strategic Report.

Post Balance Sheet Events

Post Balance Sheet Events are discussed in the Chief Executive Officer's Report.

Dividends

No dividend was paid or declared during 2018 or 2017.

Political Donations

No political donations were made in 2018 or 2017.

Employee Matters

(a) Employee Engagement Survey

On an annual basis the Bank carries out an Employee Engagement Survey. Through a company-wide questionnaire and a series of focus groups, the Bank explores how it measures up to its stated values/ industry benchmark and how well engaged employees are with their roles. The most recent survey, carried out in late 2018, concluded that the level of staff engagement compares well with the industry benchmark and is above benchmark in many areas.

Directors' Report for the year ended 31 December 2018 (continued)

Employee Matters (continued)

(b) Disabled Persons

Our commitment is to attract talented individuals. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Bank continues. It is the policy of the Bank that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of persons fortunate enough not to suffer from a disability.

(c) Employee Involvement

The Bank uses a variety of methods to disseminate relevant information to its employees. All managers hold regular meetings with their staff for this purpose, at which there are also opportunities for employees to contribute their ideas to the development of management policy. In addition, further information is given at quarterly townhall meetings hosted by the Chief Executive Officer, through the intranet, notices and via webinars/ training programmes.

(d) Gender diversity

The proportion of women and men employed by the business is 44% and 56% respectively. The Bank has in place policies to actively increase gender diversity within the business, which actively focusses on recruitment, flexible working and senior management sponsorship of diversity throughout its business.

Risk Management

The Bank's Board determines overall strategy, the markets in which it will operate and the levels of risk acceptable to the Bank.

Management, as part of its PRA Pillar 3 Capital Adequacy disclosure requirements, has performed an assessment of these requirements and the information, including remuneration, can be found on the Bank website www.crownagentsbank.com.

The Bank complies with the regulators' minimum capital requirement as at 31st December 2018.

Details of the principal risks and risk management arrangements are set out in Note 19 of the Notes to the Financial Statements beginning on page 53.

Directors' Report for the year ended 31 December 2018 (continued)

Directors

The directors of the Bank who were in office during the year and up to the date of signing the financial statements were:

	Committees	
	Remuneration	Audit/Risk
J Parrish* (Chairman)	x	
N Beecroft*	x	x
R Bhatia*		x
S Chishti (appointed on 26 June 2018)		
C Machell*		x
D McMenamin*		
A Ekpe**	x	
S Poole**	x	
A Maasland		
R Hallett		
D MacLennan		

* independent non-executive director ** non-executive director

Statement of Directors' Responsibilities in respect of the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' Report for the year ended 31 December 2018 (continued)

Statement of Directors' Responsibilities in respect of the Financial Statements (continued)

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

Disclosure of Information to Auditors

Each person who is a director at the date of approval of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) the director has taken all the steps that the director ought to have taken as a director in order to make the director aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' Indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Bank also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Elective Resolutions

In accordance with the Companies Act 2006 elective resolutions have been passed which will facilitate the administration of the Bank. The Bank has dispensed with holding annual general meetings and with the laying of financial statements before the shareholders in general meeting.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

By order of the Board,

A Maasland
Chief Executive Officer
1 April 2019

Independent Auditors' Report to the members of Crown Agents Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, Crown Agents Bank Limited's (the "Bank") financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the profit and loss account, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the Bank in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall materiality: £201,000 (2017: £147,000), based on 1% of revenue.
- The Bank prepares individual company financial statements and has no branches or subsidiaries.
- We perform a full scope audit of the financial statements of the Bank as a whole.
- The key audit matter was the risk of material misstatement in relation to fee and commission income.

Independent Auditors' Report to the members of Crown Agents Bank Limited (continued)

Our audit approach (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Bank and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations such as, but not limited to, the relevant rules of the Prudential Regulatory Authority as the Bank's lead regulator, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and profit. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud. There were no such matters identified that impact on materially on the financial statements;
- Reading key correspondence with the Prudential Regulation Authority in relation to compliance with banking regulations;
- Reviewing customer complaints for any indication that there has been a breach of relevant laws and regulations or instances of fraud; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Independent Auditors' Report to the members of Crown Agents Bank Limited (continued)

Our audit approach (continued)

Key audit matter	*How our audit addressed the key audit matter*
Risk of material misstatement of fees and commission income A significant portion of the Bank's income is generated by fees and commission income relating to account management and payments, pensions, documentary credits and consultancy services. The breakdown of fee and commission is shown in note 2 to the financial statements, and the recognition policy is described in note 1. We considered this risk of material misstatement a significant audit risk given the size of the balance and given that aspects of the revenue billing process are manual in nature.	We understood and evaluated the design of the key controls over fees and commission income and in some instances tested their operating effectiveness. Controls tested included: - Authorisation control over recording of certain fees in the system. - Controls over outbound and inbound payments. - IT general controls including user access, change management and segregation of duties within the core banking system and general ledger. We determined that we could rely on these controls for the purposes of our audit. In addition, we performed substantive procedures including those described below: - Vouching a sample of transactions to supporting evidence. This evidence varied depending on the type of fee and commission income and typically included some of invoices, fee schedules and client contracts. - Testing of journal entries including those impacting fee and commission income, using risk-based criteria. - Testing cut-off of revenue recorded. Based on the work performed, we found that the fee and commission income was supported by the evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which it operates. The Bank prepares individual company financial statements and was tested as a single audit component. We tested all material balances.

Independent Auditors' Report to the members of Crown Agents Bank Limited (continued)

Our audit approach (continued)

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall materiality	£201,000 (2017: £147,000).
How we determined it	1% of revenue (expected at the time the materiality was determined).
Rationale for benchmark applied	The Bank is profit oriented and we would typically calculate materiality as a percentage of profits before tax. However, given the Bank has only recently transitioned to a profit generating position, we considered that a revenue based benchmark was a more appropriate measure for the year ended 31 December 2018. This is also consistent with prior year.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £10,000 (2017: £7,300) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the 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 Bank'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 the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Bank's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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

Independent Auditors' Report to the members of Crown Agents Bank Limited (continued)

Reporting on other information (continued)

knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities set out on pages 14 and 15, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

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

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

Use of this report
This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditors' Report to the members of Crown Agents Bank Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors in 1989 to audit the financial statements for the year ended 31 December 1989 and subsequent financial periods. The period of total uninterrupted engagement is 30 years, covering the years ended 31 December 1989 to 31 December 2018.

Luke Hanson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

2 April 2019

Profit and Loss Account for the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Interest income			
- interest receivable from debt securities		**3,588**	2,415
- other interest receivable and similar income		**14,190**	9,987
Interest payable		**(9,167)**	(6,370)
Net interest income		**8,611**	6,032
Fees and commissions receivable	2	**7,533**	4,635
Dealing profits		**6,552**	4,034
Other operating income		**228**	-
Operating income		**22,924**	14,701
Administrative expenses before exceptional item	3	**(16,886)**	(13,491)
Amortisation	4	**(916)**	(567)
Depreciation	5	**(185)**	(88)
Write-off of doubtful debts		**(4)**	(40)
Profit before exceptional item and taxation		**4,933**	515
Exceptional item	3	**(350)**	(428)
Profit before taxation		**4,583**	87
Tax (charge)/ credit on profit	6	**(910)**	16
Profit for the financial year		**3,673**	103

There were no other items of Comprehensive Income (2017: £nil).

The results for the year are wholly attributable to continuing operations.

The notes on pages 27 to 58 form part of these financial statements.

Balance Sheet as at 31 December 2018

	Note	**2018** **£'000**	2017 £'000
Assets			
Cash and balances at central banks		**594,992**	423,127
Loans and advances to banks	7	**194,373**	228,721
Debt securities	8	**326,865**	330,522
Investments	9	**125**	-
Derivative financial instruments	10	**3,067**	1,257
Intangible assets	4	**5,215**	4,092
Tangible fixed assets	5	**2,753**	514
Deferred tax	11	**226**	913
Other assets	12	**6,620**	3,067
Prepayments and accrued income		**1,306**	832
Total Assets		**1,135,542**	993,045

Balance Sheet as at 31 December 2018

	Note	**2018 £'000**	2017 £'000
Liabilities			
Customer accounts	13	**1,056,750**	923,881
Bank overdrafts		**380**	-
Items in course of transmission		**276**	287
Derivative financial instruments	10	**5,612**	6,052
Other liabilities	14	**8,218**	2,921
Accruals and deferred income		**2,939**	2,240
Capital and reserves			
Called up share capital	15	**41,200**	41,200
Retained earnings		**20,167**	16,464
Total shareholders' funds		**61,367**	57,664
Total Equity and Liabilities		**1,135,542**	993,045

The notes on pages 27 to 58 form part of these financial statements.

The Board of Directors approved the financial statements on 1 April 2019.

A Maasland
Director

R Hallett
Director

Statement of Changes in Equity for the year ended 31 December 2018

	Called up share capital	Profit & loss account	Total shareholders funds
	£'000	£'000	£'000
Balance as at 1 January 2017	25,300	16,307	41,607
Profit for the financial year	-	103	103
Share based payment expense	-	54	54
New share capital	15,900	-	15,900
Balance as at 31 December 2017	41,200	16,464	57,664
Balance as at 1 January 2018	**41,200**	**16,464**	**57,664**
Profit for the financial year	**-**	**3,673**	**3,673**
Share based payment expense	**-**	**30**	**30**
Balance as at 31 December 2018	**41,200**	**20,167**	**61,367**

The directors have not declared an interim (2017: £nil) or a final dividend (2017: £nil).

Cash Flow Statement for the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Net Cash Inflow from Operating Activities	27	**167,018**	3,597
Cash flow from Investing Activities			
Purchase of investments	9	**(125)**	-
Purchase of tangible fixed assets	5	**(2,443)**	(554)
Purchase of intangible assets	4	**(2,039)**	(1,853)
Net cash used in Investing Activities		**(4,607)**	(2,407)
Cash flow from Financing Activities			
Injection of new capital	15	**-**	15,900
Cash generated from financing activities		**-**	15,900
Net increase in cash and cash equivalents		**162,411**	17,090
Cash and cash equivalents at the beginning of the year		**509,217**	493,776
Bank overdrafts		**380**	(3)
Exchange gains/ (losses) on cash and cash equivalents		**3,898**	(1,646)
Cash and cash equivalents at the end of the year		**675,906**	509,217
Cash and cash equivalents consists of:			
Cash and balances at central banks		**594,992**	423,127
Loans and advances to banks repayable on demand	7	**80,914**	86,090
		675,906	509,217

Notes to the Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1. STATEMENT OF ACCOUNTING POLICIES

(a) General Information

Crown Agents Bank Limited is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Quadrant House, The Quadrant, Sutton, Surrey, SM2 5AS.

The Bank provides banking services, largely to overseas clients. The Bank is authorised by the Prudential Regulation Authority (PRA), and regulated by the PRA and the Financial Conduct Authority (FCA).

(b) Statement Of Compliance

The financial statements of Crown Agents Bank Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and the Companies Act 2006. The principal accounting policies are set out below and have been consistently applied throughout the year.

(c) Basis Of Preparation

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and Applicable Accounting Standards in the United Kingdom.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1(s).

(d) Going Concern

The directors have considered the financial position of the Bank, including the net current asset position, regulatory capital requirements and estimated future cash flows and have concluded that the Bank will be able to meet its obligations as they fall due. Accordingly, the financial statements have been prepared on the going concern basis.

(e) Interest Income And Expense

Interest income and expense for all interest-bearing financial instruments, including interest accruals on related foreign exchange contracts, are recognised within Interest Income and Interest Expense in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(f) Recognition of income

Income, including that arising from advances, which comprises fees and commissions earned, reimbursable expenditure from clients, interest receivable and interest payable, is recognised on an accruals basis in the periods in which it is earned.

(g) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The Bank has taken advantage of certain disclosure exemptions.

(h) Dealing Profits

Dealing profits arise and are recognised at the time of translation or when the transactions from customer orders are undertaken in both spot/forward currency markets and revaluation of derivative fair values.

(i) Foreign currency

(i) Functional and presentation currency

The financial statements are presented in pounds sterling and rounded to thousands. The Bank's functional and presentation currency is pounds sterling.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(j) Provisions for doubtful debts

Specific provisions for doubtful debts are recognised if there is objective evidence that an impairment or loss has been incurred. Provisions are calculated as the difference between the carrying value and the future discounted estimated cash flows.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(k) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred tax assets or liabilities are not discounted.

Current tax is the amount of corporation tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantially enacted by the period end.

Deferred taxation is provided at anticipated tax rates, using the full provision method, on all timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date with certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits

(l) Intangible assets and amortisation

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. As decided by the directors, amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Core software – 10 years

Other software – 5 years

Costs associated with maintaining computer software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets and amortisation (continued)

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(m) Tangible fixed assets and depreciation

Tangible fixed assets are stated in the balance sheet at historic cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bring the asset to its working condition for its intended use. Assets are depreciated from the date they are brought into use. Depreciation is calculated to write down assets to their residual value in equal instalments over their estimated useful lives, which are:

Leasehold improvements	Over the life of the lease
Computer equipment	5 years
Fixtures and fittings	5-20 years

(n) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(p) Financial instruments

The Bank has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including loans and advances to banks, debt securities and trade debtors are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the profit and loss account.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Debt Securities and Certificates of Deposit are purchased for liquidity purposes and are generally held to maturity. As such they are stated at amortised cost on an effective interest rate basis.

(ii) Financial liabilities

Basic financial liabilities, including customer deposits and trade creditors, are classified as debt and are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(p) Financial instruments (continued)

(ii) Financial liabilities (continued)

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Derivative financial instruments

The Bank's derivative financial instruments policy only permits dealing in forward foreign exchange contracts, and deposit linked swaps to economically hedge or provide services to customers. Derivative financial instruments are not basic financial instruments.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivative financial instruments are recognised in the profit and loss account in Dealing Profits.

Hedge accounting is not applied.

(iv) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(q) Employee benefits

The Bank provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements, medical insurance and a defined contribution pension plan. The Bank also provides a Long Term Incentive Plan to Executive Directors and certain other senior management.

Short-term benefits

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Pension Contributions

All pension contributions are accounted for as defined contributions and paid over on a monthly basis. No liability for pension entitlement accrues to the Bank.

Long term Incentive Plan/ Share Based Payment

(i) The Company provides share-based payment arrangements to certain employees.

(ii) Equity-settled arrangements are measured at fair value at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares that will vest.

(iii) Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for the share-based payment. Settlement and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in the profit and loss account.

(iv) The Company has no cash-settled arrangements.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(r) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

(s) Recognition of income

Income, including that arising from advances, which comprises fees earned, reimbursable expenditure from clients, interest receivable and interest payable, is recognised on an accruals basis in the periods in which it is earned.

(t) Critical judgements and estimates in applying the accounting policy

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Deferred Tax Asset

Tax losses have been recognised on the balance sheet at the corporation tax rates expected when the appropriate future profits will be generated. Management are confident that the Bank will make such profits in the future to utilise such carried forward tax losses.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(u) Exceptional Items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material either because of their size or their nature and are considered as non-recurring.

2. FEES AND COMMISSIONS RECEIVABLE AND OTHER OPERATING INCOME

	2018	2017
	£'000	£'000
Fees and commissions receivable:		
Account management and payments	**4,196**	2,711
Pension payment fees	**774**	795
Trade finance	**875**	1,129
Risk assessment services	**1,688**	-
Total fees and commission receivable	**7,533**	4,635

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

3. ADMINISTRATIVE EXPENSES

	2018 £'000	2017 £'000
Staff costs and directors' emoluments (before exceptional item)		
Salaries, bonuses and benefits	**9,909**	8,242
Share based payments	**30**	54
Social security costs	**1,084**	829
Pension costs	**531**	337
	11,554	9,462
Fees payable to the auditors		
Audit	**155**	134
Non-audit services	**21**	12
Other administrative expenses	**5,156**	3,883
Total - before exceptional item	**16,886**	13,491
Exceptional item*	**350**	428
Total – after exceptional item	**17,236**	13,919

* The Exceptional Item relates to restructuring costs relating to exit compensation payable to directors/staff.

The aggregate emoluments (including pension contributions and exit compensation) of the directors were £1,248,227 (2017: £1,371,722).

The aggregate emoluments (including pension contributions and exit compensation) of key management personnel (excluding directors) were £1,825,476 (2017: £988,809).

No retirement benefits accrued for any director (2017: none) under a defined benefits pension scheme.

The Bank has made contributions of £30,333 (2017: £18,287) on behalf of three directors (2017: three) accruing benefit in defined contribution pension schemes.

The aggregate emoluments and pension contributions of the highest paid director were £362,531 (2017: £378,815) and £nil (2017: £4,972) per annum respectively.

The Bank had loans outstanding at the year end to three (2017 – three) directors totalling £21,930 (2017 - £21,930 and to six (2017 – five) key management totalling £14,331 (2017 - £13,809). The loans do not accrue interest and are repayable on the occurrence of the earliest of a number of future events.

The monthly average number of full time equivalent staff, including executive directors, was 121 (2017: 118).

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

3. ADMINISTRATIVE EXPENSES (continued)

With effect from 1 April 2016, the Bank set up a new defined contribution pension scheme which all current and future employees were able to join. The Bank contributed £531,560 (2017: £336,640) to this scheme during the year of which all but £49,796 (2017: £28,918) was paid during the year.

In 2017 an equity settled share based payment scheme was put in place to incentivise senior management. During the year no (2017 – three) directors and three (2017 – five) key management personnel have purchased the equitable interest in 1,750 (2017 – 8,500) £1 Ordinary (Class B) shares in the Bank's parent, CABIM Limited, at a cost of £1.00 per share. The equitable interest in the shares vest at various times as follows:

Vesting Date 31 March	Tranche 1 Issued 2017	Tranche 2 Issued 2018
2018	40%	-
2019	20%	-
2020	20%	40%
2021	20%	20%
2022	-	20%
2023	-	20%
	100	100
Number of shares	8,500	1,750

The interest in 1,000 (2017 – nil) shares was cancelled during the year. The movement in the equitable interest in the number of shares is as follows:

	2018	2017
As at 1 January	8,500	
Granted (paid £1.00)	1,750	8,500
Cancelled (Tranche 1)	(1,000)	-
As at 31 December	9,250	8,500

Depending on the outcome of a number of future events, the class of shares will be entitled to receive a proportion of the return to CABIM Limited's parent on its underlying investment.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

4. INTANGIBLE ASSETS

	Non-core Software £'000	Core Software £'000	Total £'000
Cost			
At 1 January 2018	2,619	3,617	6,236
Additions	1,214	825	2,039
Disposals	-	-	-
At 31 December 2018	3,833	4,442	8,275
Accumulated Amortisation			
At 1 January 2018	1,088	1,056	2,144
Charged in year	449	467	916
Disposals	-	-	-
At 31 December 2018	1,537	1,523	3,060
Net Book Value at 31 December 2018	**2,296**	**2,919**	**5,215**
Net Book Value at 31 December 2017	1,531	2,561	4,092

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

5. TANGIBLE FIXED ASSETS

	Leasehold Property **£'000**	Computer equipment **£'000**	Fixtures and fittings **£'000**	Total **£'000**
Cost/Valuation				
At 1 January 2018	-	684	32	716
Additions	71	510	1,862	2,443
Disposals	-	(2)	(36)	(38)
At 31 December 2018	**71**	**1,192**	**1,858**	**3,121**
Accumulated Depreciation				
At 1 January 2018	-	190	12	202
Charge for year	1	151	33	185
Disposals	-	-	(19)	(19)
At 31 December 2018	**1**	**341**	**26**	**368**
Net Book Value				
At 31 December 2018	**70**	**851**	**1,832**	**2,753**
At 31 December 2017	-	494	20	514

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

6. TAX ON PROFIT

A. Analysis of Tax Charge/ (Credit) for the Year

	2018 £'000	2017 £'000
Corporation tax based on the taxable profit/ (loss) for the year at 19.00% (2017: 19.25%)	**667**	(34)
- Prior year adjustment	**20**	(2)
- Group relief	**-**	14
Deferred tax		
- Prior year	**6**	(111)
- Originating and reversal of timing differences	**217**	123
- Impact of change in tax rate	**-**	(6)
Total tax charge/(credit) for the year	**910**	(16)

B. Factors Affecting Tax Charge/ (Credit) for the Year

The tax assessed for the year is higher (2017: lower) than the standard rate of Corporation Tax in the UK.

	2018 £'000	2017 £'000
Profit before taxation	**4,583**	87
Standard rate corporation tax of 19.00% (2017: 19.25%) on profit before taxation	**871**	17
Effect of:		
Expenses not deductible for tax	**16**	12
Tax available for group relief	**-**	14
Current year timing differences	**(220)**	(63)
Deferred tax	**217**	6
Prior year adjustment	**26**	(2)
Total tax charge/ (credit) for the year	**910**	(16)

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

7. LOANS AND ADVANCES TO BANKS

A By External Long-Term Credit Rating*:

	2018		2017	
	No.	**£'000**	No.	£'000
AA	**1**	**4,822**	2	19,773
AA-	**2**	**179**	3	18,815
A+	**6**	**50,216**	9	86,568
A	**4**	**44,838**	4	11,779
A-	**5**	**27,883**	5	34,460
BBB+	**2**	**11,065**	3	12,822
BBB-	**1**	**8,930**	1	8,888
BB+	**2**	**5,853**	1	214
B-	**4**	**802**	1	5
B	**2**	**180**	-	-
Unrated	**31**	**39,605**	24	35,397
	60	**194,373**	53	228,721

* based on a basket of credit rating agencies, all approved by the European Central Bank.

B By Country – location of counterparty:

	2018	2017
	£'000	£'000
UK	**66,185**	108,394
Other Europe	**3,328**	12,723
Japan	**33,996**	26,536
US	**41,789**	45,308
Africa	**40,618**	34,750
Other	**8,457**	1,010
	194,373	228,721

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

7. LOANS AND ADVANCES TO BANKS (continued)

C By Maturity:

	2018 **£'000**	2017 £'000
Repayable on demand	**80,914**	86,090
Other loans and advances by residual maturity repayable:		
- 3 months or less excluding overnight deposits	**74,842**	107,117
- 1 year or less but over 3 months	**38,617**	35,514
	194,373	228,721

There are no (2017: £nil) amounts included in Loans And Advances To Banks that are overdue.

Loans And Advances To Banks include £366,228 of encumbered assets (2017: £1,713,311) in relation to derivative contracts with other financial institutions.

8. DEBT SECURITIES

The Bank's debt securities consist of certificates of deposit and fixed rate bonds issued (or guaranteed) by central and private banks. The fair value of these securities was as follows:

	2018		2017	
	Book Value **£'000**	**Market Value** **£'000**	Book Value £'000	Market Value £'000
Certificates of deposits				
- Principal	166,660	166,660	285,399	285,399
- Accrued interest	2,017	2,017	1,061	1,061
Fixed rate bonds				
- Principal (US Treasury Bills)	116,028	116,143	-	-
- Principal (other fixed rate bonds)	41,545	40,848	43,763	43,394
- Accrued interest	615	615	299	299
At 31 December	326,865	326,283	330,522	330,153

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

8. DEBT SECURITIES (continued)

A By External Long-Term Credit Rating*:

	2018		2017	
	No.	**£'000**	No.	£'000
AAA	**2**	**126,394**	1	10,084
AA	**1**	**3,928**	2	14,951
AA-	**6**	**37,304**	5	30,257
A+	**7**	**57,289**	6	68,392
A	**5**	**59,434**	7	150,385
A-	**3**	**26,825**	4	41,243
BBB+	**1**	**15,691**	-	-
BBB	**-**	**-**	1	10,000
BB+	**-**	**-**	1	5,210
At 31 December	**25**	**326,865**	27	330,522

* based on a basket of credit rating agencies, all approved by the European Central Bank.

B By Country – location of counterparty:

	2018 £'000	2017 £'000
UK	**176,731**	293,790
Other Europe	**10,078**	10,000
Japan	**3,907**	3,706
USA	**116,396**	3,761
Canada	**9,998**	10,084
Other	**9,755**	9,181
At 31 December	**326,865**	330,522

C By Maturity:

The maturity profile of the debt securities is provided in Note 19.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

9. INVESTMENTS

	2018 £'000	2017 £'000
30 shares in SWIFT SCRL	**125**	-

The Bank's policy is not to invest in equities. However, in order to undertake its business, the Bank utilises the Swift payment system, the conditions of which oblige participants to invest in the shares of Swift, in proportion to participants' financial contributions to Swift in the previous year (2017).

10. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of a derivative contract represents the amount at which that contract could be exchanged in an arm's length transaction, calculated at market rates current at the balance sheet date.

Positive fair values arise where gross positive fair values exceed gross negative fair values on a contract by contract basis. This equates to replacement cost. The totals of positive and negative fair values arising on trading derivative financial instruments at the balance sheet date have been netted where the Bank has a legal right of offset with the relevant counterparty. The total positive fair values after netting equates to net replacement cost, which is regarded as the maximum credit exposure. No credit value/ debit value adjustments were made to arrive at the fair value of derivative financial instruments.

The Bank's derivative financial instruments are forward foreign exchange contracts used to hedge foreign exchange in order to reduce risk and are matched against the underlying asset/ liability. As at 31 December the positive and negative fair values of the derivative financial instruments were as set out below:

	Notional Principal £'000	Positive Fair Value £'000	Negative Fair Value £'000
Forward Foreign Exchange			
2018	**687,951**	**3,067**	**5,612**
2017	613,707	1,257	6,052

The forward foreign exchange contracts have been transacted to economically hedge assets and liabilities in foreign currencies. The net unrealised loss (2017 – loss) at the balance sheet date is £2,544,699 (2017: £4,795,000). These derivative financial instruments and the underlying transactions they hedge will mature during 2019 (2017 – 2018).

Fair value methodology

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Bank applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

standard model and different assumptions would generate different results. To provide an indication about the reliability of the inputs used in determining fair value, the Bank has classified its financial instruments into the three levels. An explanation of each level follows underneath the table. Assets and liabilities carried at fair value have been categorised using a fair value hierarchy as detailed below:

Fair value hierarchy:

Level 1 - Quoted price for an identical asset in an active market
Inputs to level 1 fair value are quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an on-going basis. The Bank did not have any such instruments.

Level 2 – Price of a recent transaction for an identical asset
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivative financial instruments) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Derivative financial instruments (ie forward foreign exchange contracts) are included in level 2.

Level 3 – Valuation technique ie Internal models with significant unobservable market parameters
Inputs to level 3 fair values are based on unobservable inputs for the assets at the last measurement date. If all significant inputs required to fair value an instrument are observable then the instrument is included in level 2, if not it is included in level 3. The Bank did not have any such instruments.

11. DEFERRED TAX

A Deferred Tax Asset

The deferred tax asset recognised in the financial statements is as follows:

	2018 £'000	2017 £'000
At 1 January (at 19/17%; 2017: 19/17%)	**913**	776
(Charge)/ Credit to profit and loss		
- prior year	**(20)**	117
- current year	**(667)**	-
Current year tax losses carried forward	**-**	20
At 31 December (at 19%; 2017: 19%)	**226**	913

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

11. DEFERRED TAX (continued)

B Deferred Tax Liability

The deferred tax liability recognised in the financial statements is as follows:

	2018 £'000	2017 £'000
At 1 January (at 19%; 2017: 19%)	**188**	65
Charge to profit and loss	**223**	123
At 31 December (at 19%; 2017: 19%) (note 14)	**411**	188

12. OTHER ASSETS

	2018 £'000	2017 £'000
Trade debtors	**232**	19
Amounts due from group companies	**311**	304
Unsettled foreign exchange transactions	**3,086**	2,600
Transactions debited in error*	**2,562**	-
Other assets	**429**	144
	6,620	3,067

* these amounts were withdrawn by the nostro counterparty in error and credited back early in 2019.

13. CUSTOMER ACCOUNTS

	2018 £'000	2017 £'000
Repayable on demand	**487,438**	489,291
Other customers' accounts with agreed maturity dates or periods of notice by residual maturity repayable:		
3 months or less	**504,555**	344,064
1 year or less but over 3 months	**63,217**	89,962
2 years or less but over 1 year	**1,540**	564
	1,056,750	923,881

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

14. OTHER LIABILITIES

	2018 £'000	2017 £'000
Trade creditors	**145**	43
Deferred tax (note 11B)	**411**	188
Unsettled foreign exchange transactions	**2,987**	286
Funds received in error	**2,988**	609
Amounts due to immediate parent company	**1,043**	1,160
Other creditors	**644**	635
	8,218	2,921

15. CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Allotted, issued and fully paid (£1 Ordinary Shares)		
As at 1 January	**41,200**	25,300
New shares issued:		
21 September 2017	**-**	7,400
8 December 2017	**-**	8,500
As at 31 December	**41,200**	41,200

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

16. CONTINGENT LIABILITIES

	2018 £'000	2017 £'000
Guarantees	**4,199**	7,814
Letter of credit confirmations/ bill acceptances	**91,287**	29,794
	95,486	37,608

The uncertainties relating to the amount or timing of any outflow are those inherent within the products concerned, notably that the relevant counterparty will not carry out its obligations. Cash collateral of £78,666,819 (2017: £18,399,300) was held in respect of the contingent liabilities noted above.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

17. COMMITMENTS

Capital Commitments

Capital commitments that have been contracted but not provided for in the financial statements amounted to £324,497 (2017: £nil) of which £281,243 (2017 - £nil) relates to amounts contracted on behalf of the parent, CABIM Limited. Capital commitments which have been approved but not contracted amounted to £nil (2017: £nil).

Operating lease commitments

The Bank had the following minimum lease payments (net of VAT) under non-cancellable operating leases:

Payment Due	**2018 £'000**	2017 £'000
Not later than one year	**410**	129
Later than one year and not later than five years	**2,139**	289
Later than five years	**280**	-
	2,829	418

The lease payments charged as an expense for the year totalled £168,003 (2017: £128,700).

18. FINANCIAL INSTRUMENTS

The carrying values of the Bank's financial assets and liabilities are summarised by category below:

	2018 £'000	2017 £'000
Financial Assets		
Measured at fair value through profit and loss		
Derivative financial assets - foreign exchange related contracts	**3,067**	1,257
	3,067	1,257
Measured at amortised cost		
Cash and balances at central banks	**594,992**	423,127
Loans and advances to banks	**194,373**	228,721
Debt securities	**326,865**	330,522
Investments	**125**	-
Other assets	**6,620**	3,067
Accrued income	**448**	195
	1,123,423	985,632

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

18. FINANCIAL INSTRUMENTS (continued)

	2018	2017
	£'000	£'000
Financial Liabilities		
Measured at fair value through profit and loss		
Derivative financial liabilities - Foreign exchange related contracts		
	5,612	6,052
	5,612	6,052
Measured at amortised cost		
Customer accounts	**1,056,750**	923,881
Bank overdrafts	**380**	-
Items in course of transmission	**276**	287
Creditors	**1,784**	2,446
Accruals	**2,605**	2,025
	1,061,795	928,639

(a) **Classification of financial assets and liabilities at fair value through profit or loss**

Forward foreign exchange contracts and currency swaps have been transacted to hedge assets and liabilities in foreign currencies with movements recognised at fair value through profit or loss.

(b) **Amounts recognised in profit or loss**

The income, expense and changes in fair values of financial assets at fair value through profit or loss recorded in the profit and loss account is as follows:

	2018	2017
	£'000	£'000
(Expense)/ Income from forward foreign exchange contracts	**2,470**	(15,354)
	2,470	(15,354)

(c) **Risk exposure and fair value measurements**

Information about the methods and assumptions used in determining fair value is provided in note 10 above.

(d) **Fair values of financial assets measured at amortised cost**

Apart from the fixed rate bonds, the carrying amounts of financial assets and liabilities measured at amortised cost are assumed to be the same as their fair values due to their short-term nature. The fair values of the fixed rate bonds are detailed in Note 8.

(e) **Impairment and risk exposure**

There were no impaired debtors. Information about the impairment of trade and other debtors, their credit quality and the Bank's exposure to credit risk can be found in the accounting policy note for financial instruments and note 19 below.

(f) **Financial liabilities measured at amortised cost**

The carrying amounts of trade creditors and other creditors are assumed to be the same as their fair values due to their short-term nature.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

19. RISK MANAGEMENT

Through its normal operations the Bank is exposed to a number of risks, the most significant of which are operational (including operational resilience and cyber), credit, financial crime, compliance, market (interest rate and currency), and liquidity risks. The Board is responsible for determining the long-term strategy of the business, the markets in which it will operate and the level of risk acceptable to the Bank. The Bank operates only in the UK, albeit it transacts with counterparties globally.

Responsibility for the management of the Bank's exposure to liquidity, interest rate and currency risk is delegated to the Bank's Asset and Liability Committee, and that relating to credit risk is delegated to the Credit Committee. Responsibility for the monitoring and reporting of operational, financial crime and compliance risks is delegated to the Compliance and Operational Risk Committee; and all other risks are delegated to the Executive Committee. All these committees report to the Audit & Risk Committee. Risk Management has an oversight role in the development of policies and procedures, evaluating risk levels and reporting to the Board on risk issues.

Operational Risk: Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Business units within the Bank are responsible for managing operational risk, with measurement and monitoring carried out by Risk Management. A series of controls are employed in the management of operational risk, including segregation of duties, reconciliations, exceptions and exposure reporting, authorisation thresholds, and business continuity planning. Controls are developed, monitored and maintained in line with the identified risk exposure and appetite.

Operational resilience has been defined as the ability of firms and the financial system as a whole to absorb and adapt to shocks, rather than contribute to them, and has formed an increasingly integral part of the Bank's overall strategy to continue to deliver services, no matter the cause of the disruption.

Similarly, the Bank's response to cyber risk has also been raised over recent years and has employed a variety of mitigants in order to protect the Bank and its clients from such attacks. The subject is closely monitored by management and Board committees and is actively discussed at Board level.

Risk Management provides an independent assessment of the strength of the operational risk, resilience and cyber frameworks to the Board.
Risk Management provides an independent assessment of the strength of the operational risk framework to the Board.

Credit Risk: Credit risk arises from extending credit in all forms where there is a possibility that counterparties may default on their obligations. Credit policy and Risk Tolerances, covering limits, by value and duration, minimum credit ratings and concentration criteria, are set out in policy papers approved by the Bank's board of directors.. Credit risk is managed by the Credit Committee which approves all counterparty limits and is responsible for concentration risk both in terms of individual counterparties and country exposures. The committee's activities are reported and discussed at the Audit & Risk Committee. All exposures are monitored daily against the limits set.

Compliance (risk: The Bank makes every effort to remain in compliance with applicable laws, rules and regulations in the jurisdictions in which it does business. It has developed and implemented a risk-based compliance programme comprised of written policies, procedures, internal controls and systems, and processes to keep required records. With respect to the prevention of financial crime, the Bank has

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

19. RISK MANAGEMENT (continued)

designated a Money Laundering Reporting Officer to oversee a programme that includes but is not limited to undertaking appropriate due diligence on its clients and implementing systems and controls for the detection and reporting of suspicious activity.

Management information and reporting regarding the effectiveness of regulatory compliance controls is regularly provided to the Bank's oversight committees and primary regulatory supervisors. The Bank educates employees and related third parties on applicable laws, rules and regulations as well as the Bank's own compliance policies and procedures and internal controls. The Bank compliance programme is subject to annual independent testing. The Bank co-operates fully with law enforcement and regulatory investigations and enquiries.

Liquidity Risk: It is the Bank's policy that its assets shall be sufficiently liquid for it to repay all of its liabilities as they fall due. The objective of liquidity management is therefore to ensure that the Bank can meet its maximum cumulative cash out flow on any given day. The Bank is liability led and does not borrow to finance lending.

A substantial proportion of customer accounts are current accounts that, although repayable on demand, have historically formed a stable deposit base. Liquidity is subject to daily monitoring against PRA guidelines and is subject to periodic stress tests both idiosyncratic and market wide.

The liquidity profile of the Bank's assets and liabilities is as follows:

Assets 2018

More than Less than	0 months 3 months £'000	3 months 1 year £'000	1 year 2 years £'000	2 years 5 years £'000	Total £'000
Cash and balances at central banks	**594,992**	**-**	**-**	**-**	**594,992**
Loans and advances to banks	**155,756**	**38,617**	**-**	**-**	**194,373**
Debt securities	**106,076**	**161,864**	**34,797**	**24,128**	**326,865**
Investments	**-**	**-**	**-**	**125**	**125**
Derivative financial instruments - assets	**2,511**	**556**	**-**	**-**	**3,067**
Deferred tax	**226**	**-**	**-**	**-**	**226**
Other assets	**6,620**	**-**	**-**	**-**	**6,620**
Prepayments/acc'd income	**1,306**	**-**	**-**	**-**	**1,306**
	867,487	**201,037**	**34,797**	**24,253**	**1,127,574**
Fixed assets					
- **Intangible**					**5,215**
- **Tangible**					**2,753**
Total Assets					**1,135,542**

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

19. RISK MANAGEMENT (Continued)

Liabilities 2018

More than Less than	0 months 3 months £'000	3 months 1 year £'000	1 year 2 years £'000	Total £'000
Customer accounts	**991,193**	**63,217**	**1,540**	**1,056,750**
Bank overdrafts	**380**	**-**	**-**	**380**
Items in course of transmission	**276**	**-**	**-**	**276**
Derivative financial instruments - liabilities	**5,516**	**96**	**-**	**5,612**
Other liabilities	**8,218**	**-**	**-**	**8,218**
Accruals and deferred income	**2,939**	**-**	**-**	**2,939**
	1,009,322	**63,313**	**1,540**	**1,074,175**
Shareholders' funds				**61,367**
Total Equity and Liabilities				**1,135,542**

Assets 2017

More than Less than	0 months 3 months £'000	3 months 1 year £'000	1 year 2 years £'000	2 years 5 years £'000	Total £'000
Cash and balances at central banks	423,127	-	-	-	423,127
Loans and advances to banks	193,208	35,513	-	-	228,721
Debt securities	44,561	245,704	13,092	27,165	330,522
Derivative financial instruments - assets	1,234	23	-	-	1,257
Deferred tax	-	913	-	-	913
Other assets	3,067	-	-	-	3,067
Prepayments/acc'd income	832	-	-	-	832
	666,029	282,153	13,092	27,165	988,439
Fixed assets					
- Intangible					4,092
- Tangible					514
Total Assets					993,045

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

19. RISK MANAGEMENT (Continued)

Liabilities 2017

More than Less than	0 months 3 months £'000	3 months 1 year £'000	1 year 2 years £'000	Total £'000
Customer accounts	833,355	89,962	564	923,881
Items in course of transmission	287	-	-	287
Derivative financial instruments - liabilities	5,586	466	-	6,052
Other liabilities	2,733	-	188	2,921
Accruals and deferred income	2,240	-	-	2,240
	844,201	90,428	752	935,381
Shareholders' funds				57,664
Total Equity and Liabilities				993,045

Market Risk: The Bank has a highly restricted appetite to Market Risk; it does not operate a trading book and therefore is exposed to Market Risk primarily through its exposures to capital instruments in which the Bank's liabilities are invested, together with currency exposures arising through its daily foreign exchange, funding, payments and trade finance activities.
The risk to investments is mitigated as instruments purchased for such purposes are generally held to maturity; as a result, it would normally only be the credit risk of the issuer to which the Bank would be exposed.

Interest Rate Risk: Within Market Risk, the Bank has established prudent standards and guidelines relative to the management of interest rate risk, including measurement, limits, monitoring, and reporting, which enables the Bank to achieve an acceptable return within those prudent parameters.

20. RELATED PARTY TRANSACTIONS

The Bank has taken advantage of the exemption provided under section 33.1A of FRS 102 "Related party transactions", because it is a wholly owned subsidiary of CABIM Limited.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

21. INTEREST RATE SENSITIVITY GAP ANALYSIS

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which the instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The table below summarises these re-pricing mismatches on the Bank's book as at 31 December. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

Interest rate re-pricing	*Not more than three months £'000*	*More than three months but not more than six months £'000*	*More than six months but not more than one year £'000*	*More than one year but not more than five years £'000*	*Non-interest bearing £'000*	*Total £'000*
2018						
Assets						
Cash and balances at central banks	594,992	-	-	-	-	594,992
Loans & advances to banks	155,756	22,982	15,635	-	-	194,373
Debt securities	106,076	85,943	75,920	58,926	-	326,865
Other assets*	-	-	-	-	19,312	19,312
	856,824	108,925	91,555	58,926	19,312	1,135,542
Liabilities						
Customer accounts	991,993	29,448	33,769	1,540	-	1,056,750
Bank overdrafts	380	-	-	-	-	380
Other liabilities*	-	-	-	-	17,045	17,045
Shareholders' funds	-	-	-	-	61,367	61,367
Total liabilities	992,373	29,448	33,769	1,540	78,412	1,135,542
Interest rate sensitivity gap	(135,549)	79,477	57,786	57,386	(59,100)	-
Cumulative gap	(135,549)	(56,072)	1,714	59,100	-	-

*** includes investments, fixed assets, derivative financial instruments, prepayments and accrued income.**
**** includes items in course of collection, derivative financial instruments, accruals and deferred income.**

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

21. INTEREST RATE SENSITIVITY GAP ANALYSIS (continued)

Interest rate re-pricing	*Not more than three months £'000*	*More than three months but not more than six months £'000*	*More than six months but not more than one year £'000*	*More than one year but not more than five years £'000*	*Non-interest bearing £'000*	*Total £'000*
2017						
Assets						
Cash and balances at central banks	423,127	-	-	-	-	423,127
Loans & advances to banks	139,208	33,775	1,738	-	-	228,721
Debt securities	44,561	102,453	143,161	40,527	-	330,522
Other assets*	-	-	-	-	10,675	10,675
Total assets	660,896	136,318	144,899	40,527	10,675	993,045
Liabilities:						
Customer accounts	833,355	21,642	68,320	564	-	923,881
Other liabilities**	-	-	-	-	11,500	11,500
Shareholders' funds	-	-	-	-	57,664	57,664
Total liabilities	833,355	21,642	68,320	564	69,164	993,045
Interest rate sensitivity gap	(172,459)	114,676	76,579	39,693	(58,489)	-
Cumulative gap	(172,459)	(57,783)	18,796	58,489	-	-

* includes fixed assets, derivative financial instruments, prepayments and accrued income.
** includes items in course of collection, derivative financial instruments, accruals and deferred income.

22. CURRENCY RISK

The Bank does not have any structural exposure. The table below shows the Bank's transactional currency exposures in its book; that is those non-structural exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in sterling.

As at 31 December, these exposures were as follows:

2018 - Currency (£'000 equivalent)	**US$**	**Euro**	**Yen**	**AU $**	**Other**	**Total**
Assets/(liabilities)	**(425,168)**	**7,676**	**15,532**	**(11,458)**	**(2,881)**	**(416,300)**
Net forward purchases/(sales)	**426,560**	**(8,324)**	**(15,517)**	**11,512**	**3,987**	**418,219**
	1,392	**(648)**	**15**	**54**	**1,106**	**1,919**

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

22. CURRENCY RISK (continued)

2017 - Currency (£'000 equivalent)	US$	Euro	Yen	SA Rand	Other	Total
Assets/(liabilities)	(376,100)	14,127	6,578	(2,087)	(15,000)	(372,482)
Net forward purchases/(sales)	377,174	(14,259)	(6,569)	2,120	15,937	374,403
	1,074	(132	9	33	937	1,921

An analysis of the total balance sheet, split between £ and other currencies, is as follows:

	2018 £'000	2017 £'000
Assets		
Denominated in sterling	**641,884**	604,820
Denominated in other currencies	**493,658**	388,225
	1,135,542	993,045
Liabilities and Equity		
Denominated in sterling	**225,584**	232,338
Denominated in other currencies	**909,958**	760,707
	1,135,542	993,045

23. CREDIT EXPOSURE

At 31 December the replacement costs by residual maturity and net replacement costs by counterparty of the Bank's over-the-counter derivative financial instruments, all of which were non-trading, were:

	2018		2017	
Potential Credit Risk Exposure	**Up to 1 year £000**	**Total £000**	Up to 1 year £000	Total £000
Forward foreign exchange contracts	**687,951**	**687,591**	613,707	613,707
Total notional principal amount	**687,591**	**687,591**	613,707	613,707
Replacement cost by counterparty				
Other banks	**3,067**	**3,067**	1,257	1,257
Total replacement cost	**3,067**	**3,067**	1,257	1,257

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

24. CAPITAL MANAGEMENT

The Bank is subject to regulatory requirements imposed by the PRA and the FCA. Such regulations include the requirement, at all times, to carry sufficient regulatory capital to meet the underlying capital requirements. In order to do so, the Bank calculates those capital requirements on a daily basis, and using a traffic light warning system based on an internal buffer, reports to ALCO, or should the need arise, the Board.

All of the above remained unchanged from 2017.

The Bank's regulatory capital consists of its Ordinary Share Capital and its P&L Reserve (both Tier 1 capital), subject to the normal regulatory deductions, as follows:

	£'000
Ordinary £1 Shares	41,200
P&L Reserve	20,167
Less intangible assets	(5,215)
Regulatory Capital	56,152

The Bank manages its capital on an entity basis with no consideration of other group companies.

As noted earlier, full details of the Bank's capital adequacy requirements are provided in its Pillar 3 Disclosures which can be found on the Bank's website (www.crownagentsbank.com). The disclosures are not audited.

25. SEGMENTAL ANALYSIS

The Bank operates in one area of activity, that of banking and related services, within the United Kingdom.

26. HOLDING COMPANY

The immediate parent is CABIM Limited which is the smallest and largest group to consolidate these financial statements as at 31 December 2018. The ultimate parent undertaking and controlling party is Helios Investors III LP, acting through its general partner Helios Investors Genpar III LP. Helios Investors Genpar III LP is registered in the Cayman Islands with its registered office at PO Box 309GT, Ugland House, South Church Street, Grand Cayman, Cayman Islands KY1-1104.

Copies of the financial statements of CABIM Limited may be obtained from Quadrant House, The Quadrant, Sutton, Surrey SM2 5AS.

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

27. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash inflow from operating activities

	2018 **£'000**	2017 £'000
Profit before taxation	**4,583**	87
Increase in prepayments and accrued income	**(474)**	(268)
Increase in accruals, provisions and deferred income	**700**	290
Increase in provision for doubtful debts	**-**	(25)
Effect of currency exchange rate changes	**16,816**	16,979
Amortisation	**916**	567
Depreciation	**186**	88
Net cash inflow from trading activities	**22,727**	17,718
Net decrease in items in course of transmission	**(12)**	(114)
Net decrease in loans and advances to banks	**34,856**	10,443
Net increase in customers' accounts	**95,124**	107,289
Net decrease/ (increase) in debt securities	**12,753**	(126,545)
Net decrease in cheques in the course of collection	**-**	13
Net increase in other assets	**(2,866)**	(2,594)
Net increase/(decrease) in other liabilities	**4,387**	(2,697)
Share based payment charge	**30**	54
Loss on disposal of fixed assets	**19**	30
Net cash inflow from operating activities	**167,018**	3,597

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