Crown Agents Bank

Crown Agents Bank Limited

Annual Report and Financial Statements

For the year ended 31st December 2016

Registered Number

2334687

Registered Office:

St Nicholas House

St Nicholas Road

Sutton

Surrey SM1 1EL

Contents

Chairman's Report for the year ended 31 December 2016

Overview

2016 has been one of the most important years in the history of Crown Agents Bank Limited ("the Bank"). Having been established as part of the wider Crown Agents group, whose origins date back for over 180 years, its purchase by Helios Investment Partners LLP, which was completed on 31 March 2016, has enabled the Bank to embark on a path of enhanced growth with access to significant new capital not available to it under its former ownership structure, a charitable foundation.

2016 Financial Review

Following the sale and with the benefit of new capital, the Bank has begun to implement a new business plan. The business plan builds upon the Bank's core strengths and skills/relationships forged over the years. It seeks to expand on the Bank's already substantial footprint in Africa and the Caribbean, and to develop further markets worldwide; it is gradually enhancing its range of services and its client base.

In order to maximise the potential new income streams and ensure that internal procedures align with best industry practice, the Bank has invested substantial amounts in new staff, systems, processes and the control environment. This investment has been made in the expectation of building a scaleable platform and achieving significant but prudent business growth. Income flows are beginning to reflect this.

This investment has seen the Bank's costs, particularly its staff-related costs, increase significantly in 2016 as we have sought to create a sound infrastructure, an enhanced governance environment, strengthened business leadership and robust systems to support future operations. This has resulted in a loss for the year of GBP 3.477m after tax. As we leverage this investment and drive top line revenue growth in the year ahead, cost containment is an important focal point for the management team and the Board. Our 5 year planning forecasts are based on seizing the opportunities that clearly exist for significant income growth in our target markets and we are scaling our business development efforts accordingly.

New Chairman

After nine years in the role and with the transition to new ownership complete, I shall, as planned, shortly stand down as Chairman. I am pleased to announce that Jeremy Parrish will be taking over as Chairman to take the Bank to the next stage in its development. Jeremy's appointment remains subject to regulatory approval. With roles spanning three decades in the banking industry at both ANZ and Standard Chartered Bank, Jeremy brings to us substantial experience in the provision of financial services. I have no doubt that he will be instrumental in helping the Bank deal successfully with the challenges it will encounter and seize fully the exciting opportunities that lie ahead.

Paul Batchelor

Chairman

Chief Executive Officer's Report for the year ended 31 December 2016

Economic and Market Background

Mid-sized and smaller emerging economies especially in Africa and the Caribbean, which represent the predominant source and destination markets for the client base of the Bank, experienced significant challenges during 2016. The increase in 'de-risking' by many of the world's largest global banks has had a disproportionate impact on many financial institutions in our target geographies. The ongoing and increasing regulatory cost of doing business, particularly in the US, as a result of regulatory actions on certain US, European and UK institutions, has resulted in a partial or complete withdrawal of correspondent banking services from many domestic institutions in our target markets. Increasing hurdle rates of return for global banks, driven in part by significantly more costly due diligence requirements, is decreasing the already limited provision of correspondent banking services in our target markets. Our focus, relatively low cost base, historical connections and commitment to these markets is proving to be a significant competitive advantage. At the same time, there is a growing demand for foreign exchange and payment services from OECD markets into our traditional target regions from development and official organisations, commercial banking institutions and other financial services businesses.

The increased de-risking has hit the Caribbean harder than most regions and presents a real challenge to their traditional financial services model. The Bank has been working with partner banks in the region to raise awareness of the highest levels of Industry Standard Customer Due Diligence (CDD) requirements which will yield benefits in the medium term but has meant more effort and cost initially in ensuring clients meet or exceed international compliance standards. Moving into 2017 we expect to benefit from increasing demand for our services as a specialist provider of cross border payment, emerging currency and G10 FX, treasury and trade finance capabilities. More favourable market conditions which in turn will strengthen the performance of the underlying economies in many of our target markets from which we generate the majority of our revenue will further support our growth.

The increase in de-risking by larger global banks in the markets in which we operate means the Bank is well positioned to capitalise on our strategic approach as a knowledgeable, specialist bank serving the needs of growing local banks in our targeted African, Caribbean and other emerging markets. As larger global banks seek to bank only clients who can achieve larger revenue hurdles, the Bank's more efficient, focused and specialist positioning is allowing us in certain markets to act as a respected aggregator of international cross border payments and to provide trade finance services in support of growing cross border trade. With increasing payment flows into many of our target countries from OECD markets and signs of increasing withdrawal of services from global banks we are experiencing growing interest for our specialist capabilities.

Within our core markets of sub- Saharan Africa and the Caribbean, underlying economic growth remains positive with the growth trend moderating but remaining positive into 2017. African growth is more responsive to trends in the global economy specifically around the fluctuations in underlying commodity price growth. That said the emerging middle class in African nations and the corresponding increase in domestic demand is facilitating greater intra-continent trading on which the Bank is seeking to capitalise.

Growth rates in the Caribbean have been more sluggish mainly due to a combination of lower than expected growth rates in the US affecting their trading relationships and slower historic movement to diversification of the underlying economies.

Chief Executive Officer's Report for the year ended 31 December 2016 (continued)

Business Performance

1st April 2016 saw the completion of the sale of the Bank to Helios investment Partners LLP who purchased 100 percent of the Bank along with its sister company, Crown Agents Investment Management Limited (CAIM).

In conjunction with the acquisition our new shareholders injected additional capital which has allowed significant investment in enhancing the Bank's ability to take advantage of the changing dynamics of the provision of cross border transaction services to and from our core markets. The investment has been targeted at enhancing core systems, processes and the recruitment of specialists with knowledge and experience to strengthen the Bank's ability to deliver on our strategic direction.

Focusing on underbanked markets, the Bank deployed a value led proposition delivering enhanced value to all participants across the product lifecycles for Payment and Cash Management (PCM), Trade and Treasury services in a safe, secure and robust manner.

The implementation of new leadership teams, new departmental structures, extensive recruitment into key supporting roles across the front, middle and back office and the design and deployment of new Target Operating Models (TOMs) has enabled the Bank to become more flexible and adaptive to the ever-changing market conditions facing banks operating in emerging small to medium sized economies.

Focusing on the growth of underlying core products, whilst simultaneously reviewing new product diversification options, all within an Industry leading IT & Compliance support frameworks, has provided the Bank with significant increases in revenue generation routes for the immediate future. These revenue streams are being designed within scalable models thereby protecting cost income ratios once the initial investment has been realised.

It is worth noting that Fitch downgraded the Bank to a long-term rating of BB in 2016. This was in part a re-evaluation of our historical business model, but it also reflected their views on our extensive transformation program and ambitious growth strategy despite extensive investment in a seasoned management team, an enhanced control environment and significant new injections of Tier 1 Capital. Outflows from our liability led business model did not materialise, rather we saw, and continue to see, increased deposit taking and balance sheet growth. We are confident that our established central bank, development organisation and growing commercial bank customer franchise will continue to show confidence in our focused service provision. We will continue to focus on regaining a stronger rating as we execute on our growth strategy in 2017.

2016 was a transitional year in terms of performance. We experienced a period of decreased activity following the takeover of the Bank in April as an extensive client file remediation programme was completed. Despite the early slowdown, there were increases in the underlying year on year performance metrics which showed solid growth across most core areas of the Bank.

- NII rose 16.5% from GBP£2.4M to £2.8M,
- FX income rose 42% from £1.7M to £2.5M,
- Trade Finance income fell slightly to £844K from £956K a drop of approx. 12%.
- The single greatest increase in terms of percentage growth came within the Payments arena with revenues rising to £759k from a previous year figure of £193K, representing a fourfold increase in revenues.

Chief Executive Officer's Report for the year ended 31 December 2016 (continued)

Business Performance (continued)

The Bank opened 26 new correspondent banking relationships in 2016. This exercise has helped refine our product offering, provided greater focus on core markets, clarified business opportunities and improved our ability to identify and manage risks.

Despite positive incremental gains, revenues for 2016 came in below budget at the same time as our investment programme resulted in significantly higher year on year costs. This led to a £4.6M loss before tax and a £3.5M loss after tax.

Forecast revenue figures for 2017 are expected to redress the cost/income disparity incurred in 2016 as we benefit from the results of the business build out initiated in 2016.

The considerable investment in the Bank's infrastructure has increased our underlying cost base but will allow us to scale the business without a commensurate increase in many of the core cost elements.

In addition, we experienced many costs largely of a non-recurring nature in 2016 specifically related to the separation of the Bank's infrastructure from our previous parent together with:

- Significant growth in use of temporary staff to support business transformation and KYCC remediation.
- Increased fees incurred from external auditors and consultants throughout the sale process, the due diligence process and the strategic review/internal audit(s) carried out during the year.
- Re-purposing of sales staff to carry out the remediation of client files in the first half of the year meant a corresponding lag in pipeline development. With staff now in the right roles carrying out the right duties this should not occur in 2017.

Albert Maasland

Chief Executive Officer

Directors for the year ended 31 December 2016

Paul Batchelor – Chairman and Non-Executive Director
Paul Batchelor was Chairman of Crown Agents Limited (until 30 June 2015) and is a member of the Council of The Crown Agents Foundation. He is a Fellow of the Chartered Management Institute, a Member of the UK Advisory Council of Transparency International and a director of Abacus Technology (Pvt.) Limited in Pakistan. Previously, he was a Partner in Coopers & Lybrand/ PricewaterhouseCoopers (1982-2004) and Chairman of Oxford Policy Management Limited (2006-13). He joined the Bank's Board in May 2007.

Nick Beecroft – Senior Independent Non-Executive Director
Nick Beecroft joined the 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.

Rajesh Bhatia - Independent Non Executive Director (appointed 14 December 2016)
Rajesh Bhatia joined the 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.

Derek McMenamin – Independent Non Executive Director
Derek McMenamin joined the 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 difficulties.

Mary Reilly – Independent Non Executive Director
Mary Reilly joined the Board in October 2015. She is a member of Crown Agents Limited Board and a member of the Council of Crown Agents Foundation. Mary is chair of the group Audit and Risk Committee. She was formerly an audit partner with Deloitte and chaired the CBI London Regional Council and the London Development Agency.

Arnold Ekpe – Non Executive Director (appointed 19 April 2016)
Arnold Ekpe has more than 30 years of financial services experience including as the CEO of Ecobank International from 2005 to 2012 and as the managing director of United Bank of Africa from 2002 to 2004. While at Ecobank, he was responsible for setting up Ecobank Paris's subsidiary, EBI S.A., which is a wholesale subsidiary of the Ecobank group approved by the Banque de France and focused on trade finance, correspondent banking, commodity financing, foreign exchange and cash management, with a representative office in London. This business had a balance sheet of $1 billion after 5 years of operation.

Directors for the year ended 31 December 2016 (continued)

Arnold Ekpe – Non Executive Director (appointed 19 April 2016) (continued)
Arnold is currently chairman of SFRE, a Luxembourg registered and approved investment company focused on small banks serving the real economy. He is the Honorary President of the Business Council for Africa, a UK registered institution that promotes business and investments in Africa. He also served as Chairman of Atlas Mara, a listed Africa focused banking group, and as a board member of the Nigerian Sovereign Wealth Fund. Previously, he served as Vice Chairman of ADC (the German financial services holding group acquired by Atlas Mara) and head of Corporate and Structured Finance at Citibank London, 1991-1996. Arnold holds a First Class Honours Degree in Engineering from Manchester University and an MBA from Manchester Business School.

Simon Poole - Non Executive Director (appointed 19 April 2016)
Simon Poole brings to the board 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, Vivo Energy Investments BV and Fawry Banking & Payment Technology Services Limited. 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.

Albert Maasland – Chief Executive Officer (appointed 20 September 2016)
Before joining Crown Agents Bank, Albert Maasland served as CEO of KCG Europe Ltd, part of KCG Holdings Ltd where he was also Global Co-Head of Execution Services and Platforms. Prior to that, during his distinguished career in financial services, Albert also served as CEO and Head of International Business at Knight Capital Group Inc where he was responsible for overseeing European and Asian operations; CEO of Saxo Bank London and Chairman of Saxo Capital Markets; Global Head of Business Development, e-commerce at Standard Chartered Bank, Managing Director at Deutsche Bank and Global Head of Business Development at HSBC Market. Albert is a non-executive director at EASDAQ NV and has held numerous other NED roles throughout his career. He was appointed as Group Chief Executive Officer on 16 February 2017.

Richard Hallett – Chief Financial Officer (appointed 31 January 2017)
Richard Hallett joined the Bank in 2016 as Group Chief Financial Officer bringing with him considerable banking experience having held a number of senior financial positions within the industry. After a role at CS First Boston, Richard joined Morgan Stanley, rising to the position of Managing Director by the time he left in 2007. Following a spell at Royal Bank Of Scotland, Richard's most recent banking role was as Managing Director and Chief Financial Officer of Barclays Africa.

Doug MacLennan – Chief Risk Officer
Doug MacLennan joined the Bank in December 2012 and was appointed to the Board in June 2013. He has been involved in the UK Financial Services Industry for over 25 years. Previous appointments include Director of Finance at Merrill Lynch; Deputy Managing Director at Sanwa International; Finance Director at the Bank of China International; and Senior Vice President of Risk Management at Northern Trust.

Directors for the year ended 31 December 2016 (continued)

Richard Jones – Executive Director (ceased to be a director 6 February 2017)
Richard Jones was an International Manager with HSBC for over 20 years. For much of that time he was based in and worked across Asia focussed on treasury and corporate banking. Latterly he moved back to Europe where his roles encompassed Investments, Insurance and Commercial Banking. Richard has a wealth of experience of financial services in challenging environments. He joined the Bank in June 2012 and was appointed to the Board in August 2012.

Carol Pattullo – Director of Operations (ceased to be a director 29 July 2016)
Carol Pattullo worked for Bank of Ireland and Bank of America before joining the Bank in 1990. She has over 30 years international banking experience, including in Internal Audit, and was previously the Bank's Risk Manager. She is responsible for the Bank's back office, systems, pensions' administration and counterparty relationships. She originally joined the Board in November 2008 and, following a brief absence, was re-appointed in September 2012.

Strategic Report for the year ended 31 December 2016

Business Model

As mentioned 2016 saw unprecedented transformation of the underlying business as significant investment was made to build out and enhance the underlying support frameworks in terms of people, processes and systems. New hires were made at the Executive Vice President level with the recruitment of a new Group Chief Operations Officer, a new Group Chief Financial Officer, the formalisation of the role of Group Chief Risk Officer, new leadership in CAIM and the hiring of a full- time Group Head of Human Resources. At Senior Vice President level new hires included a Head of PCM, a Head of Trade Finance, new leadership in Commercial Bank Client Coverage and recruitment of expertise in Management Information, and in Financial Control. Supporting these roles at Vice President level there were additional new hires across the Front, Middle and Back office roles to ensure the right blend of skills and experience were available to support the growth strategy of the Bank.

New Target Operating Models were scoped, designed and the first iterations of these implemented across Finance, Compliance, Operations, Front Office teams and within the new departments established for IT and HR. Heading into 2017 these new TOMs will be iterated further as part of process optimisation activities.

Significant work has been completed in remediating the underlying core supporting IT systems within the business with the Bank being supported by an independent IT department for the first time in its history. This has provided greater flexibility and support in maintaining and improving the underlying system functionality. It has also meant increased provision of support for new product and service offerings through a robust continuous IT enhancement programme being led by the office of the COO.

Strategic Direction

The change in ownership brought about a corresponding restatement of the Bank's underlying strategic direction. The Bank has set itself a challenge of becoming the preferred bank conduit for the provision of transaction services to and from OECD markets and our target emerging and frontier markets. This includes the provision of FX, payment, treasury and trade finance services ie correspondent banking services to central and local banks in emerging small to medium sized economies, as well as to official development organisations, NGOs, financial and transaction specialist organisations in developed markets.

To achieve this aim the Bank is expanding the provision of existing products within PCM, FX, treasury and trade finance whilst developing new product offerings contained within each product area. 2016 saw the Bank focus on correspondent payments for the first time, increase and enhance its exotic FX offering, and start the provision of trade finance Loans.

These enhancements to the Bank's operating platform, coupled with strong established relationships with development organisations, central Banks (regulators) and local commercial banks operating in our target markets, provide the Bank with a unique opportunity to execute a robust and sustainable growth strategy. The changes in core systems, processes and people were made prior to deploying a growth strategy in a controlled and phased programme in order to manage the strategic growth in a balanced and risk controlled fashion.

Strategic Report for the year ended 31 December 2016 (continued)

Principal risks and uncertainties
The principal risks facing the Bank are those relating to liquidity, credit, operational, market and compliance. Further detail is provided in note 21 on page 43.

The Bank's risk appetite is governed through our comprehensive risk control framework. In addition, the Bank will be implementing ISO standards during 2017 to provide independent verification of the control framework. The Bank will be increasing its Data Analytics functionality to enhance flexible real time updates on underlying business processes.

The Bank is aware of the commercial, operational and regulatory challenges of moving into markets from which other banks are withdrawing. In particular the Bank has considered and is managing the underlying supplier risk.

Review of business performance

The review has been considered in the Chief Executive Officer's Report

Albert Maasland

Chief Executive Officer

Directors' Report for the year ended 31 December 2016

The directors submit their report and the audited financial statements of the Bank for the year ended 31 December 2016.

Principal Activity

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

Outlook for 2017/ Future Developments

Moving into 2017 we expect to build on the strong platform and strategy that we invested in during 2016. The financial health of the Bank is stronger than ever with a growing balance sheet supported by an enhanced capital base.

We expect the de-risking program by the larger banks in the markets we operate in will continue, allowing us to capitalise on our strategic approach as a knowledgeable, targeted niche specialist Bank serving the needs of growing local banks in our targeted African, Caribbean and other emerging markets.

Within our core markets we are expecting underlying growth to remain positive in 2017, and in turn we expect to benefit from increasing demand for our services as a specialist provider of cross border payments, emerging currency and G10 FX, treasury and trade finance capabilities.

Dividends

No interim dividend (2015: £1,000,000) was paid during 2016 and no final dividend (2015: £nil) will be declared.

Employee Matters

(a) *Employee Engagement Survey*
From time to time the Bank carries out an Employee Engagement Survey. Through a company-wide questionnaire and a series of focus groups, the group explores how it measures up to its stated values and how well engaged staff are with their jobs. The most recent survey, carried out in late 2016, concluded that the level of staff engagement is good and compares well with similar organisations. Areas requiring improvement are being systematically addressed.

(b) *Disabled Persons*
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

Directors' Report for the year ended 31 December 2016 (continued)

Employee Matters (continued)

(c) *Employee Involvement(continued*

information is given at intervals through staff briefing meetings hosted by the Bank's Chief Executive Officer, through the intranet and notices and via webinars and training programmes.

(d) *Gender diversity*

The proportion of women and men employed by the business is 40% and 60% respectively. The Bank has in place policies to actively increase gender diversity within the business, which actively focusses on recruitment, flexible working & 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 2016.

Details of the principal risks and risk management arrangements are set out in Note 21 of the Notes to the Financial Statements beginning on page 43.

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
P Batchelor* (Chairman)	x	x
N Beecroft*	x	x
R Bhatia* (appointed 14 December 2016)		x
D McMenamin*		
M Reilly*		x
A Ekpe** (appointed 19 April 2016)	x	
S Poole** (appointed 19 April 2016)	x	
A Maasland* (appointed 20 September 2016)		
R Hallett (appointed 31 January 2017)		
D MacLennan		
R Jones (ceased to be a director 6 February 2017)		
C Pattullo (ceased to be a director 29 July 2016)		

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

Note: following Richard Jones' departure Albert Maasland has been appointed Group Chief Executive Officer

Directors' Report for the year ended 31 December 2016 (continued)

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland ('FRS 102'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business; and
- notify its shareholders, in writing, about the use of FRS 102 disclosure exemptions, if any, used in the preparation of financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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 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' Report for the year ended 31 December 2016 (continued)

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 Bank 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
4 April 2017

Independent auditors' report to the members of Crown Agents Bank Limited

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- and have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Income Statement for the year then ended
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent auditors' report to the members of Crown Agents Bank Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company'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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Independent auditors' report to the members of Crown Agents Bank Limited (continued)

What an audit of financial statements involves (continued)

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 April 2017

Income Statement for the Year Ended 31 December 2016

	Notes	**2016 £'000**	2015 £'000
Interest income			
- interest receivable from debt securities		**1,566**	1,440
- other interest receivable and similar income		**7,421**	5,029
Interest expense		**(6,192)**	(4,069)
Net interest income		**2,795**	2,400
Fees and commission receivable	2	**2,899**	2,375
Dealing profits		**2,479**	1,746
Other operating income	2	**179**	783
Operating income		**8,352**	7,304
Administrative expenses	3	**(12,452)**	(5,842)
Amortisation	4	**(399)**	(281)
Depreciation	5	**(48)**	(177)
Write-off and provisions for doubtful debts		**(74)**	(25)
(Loss)/ Profit before exceptional item and taxation	6	**(4,621)**	979
Exceptional item	7	**-**	(712)
(Loss)/Profit before taxation		**(4,621)**	267
Tax on (loss)/profit	8	**1,144**	(97)
(Loss)/profit for the financial year		**(3,477)**	170

There were no other items of Comprehensive Income.

The results for the year are wholly attributable to continuing operations. The notes on pages 24 to 50 form part of these financial statements.

Balance Sheet as at 31 December 2016

	Note	**2016** **£'000**	2015 £'000
Assets			
Cash and balances at central banks		**458,053**	321,569
Loans and advances to banks	9	**188,773**	136,496
Cheques in the course of collection		**13**	-
Debt securities	10	**203,977**	173,375
Derivatives	11	**11,762**	4,244
Intangible assets	4	**2,836**	2,660
Investment property	12	**-**	10,767
Tangible fixed assets	5	**48**	1,636
Deferred tax	13A	**776**	29
Other assets	14	**610**	13
Prepayments and accrued income		**564**	306
Total Assets		**867,412**	651,095

Balance Sheet as at 31 December 2016

	Note	2016 £'000	2015 £'000
Liabilities			
Customer accounts	15	**816,592**	618,972
Bank overdrafts		**3**	46
Items in course of transmission		**401**	223
Derivatives	11	**1,225**	3,042
Other liabilities	16	**5,634**	630
Accruals and deferred income		**1,950**	763
Provisions for liabilities	7	**-**	335
Called up share capital	17	**25,300**	7,300
Revaluation reserve		**-**	746
Retained earnings		**16,307**	19,038
Total shareholders' funds		**41,607**	27,084
Total Equity and Liabilities		**867,412**	651,095

The notes on pages 24 to 50 form part of these financial statements.

The Board of Directors approved the financial statements on 4 April 2017

A Maasland
Director

R Hallett
Director

Statement of Changes in Equity For The Year Ended 31 December 2016

	Called up share capital	Revaluation reserve	Retained Earnings	Total Shareholders' Funds
	£'000	**£'000**	**£'000**	**£'000**
Balance as at 1 January 2015	7,300	746	21,294	29,340
Profit for the financial year	-	-	170	170
Dividend paid for the year	-	-	(2,426)	(2,426)
Balance as at 31 December 2015	7,300	746	19,038	27,084
Loss for the financial year	-	-	(3,477)	(3,477)
New share capital	18,000	-	-	18,000
Transfer		(746)	746	-
Balance as at 31 December 2016	25,300	-	16,307	41,607

The directors have not declared an interim (2015: £1,000,000) or a final dividend (2015: £nil).

As at 31 December 2015, included within Retained Earnings was £5,854,000 relating to property revaluations which was not distributable until the properties to which it relates had been sold. The properties in question were sold in 2016.

Cash Flow Statement for the Year Ended 31 December 2016

	Note	**2016** **£'000**	2015 £'000
Net Cash Inflow/(Outflow) from Operating Activities	29	**107,590**	(177,966)
Taxation			
Corporation tax paid		**-**	-
Net cash generated from/ (used in) operating activities		**107,590**	(177,966)
Cash flow from investing activities			
Sale of investment properties	12	**10,767**	-
Sale of tangible fixed assets	5	**1,598**	-
Purchase of tangible fixed assets	5	**(58)**	(340)
Purchase of intangible fixed assets	4	**(575)**	(221)
Net cash generated from/ (used in) investing activities		**11,732**	(561)
Cash flow from financing activities			
Injection of new capital	17	**18,000**	-
Equity dividend paid to shareholders		**-**	(2,426)
Net cash generated from/ (used in) financing activities		**18,000**	(2,426)
Increase/(Decrease) in cash and cash equivalent		**137,322**	(180,953)
Cash and cash equivalents at the beginning of the year		**351,415**	531,747
Bank overdrafts		**(3)**	(46)
Exchange gains on cash and cash equivalents		**5,042**	667
Cash and cash equivalents at the end of the year		**493,776**	351,415
Cash and cash equivalents consists of:			
Cash and balances at central banks		**458,053**	321,569
Loans and advances to banks repayable on demand	9	**35,723**	29,846
		493,776	351,415

Notes to the Financial Statements for the year ended 31 December 2016

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 St Nicholas House, St Nicholas Road, Sutton, Surrey, SM1 1EL, United Kingdom.

The Bank provides banking services to the group of the former parent company, Crown Agents Limited, and other clients. The Bank is authorised by the Prudential Regulatory 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(t).

(d) Going Concern

The directors have considered the financial position of the Bank, including the net current asset position 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 income statement 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 – 31 December 2016 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(f) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with, including notification of and no objection to, the use of exemptions by the Bank's shareholders. 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.

(g) Dealing Profits

Dealing profits arise 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.

This reflects profits and losses on transactions arising from customer orders in both spot and forward currency markets and gains/losses on translation, gains/losses on translation and revaluation of derivative fair values.

(h) Other Operating Income

This reflects rents receivable from other group companies**.**

(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 income statement.

(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 – 31 December 2016 (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 income statement, 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

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:

Software – 3 to 10 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 – 31 December 2016 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(l) Intangible Assets (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, except for leasehold property, 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:

Computer equipment	3 – 10 years
Fixtures and fittings	3 years
Leases	Over the remaining life of the lease

(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 income statement.

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, deposits held at call with banks, loans and advances to banks repayable on demand, money market deposits and securities and customers' deposits.

Notes to the Financial Statements – 31 December 2016 (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, customer deposits 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 income statement.

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 income statement.

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.

(ii) Financial liabilities

Basic financial liabilities, including 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.

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

Notes to the Financial Statements – 31 December 2016 (continued)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(p) Financial instruments (continued)

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.

(iii) Derivatives

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

Derivatives 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 derivatives are recognised in the income statement in Dealing Profits.

Hedge accounting is not applied.

(iii) 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 and defined contribution pension plans.

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.

Notes to the Financial Statements – 31 December 2016 (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, rental income receivable less rent payable, 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.

Intangible assets

FRS 102 requires judgement to be exercised when determining whether software costs should be recognised as tangible or intangible assets. Where software is regarded an integral part of the related hardware and the hardware cannot operate without the particular piece of software, it is treated as a tangible asset. However, where the software is not an integral part of the related hardware, computer software is treated as an intangible asset. Management have decided that the software costs are not an integral part of the related hardware and so have classified these costs as an intangible asset.

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 – 31 December 2016 (continued)

2. FEES AND COMMISSIONS RECEIVABLE AND OTHER INCOME

	2016 £'000	2015 £'000
Fee and commission receivable:		
Banking Services	**410**	397
Payments	**759**	193
Pensions	**794**	802
Documentary Credits	**844**	956
Other	**92**	27
Total fees and commission receivable	**2,899**	2,375
Other operating Income:		
Rental income (net)	**179**	783
Total other operating income	**179**	783

Rental income has fallen substantially during the year following the sale of the Investment Property (note 12).

3. ADMINISTRATIVE EXPENSES

	2016 £'000	2015 £'000
Staff costs and directors' emoluments		
Wages and salaries	**7,217**	3,292
Project staff costs capitalised	**-**	(138)
Social security costs	**511**	243
Pension costs	**197**	195
	7,925	3,592
Other administrative expenses	**4,527**	2,250
	12,452	5,842

The aggregate emoluments (including pension contributions) of the directors were £824,489 (2015: £511,869).

The aggregate emoluments (including pension contributions) of key management (excluding directors) were £1,198,469 (2015: £343,950).

Notes to the Financial Statements – 31 December 2016 (continued)

3. ADMINISTRATIVE EXPENSES (continued)

No retirement benefits accrued for any director (2015: one) under a defined benefits pension scheme.

The Bank has made contributions of £70,310 (2015: £29,190) on behalf of three directors (2015: three) accruing benefit in defined contribution pension schemes.

The aggregate emoluments and accrued pension contributions of the highest paid director were £220,020 (2015: £179,964) and £17,396 (2015: £13,015) per annum respectively.

The monthly average number of full time equivalent staff, including executive directors, was 92 (2015: 54).

Up until 31 March 2016, all employees and directors were paid by the then parent company, Crown Agents Limited, with which they had contracts of employment. From 1 April 2016, all employees were contracted with, and paid by, the Bank.

Employees and executive directors who joined the Bank before 1 April 2006 were entitled, after a qualifying period, to be members of the group defined benefit superannuation scheme of the former parent company, details of which are set out in the accounts of Crown Agents Limited.

Crown Agents Limited decided to close the defined benefit pension fund to future accruals from 20 April 2015. In respect of this scheme, no contributions were made in the year (2015: £56,669). The Bank has accounted for the scheme as if it was a defined contribution scheme.

From April 2015 all members were moved to the Crown Agents Limited group defined contribution pension plan. Up until 31 March 2016, employees were entitled to join the Crown Agents Limited group's defined contribution scheme. The Bank contributed £76,233 (2015: £137,088) to this scheme during the year all of which was paid within the year. No further contributions were made after 31 March 2016

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 £121,050 (2015: £nil) to this scheme during the year all of which all but £35,633 (2015: £nil) was paid during the year.

Since the year end, certain senior directors/employees have been given the option of purchasing a number of a new class of share in the Bank's parent, CABIM Limited, at a nominal cost of £0.01 per share. 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 – 31 December 2016 (continued)

4. INTANGIBLE FIXED ASSETS

	Software £'000
Cost	
At 1 January 2016	3,855
Additions	575
Disposals	-
At 31 December 2016	4,430
Amortisation	
At 1 January 2016	1,195
Charged in year	399
Disposals	-
At 31 December 2016	1,594
Net Book Value	
Net Book Value at 31 December 2016	**2,836**
Net Book Value at 31 December 2015	2,660

Notes to the Financial Statements – 31 December 2016 (continued)

5. TANGIBLE FIXED ASSETS

	Leases of 50 years or more unexpired £'000	Computer equipment £'000	Fixtures & fittings £'000	**Total** £'000
Cost/Valuation				
At 1 January 2016	1,296	104	494	1,894
Additions	-	33	25	58
Disposal	(1,296)	-	(494)	(1,790)
At 31 December 2016	**-**	**137**	**25**	**162**
Accumulated Depreciation				
At 1 January 2016	34	99	125	258
Charge for year	6	8	34	48
Disposals	(40)	-	(152)	(192)
At 31 December 2016	**-**	**107**	**7**	**114**
Net Book Value				
At 31 December 2016	**-**	**30**	**18**	**48**
At 31 December 2015	1,262	5	369	1,636

All the disposals during the year were to the former parent company, Crown Agents Limited, at net book value.

6. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE EXCEPTIONAL ITEM AND TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2016 £'000	2015 £'000
Management charge payable to former parent company	**204**	817

The management charge levied by the former parent company (Crown Agents Limited and whilst the parent company) covers a number of group level expenses the largest of which is the provision of a full range of information technology services. Other services provided include human resources and governance functions. No management charge has been levied by the current parent company.

The profit on ordinary activities before taxation includes fees for auditing the financial statements of £160,000 (2015: £124,000) and £25,633 (2015: £15,000) was payable to the auditors for other services.

Notes to the Financial Statements – 31 December 2016 (continued)

7. EXCEPTIONAL ITEM

The Exceptional Item in 2015 related to substantial amounts invested to ensure the Bank was able to meet regulatory requirements, particularly in relation to combatting financial crime. The charge included a provision of £335,000.

8. TAX ON (LOSS)/ PROFIT ON ORDINARY ACTIVITIES

A. Analysis of (Credit)/ Charge in Year

	2016 £'000	2015 £'000
Corporation tax based on the profit for the year at 20.00% (2015: 20.25%)	**(834)**	(29)
- Prior year adjustment	**21**	-
- Group relief	**19**	-
Deferred tax		
- Originating and reversal of timing differences	**(397)**	126
- Impact of change in tax rate	**47**	-
Total tax (credit)/ charge for the year	**(1,144)**	97

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

The tax assessed for the year is lower (2015: higher) than the standard rate of Corporation Tax in the UK.

	2016 £'000	2015 £'000
(Loss)/Profit on Ordinary Activities and Exceptional Items Before Taxation	**(4,621)**	267
Standard rate corporation tax of 20.00% on (loss)/profit on all activities (2015: 20.25%)	**(924)**	54
Effect of:		
- re-measurement of deferred tax – change in UK tax rate	**(54)**	-
- expenses not deductible for tax/other	**90**	43
Release of deferred tax charge re property sale	**(296)**	-
Tax available for group relief	**19**	
Prior year adjustment	**21**	-
Total tax (credit) /charge for the year	**(1,144)**	97

Notes to the Financial Statements – 31 December 2016 (continued)

9. LOANS AND ADVANCES TO BANKS

		No.	2016 £'000	No.	2015 £'000
A	**By Maturity:**				
	Repayable on demand		**35,723**		29,846
	Other loans and advances by residual maturity repayable:				
	- 3 months or less excluding overnight deposits		**62,321**		23,767
	- 1 year or less but over 3 months		**90,729**		82,883
			188,773		136,496
B	**By Fitch Long Term Credit Rating:**				
	AA	**11**	**8,020**	**9**	3,147
	AA-	**7**	**35,854**	**5**	3,096
	A+	**7**	**50,583**	**6**	40,006
	A	**8**	**56,276**	**11**	90,042
	A-	**6**	**11,440**	**1**	34
	BBB-	**1**	**63**	**-**	-
	BBB+	**7**	**25,764**	**2**	22
	Unrated	**7**	**773**	**2**	149
		54	**188,773**	**36**	136,496
C	**By Country:**				
	UK		**148,653**		109,658
	Other Europe		**1,755**		13,670
	Japan		**19,973**		9,782
	US		**8,026**		3,147
	Middle East		**6,885**		-
	Other		**3,481**		239
			188,773		136,496

Notes to the Financial Statements – 31 December 2016 (continued)

9. LOANS AND ADVANCES TO BANKS (continued)

There are no (2015: £nil) amounts included in loans and advances to banks outstanding at 31 December 2016 that are overdue.

10. DEBT SECURITIES

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

	2016 Book Value £'000	2016 Market Value £'000	2015 Book Value £'000	2015 Market Value £'000
Certificates of deposits	180,461	180,461	172,427	172,427
Fixed rate bonds	22,611	22,086	-	-
Accrued interest	905	905	948	948
At 31 December	203,977	203,452	173,375	173,375

11. DERIVATIVES

The fair values of all of the Bank's financial instruments as at 31 December 2016, which are listed or publicly traded, or for which a liquid and active market exists are detailed in Note 10.

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 derivatives 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.

Notes to the Financial Statements – 31 December 2016 (continued)

11. DERIVATIVES (continued)

All derivatives are used for hedging foreign exchange. As at 31 December the positive and negative fair values of the derivatives were as set out below:

Forward Foreign Exchange:	Notional Principal £'000	Positive Fair Value £'000	Negative Fair Value £'000
2016	**463,962**	**11,762**	**1,225**
2015	336,366	4,244	3,042

Forward foreign exchange contracts and currency swaps have been transacted to hedge assets and liabilities in foreign currencies. The net unrealised gain at the balance sheet date is £10,537,000 (2015: £1,202,000). These derivatives and the underlying transactions they hedge will mature during 2017.

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 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 derivatives) 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. Derivatives (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.

Notes to the Financial Statements – 31 December 2016 (continued)

12. INVESTMENT PROPERTY

	2016	2015
	£'000	£'000
At 1 January	**10,767**	10,767
Disposals during the year	**(10,767)**	-
At 31 December	**-**	10,767

The property was sold on 29 February 2016 to the former parent company, Crown Agents Limited, at net book value.

13. DEFERRED TAX

A Deferred Tax Asset

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

	2016	2015
	£'000	£'000
At 1 January (at 20%; 2015: 21%)	**29**	89
Charge to profit and loss	**(21)**	(89)
Current year tax losses carried forward	**768**	29
At 31 December (at 19/17%; 2015: 20%)	**776**	29

B Deferred Tax Liability

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

	2016	2015
	£'000	£'000
The movements in the deferred tax liabilities are as follows:		
At 1 January (at 20%; 2015: 21%)	**(462)**	(425)
Credit/(Charge) to profit and loss	**397**	(37)
At 31 December (at 19%; 2015: 20%) (note 16)	**(65)**	(462)

Changes to the UK corporation tax rates were substantially enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes to the Financial Statements – 31 December 2016 (continued)

14. OTHER ASSETS

	2016 £'000	2015 £'000
Trade debtors	**173**	**12**
Amounts due from group companies	**213**	**-**
Other assets	**224**	**1**
	610	**13**

15. CUSTOMER ACCOUNTS

	2016 £'000	2015 £'000
Repayable on demand	**308,846**	215,212
Other customers' accounts with agreed maturity dates or periods of notice by residual maturity repayable:		
3 months or less	**368,917**	282,873
1 year or less but over 3 months	**138,829**	120,887
	816,592	618,972
Amounts include:		
Owed to group undertakings	**-**	13,894

16. OTHER LIABILITIES

	2016 £'000	2015 £'000
Trade creditors	**661**	22
Corporation tax	**2**	2
Deferred tax (note 13B)	**65**	462
Unsettled foreign exchange transaction	**4,047**	-
Unallocated customer funds	**140**	-
Other creditors	**719**	144
	5,634	630

Notes to the Financial Statements – 31 December 2016 (continued)

17. CALLED UP SHARE CAPITAL

	2016	2015
	£'000	£'000
Allotted, issued and fully paid (£1 Ordinary Shares)		
As at 1 January	**7,300**	7,300
New shares issued:		
31 March 2016	**5,000**	-
16 December 2016	**13,000**	-
As at 31 December	**25,300**	7,300

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

18. CONTINGENT LIABILITIES

		2016	2015
		£'000	£'000
Guarantees	- direct	**808**	1,833
	- syndicated	**5,255**	-
		6,063	1,833
Letter of credit confirmations		**45,939**	29,322
		52,002	31,155

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 £25,981,609 (2015: £24,655,690) was held in respect of the contingent liabilities noted above.

19. COMMITMENTS

Capital Commitments

Capital commitments that have been contracted but not provided for in the financial statements amounted to £329,366 (net of VAT) (2015: £ nil) and which have been approved but not contracted amounted to £nil (2015: £nil).

Operating lease commitments

At 31 December 2016 the Bank had no (2015: £nil) non-cancellable operating leases.

Notes to the Financial Statements – 31 December 2016 (continued)

20. FINANCIAL INSTRUMENTS

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

	2016 £'000	2015 £'000
Financial Assets		
Measured at fair value through profit and loss		
- Derivative financial assets - foreign exchange related contracts	**11,762**	4,244
	11,762	4,244
Measured at amortised cost		
- Trade debtors	**173**	12
- Other assets	**437**	1
- Cheques in course of collection	**13**	-
- Prepayments and accrued income	**564**	306
- Debt securities	**203,977**	173,375
- Cash and balances at central banks	**458,053**	321,569
- Loans and advances to banks	**188,773**	136,496
	851,990	631,759
Financial Liabilities		
Measured at fair value through profit and loss		
- Derivative financial liabilities - Foreign exchange related contracts	**1,225**	3,042
	1,225	3,042
Measured at amortised cost		
- Customer accounts	**816,592**	618,972
- Bank overdrafts	**3**	46
- Items in course of transmission	**401**	223
- Trade creditors	**661**	22
- Other creditors	**719**	144
	818,376	619,407

(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.

Notes to the Financial Statements – 31 December 2016 (continued)

20. FINANCIAL INSTRUMENTS (continued)

(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 income statement is as follows:

	2016	2015
	£'000	£'000
Income from forward foreign exchange contracts	**9,334**	639
	9,334	639

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

Information about the methods and assumptions used in determining fair value is provided in note 11 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 10.

(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 21 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.

21. RISK MANAGEMENT

Through its normal operations the Bank is exposed to a number of risks, the most significant of which are liquidity, credit, operational, interest, currency and compliance risk. 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.

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 risks is delegated to the Compliance and Operational Risk Committee; and all other risks are delegated to the Financial Services Executive 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.

Notes to the Financial Statements – 31 December 2016 (continued)

21. RISK MANAGEMENT (continued)

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.

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 2016

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	458,053	-	-	-	458,053
Loans and advances to banks	98,044	90,729	-	-	188,773
Debt securities	43,253	142,011	-	18,713	203,977
Derivatives - assets	9,130	2,632	-	-	11,762
Other assets	1,187	-	776	-	1,963
	609,667	235,572	776	18,713	864,528
Fixed assets					2,884
Total Assets					867,412

Liabilities 2016

More than Less than	0 months 3 months £'000	3 months 1 year £'000	1 year 2 years £'000	Total £'000
Customer accounts	677,763	138,829	-	816,592
Bank overdrafts	3	-	-	3
Derivatives - liabilities	1,109	116	-	1,225
Items in course of transmission and other liabilities	5,970	-	65	6,035
Accruals and deferred income	1,950	-	-	1,950
	686,795	138,945	65	825,805
Shareholders' funds				41,607
Total Equity and Liabilities				867,412

Notes to the Financial Statements – 31 December 2016 (continued)

21. RISK MANAGEMENT (Continued)

Assets 2015

More than / Less than	0 months / 3 months £'000	3 months / 1 year £'000	Total £'000
Cash and balances at central banks	321,569	-	321,569
Loans and advances to banks	53,613	82,883	136,496
Debt securities	54,480	118,895	173,375
Derivatives - assets	3,542	702	4,244
Other assets/ prepayments and accrued income	348	-	348
	433,552	202,480	636,032
Fixed assets/investment property			15,063
Total Assets			651,095

Liabilities 2015

More than / Less than	0 months / 3 months £'000	3 months / 1 year £'000	1 year / 2 years £'000	Total £'000
Customer accounts	498,084	120,888	-	618,972
Bank overdrafts	46	-	-	46
Derivatives - liabilities	3,022	20	-	3,042
Items in course of transmission and Other liabilities	391	-	462	853
Accruals, deferred income and provisions	1,098	-	-	1,098
	502,641	120,908	462	624,011
Shareholders' funds				27,084
Total Equity and Liabilities				651,095

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, covering limits, restrictions, minimum credit ratings and concentration criteria, is set out in policy papers approved and affirmed 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 Bank board meetings. All exposures are monitored daily against the limits set.

Operational Risk: Operational risk is the risk of failures in operational processes resulting in financial loss, increased costs or damage to reputation. Business units within the Bank are responsible for

Notes to the Financial Statements – 31 December 2016 (continued)

21. RISK MANAGEMENT (Continued)

managing operational risk, with measurement and monitoring carried out by Risk Management. Internal controls include procedures, segregation of duties, reconciliations, exception and exposure reporting, business continuity planning and authorisation processes, and are based on management information. Risk Management provides an independent assessment of the strength of the operational risk framework to the Board.

Interest Rate and Currency Risk: Interest rate risk arises in the Bank's balance sheet as a result of fixed rate, variable rate and non-interest bearing assets and liabilities. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. This risk is managed by limiting the mismatch allowed in predetermined time bands.

Currency risk arises from transactional positions and comprises the monetary assets and monetary liabilities of the Bank denominated in non-sterling currencies. These risks are managed by adherence to limits for intra-day and overnight positions. Risk Management independently review positions.

Currency risk on transactional currency exposures which arise from income in currencies other than Sterling, the Bank's operating (or functional) currency, is mitigated by hedging, where appropriate. Such hedging is undertaken using forward foreign exchange deals to cover the anticipated net cash inflows.

Compliance risk: The Bank seeks to comply at all times with all rules, regulations and laws to which it is exposed through all of its activities. It has a daily monitoring system where it monitors regulatory compliance such as capital adequacy and required liquidity. These daily controls feed into monthly reviews and annual reporting to the PRA. The Bank continues to develop staff training programmes to ensure its staff are both aware of and comply with such regulations. As a result, whilst it has zero tolerance for financial crime, Regulatory Risk, and Conduct of Business Risk, the Bank recognises that some markets for its activities are higher risk areas, which may heighten its exposure to such risks from time to time.

22. RELATED PARTY TRANSACTIONS

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

Notes to the Financial Statements – 31 December 2016 (continued)

23. 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*	*More than three months but not more than six months*	*More than six months but not more than one year*	*More than one year but not more than five years*	*Non-interest bearing*	*Total*
	£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***
2016						
Assets						
Loans & advances to central & other banks	**556,096**	**20,852**	**69,878**	**-**	**-**	**646,826**
Debt securities	**43,254**	**67,671**	**74,339**	**18,713**		**203,977**
Other assets	**-**	**-**	**-**	**-**	**16,609**	**16,609**
Total assets	**599,350**	**88,523**	**144,217**	**18,713**	**16,609**	**867,412**
Liabilities:						
Customer accounts	**677,763**	**14,367**	**124,462**	**-**	**-**	**816,592**
Bank overdrafts	**3**	**-**	**-**	**-**	**-**	**3**
Other liabilities	**2,763**	**-**	**-**	**-**	**6,447**	**9,210**
Shareholders' funds	**-**	**-**	**-**	**-**	**41,607**	**41,607**
Total liabilities	**680,529**	**14,367**	**124,462**	**-**	**48,054**	**867,412**
Interest rate sensitivity gap	**(81,179)**	**74,156**	**19,755**	**18,713**	**(31,445)**	**-**
Cumulative gap	**(81,179)**	**(7,023)**	**12,732**	**31,445**	**-**	**-**
2015						
Assets						
Loans & advances to central & other banks	375,182	25,010	57,873	-	-	458,065
Debt securities	54,480	66,309	52,586	-	-	173,375
Other assets	-	-	-	-	19,655	19,655
Total assets	429,662	91,319	110,459	-	19,655	651,095
Liabilities:						
Customer accounts	498,084	69,281	51,607	-	-	618,972
Bank overdrafts	46	-	-	-	-	46
Other liabilities	-	-	-	-	4,993	4,993
Shareholders' funds	-	-	-	-	27,084	27,084
Total liabilities	498,130	69,281	51,607	-	32,077	651,095
Interest rate sensitivity gap	(68,468)	22,038	58,852	-	(12,422)	-
Cumulative gap	(68,468)	(46,430)	12,422	12,422	-	-

Notes to the Financial Statements – 31 December 2016 (continued)

24. 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 income statement. Such exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in sterling.

At 31 December, these exposures were as follows:

Functional currency of bank operation (£'000 equivalent)	US Dollar	Euro	Yen	SA Rand	Other	Total
2016						
Assets/(liabilities)	**(370,961)**	**31,310**	**(32,889)**	**(37,068)**	**(11,567)**	**(421,175)**
Net forward purchases/(sales)	**371,967**	**(31,313)**	**32,906**	**37,277**	**11,647**	**422,484**
	1,006	**(3)**	**17**	**209**	**80**	**1,309**
2015						
Assets/(liabilities)	(226,430)	11,081	(45,965)	(36,909)	(7,117)	(305,340)
Net forward purchases/(sales)	227,028	(11,049)	45,967	36,987	7,132	306,065
	598	32	2	78	15	725

25. CREDIT EXPOSURE

At 31 December the replacement costs by residual maturity and net replacement costs by counterparty of the Bank's trading and non-trading over-the-counter derivatives were:

Potential Credit Risk Exposure	**Up to 1 year 2016 £000**	**Total 2016 £000**	Up to 1 year 2015 £000	Total 2015 £000
Forward Foreign Exchange Contracts	**463,962**	**463,962**	336,366	336,366
Notional principal amounts	**463,962**	**463,962**	336,366	336,366
Replacement cost by counterparty				
Other banks	**11,762**	**11,762**	4,244	4,244
Total replacement cost	**11,762**	**11,762**	4,244	4,244

Notes to the Financial Statements – 31 December 2016 (continued)

26. 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 as appropriate, the Board should the need arise.

All of the above remained unchanged from 2015.

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. In 2015 the capital included a revaluation reserve (Tier 2 capital).

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).

27. ASSETS AND LIABILITIES – CURRENCY DENOMINATION

	2016 £'000	2015 £'000
Assets:		
Denominated in sterling	**604,616**	556,174
Denominated in other currencies	**262,796**	94,921
	867,412	651,095
Liabilities and Equity		
Denominated in sterling	**183,441**	250,834
Denominated in other currencies	**683,971**	400,261
	867,412	651,095

28. SEGMENTAL ANALYSIS

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

Notes to the Financial Statements – 31 December 2016 (continued)

29. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to net operating cash flow

	2016 **£'000**	2015 £'000
(Loss)/ Profit on ordinary activities before taxation	**(4,621)**	267
(Increase)/Decrease in prepayments and accrued income	**(258)**	(227)
Increase/(Decrease) in accruals, provisions and deferred income	**1,187**	774
Increase/(Decrease) in provision for doubtful debts	**25**	6
Effect of currency exchange rate changes	**(14,442)**	8,543
Amortisation	**399**	281
Depreciation	**48**	177
Net cash flow from trading activities	**(17,662)**	9,821
Net (decrease)/increase in collections/transmissions	**178**	(614)
Net (increase)/decrease in advances to banks and customers	**(46,400)**	90,270
Net increase/(decrease) in deposits by customers	**197,620**	(194,867)
Net (increase)/decrease in debt securities	**(30,602)**	(83,071)
Net decrease/(increase) in cheques in the course of collection	**(13)**	61
Net decrease/(increase) in other assets	**(598)**	(527)
Net increase/(decrease) in other liabilities	**5,067**	961
Net cash inflow /(outflow) from operating activities	**107,590**	(177,966)

30. HOLDING COMPANY

Up until 31 March 2016, the immediate parent undertaking was Crown Agents Limited. The ultimate parent undertaking and controlling party was The Crown Agents Foundation, which was the parent undertaking of the smallest and largest group to consolidate these financial statements at 31 March 2016.

Copies of both companies' financial statements may be obtained from St Nicholas House, St Nicholas Road, Sutton, Surrey SM1 1EL.

The immediate parent undertaking is CABIM Limited which is the smallest and largest group to consolidate these financial statements as at 31 December 2016. The ultimate parent undertaking and controlling party is 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 St Nicholas House, St Nicholas Road, Sutton, Surrey SM1 1EL.

Crown Agents Bank Limited
St Nicholas House
St Nicholas Road
Sutton
Surrey
SM1 1EL
United Kingdom

T: +44 (0)20 8643 2900

e-mail enquiries@crownagentsbank.com
www.crownagentsbank.com