

THE CBF CHURCH OF ENGLAND DEPOSIT FUND
ANNUAL REPORT AND
FINANCIAL STATEMENTS

Year ended 31 December 2017

CCLA

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*Collectively, these comprise the Manager's Report.

**Audited.

References to "CCLA" refer to the CCLA Group, comprising CCLA Investment Management Limited and CCLA Fund Managers Limited.

Disability Discrimination Act 1995

Extracts from the Annual Report and Financial Statements are available in large print and audio formats.

REPORT OF THE TRUSTEE

for the year ended 31 December 2017

On behalf of the Trustee, I have pleasure in presenting the Annual Report and Financial Statements of The CBF Church of England Deposit Fund (the Fund), which includes a separate report from CCLA Investment Management Limited (the Manager) as Manager of the Fund.

Structure and management

The Fund is a Common Fund established by the Church Funds Investment Measure 1958 as amended by the Church of England (Miscellaneous Provisions) Measure 1995, Church of England (Miscellaneous Provisions) Measure 2000 and the Trustee Act 2000 (together, the Measure). The Fund was established on 1 May 1958. The Fund is neither a Collective Investment Scheme nor an Unregulated Collective Investment Scheme within the meaning of the Financial Services and Markets Act 2000 (FSMA).

CBF Funds Trustee Limited (CBFFT), a company incorporated under the Companies Act, limited by guarantee and not having a share capital, is the Trustee and Operator of the Fund. CBFFT has an Audit Committee which meets twice a year to review the Financial Statements and monitor the control environment in which the Fund operates.

CBFFT has delegated to the Manager, which is authorised and regulated by the Financial Conduct Authority (FCA), the investment management, administration, registrar, secretarial and company secretarial functions of the Fund under Management Agreements dated September 2008.

Under the provisions of the Financial Services and Markets Act 2000 (FSMA), CBFFT is not considered to be operating the Fund by way of business. In consequence, it is not required to be authorised and regulated by the FCA and the trustee directors of CBFFT are not required to be authorised by the FCA for this purpose.

Deposits taken by the Fund are exempted from the FSMA by virtue of the Financial Services and Markets Act (Exemption) Order 2001 and are not covered by the Financial Services Compensation Scheme. The Manager will pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund.

Charitable status of the Fund

The Fund is entitled to charitable status by virtue of section 96(2) of the Charities Act 2011. In the administration of the Fund, CBFFT is exempt from the jurisdiction of the Charity Commission by virtue of section 5(1) of the Church Funds Investment Measure 1958.

REPORT OF THE TRUSTEE

for the year ended 31 December 2017

Investment Objective

The Fund aims to provide a high level of capital security and competitive rates of interest.

Investment Policy

The Fund is an actively managed, diversified portfolio of sterling denominated money market deposits and instruments. It will principally invest in sterling denominated Call Accounts, Notice Accounts, Term Deposits and Money Market Instruments, but may invest in other assets.

The Fund is managed in accordance with the policies of the Church of England's Ethical Investment Advisory Group.

Benchmark

London Interbank Sterling 7-Day Bid Rate (7-Day LIBID) is the benchmark for the Fund.

Suitability

The Fund is suitable for all of a Church of England charity's short-term investments where they are seeking a high level of capital security and a competitive rate of interest.

Responsibilities of the Trustee

CBFFT receives a report on the published Financial Statements from the Manager twice a year and is wholly responsible for the Fund. CBFFT monitors the investment management, administration, registration, secretarial and company secretarial services provided by the Manager under respective Management Agreements. It meets quarterly with the Manager to monitor investment strategy, interest rate policy, distribution policy, investment diversification, risk and to review the Fund's performance. In addition, CBFFT reviews the Annual Report and Financial Statements of the Fund which are prepared on its behalf by the Manager. CBFFT is responsible for appointing an Audit Committee and the Auditor. It reviews annually the objectives of the Fund in the light of current circumstances.

Delegation of functions

Following its regular meetings and consideration of the reports and papers it has received, CBFFT is satisfied that the Manager, to whom it has delegated the administration and management of the Fund, has complied with the terms of the Measure and with the relevant Management Agreements.

REPORT OF THE TRUSTEE

for the year ended 31 December 2017

Ethical Investment

The CBF Deposit Fund follows the guidance of the Church of England's Ethical Investment Advisory Group as available at <https://www.churchofengland.org/about-us/structure/eiag/ethical-investment-policies.aspx>.

Controls and risk management

CBFFT receives and considers regular reports from the Manager. Other ad hoc reports and information are supplied as required.

CBFFT has appointed HSBC Bank plc to monitor the Manager in respect of its activities related to the management, oversight, supervision and administration of the Fund including the custody and safekeeping of the property of the Fund. It is also responsible for the appointment and supervision of the Registrar of the Fund. The division between management and these functions provides an additional layer of protection for shareholders. HSBC Bank plc provides a formal review of its findings to the Audit Committee. HSBC Bank plc has not raised any material issues.

The Manager has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the directors and senior management of the Manager on a continuing basis.

CBFFT receives internal audit reports on the controls of the Manager. During the year CBFFT, assisted by the Manager, reviewed the Fund's systems of internal control.

At each of its meetings, the Audit Committee receives and reviews a formal risk management report from the Manager. This sets out the main risks facing the Fund, the controls in place to mitigate those risks and the assessment of each risk in terms of both gross and residual exposure after application of mitigating controls.

R Williams, Chairman
CBF Funds Trustee Limited
21 May 2018

REPORT OF THE INVESTMENT MANAGER for the year ended 31 December 2017

Strategy

The Fund is structured to provide both capital security and adequate daily liquidity. The short-term nature of the Fund allows us to alter quickly the portfolio composition to reflect our assessment of changing market conditions. The assets of the Fund are placed strictly within agreed limits with a diversified list of quality counterparties in order to achieve a very low overall level of risk and high security of capital. The list of approved counterparties is constantly monitored and lending limits immediately amended following credit rating changes. The Fund has maintained a high level of liquidity to ensure that sufficient money is always readily available to meet client withdrawals. The balance of the Fund was deposited for periods of up to one year with the aim of boosting the overall yield of the Fund for the benefit of the depositors. The weighted average maturity as at 31 December 2017 was 85 days.

Performance

Over the reporting period, the Fund achieved a total return before management expenses of 0.46%; this was higher than the Fund's benchmark, the London Inter-Bank Sterling 7-Day Bid Rate (7-day LIBID), which averaged 0.16%.

On two occasions in the first five months of the reporting period, the Fund's declared interest rate was reduced by five basis points, to a historical low of 0.25%. However, a modest rise in money

market rates in the final quarter enabled the rate reductions to be reversed; as at 31 December 2017 the declared interest rate was 0.35%. In the reporting period the declared interest rate averaged 0.28% (an annual equivalent rate (AER) of 0.28%).

Client deposits (excluding those of the other CBF Funds) increased by £15 million and at 31 December 2017 totalled £586 million.

Market Review

After triggering Article 50 at the end of March 2017, thereby setting into motion the two-year process of leaving the European Union, the Prime Minister, Theresa May, called a snap General Election for 8 June 2017. Having anticipated that this would significantly boost her majority, the result, and subsequent need to form a government with outside support from the Democratic Unionist Party, has not provided the certainty market participants were hoping for.

The ten percent fall in the value of the pound since the Brexit vote has caused inflation to jump. Throughout the year, much attention has therefore been paid to the rate of inflation. Despite monthly fluctuations, the trend has been one of steady increase, with many analysts predicting that the Consumer Price Index (CPI) would peak just above 3% in the latter months of 2017, especially as higher energy prices feed into the calculation. The headline CPI increased

REPORT OF THE INVESTMENT MANAGER for the year ended 31 December 2017

to 3.1% in November, its highest level in over five years. When focusing upon individual elements of the data, it is apparent that inflation is being driven substantially by currency related factors, rather than domestically generated price pressures. The heightened CPI numbers may therefore moderate in 2018 as sterling weakness falls out of the comparative data. At the same time, the labour market continued to tighten.

The unemployment rate has fallen to 4.3%, the lowest since 1975, with the ratio of unemployed to vacancies at its lowest on record. It would ordinarily be expected that this would result in upward pressure on wages; however, to date, wage growth has been subdued, remaining anchored at around 2%. The result of this has been a continued squeeze in real incomes. All of these issues meant the Bank of England's (BoE) Monetary Policy Committee (MPC) faced a delicate balancing act in responding to the combination of a cooling domestic economy, a decline in real earnings and a period with inflation above the 2% target.

The BoE MPC kept its Official Bank Rate (OBR) unchanged at its September 2017 meeting, but in the days after that announcement there was a clear change of tone from many of the MPC members. After many "false dawns", the rhetoric this time convinced market

commentators that an increase in the OBR was imminent. At its next meeting in November, the BoE did raise interest rates, for the first time in over a decade, setting the OBR 25 basis points higher at 0.5%; this reversed the August 2016 emergency cut.

In the commentary following the rate decision, the BoE suggested that any further rate increases are likely to be "gradual" and "limited". This implies that the MPC do not intend to raise interest rates rapidly or to lift them back to pre-crisis levels anytime soon. It is of course possible that should there be a positive surprise to growth or inflation it would lead to a faster pick-up in interest rates.

Rated AA Af/S1 by Fitch Ratings

The Fund was assigned an AA Af/S1 fund and volatility rating by Fitch Ratings, which was affirmed on 11 October 2017. This rating reflects the high quality of the Fund's approved lending list, the employment of an appropriate investment policy, a low overall level of risk through diversification and the quality of management and internal controls. The rating is awarded to funds that have the lowest credit risk and where the total returns exhibit relative stability, performing consistently across a broad range of interest rate scenarios and changing market conditions.

REPORT OF THE INVESTMENT MANAGER
for the year ended 31 December 2017**Outlook**

At this point it appears unlikely that UK interest rates will rise quickly given the absence of a strong economic performance. The wild card for the UK economic outlook is Brexit. There is a lack of clarity around which type of Brexit deal may be done, or indeed whether there will be a deal at all. Moreover, there is instability within the Conservative government and the possibility of a leadership contest. All of this uncertainty makes it a challenging task for the BoE to optimise the timing of any rate increases to its Official Bank Rate.

S Freeman
Director, Investments (Cash)
CCLA Investment Management Limited
21 May 2018

Risk warning

CBFFT cannot give guarantees regarding repayment of deposits in the Fund, but undertakes to exercise reasonable care in the placing of deposits.

The daily deposit rate will fluctuate. Past performance is no guarantee of future returns. Deposits in the Fund are not covered by the Financial Services Compensation Scheme.

INDEPENDENT AUDITORS' REPORT

to the Shareholders of The CBF Church of England Deposit Fund

Report on the audit of the financial statements*Opinion*

In our opinion, The CBF Church of England Deposit Fund's financial statements (the "financial statements"):

- give a true and fair view of the financial position of the Fund as at 31 December 2017 and of the net revenue and the net capital gains of its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, and the Trust Deed.
- have been prepared in accordance with the requirements of the Church Funds Investment Measure 1958, as amended, and the Trustee Act 2000.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: balance sheet as at 31 December 2017; the statement of total return, the statement of change in net assets attributable to shareholders for the year then ended; the accounting policies; the distribution tables and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

INDEPENDENT AUDITORS' REPORT

to the Shareholders of The CBF Church of England Deposit Fund

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund's ability to continue as a going concern.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

As explained more fully in the Report of the Trustee set out on page 23, the Authorised Fund Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Authorised Fund Manager is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Authorised Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Authorised Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

INDEPENDENT AUDITORS' REPORT**to the Shareholders of The CBF Church of England Deposit Fund**

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

This report, including the opinion, has been prepared for and only for the unitholders of the Fund as a body in accordance with the Trust Deed and for no other purpose. We do not, in giving this opinion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London
Riverside
London
21 May 2018

RISK AND REWARD PROFILE

The risk and reward indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank, the greater the potential reward, but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Funds. The shaded area in the table below shows the Fund's ranking on the risk and reward indicator.



The Fund is ranked 1 based upon the history of returns for funds of this type. Please note that even the lowest risk class can lose you money and that extreme market circumstances can mean you suffer severe losses in all cases.

The risk and reward disclosures above are based upon categories of risk which were required to be disclosed as at 31 December 2017, the reporting date of these financial statements. From 1 January 2018, new measures of the categories of risk are in force, with the result that the risk disclosures currently available for the Fund in the Key Information Document are not on a comparable basis to the disclosures above.

For further risk information, please see the Scheme Particulars, which are available on the Manager's website at www.ccla.co.uk.

AVERAGE RATES OF INTEREST PAID
for the year ended 31 December 2017

Month	Actual % p.a.	Gross AER* % p.a.
January 2017	0.35	0.35
February 2017	0.35	0.35
March 2017	0.30	0.30
April 2017	0.30	0.30
May 2017	0.25	0.25
June 2017	0.25	0.25
July 2017	0.25	0.25
August 2017	0.25	0.25
September 2017	0.25	0.25
October 2017	0.25	0.25
November 2017	0.28	0.28
December 2017	0.31	0.31
Calendar Year	Actual % p.a.	Gross AER* % p.a.
2013	0.57	0.57
2014	0.50	0.50
2015**	0.50	0.50
2016	0.47	0.47
2017	0.28	0.28

* Annual Equivalent Rate (AER) illustrates what the annual interest rate would be if the quarterly interest payments were compounded.

** 13 months to 31 December 2015.

The rates are published in the Financial Times and on the Manager's website at www.ccla.co.uk.

INTEREST PAID TABLE

for the year ended 31 December 2017

Period ended	Date of payment	Total £'000	Average rates of interest paid	
			2017 %	2016 %
31 March	4 April	499	0.33	0.50
30 June	4 July	412	0.27	0.50
30 September	4 October	406	0.25	0.47
31 December	4 January	450	0.28	0.40
		1,767	0.28	0.47

Amounts paid include interest paid on closed accounts during the year.

SUMMARY OF DEPOSITS PLACED BY MATURITY

for the year ended 31 December 2017

Repayable	Year ended 31.12.2017		Year ended 31.12.2016	
	£'000	%	£'000	%
On call	69,435	10.63	49,133	8.14
Within 5 business days	85,000	13.02	35,000	5.80
Within 30 days	28,001	4.29	48,000	7.96
Between 31 and 60 days	87,503	13.40	101,000	16.75
Between 61 and 91 days	123,000	18.83	122,003	20.23
Between 92 and 182 days	175,200	26.82	169,000	28.02
Between 183 days and one year	85,000	13.01	79,006	13.10
Total deposits	653,139	100.00	603,142	100.00

STATEMENT OF TOTAL RETURN
for the year ended 31 December 2017

	<i>Note</i>	Year ended 31.12.2017 £'000	Year ended 31.12.2016 £'000
Revenue	2	2,968	4,006
Expenses	3	(1,674)	(1,583)
Net revenue		1,294	2,423
Distributions		(1,768)	(2,796)
Net decrease in income reserve		(474)	(373)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO DEPOSITORS
for the year ended 31 December 2017

	Year ended 31.12.2017 £'000	Year ended 31.12.2016 £'000
Opening net assets attributable to depositors	–	–
Increase in total assets	48,433	6,498
Increase in total liabilities	(48,433)	(6,498)
Closing net assets attributable to depositors	–	–

The notes on pages 17 to 22 form part of these financial statements.

BALANCE SHEET
at 31 December 2017

	<i>Note</i>	31.12.2017 £'000	31.12.2016 £'000
ASSETS			
Loans receivable	5	10,701	11,983
Other debtors	6	899	1,181
Cash*		33,482	18,188
Cash equivalents*		619,657	584,954
Total assets		664,739	616,306
LIABILITIES			
Current deposits	7	645,974	596,923
Other creditors	8	596	740
Income reserve	9	18,169	18,643
Total liabilities		664,739	616,306

The financial statements on pages 15 to 22 have been approved by the Trustee.

Approved on behalf of the Trustee
21 May 2018

R Williams, Chairman
CBF Funds Trustees Limited

The notes on pages 17 to 22 form part of these financial statements.

* In the prior year this was disclosed as Deposits, this has been reallocated to cash and cash equivalents in the current year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a going concern basis, in compliance with FRS 102 and in accordance with the Trust Deed, and the Collective Investment Scheme Sourcebook in so far as it applies to the Fund.

The Fund is exempt from preparing a statement of cash flows under FRS 102 as substantially all of the Fund's investments are highly liquid, substantially all of the Fund's investments are carried at market value and the Fund provides a statement of changes in net assets.

(b) Valuation of deposits

The Fund's deposits are valued at their acquisition cost as adjusted for amortisation of premium or accretion of discount, rather than at current market value.

(c) Revenue recognition

Interest on bank and building society deposits is accrued on a daily basis. Interest on the Diocesan Loan Scheme is accrued on a monthly basis.

(d) Expenses

The Manager's periodic charge and fee for ethical and stewardship services, paid to the Manager, are charged to the revenue of the Fund before distribution. The fee is based on a fixed percentage of the value of the Fund, which is currently 0.20% p.a. plus VAT. On a daily basis, the value of the Fund at the end of the previous day is taken to calculate the fee due. This fee covers the provision of investment services and other expenses incurred by the Manager. A fee for governance services is also charged by the Manager. Audit fees, insurance, bank charges and the Trustee's administration fee are charged separately to the revenue of the Fund before distribution.

(e) Distributions

Interest is paid quarterly. The Fund utilises an income reserve to facilitate the payment of interest to depositors (see note 9). Movement in the income reserve are therefore adjustments made to net revenue in determining the distribution.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

2. Revenue

	Year ended 31.12.2017 £'000	Year ended 31.12.2016 £'000
Interest on deposits at banks and building societies	2,968	4,006

3. Expenses

	Year ended 31.12.2017 £'000	Year ended 31.12.2016 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge – see note 1(d)	1,559	1,481
Manager's fee for ethical services	9	9
	1,568	1,490

Payable to the Trustee, associates of the Trustee and agents of either of them:

Safe custody fees	14	14
Monitoring fee	15	14
Bank charges	2	2
	31	30

Other expenses:

Audit fee	9	13
Insurance fee	5	7
Other fees	61	43
	75	63
Total expenses	1,674	1,583

Audit fee net of VAT is £8,068 (31.12.2016, £7,833).

The above expenses include VAT where applicable.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

4. Taxation

The Fund has charitable status and is exempt from UK Income and Capital Gains Tax pursuant to Part 11 Chapter 3 of the Corporation Tax Act 2010. Distributions are paid and reinvested revenue credited gross to depositors.

5. Loans receivable

	31.12.2017 £'000	31.12.2016 £'000
Loans to Diocesan Boards of Finance:		
Due within one year	2,161	560
Due within two to five years	4,655	2,747
Due after five years	3,885	8,676
	10,701	11,983

As at 31 December 2017, there were 42 (31.12.2016, 48) outstanding variable interest rate loans with the Dioceses, ranging from £400 to £1,000,000 (31.12.2016, from £400 to £1,000,000). During the year interest chargeable on the loans was between 0.80% and 0.90% (31.12.2016, between 0.90% and 1.05%).

6. Other debtors

	31.12.2017 £'000	31.12.2016 £'000
Interest receivable	898	1,175
Prepayments	1	6
	899	1,181

7. Current deposits

	31.12.2017 £'000	31.12.2016 £'000
Dioceses, parishes and other	585,984	571,110
The CBF Church of England Investment Fund	53,473	20,940
The CBF Church of England Global Equity Income Fund	2,740	1,940
The CBF Church of England UK Equity Fund	2,493	1,189
The CBF Church of England Fixed Interest Securities Fund	1,259	1,719
The CBF Church of England Property Fund	25	25
	645,974	596,923

Deposits are repayable to clients on demand.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

8. Other creditors

	31.12.2017 £'000	31.12.2016 £'000
Interest payable	450	602
Accrued expenses	146	138
	596	740

There were unclaimed distributions as at 31 December 2017 of £8.00 (31.12.2016, £nil)

9. Income reserve

The Fund utilises a reserve which is accumulated out of revenue and held by CBFFT on trust for depositors for the time being. The principal purpose of the income reserve is to facilitate the payment of interest to depositors at each distribution period end, even though a proportion of the revenue earned by the Fund over the quarter will not be received until the maturity date of individual deposits.

The reserve is also available as a provision against potential default of counterparties and permits, subject to the limits agreed by the Board, and provision of loans to Diocesan Authorities (up to the value of the reserve) without detriment to the Funds AA Af/S1 Fitch rating. The reserve can also be used to augment the Fund's deposit rate.

	Year ended 31.12.2017 £'000	Year ended 31.12.2016 £'000
Income reserve at the start of the year	18,643	19,016
Transfer from income reserve	(474)	(373)
Income reserve at the end of the year	18,169	18,643

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

10. Financial instruments

The main risks arising from the Fund's financial instruments and the Manager's policies for managing these risks are summarised below.

Credit risk

The Fund is exposed to a risk regarding the repayment of deposits from the counterparties. To minimise this, the assets of the Fund are strictly placed, within agreed limits, with a diversified list of quality counterparties in order to achieve a very low overall level of risk and high security of capital. The list of approved counterparties is constantly monitored and credit limits immediately amended following credit rating upgrades and downgrades.

Liquidity Risk

Financial instruments held by the Fund, excluding short-term debtors and creditors, are made up of sterling fixed interest securities and sterling cash deposits. These assets are generally liquid and enable the Fund to meet the payment of any repayment requests from depositors.

Currency risk

There was no foreign currency exposure within the Fund at 31 December 2017 (31.12.2016, £nil).

Interest rate risk

The Fund invests in fixed rate and floating rate deposits. Changes in the interest rate will result in revenue either increasing or decreasing; this may also result in a reassessment of interest paid to depositors.

The total exposure at 31 December 2017 was:

Currency	Floating rate financial assets* £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Sterling	124,435	539,405	899	664,739
Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Sterling	664,593	–	146	664,739

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

10. Financial instruments (continued)

Interest rate risk (continued)

The total exposure at 31 December 2016 was:

Currency	Floating rate financial assets* £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Sterling	97,928	517,197	1,181	616,306

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Sterling	616,168	–	138	616,306

* The floating rate financial assets of the Fund earn interest at rates based on either LIBOR or base rate.

All financial liabilities are due to be settled within one year or on demand.

There were no derivatives held by the Fund during the current year or prior year.

It is estimated that a 1 basis point increase/decrease in interest rates would result in an increase/decrease of £65,000 in interest revenue.

11. Related party transactions

The Manager's periodic charge and fee for ethical and stewardship services are paid to the Manager, a related party to the Fund. The amounts incurred in respect of these charges are disclosed in note 3. An amount of £135,678 was due to the Manager at 31 December 2017 (31.12.2016, £125,614). There were no other transactions entered into with the Manager during the year (31.12.2016, £nil).

CBFFT, as Trustee, is a related party to the Fund. There were no outstanding balances due to CBFFT at 31 December 2017 (31.12.2016, £nil). Balances held on behalf of other CBF Church of England Funds are disclosed in note 7. There were no other transactions entered into with CBFFT during the year (31.12.2016, £nil).

There is no individual investor holding more than 20% of the Fund.

STATEMENT OF TRUSTEE AND MANAGER RESPONSIBILITIES

The Trustee shall comply with the duty of care when exercising their powers and discharging their duties under the Church Funds Investment Measure 1958 (as amended from time to time) and the Trustee Act 2000 (together the Measure) to:

- make and revise the written statement of the investment objectives of the Fund and details of such investment objectives will be included in the Scheme Information;
- determine the criteria and methods for evaluating the performance of the Fund;
- appoint the Auditor of the Fund and settle their terms of engagement;
- determine the rate of remuneration of the Manager in accordance with the Measure and the Scheme Information;
- exercise supervision and oversight of the Manager's compliance with the Measure and the Scheme Information. In particular, the Trustee shall be satisfied on a continuing basis that the Manager is competently exercising the powers and discharging the duties conferred or imposed on it by or pursuant to the provisions of the Measure and ensure the Manager is maintaining adequate and proper records;
- review the appointment, supervision and oversight of any Registrar or other delegate whom it has appointed in accordance with the provisions of this Scheme;
- review the custody and control of the property of the Fund and the collection of all revenue due to the Fund in accordance with the Measure;
- apply interest payments to depositors based on their average daily balance in the Fund; and
- take all steps and execute all documents which are necessary to ensure that the deposits and withdrawals for the Fund are properly completed.

STATEMENT OF TRUSTEE AND MANAGER RESPONSIBILITIES**Preparation of financial statements**

The Trustee of the Fund is required, by the Measure, to prepare Financial Statements which give a true and fair view of the financial position of the Fund at each half year and year end valuation date. The net revenue for the year, together with a report on the operation of the Fund is also required. In preparing these Financial Statements, the Trustee:

- selects suitable accounting policies that are appropriate for the Fund and applies them on a consistent basis;
- follows generally accepted accounting principles and applicable United Kingdom accounting standards;
- keeps proper accounting records which enables them to demonstrate that the Financial Statements, as prepared, comply with the above requirements;
- makes judgments and estimates that are prudent and reasonable; and
- prepares the Financial Statements on the going concern basis, unless it is inappropriate to presume this.

The Trustee is also required to manage the Fund in accordance with the Measure and has delegated to the Manager the day-to-day management, accounting and administration of the Fund, as permitted by the Measure.

Manager responsibilities

The Manager is required to carry out these duties in accordance with the Measure and take reasonable steps for the prevention and detection of fraud and other irregularities.

CBF Funds Trustee Limited
(Charity Registration No. 1116932)

Trustee Directors

R Williams (Chairman)
Rev Canon E Carter
N Lewis*
G Pollard
P Read*
S Steele* (resigned 26 February 2018)
Rev Dr R Turnbull*
M Woodmore*
A Brookes (appointed 6 November 2017)
S Chan (appointed 6 November 2017)
C Johnson (appointed 6 November 2017)
*Members of the Audit Committee

Secretary

J Fox

Manager and Registrar

CCLA Investment Management Limited
Senator House, 85 Queen Victoria Street
London EC4V 4ET
Telephone: 0207 489 6000
Client Service:
Freephone: 0800 022 3505
Email: clientservices@ccla.co.uk
www.ccla.co.uk
Authorised and regulated by the Financial Conduct Authority

Administrator

HSBC Securities Services (UK) Limited
1-2 Lochside Way
Edinburgh Park
Edinburgh EH12 9DT
Authorised and regulated by the Financial Conduct Authority

Executive Directors of the Manager

M Quicke, OBE (Chief Executive)
J Bevan (Chief Investment Officer)
A McMillan (Chief Operating Officer)
A Robinson, MBE (Director Market Development)

Non-Executive Directors of the Manager

R Horlick (Chairman) (appointed 1 January 2017)
R Norris
T Salmon, OBE
J Tattersall
R Williams

Fund Managers

S Freeman
R Evans
D Mannifield (until 31 March 2017)

Company Secretary

J Fox

Head of Operational Risk, Internal Audit and Compliance

S Forrest (resigned 31 January 2018)
R Plumridge (from 31 January 2018)

Head of Ethical and Responsible Investment

J Corah

Third Party Advisors**Banker**

HSBC Bank plc
60 Queen Victoria Street
London EC4N 4TR

Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

Solicitors

Farrer & Co LLP
66 Lincoln's Inn Fields
London WC2A 3LH

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

The CBF Church of England Funds

The CBF Church of England Funds provide Church of England parishes, dioceses and other church charitable trusts with a ready-made service to look after their money and investments. These Funds aim to provide prudent management of Church money avoiding unnecessary risks, but at the same time seeking to deliver satisfactory investment results.

A choice of Funds

The six CBF Church of England Funds aim to meet most of the investment and deposit needs of a church trust.

Investment Fund

- A suitable 'all-in-one' long-term fund for most church organisations
- Highly diversified and well-balanced spread of investments
- Designed to help meet growth and income requirements
- Focus on delivering attractive, growing income
- Working with the EIAG to reflect appropriately ethical values in your investments

Global Equity Income Fund

- Attractive income
- Rising income in the future
- Strong growth opportunities from the global economy

UK Equity Fund

- The only UK equity fund managed to reflect Church ethical values
- High quality, well-diversified portfolio
- Designed to help meet growth and income requirements
- Usually held with other investments such as overseas equities, bonds and cash to give a broad spread of assets and achieve overall objectives

Fixed Interest Securities Fund

- Long-term investment focused on income
- Gross income paid quarterly
- Usually held with other investments such as equities and cash to give a broad spread of assets and achieve combined income and growth objectives

Property Fund

- Investing in high quality, well-diversified commercial and industrial property
- Focus on delivering attractive income
- Actively managed to add value

Deposit Fund

- An attractive rate
- Interest paid gross
- No minimum balance
- Easy access
- Simple operation
- Excellent service
- Free BACS transfers
- AAAf/S1 Fund rating*

* The Deposit Fund is rated AAAf/S1 by Fitch Ratings. This reflects the high credit quality of the portfolio.

The Funds are common funds established under the Church Funds Investment Measure 1958 (as amended from time to time). CBF Funds Trustee Limited, a company incorporated under the Companies Act, is the Trustee and Operator of the Funds. CCLA Investment Management Limited manages the investment of the Funds.

The value of the investments may fall as well as rise and an investor may not get back the full amount originally invested.

CCLA

CCLA Fund Managers Limited

Senator House, 85 Queen Victoria Street, London EC4V 4ET

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www.ccla.co.uk

CCLA Fund Managers Limited (Registered in England No. 8735639) and CCLA Investment Management Limited (Registered in England No. 2183088) are authorised and regulated by the Financial Conduct Authority. Registered address: Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

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