BLUESTONE MORTGAGES LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

COMPANY NUMBER: 02305213

BLUESTONE MORTGAGES LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

CONTENTS Page(s)

BLUESTONE MORTGAGES LIMITED

STRATEGIC REPORT

The Directors present their strategic report on the Company for the year ended 30 June 2019.

Review of the business
Bluestone Mortgages Limited ('the Company') is a specialist lender and servicer of residential mortgages that it has either originated through intermediaries, or acquired through portfolio acquisitions. The Company is a registered mortgage lender with the Financial Conduct Authority ('FCA').

The Company has completed a number of important transactions during the year:

- In September 2018 the Company sold a £14million portfolio of mortgages it had previously acquired.
- In March 2019 the Company sold a £14million portfolio of originated mortgages.
- In June 2019 the Company agreed terms to increase capacity on a forward flow sale agreement with a UK challenger bank by £180m.

Post balance sheet events

- On 28 August 2019 the Company completed its first UK Residential Mortgage Backed Securities (RMBS) issuance backed by originated mortgages with the £210m Genesis 2019-1 securitisation.
- On 22 August 2019 the Company's subsidiary, Bluestone Mortgage Finance No.3 Limited, increased its warehouse facility from £167m to £278m.

Results of the business

The audited financial statements of the Company for the year ended 30 June 2019 are set out on pages 6 to 21. The Company recorded a loss for the year of £2,418,188 (2018: £3,819,071 loss). Administrative expenses increased by £1,499,131 to support the expansion of the business which was running profitably from May 2019. The Company originated £253,933,640 (2018: £69,032,781) of mortgages in the year.

The key reason for the loss before tax during the year is due to the continued investment in operating infrastructure to support the expansion of the business. A feature of balance sheet lending activities is that internal costs are typically expensed to the profit and loss account as they are incurred, whilst net interest margin earned on that lending accrues over time.

Key performance indicators
Management and Directors use a number of key performance indicators to manage the business. As a lending and servicing business, the main focus is on quality and size of the lending book.

The key performance indicators were:

	FY 19	**FY 18**
Total book size	£207,931,920	£59,070,596
90+ days arrears (percentage)	0.47%	2.22%
90+ days arrears (value)	£969,212	£1,314,048
Weighted average loan to value	65.81%	68.83%

Principal risks and uncertainties

The Company is exposed to and manages a variety of risks with credit risk, liquidity risk, interest rate risk and operational risk being of particular significance. Credit risk is largely managed through the monitoring of arrears (and ultimately, where appropriate, through repossession); liquidity risk is managed through the design of the Company's financing structure; interest rate risk is actively managed where appropriate through the use of derivative financial instruments and operational risk through the governance structure and operational risk framework. For further details see Note 17.

The Directors have responsibility for the overall system of internal controls within the Company and for reviewing its effectiveness.

On behalf of the board

P. McGuinness
Director
Date: 21 October 2019

BLUESTONE MORTGAGES LIMITED

DIRECTORS' REPORT

The Directors present their report on the affairs of the Company, together with the audited financial statements, for the year ended 30 June 2019.

Directors

The names of the Directors of the Company who served during the financial year and up to the date of signing the financial statements are:

Mr A. Cumming (Chairman)
Mr A. Jeffery
Mr P. McGuinness
Mr A. Voss
Mr D. Torpey (resigned on 5 September 2018)
Mr S. Seal (appointed 30 July 2019)

No director had a material interest at any time during the year in any contract of significance with the Company.

Principal Activities

The principal activities of the company are a mortgage originator and servicer which is expected to continue for the foreseeable future.

Going Concern

The financial statements have been prepared on a going concern basis as the Directors are of the opinion, based on the letter of support received from the Company's ultimate parent, Bluestone Consolidated Holdings Limited, that the Company will be able to continue in operation and meet its debts as they fall due for the foreseeable future.

The Company's operations are funded by the deemed loans from it's subsidiaries, which in turn are funded by warehouse loan facilities. Although some of the underlying warehouse loan facilities have maturity dates within or shortly after 12 months of the date of approving these financial statements, the Directors believe that the extensions would be obtained from the facility providers to enable the deemed loans to remain in place at the end of the current period. While there is no absolute certainty that the warehouse loan facilities will be renewed, given there is limited recourse to the Company, there is no impact on the going concern position of the Company, should the warehouse loan facilities not be renewed.

Taking into account the above the directors have prepared the financial statements on a going concern basis.

Directors and Officers' Liability Insurance

The Company has arranged Directors and Officers' liability insurance which covers all the Directors and Officers of the Company and its controlled entities against certain liabilities they may incur in carrying out their duties for the consolidated entity.

Employees

All employee services were provided by employees from other group companies.

Dividends

The Directors are not proposing any dividend in respect of the financial year ended 30 June 2019 (2018: nil).

Financial Risk Management

See details within Strategic Report.

Provision of Information to Auditors

Each director of the Company at the date the Directors' Report is signed 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 of the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed in accordance with a resolution of the Directors made on 21 October 2019.

On behalf of the board

A. Voss
Director

P. McGuinness
Director

BLUESTONE MORTGAGES LIMITED

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 United Kingdom Accounting Standards, including FRS 101 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 Company will continue in business.

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.

Signed in accordance with a resolution of the Directors made on 21 October 2019.

On behalf of the board

A. Voss
Director

P. McGuinness
Director

Independent auditors' report to the members of Bluestone Mortgages Limited

Report on the audit of the financial statements

Opinion

In our opinion, Bluestone Mortgages Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 June 2019; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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 company 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

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

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

We have nothing to report in respect of the above matters.

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

CMaw

Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
21 October 2019

BLUESTONE MORTGAGES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Note	Year ended 30 Jun 2019 £	Year ended 30 Jun 2018 £
Interest income	3	6,339,754	2,257,912
Interest expense and similar charges	3	(5,887,857)	(2,302,941)
Net interest income / (expense)		**451,897**	**(45,029)**
Net fee and commission income	3	2,492,102	1,757,595
Other financial income	3	3,254,208	2,470,908
		5,746,310	4,228,503
Total net income		**6,198,207**	**4,183,474**
Expenses:			
Depreciation		(995)	(1,727)
General Office Costs		-	(21,646)
Occupancy Costs		-	(28,613)
Bad debt expense		(531)	(102,842)
Administrative Expenses		(9,101,386)	(7,602,255)
Total operating expenses		**(9,102,912)**	**(7,757,084)**
Loss before income tax		**(2,904,705)**	**(3,573,610)**
Income tax credit/(expense)	4	486,517	(245,461)
Loss and total comprehensive expense for the year		**(2,418,188)**	**(3,819,071)**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

BLUESTONE MORTGAGES LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	30 Jun 2019 £	30 Jun 2018 £
ASSETS			
Cash and cash equivalents		3,765,225	2,394,255
Receivables	5	27,256,707	25,625,568
Loans held at amortised cost	6	207,808,385	58,947,592
Investment	7	10,483,370	6,988,279
Property, plant and equipment	8	829	1,824
Deferred tax assets	9	243,589	225,474
Total assets		249,558,105	94,182,992
LIABILITIES			
Payables	10	(29,539,698)	(19,854,076)
Deemed loan	11	(207,555,371)	(59,447,692)
Total liabilities		(237,095,069)	(79,301,768)
NET ASSETS		**12,463,036**	**14,881,224**
EQUITY			
Contributed equity	13	6,500,000	6,500,000
Capital contribution reserve	13	18,000,000	18,000,000
Accumulated losses		(12,036,964)	(9,618,776)
Total equity		**12,463,036**	**14,881,224**

The above statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 6 to 21 were authorised for issue by the board of Directors on 21 October 2019 and were signed on its behalf.

A. Voss
Director
Date: 21 October 2019
Company Number: 02305213

BLUESTONE MORTGAGES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Contributed Equity	Capital contribution reserve	Accumulated losses	Total Equity
	£	£	£	£
Balance at 30 June 2017	6,500,000	18,000,000	(5,799,705)	18,700,295
Loss for the year	-	-	(3,819,071)	(3,819,071)
Total comprehensive expense for the year	-	-	(3,819,071)	(3,819,071)
Balance at 30 June 2018	6,500,000	18,000,000	(9,618,776)	14,881,224
Loss for the year	-	-	(2,418,188)	(2,418,188)
Total comprehensive expense for the year	-	-	(2,418,188)	(2,418,188)
Balance at 30 June 2019	6,500,000	18,000,000	(12,036,964)	12,463,036

Bluestone Mortgages Limited ('the Company') is a specialist lender and servicer of residential mortgages that it has either originated through intermediaries, or acquired through portfolio acquisitions. The Company is a wholly-owned subsidiary company and is included within the audited consolidated financial statements of Bluestone Consolidated Holdings Limited, the ultimate parent company, incorporated in England and Wales.

The Company is a private company limited by shares which is domiciled and incorporated in England. The address of the registered office is:

Melbourne House
44-46 Aldwych
London
WC2B 4LL

Directors:
Mr A. Cumming (Chairman)
Mr A. Jeffery
Mr P. McGuinness
Mr A. Voss
Mr D. Torpey (resigned on 5 September 2018)
Mr S. Seal (appointed 30 July 2019)

1. Summary of accounting policies

The principal accounting policies adopted in the financial statements are set out below. These policies have been consistently applied to all the years of presentation unless otherwise stated.

(a) Basis of Preparation
These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies applying FRS 101.

The Company is a qualifying entity for the purpose of FRS 101. Note 18 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements in accordance with FRS 101:
• not disclosing information in relation to a new standard that has been issued but is not yet effective; and
• not presenting a cash flow statement; and
• not disclosing details of related party transactions entered into between two or more members of a group; and
• not disclosing compensation for key management personnel;

Consolidated financial statements
The Company is a subsidiary of Bluestone Consolidated Holdings Limited and is included in the consolidated financial statements of Bluestone Consolidated Holdings Limited which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the Company's separate financial statements.

Early adoption of standards
The Company has not elected to apply any standards or pronouncements before their operative date in the annual reporting year beginning 1 July 2017.

The Company has adopted the measurement principals of IFRS 9 for the first time in the year ended 30 June 2019. The comparatives have not been restated and the impact of the adoption is minimal.

Going Concern
The Company's operations are funded by the deemed loans from it's subsidiaries, which in turn are funded by warehouse loan facilities. Although some of the underlying warehouse loan facilities have maturity dates within or shortly after 12 months of the date of approving these financial statements, the Directors believe that the extensions would be obtained from the facility providers to enable the deemed loans to remain in place at the end of the current period. While there is no absolute certainty that the warehouse loan facilities will be renewed, given there is limited recourse to the Company, there is no impact on the going concern position of the Company, should the warehouse loan facilities not be renewed.

Taking into account the above and based on the letter of support received from the Company's ultimate parent, Bluestone Consolidated Holdings Limited, the directors have prepared the financial statements on a going concern basis.

1. Summary of accounting policies (continued)

(a) Basis of Preparation (continued)

Historical Cost Convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit or loss.

Critical Accounting Estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(b) Financial assets and liabilities
Loans and receivables are non-derivative financial assets or liabilities with fixed or determinable repayments that are not quoted in an active market and include mortgage receivables and other loans.

Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest and, for financial assets, less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and any premium or discount to maturity amount using the effective interest method.

(i) Recognition and de-recognition of financial assets
Financial assets are recognised on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial assets are de-recognised when the rights to receive cash flows from them has expired or where the Company has transferred substantially all risks and rewards of ownership.

(ii) Mortgage receivables
The Company has originated mortgage receivables and acquired mortgage portfolios which include mortgage receivables, premiums and the rights, benefits and risks of these assets. These assets are recognised on the statement of financial position. Mortgage receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company directly or indirectly provides lending to a customer.

Mortgage receivables are recorded at amortised cost, using the effective interest rate method, adjusted for any write-down for expected credit losses. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership. If a shortfall on a mortgage receivable occurs the amount of the advance net of the associated impairment provision is written off. Any future recoveries against these loans are reflected in the statement of comprehensive income as and when received.

(iii) Interest receivable and similar income and interest payable and similar charges
Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial liability or financial asset. When calculating the effective interest rate the Company estimates cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(iv) Impairment
The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Receivables are included in the loans and receivables category. They are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method, less provision for impairment. The company provides for 12 months of expected credit losses (ECLs) on loans management deem to be performing and lifetime ECLs on loans management deem to be under performing or non-performing.

1. Summary of accounting policies (continued)

(b) Financial assets and liabilities (continued)
(iv) Impairment (continued)

If there is objective evidence that an impairment loss on a financial asset classified as loans and receivable has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset and the impaired value. Impairment losses are recognised in profit or loss and the carrying amount of the financial asset reduced by establishing an allowance for impairment losses. If in a subsequent year the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

(c) Income Tax

The income tax expense or revenue for the period is the tax payable/receivable on the current period's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted at the reporting date. The relevant tax rates are applied to the cumulative amounts of deductible temporary differences to measure the deferred tax asset and liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for the deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and liability simultaneously.
Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(d) Income
Income is generally measured at fair value of the consideration received or receivable. The principal sources of income are:

(i) Interest Income
Interest income arising from loans is brought to account using the effective interest rate method. The effective interest method calculates the amortised cost of a financial instrument and allocates 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 expected life of the financial instrument. Fees and transaction costs associated with the origination of the loans are capitalised and included in the effective interest rate and recognised over the expected life of the loan.

(ii) Sundry Fees and Commission
Sundry fees and commission not associated with the origination of the loan are recognised as the amounts become irrevocably due and payable.

1. Summary of accounting policies (continued)

(e) Provisions for Doubtful Debts

The provision for doubtful debts includes individually assessed provisions and collectively assessed provisions. Individually assessed provisions are based on an independent valuation of the security adjusted by any cost of selling, less the outstanding loan balance. In arriving at the collectively assessed provisions the Company makes judgements as to whether there is any observable data which indicates there is a significant decrease in the estimated future cash flows from mortgage receivables before the decrease can be identified with an individual loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a portfolio or local economic conditions that correlate with defaults on assets in the portfolio. The Company uses a rating agency model to establish expected credit losses on the loan portfolio based on a number of loan characteristics. In accordance with IFRS 9 the Company accounts for 12 months of ECLs on performing assets (generally less than 90 days in arrears with no other indication of increased credit risk) and lifetime ECLs on under performing or non-performing assets (90+ days arrears or where the company is actively trying to or has recovered the asset).

(f) Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(g) Property, Plant and Equipment
Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

Office equipment	5 years
Fixtures & fittings	5 years

(h) Payables
These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(i) Dividends
Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

(j) VAT
Revenues, expenses and assets are recognised net of the amount of VAT, except:
(i) where the amount of VAT incurred is not recoverable from the taxation authority, when it is recognised as part of the cost of the asset or expense;
(ii) for receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(k) Deemed loan
The sale of the mortgage receivables to Bluestone Mortgage Finance No. 3 Limited and Bluestone Mortgage Finance No. 4 Limited fails the de-recognition criteria due to the Company's entitlement to residual cash flows in the form of junior deferred purchase consideration. Therefore the Company has not disposed of these mortgage receivables. Instead the Company has recognised a deemed loan due to Bluestone Mortgage Finance No. 3 Limited and Bluestone Mortgage Finance No. 4 Limited which is secured on and only has recourse to the cash flows arising from the mortgage receivables. The deemed loan is classified as a financial liability.

The deemed loan has been recognised at the amount corresponding to the mortgage receivables originated during the year in addition to the consideration paid for the acquired mortgage receivable portfolio. The deemed loan is adjusted for principal receipts from the underlying mortgage receivables. The interest payable on the deemed loan is recorded on an effective interest rate basis.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Loan book acquisition accounting and income recognition

Acquired mortgage receivables are initially recognised at cost. Significant judgement is exercised in calculating their effective interest rate using cash flow models which include assumptions on the likely macro-economic environment including house price indices, unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses. Expected cash flows are re-estimated on an annual basis.

The Company uses estimates based on historical loss experience for the last 3 years for mortgage receivables with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes to assumptions used for estimating future cash flows could result in a change in provision for loan losses and have a direct impact on the bad debt expense.

(b) Effective Interest Rate

Fee income and expenses which are associated with the mortgage receivables and the deemed loan are spread over the life of the mortgages on an effective interest rate basis. Where income has been received or expenses paid upfront the actual amount received/incurred is spread over the life of the mortgages. Where income is to be received or expenses to be incurred at a future date an estimate of the amounts to be received/paid is made based on the expected characteristics of mortgage receivables/deemed loan on a portfolio basis.

A critical accounting estimate is also made to determine the profile over which the amounts are spread. The profile is based on the expected prepayment rate of the mortgages. This assumption is reviewed annually.

(c) Tax Losses

The Company has tax losses which are recognised in the financial statements as a deferred tax asset to the extent to which it is considered probable that future taxable profits will be available in future periods against which the losses can be utilised. An assessment is made each year of the future taxable profits which are probable based on the expected future taxable profits from earnings plus the extent to which any timing differences recognised will reverse and generate taxable income.

3. Loss for the year before income tax

	2019 £	2018 £
Loss from ordinary activities before income tax includes the following items of revenue:		
Interest and similar income		
On loans secured by mortgages	5,891,434	2,106,024
On cash balances	697	-
On loans to related parties	447,623	151,888
	6,339,754	2,257,912
Interest expense and similar charges		
Interest on deemed loan	(5,137,788)	(1,654,451)
On mortgage financing	(750,069)	(648,490)
	(5,887,857)	(2,302,941)
Net interest income	451,897	(45,029)
Fee and commission income	2,606,501	1,761,662
Fee and commission expense	(114,399)	(4,067)
Net fee and commission income	2,492,102	1,757,595
Other financial income		
Fair value profits on financial assets at fair value through profit or loss	-	2,470,908
Profit on sale of mortgage receivables	3,254,208	-
	3,254,208	3,630,745
Total net income	6,198,207	4,183,474
Fees payable to the Company's auditors for the audit of the Company:		
Total audit fees		
- Audit-related assurance services	5,820	5,820

4. Income tax expense

	2019 £	2018 £
(a) Income tax income/(expense)		
Aggregate income tax income/(expense) comprises:		
Current tax	468,402	259,447
Deferred tax	18,115	(504,908)
	486,517	(245,461)
Deferred tax income/(expense) included in the income tax income/(expense) comprises:		
Increase/(decrease) in deferred tax assets	174,389	(426,620)
Decrease/(increase) in deferred tax liabilities	(156,274)	(78,288)
	18,115	(504,908)

4. Income tax (continued)

(b) Reconciliation of income tax credit/(expense) to theoretical tax payable

The tax on the Company's loss before tax differs from (2018: differs from) the theoretical amount which would arise using the weighted tax rate applicable in the year as follows:

	2019 £	2018 £
(Loss)/profit from ordinary activities before income tax	(2,904,705)	(3,573,610)
Income tax credit/(charge) at current/blended rate - 19% (2018: 19%)	551,894	678,986
Tax effect of permanent differences		
Non deductible expenses	(7,607)	51,827
Income tax adjusted for permanent differences	(7,607)	51,827
Tax losses not brought to account as deferred tax assets	(57,770)	(976,274)
Income tax credit/(expense) relating to ordinary activities	486,517	(245,461)

(c) Unused Tax Losses for which no deferred tax asset has been recognised

	2019 £	2018 £
Unutilised tax losses for which no deferred tax asset has been recognised	5,442,337	5,138,284
Potential tax benefit at 17.00% (2018: 17%)	925,197	873,508

(d) Factors affecting future tax changes

UK corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year. The standard rate of UK corporation tax reduced from 20% to 19% on 1 April 2017.

In the budget of 16 March 2016, the Chancellor of the Exchequer announced that the Corporation Tax main rate will be reduced by an additional 1% for the Financial Year beginning 1 April 2020. The legislation in Finance Act 2016 set the rate at 17%, replacing the rate set for Financial Year 2020 in the Finance (No. 2) Act 2015. This will have an effect on the Company's future tax position. The standard rate of UK corporation tax will now reduce to 17% from 1 April 2020. These proposed changes were substantively enacted when the Finance Bill 2016 received Royal Assent on 15 September 2016.

5. Receivables

	2019 £	2018 £
Accounts Receivable	152,933	76,331
Prepayments	3,424	22,987
Accrued income	579,042	216,893
Receivables from immediate parent undertaking	6,647,491	6,647,491
Receivables from other group companies	18,418,544	18,191,355
Deferred commission	1,255,126	432,630
Other	200,147	37,881
	27,256,707	25,625,568

Receivables from the immediate parent undertaking and other group companies are unsecured and interest free.

(a) Fair values

The fair values of the receivables balances are not materially different to their carrying amount in the financial statements.

(b) Effective interest rates and credit risk

The Company is not exposed to any significant credit risk on receivables as these amounts are short term in nature or represent prepaid expenses or accrued income. None of the receivables are interest bearing.

(c) Maturity of receivables

All receivables are due within 12 months.

6. Loans held at amortised cost

	2019	2018
	£	£
Mortgage receivables	207,931,920	59,070,596
Provision for bad and doubtful debts	(123,535)	(123,004)
	207,808,385	58,947,592
Contractual amounts falling due within one year	12,490,644	5,080,071
Contractual amounts falling due after more than one year	195,317,741	53,867,521

The mortgage receivables balance represents the outstanding principal amounts including accrued interest and amounts capitalised under the effective interest rate method, owed to the Company.

The mortgages are receivable from individual borrowers and are secured against the property. The credit risk on these loans comprises the exposure to individual borrower circumstances and the fluctuations in property values. The Company has recognised an expense of £531 (2018: £102,842) in respect of bad and doubtful debt on mortgage receivables during the year ended 30 June 2019.

The mortgage receivables earn fixed and floating interest rates and earned an average interest rate of 4.65% (2018: 4.7%). The mortgages have remaining terms of between 1 to 35 years (2018: 10 to 30 years), however prepayments can be made by the borrowers and the average life of the loans is approximately 3 years (2018: 6 years). There is no material difference between the carrying value and fair value of mortgage receivables.

Whilst the majority of the mortgage receivables were sold to subsidiary undertakings, the Company retains virtually all of the exposure to volatility in relation to the mortgage receivables and therefore the assets were not de-recognised from the Company's statement of financial position at this time.

	2019	2018
An analysis of the mortgage receivables is as follows:	£	£
At beginning of year	59,070,596	19,001,951
Originations and acquisitions	253,933,640	69,032,781
Interest	5,891,434	1,115,233
Principal and interest payments and redemptions	(10,269,845)	(2,731,493)
Mortgages sold during the year	(100,693,905)	(27,347,876)
At end of year	207,931,920	59,070,596

7. Investment

Investments in group undertakings	2019 £	2018 £
Balance at beginning of year	6,988,279	3,658,000
Additions	4,414,038	3,330,279
Repayments	(918,947)	-
Balance at end of year	10,483,370	6,988,279

Included in the above balance is £5,245,369 (2018: £1,930,279) of loans to subsidiaries. These loans are interest free however the company has the right to all residual profits of the subsidiaries. During the year £918,947 of the loan to Bluestone Mortgage Finance No.4 Limited was repaid on disposal of a previously acquired mortgages portfolio.

Subsidiaries

The Company had three subsidiaries as at 30 June 2019. Investments in subsidiaries are carried at cost.

	Place of business/ country of incorporation	Nature of business	Proportion of shares held and proportion of voting rights
Bluestone Mortgage Finance No.2 Limited 1 Station Square, Cambridge, England, CB1 2GA	United Kingdom	Mortgage lending	100%
Bluestone Mortgage Finance No.3 Limited 1 Station Square, Cambridge, England, CB1 2GA	United Kingdom	Mortgage lending	100%
Bluestone Mortgage Finance No.4 Limited 1 Station Square, Cambridge, England, CB1 2GA	United Kingdom	Mortgage lending	100%

In addition, the Company owns 100% of the share capital of Basinghall Mortgage Finance No.1 Limited, a UK Company. The registered office of Basinghall Mortgage Finance No.1 Limited is 1 Station Square, Cambridge, England, CB1 2GA. Basinghall Mortgage Finance No.1 Limited was dissolved on 8 October 2019.

8. Property, plant and equipment	Fixtures and fittings £	Office equipment £	Total £
Cost			
As at 1 July 2018	4,975	2,911	7,886
Balance as at 30 June 2019	4,975	2,911	7,886
Accumulated depreciation			
As at 1 July 2018	3,151	2,911	6,062
Charge for the year	995	-	995
Balance as at 30 June 2019	4,146	2,911	7,057
Net book value			
As at 30 June 2018	1,824	-	1,824
At 30 June 2019	829	-	829

9. Deferred tax assets

The balance comprises temporary differences attributable to:	2019 £	2018 £
Amounts recognised in the statement of comprehensive income:		
Income and expenses spread on an effective yield basis	366,113	119,687
Tax losses	-	-
Accruals	92,478	164,616
Other timing differences	23,472	23,371
	482,063	307,674
Set off against deferred tax liabilities	(238,474)	(82,200)
Net deferred tax asset	243,589	225,474

9. Deferred tax assets (continued)	**2019 £**	**2018 £**
Deferred tax assets expected to be recovered within 12 months	-	-
Deferred tax assets expected to be recovered after 12 months	243,589	225,474

10. Payables

	2019 £	**2018 £**
Other payables	(3,208,805)	(1,145,806)
Accruals	(486,726)	(866,402)
Payable to other related parties	(25,844,167)	(17,841,868)
	(29,539,698)	(19,854,076)

Other payables includes £1,820,839 (2018: £1,066,534) of amounts due to third parties in respect of mortgage collections that the Company services on their behalf.

Payables to related parties are unsecured and interest free.

Payables are all due within 12 months.

11. Deemed loan

The deemed loans from Bluestone Mortgage Finance No.3 Limited and Bluestone Mortgage Finance No.4 Limited are only repayable to the extent that principal payments on the mortgage receivables are received. As at 30 June 2019 £12,490,644 (2018: £5,080,071) of the deemed loan is expected to be repaid within one year. Interest is charged at up to 4.69% (2018: 3.8%).

12. Deferred tax liabilities

	2019 £	**2018 £**
The balance comprises temporary differences attributable to:		
Amounts recognised in the income statement		
Income and expenses spread on an effective yield basis	(238,474)	(82,200)
Set off against deferred tax assets	238,474	82,200
Net deferred tax liabilities	-	-

13. Contributed equity

(a) Share Capital	**Issued and Fully Paid**			
	30 June 2019 No.	**30 June 2019 £**	**30 June 2018 No.**	**30 June 2018 £**
Ordinary Shares of £1 each (2018: £1)				
At beginning of year	6,500,000	6,500,000	6,500,000	6,500,000
Issued in year	-	-	-	-
At end of year	6,500,000	6,500,000	6,500,000	6,500,000

(b) Capital contribution reserve

On 25 October 2013 Erste Abwicklungsanstalt provided the Company with a capital contribution of £18,000,000.
On 11 December 2014 Erste Abwicklungsanstalt sold its entire share holding to Bluestone Mortgage Holdings Limited.

14. Directors' emoluments

The Directors are not specifically remunerated by the Company but rather via Bluestone Consolidated Holdings Limited. Details of their remuneration can be obtained from the Bluestone Consolidated Holdings Limited group financial statements.

15. Commitments

	2019	2018
	£	£
The following amounts have been committed to but not recognised in the financial statements:		
Operating leases		
Commitments under non-cancellable operating lease expiring:		
Within one year	-	228,411
Later than one, but not later than five years	-	152,953
After five years	-	-
	-	381,364

16. Employees

No employees were directly employed by the Company during the financial year (2018: nil). Employee services of £2,908,644 were provided by employees from Bluestone Administrative Services (UK) Limited.

(a) Monthly Average Number of People Employed	**2019**	**2018**
Mortgage Servicing	8	7
Mortgage Lending	39	28
	47	35

17. Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including interest rate risk) and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

(a) Credit risk

Credit risk is principally the risk that borrowers will not be able to meet their obligations as they fall due, allied to the risk that property values will fall to the extent that borrowers' failure to meet obligations is translated into losses.

The Company has established detailed, documented credit policies, which are used to define, monitor and control the quality of new lending, the existing portfolios and the wider marketplace. These policies control the approval of underwriting and collection mandates and the criteria and processes for arrears collection, litigation and repossession.

There is also ongoing credit risk that the amounts owed by Bluestone Mortgage Holdings Limited and other group undertakings, will not be repaid.

The Company's maximum exposure to credit risk is as follows:

	Carrying amount 30 June 2019	Maximum exposure 30 June 2019	Carrying amount 30 June 2018	Maximum exposure 30 June 2018
	£	£	£	£
Mortgage receivables	207,808,385	207,808,385	58,947,592	58,947,592
Deferred purchase consideration	-	-	-	-
Amounts owed by immediate parent undertaking	6,647,491	6,647,491	6,647,491	6,647,491
Amounts owed by group undertakings	18,571,477	18,571,477	18,267,686	18,267,686

17. Financial risk management (continued)

(a) Credit risk (continued)

The following table analyses mortgage receivables at the reporting date:

Loan Status	30 Jun 2019 £	30 Jun 2018 £
Current Loans	205,498,121	55,060,363
0-30 days	365,619	1,260,400
31-60 days	580,995	1,093,227
61-90 days	517,973	342,558
91-180 days	51,571	1,236,529
180+	917,641	77,519
Arrears Loans	2,433,799	4,010,233
Total Loans	207,931,920	59,070,596

A provision of £123,535 (2018: £123,004) has been raised against the assets shown in the table above. The provision for doubtful debts includes individually assessed provisions and collectively assessed provisions. Individually assessed provisions are based on an independent valuation of the security adjusted by any cost of selling, less the outstanding loan balance. In arriving at the collectively assessed provisions the Company makes judgements as to whether there is any observable data which indicates there is a significant decrease in the estimated future cash flows from mortgage receivables before the decrease can be identified with an individual loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a portfolio or local economic conditions that correlate with defaults on assets in the portfolio. The Company uses a rating agency model to establish expected credit losses on the loan portfolio based on a number of loan characteristics. In accordance with IFRS 9 the Company accounts for 12 months of ECLs on performing assets (generally less than 90 days in arrears with no other indication of increased credit risk) and lifetime ECLs on under performing or non-performing assets (90+ days arrears or where the company is actively trying to or has recovered the asset).

Mortgage receivable balances where security is held over the property have an assessed value of £207,931,920 at 30 June 2019 (2018: £59,070,596).

(b) Liquidity risk

The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets with those of the cash payments due on the sources of financing, which included mortgage funding and subordinated loan facilities.

	Total	< 1 year	1 - 2 years	2 - 3 years	> 3 years
30 Jun 2019					
Deemed loan	207,555,371	12,490,644	11,740,320	11,035,070	172,289,337
Payables	29,539,698	29,539,698	-	-	-
30 Jun 2018					
Deemed loan	59,447,692	5,080,071	4,643,185	4,243,871	45,480,565
Payables	19,854,076	19,854,076	-	-	-

(c) Market Risk

Interest rate risk

The Company's main interest rate risk arises from mortgage receivables. Mortgage receivables are written at variable and fixed rates and are naturally hedged by the deemed loan.

The notes to the financial statements set out the details of each class of financial asset/liabilities and set out whether interest is earned/paid on a floating rate and the weighted average interest cost for the financial year. Mortgage Receivables include £7,104,949 (2018: £2,025,067) of variable rate loans with an interest rate ranging from 3.23% to 6.3% (2018: 2.04% to 7.85%) and £200,826,971 (2018: £57,045,529) of fixed rate loans with an interest rate ranging from 3.5% to 7.21% (2018: 3.5% to 7.13%).

The entity has no material sensitivity to interest rates due to the hedge provided by the deemed loan.

17. Financial risk management (continued)

(d) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for stakeholders and to maintain an optimal capital, whilst meeting regulatory capital requirements. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As the Company is registered with the FCA as being regulated to undertake mortgage business, it is required to maintain a minimum capital level of 1% of total adjusted assets.

Total adjusted assets is calculated as the total value of assets plus undrawn commitments (the total of those amounts which a borrower has the right to draw down from the Company but which have not yet been drawn down), less assets subject to credit risk . The Company currently meets this level of capital.

18. Parent undertaking and ultimate controlling party

The immediate parent undertaking is Bluestone Mortgages Holdings Limited, a company registered in England & Wales. The ultimate parent undertaking and controlling party is Bluestone Consolidated Holdings Limited, incorporated in England & Wales.

The consolidated financial statements of Bluestone Consolidated Holdings Limited are available from 1 Station Square, Cambridge, England, CB1 2GA. Bluestone Consolidated Holdings Limited is the smallest and largest group at which consolidated financial statements, including the company, are prepared.

19. Post Balance Sheet Events

- On 28 August 2019 the Company completed its first UK RMBS issuance backed by originated mortgages with the £210m Genesis 2019-1 securitisation.
- On 22 August 2019 the Company's subsidiary, Bluestone Mortgage Finance No.3 Limited, increased its warehouse facility from £167m to £278m.