Castle Trust Finance Limited
Strategic report, directors' report and financial statements for the year ended 30 September 2018

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Strategic report, directors' report and financial statements

for the year ended 30 September 2018

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Corporate information

Registered No: 9596607

Directors

Mr Sean Oldfield (resigned 20 July 2018)

Mr Richard Alexander McGregor Ramsay

Mr Matthew Peter Vincent Wyles (resigned 25 March 2018)

Mr Martin Paul Bischoff (appointed 30 May 2018)

Secretary
Mr Andrew Macdonald

Auditors
Ernst & Young LLP
25 Churchill Place
London
E14 5EY
United Kingdom

Bankers
HSBC Bank PLC
First Floor
60 Queen Victoria Street
London
EC4N 4TR
United Kingdom

Registered office
10 Norwich Street
London
EC4A 1BD

Principal place of business
Tower 42
25 Old Broad Street
London
EC2N 1HQ

Strategic report

The directors present their strategic report and the financial statements of Castle Trust Finance Limited (the "Company" or "CTF") for the year ended 30 September 2018.

Business overview

The Company is a member of Castle Trust Capital plc's ("CTC") group which consists of CTC and consolidated entities (the "Group" or "Castle Trust").

Castle Trust is a leading specialty finance provider in the UK supported by a stable retail funding base. Castle Trust competes in business segments that are experiencing sector specific growth and have the ability to deliver attractive shareholder returns relative to the risks that they represent. Castle Trust considers its competitive advantage is its ability to deliver products that are valuable for customers but not offered by the traditional banking industry. This is supplemented by knowledge of the distribution networks in which Castle Trust operates, the strength of Castle Trust's underwriting and superior market insight. This has enabled Castle Trust to deliver competitive pricing relative to its peers.

On 31 July 2015 the Company purchased the beneficial interest in the fixed income element of all Buy-To-Let Equity products and those Index Profit Share ("IPS") products previously recognised on CTC's balance sheet as at 30 September 2014. Additionally, on 31 December 2015 the Company purchased the beneficial interest in the fixed element of the remaining Buy-To-Let Equity products issued in the period from 1 August 2015 to the date of the transaction and on 31 July 2016 the beneficial interest in the fixed income component of IPS products issued by CTC after 1 October 2014 to the date of the transaction. CTC transferred substantially all the risks and rewards associated with the purchase of the principal and fixed income element of mortgage lending to CTF whilst the legal title and security associated with mortgages stayed with CTC.

In the previous financial year Castle Trust announced that the Group was actively pursuing opportunities for the provision of wholesale funding to smaller lenders. In the current period this new lending business has resulted in a flow agreement with a peer-to-peer lender and a separate £25m committed facility.

Castle Trust continues to view wholesale lending opportunities as attractive assets that have the potential to serve an important purpose for the Group. However, in light of the Group's strategy to become a bank and the significant change requirements arising from that strategy, Castle Trust has revised its strategy and has no current plans to enter into new facilities.

The Company receives funding under a Master Intragroup Lending Agreement ("MILA") from a fellow Group subsidiary, Castle Trust Treasury Limited ("CTT").

On the 3 April 2018 the Group announced that Castle Trust would benefit from conversion to a bank. Accordingly, Castle Trust is in dialogue with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) in order to pursue a banking licence.

This represents the start of an exciting new phase of growth for Castle Trust and the board of directors believes that operating as a bank will enable the Group to serve all of its customers, both savers and borrowers, better.

Business review

The total mortgage lending book amounted to £91.8m (2017: £116.2m) and amounts due to CTT under the MILA to £139.8m (2017: £118.1m). Wholesale lending in the year totalled £51.7m (2017: £nil).

Strategic report (continued)

The following Key Performance Indicators ("KPIs") are used by management to track how the business is progressing against the Group's overall strategic priorities set out in Castle Trust's financial statements.

Key performance indicator Description	2018 £'000	2017 £'000
Loans and advances to customers		
- Mortgages	**91,753**	116,235
- Wholesale lending	**51,695**	-
Total loans and advances to customers	**143,448**	116,235
Total comprehensive (loss) / profit for the year	**(1,112)**	193

The loss for the year is as a result of higher impairments than expected. The significant increase in impairments in the current year largely relates to one loan where full recovery is uncertain and the impairment provisions for wholesale lending calculated on a collective basis.

The reduction in mortgages is in line with the Company's plans to allow the mortgages in the company to run off.

A further £100,000 ordinary share capital and £900,000 share premium was issued on 29 March 2018 and a further £200,000 ordinary share capital and £1,800,000 share premium was issued on 29 June 2018 to support the continued activities of the Company.

Principal risks and uncertainties

The Company is subject to financial risks, such as credit risk, liquidity risk and market risk, as well as non-financial risks, such as operational risk. The Board is responsible for setting the risk appetite for each of these risks and reviewing these risks on a regular basis. Please refer to note 14 for further details on how these risks are managed.

a) Credit risk

Credit risk is the risk that a counterparty will fail to meet its obligations in accordance with agreed terms. The Company is principally exposed to credit risk from its loans to customers, cash and cash equivalents and intercompany lending. The Group manages its overall credit risk (which directly impacts the Company's credit risk exposure) in accordance with policies set by the Board and during monthly credit risk committee meetings. As part of credit risk the Company also considers concentration risk. Concentration risk is the risk that Castle Trust is materially exposed to single counterparties and significant risk categories.

b) Liquidity risk

Liquidity risk is the risk that a firm is unable to meet its liabilities as they fall due, without incurring unacceptably large losses. The Company is exposed to liquidity risk due to the nature of its business activities. The exposure is monitored regularly and formally reviewed by the Board on an annual basis.

c) Market risk

Market risk is the risk that the fair value of future cash flows from financial instruments will fluctuate as a result of changes in market variables. Interest rate risk is a type of market risk where variability arises from interest rates. The Company's interest rate risk arises from holding longer dated assets and shorter dated liabilities. The Company used to use interest rate swaps in order to manage the risk created by the asset-liability profile however for the final quarter of 2017 did not apply fair value hedge accounting and at the start of the current year this interest rate risk management has been centralised in CTT.

d) Operational risk

Castle Trust is exposed to the risk that process errors, omissions and other incidents could result in operational losses. Castle Trust implemented a new treasury system in the prior year to improve the effectiveness of liquidity risk and interest rate risk management.

Strategic report (continued)

e) Other matters

There remain two areas of uncertainty of particular interest impacting the Group: 1) the UK's withdrawal from the European Union ("EU") and 2) Tax changes impacting Buy-To-Let ("BTL") landlords. It may take several years before the impact of these on Castle Trust's business becomes clear. However, the Board has considered the potential impact of these as part of setting the risk appetite for the business and will continue to monitor them.

It is not clear what the direct impact will be on the Company as a result of the UK's withdrawal from the EU on 29 March 2019. However, there is a risk that if there is no deal, or the deal is detrimental to the UK, this could impact GDP growth, inflation (including house price growth) and interest rates. This would have an adverse impact on the loan book and potentially the recovery of amounts due from customers which would result in higher impairment charges and lower profitability.

By order of the Board

Mr Andrew Macdonald
Company Secretary
25 January 2019

Directors' report

The directors present their report for the Company for the year ended 30 September 2018. The information on page 1 forms part of this report.

Directors

The directors of the company are shown on page 1.

Results and dividends

The results of the Company for the year are set out in the statement of comprehensive income. The Company has total comprehensive loss in the current financial year of £1,111,607 (2017: income of £193,003). The directors do not recommend the payment of a dividend (2017: £nil). Please refer to note 10 for details of allotted shares in the year.

Financial risk management and exposure to risk

The Company measures and monitors risk on a regular basis and formally reviews its risk position at the Risk Committee every quarter. The Company is exposed to credit risk, market risk and liquidity risk. Each of these risks are regularly measured and monitored, and appropriately managed.

The Company's lending business is funded by fixed rate funding which typically has a shorter maturity than the lending. This gives rise to interest rate risk. In order to manage this risk, in the prior year the Company entered into a series of interest rate swaps and designated these as fair value hedges using a portfolio hedging model. Subsequently the interest rate risk management for the group was centralised within Castle Trust Treasury Limited ("CTT"). Refer to note 12 for further details of the Company's hedging arrangements. Hedge accounting was discontinued from 1 July 2017.

Future developments

The Company is expected to continue in its current capacity for the foreseeable future.

Castle Trust is in dialogue with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) in order to pursue a banking licence application.

Should the application for a banking licence be successful and the nature of funding for the Group's business activities change (from Fortress Bonds to deposits), it is possible that the Company's business will be discontinued as part of a wider rationalisation of entities within the Group. However, whilst it is possible that this will occur in the next twelve months, the future legal entity structure of the Group is currently under review and the Company's directors have assessed that the Company will be able to meet its liabilities for the foreseeable future as described below. In the event of the Company's activities being discontinued, the directors anticipate an orderly wind down on the basis that the Group restructure will be managed by the parent company to ensure a solvent liquidation of all relevant entities in the Group.

Going concern assessment

The financial statements of the Company have been prepared on a going concern basis. In assessing whether the going concern assumption remains appropriate, the directors have focussed in particular on the liquidity and funding position of the Company, which is dependent upon the funding provided of £139.8 million and transactions with other entities in the Group. The viability of the Company is dependent upon the funding model of the entire of the Group. The Company has received a letter of support from the parent Company (CTC) and accordingly the directors considered the going concern of the Group as a whole.

- The Group is strongly capitalised with total equity of £64.8 million, with total assets of £835.2 million including surplus cash of £118.5 million and secured lending assets of £554.8 million. The maturity profile of contractual cash inflows and outflows assuming no new lending and funding and no roll-over of bonds show a net positive inflow of cash for the 12 months subsequent to year end.

- The Group continues to raise funding and in addition to having sourced alternative funding lines, a further net £122.8 million was raised in the year through new issuances and with existing customers less maturing bonds. Existing customers elected to reinvest on average 75% of the proceeds of their matured bonds since inception, with the reinvestment rate being 72% in the last financial year and remaining at similar levels subsequent to year end.

- The directors considered the reinvestment rate of existing bondholders and performed sensitivity analysis around a decline in the reinvestment rate. This included stress testing alternative scenarios for reduced reinvestment rates to establish the impact on the funding position of the Group.

- The ability of the Group to attract new bond customers was assessed by the directors, together with sensitivity analysis on potential changes in the interest rate offered on new bond issuance which may occur as a result of changes in the macro economic environment and alternative rates available in the market.

- The directors considered the availability of alternative sources of funding, including the £65.0 million unutilised capacity available in the securitisation vehicle Castle Trust Belfry Limited.

The directors have also considered the following as part of the going concern assessment:

- Risk management policies and how the Group is placed to manage business risks. The directors assessed the sensitivity of the Group's financial position to a worsening of the financial risks to which the Group is exposed, including potential changes in credit risk profile and market risk exposure under stressed scenarios.

- The overall regulatory risk of the business including the risks associated with the current business model, potential exposure to conduct risk and the impact of changes in the regulatory landscape.

- The uncertainty of the timing and outcome of the Group's application for a banking licence, as a result of the change in business strategy as outlined in the Strategic report, and the impact this would have on the Group's funding model such as the ability to transition bonds to deposits and to obtain sufficient levels of ongoing deposit funding in the future. Investors in the Group have committed to providing financial support of up to £32.0 million to ensure that the Group has adequate regulatory capital for meeting growth targets relating to the banking licence application. The directors have also considered the risk that the PRA may not grant the Group a banking licence; in the event this happens Castle Trust will have to investigate an alternative business strategy.

The directors are satisfied that the Group has the resources to continue in business for the foreseeable future and meet its liabilities as they fall due in the next 12 months. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

Directors' indemnity and directors' and officers' liability insurance

The Company maintains a directors' and officers' liability insurance policy. In accordance with the Company's Articles of Association, the Board may also indemnify a director from the assets of the Company against any costs or liability incurred as a result of their office, to the extent permitted by law. Neither the insurance policy nor any indemnities that may be provided by the Company provide cover for fraudulent or dishonest actions by the directors.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Mr Andrew Macdonald
Company Secretary
25 January 2019

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' 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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- present fairly the financial positions, financial performance and cash flows of the Company;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, *Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements of IFRS as adopted by the EU is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state whether the Company's financial statements have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concem basis unless it is inappropriate to presume that the Company will continue in business.

The strategic report and the directors' report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties faced by the Company.

The directors are responsible for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company, in accordance with the Companies Act 2006. The directors have general responsibility for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Castle Trust Finance Limited

Opinion

We have audited the financial statements of Castle Trust Finance Limited for the year ended 30 September 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- 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.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

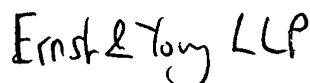
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



Rhys Taylor (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 January 2019

Statement of comprehensive income

for the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Interest and similar income	3	**8,593**	5,285
Interest and similar expense	4	**(6,954)**	(4,594)
Net interest income		**1,639**	691
Net expense from hedge relationships and other financial instruments at fair value through profit and loss	5	**(329)**	(160)
Total operating income		**1,310**	531
Other operating expenses	6	**(257)**	(32)
Impairment losses on loans and advances to customers	8	**(2,165)**	(306)
Net operating income		**(1,112)**	193
(Loss)/profit before tax		**(1,112)**	193
Taxation	7	**-**	-
Total comprehensive (loss)/income for the year		**(1,112)**	193

The results for all years presented comprise continuing operations.

Notes on pages 14 to 31 are an integral part of these financial statements.

Statement of financial position
Registered number: 9596607

As at 30 September 2018

Assets	Notes	2018 £'000	2017 £'000
Loans and advances to customers	8	**143,448**	116,235
Fair value hedge asset		**383**	667
Trade and other receivables	9	**2,928**	7,407
Cash and cash equivalents		**662**	1
Total assets		**147,421**	124,310
Liabilities			
Amounts due to group companies	11	**139,836**	118,214
Derivatives held for risk management	12	**-**	1,177
Trade and other payables		**778**	-
Total liabilities		**140,614**	119,391
Equity			
Share capital	10	**720**	420
Share premium		**6,480**	3,780
Retained earnings		**(393)**	719
Total equity		**6,807**	4,919
Total equity and liabilities		**147,421**	124,310

Notes on pages 14 to 31 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 22 January 2019 and were signed on its behalf by:

Martin Bischoff
Chief Executive Officer
25 January 2019

Statement of changes in equity

for the year ended 30 September 2018

	Share capital	Share premium	Retained earnings	Total
	£'000	**£'000**	**£'000**	**£'000**
Opening balance 1 October 2017	**420**	**3,780**	**719**	**4,919**
Total comprehensive loss for the year	**-**	**-**	**(1,112)**	**(1,112)**
Issue of share capital	**300**	**2,700**	**-**	**3,000**
At 30 September 2018	**720**	**6,480**	**(393)**	**6,807**

for the year ended 30 September 2017

	Share capital	Share premium	Retained earnings	Total
	£'000	£'000	£'000	£'000
Opening balance 1 October 2016	420	3,780	526	4,726
Total comprehensive income for the period	-	-	193	193
At 30 September 2017	420	3,780	719	4,919

Notes on pages 14 to 31 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 30 September 2018

Cash flows from operating activities	2018 £'000	2017 £'000
Bank charges and interest paid	(1,300)	(30)
Wholesale loans issued	(58,299)	-
Wholesale principal received	6,676	-
Wholesale interest received	3,278	-
Receipts from group companies	32,556	602
Payments to group companies	-	(571)
Net cash from operating activities	(17,089)	1
Cash flows from financing activities		
Receipts from group companies	81,844	-
Payments to group companies	(66,137)	-
Interest paid to group companies	(956)	-
Proceeds from issue of share capital	3,000	-
Net cash from financing activities	17,750	-
Net increase in cash and cash equivalents	661	1
Cash and cash equivalents at beginning of the year	1	-
Cash and cash equivalents at end of the period	662	1

Notes on pages 14 to 31 are an integral part of these financial statements.

1. Corporate information

The Company is incorporated and domiciled in the UK. These financial statements for the year ended 30 September 2018 were authorised for issue in accordance with a resolution of the directors on 22 January 2019.

2. Accounting policies

a. Basis of preparation

The Company's statutory financial statements for the year ended 30 September 2018 have been prepared under IFRS as adopted by the EU. The Company has consistently applied the same accounting policies as at 30 September 2018 as in the prior year.

These financial statements have been prepared on a historical cost basis, as modified by financial assets and liabilities held at fair value through profit or loss. The financial statements are presented in sterling and all values are rounded to the nearest one thousand pounds (£'000) except where otherwise indicated.

The Company's directors have made an assessment of its ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Consequently, the financial statements of the Company have been prepared on a going concern basis. Please refer to the directors' report for further details of the assessment.

b. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future years.

In the process of applying the Company's accounting policies, management has made certain judgements and key assumptions concerning the future, as well as other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. The following items are considered to be the significant accounting judgements, estimates and assumptions.

(i) Impairment losses on loans to customers

The Company reviews its individually significant loans to customers at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans to customers that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgements on the effect of risks and economic data.

The impairment loss on loans to customers is disclosed in more detail in note 8.

(ii) Effective Interest Rate (EIR) method

The EIR methodology recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of relevant financial instruments and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments.

c. Significant accounting policies

(i) Financial assets and liabilities

The particular accounting policies adopted for financial assets and liabilities are set out below.

Loans and receivables

Initial recognition and subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company classifies the following financial assets as loans and receivables:

- Loans and advances to customers
- Trade and other receivables

Loans and receivables are initially recognised on the date that the Company becomes a party to the contractual provisions of the instrument. Loans and receivables are measured initially at their fair value plus transaction costs.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") methodology, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The EIR amortisation is included in interest and similar income in the statement of comprehensive income.

If expectations are revised the carrying amount of the asset is adjusted with an associated increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the statement of comprehensive income.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the Company has transferred substantially all the risks and rewards of the asset; or
- the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability.

If the terms of a financial asset, that would otherwise be past due or impaired, have been renegotiated, and the renegotiated terms are substantially different (a substantial modification) the financial asset is de-recognised. If there is not a substantive modification then interest income continues to accrue using the original EIR on the net carrying amount of the financial asset.

Financial liabilities at fair value through profit or loss

Initial recognition and subsequent measurements

Financial liabilities classified in this category include those held for trading. The Company classifies the following financial liabilities at fair value through profit or loss:

- Held for trading includes
  - Derivatives held for risk management not in effective hedging relationships.

Financial liabilities at fair value through profit or loss classified as held for trading are initially recognised on the date that the Company becomes a party to the contractual provisions of the instrument. All financial liabilities in this category are initially measured at their fair value and transaction costs are expensed.

Financial liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income. The fair value of financial liabilities at fair value through profit or loss is determined by using appropriate modelling techniques referred to in note 13.

Interest rate swaps not in an effective hedging relationship are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial liabilities at amortised cost

Initial recognition and subsequent measurements

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. The Company classifies the following financial liabilities at amortised cost:

- Trade and other payables
- Amounts due to group companies

  These comprise Borrower Loan Agreement liability to Castle Trust Direct plc ("CTD") and Master Intra Group Lending Agreement ("MILA") to CTT

Financial liabilities at amortised cost are initially recognised on the date that the Company becomes a party to the contractual provisions of the instrument. Financial liabilities at amortised cost are measured initially at their fair value less transaction costs.

After initial measurement, financial liabilities at amortised cost are subsequently measured at amortised cost using the EIR methodology. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The EIR amortisation is included in interest and similar expense in the statement of comprehensive income.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income.

Fair value hedge

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans and investment products. The gain or loss from the change in fair value of the hedging instrument is recognised immediately in the statement of comprehensive income. At the same time the carrying amount of the hedged

item is adjusted for the corresponding gain or loss with respect to the hedged risk, which is also recognised immediately in the statement of comprehensive income. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the statement of comprehensive income. The cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the statement of comprehensive income using the effective interest method over the period to maturity.

(ii) **Impairment of financial assets**

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

(iii) **Cash and cash equivalents**

Cash and cash equivalents comprise cash and highly liquid financial assets with original maturities of less than three months from the date of acquisition subject to an insignificant risk of changes in their fair value.

(iv) **Expenses**

Expenses are accounted for on an accruals basis.

(v) **Interest income and expense**

Interest receivable and interest payable for all interest-bearing financial instruments are recognised within 'Interest and similar income' and 'Interest and similar expense' in the statement of comprehensive income, using the EIR method.

(vi) **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(vii) **Taxation**

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

See Note 7 for further description of the current status of deferred tax assets.

d. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company does not intend to early adopt these standards, so they will be adopted in the relevant year of mandatory adoption. Standards not early adopted but applicable to the Company include:

(i) IFRS 9 Financial Instruments, effective from 1 January 2018, replaces IAS 39 Financial Instruments: Recognition and Measurement.

Background

International Financial Reporting Standard 9 Financial Instruments (IFRS 9) replaces International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 is mandatory for periods beginning on or after 1 January 2018 so will need to be adopted by Castle Trust for the financial year from 1 October 2018 to 30 September 2019. The transitional provisions of IFRS 9 will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no restatement of comparative periods.

The new standard has three key areas of change relating to 1) Classification and measurement; 2) Hedge accounting and 3) Impairment.

The standard does not provide guidance specifically tailored to so-called 'macro hedge' accounting, as applied by Castle Trust. The IASB decided that entities could still make use of fair value hedge accounting for portfolio hedges of interest rate risk as defined in IAS 39 until the macro hedge accounting project is finalised and becomes effective. As such, Castle Trust will continue to apply the hedge accounting requirements of IAS 39. However, as this activity is now centralised within the Group it does not apply to the Company.

Classification and measurement

IFRS 9 introduces a different classification of financial assets based on the entity's business model and the cash flow characteristics of the instruments. IFRS 9 applies one classification approach for all types of financial assets, including those that contain embedded derivative features. The financial assets will be classified in their entirety rather than being subject to complex bifurcation requirements. There is no impact of this on the Company.

Impairment (Expected credit loss, "ECL")

IFRS 9 will replace the existing incurred loss impairment approach with an expected credit loss approach. Under this approach at initial recognition of a loan, an allowance is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk and the estimation of ECL must be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The expected impact on the date of transition to IFRS 9 is an increase in impairment of £0.5 million.

Implementation and programme governance

The Group has put in place a project team to manage the implementation of IFRS 9 to consider the impact of its adoption on classification and measurement, expected credit losses, regulatory compliance, taxation and the related data requirements.

The project team includes senior representatives from the finance and risk functions and is overseen by the Board. The project team engaged external consultants to assist with the development of the required models with respect to expected credit loss modelling and has provided internal oversight and challenge of the work performed. Separately tailored expected loss models have been developed to calculate expected credit losses for each asset class the Group has.

The Group's modelling team is working with the project team to oversee the ongoing performance of the underlying IFRS 9 suite of models and assist with model validation and benchmarking with respect to Probability of Default ("PD"), lifetime PD, Loss Given Default ("LGD"), Exposure at Default ("EAD") and macroeconomic models.

Existing committee structures will be utilised to oversee IFRS 9 impairment performance on an ongoing basis, including the Group's Credit Committee which receives monthly impairment performance reports from the risk function. It is expected that the Assets and Liabilities Committee ('ALCO') will oversees and approve the use of macroeconomic scenarios.

The Board and Audit Committees received regular updates relating to the IFRS 9 programme, ensuring Board level oversight, review and challenge and ultimate approval of all key judgements and estimates which underpin IFRS 9 impairment calculations.

Tax impact

The Loan Relationships and Derivative Contracts (Change Of Accounting Practice ("COAP")) Regulations 2004 were updated by the Loan Relationships and Derivative Contracts (Change of Accounting Practice) (Amendment) Regulations 2015 in order to take into account IFRS 9 and the impact of the expected increase in impairment provisions.

The COAP Regulations generally prescribe that amounts arising from loans and derivatives on transition to a new accounting policy are not brought into account immediately but rather spread over a 10 year period. However this requirement to spread any transitional adjustment over a period of 10 years does not apply where the debt falls to be repaid in the current accounting period (normally 12 months). The amended regulations dispense with the normal COAP requirements with respect to debt falling due within the next 12 months. As such, the Company will spread the full adjustment over 10 years on a straight line basis.

(ii) IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018, replaces IAS 11 Construction Contracts, IAS 18 Revenue and several related interpretations.

IFRS 15 Revenue from Contracts with Customers introduces a single framework for revenue recognition based on new concepts and principles. The Group will adopt IFRS 15 for the financial year ended 30 September 2019. There is no material impact from this change because all revenue is effective interest.

3. Interest and similar income

The following table summarises the components of interest and similar income:

	2018 £'000	2017 £'000
On financial assets at amortised cost		
Interest receivable on loans and advances to customers	8,593	5,285

4. Interest and similar expense

The following table summarises the components of interest and similar expense:

	2018 £'000	2017 £'000
Interest expense payable under the BLA	-	2,812
Interest expense payable under the MILA	6,954	1,418
Net interest expense on derivatives held for risk management	-	364
Total interest and similar expense	6,954	4,594

5. Net expense from hedge relationships and other financial instruments at fair value through profit and loss

The following tables summarise the components of realised and unrealised gains and losses:

	2018 £'000	2017 £'000
Ineffectiveness in hedging activities	-	41
Amortisation of previously claimed hedge accounting adjustments	-	36
Fair value loss on derivatives and other financial instruments not in a hedge relationship	329	83
Total Net expense from derivatives and other financial instruments at fair value through profit and loss	329	160

6. Other operating expenses

The following table summarises the components of other operating expenses:

	2018 £'000	2017 £'000
Other operating expenses	257	32

The Company does not have any employees. Audit fees of £115k were recorded in the Company. In 2017, £95k of audit fees were borne by a parent undertaking, Castle Trust Capital plc.

7. Taxation

The following tables set out the components of income tax and the reconciliation of the total tax charge to the tax charge that would apply if all profits had been charged at the Company's corporate tax rate for the current and prior year.

Reconciliation of total tax charge		
Accounting result before tax	**(1,112)**	193
At prevailing UK statutory income tax rate of 19% (2017: 19.5%)	**(211)**	38
Loss on which deferred tax is not recognised	**211**	(38)
Total tax charge	**-**	-

There are no disallowable items, and no unrecognised deferred tax balance.

As at 30 September 2018, the Company has not recognised deferred tax (2017: £0) in respect of the total trading losses of £1,111,607 (2017: £0).

The Finance Act (No. 2) 2015, substantively enacted on 26 October 2015 and enacted on 18 November 2015, included a decrease in corporation tax rates to 19% from 1 April 2017. Additionally, the Finance Act 2016, enacted on 15 September 2016, included a decrease in corporation tax rates to 17% from 1 April 2020. Further, the Finance (No. 2) Bill 2017, substantively enacted on 31 October 2017, included a provision to restrict the offset of brought forward losses to 50% of profits arising on or after 1 April 2017, and enable carried forward losses incurred on or after 1 April 2017 to be offset against profits of any description.

8. Loans and advances to customers

The following table sets out the carrying value of loans and advances to customers by product type. These include Index Profit Share mortgages ("IPS") and Buy-to-let equity loans ("BTLEL"). This also includes wholesale lending which relate to a peer-to-peer lender and a separate £25m committed facility.

BTLELs were available to buy-to-let investors only with a term of up to 10 years. The repayment amount incorporated a profit share based on any change in the value of the individual's mortgaged property.

IPS mortgages were available to buy-to-let investors and owner occupiers (who are exempt from the Consumer Credit Act ("CCA") (via the high net worth / business exemption tests)) with a term of typically 5 years. The original amount of the loan is repayable at redemption plus a deferred interest component (typically 5% pa where applicable) plus typically one times the increase in value of the national Halifax House Price Index ("HHPI"), if the property has increased in value, or the minimum repayment amount (typically 3.5% pa), whichever is greater.

	2018 **Amortised cost** **£'000**	2017 Amortised cost £'000
Index Profit Share mortgages	**57,125**	79,150
Buy To Let Equity loans	**36,331**	37,603
Wholesale lending	**52,675**	-
Impairment provision	**(2,683)**	(518)
	143,448	116,235

The loans to customers represent the beneficial interest in the fixed income element of all Buy-To-Let Equity products and those Index Profit Share products recognised on CTC's balance sheet as at 30 September 2014 which were purchased by CTF on 31 July 2015. Additionally, on 31 December 2015 the Company purchased the beneficial interest in the fixed element of the remaining Buy-To-Let Equity products issued in the period from 1 August 2015 to the date of the transaction and on 31 July 2016 the beneficial interest in the fixed income component of IPS products issued by CTC after 1 October 2014 to the date of the transaction.

Details of the fair value of assets and their position in fair value hierarchy are provided in note 13.

Reconciliation of impairment movements in the year to 30 September 2018

	2018 Specific provision £'000	2018 Collective provision £'000	2018 Total £'000
Opening balance at 1 October 2017	66	452	518
Charge for the year	1,286	879	2,165
Closing balance at 30 September 2018	1,352	1,331	2,683

The significant increase in impairments in the current year largely relates to one loan where full recovery is uncertain and the impairment provisions for wholesale lending calculated on a collective basis.

Reconciliation of impairment movements in the year to 30 September 2017

	2017 Specific provision £'000	2017 Collective provision £'000	2017 Total £'000
Opening balance at 1 October 2016	5	207	212
Charge for the year	61	245	306
Closing balance at 30 September 2017	66	452	518

9. Trade and other receivables

The following table sets out components of trade and other receivables:

	2018 £'000	2017 £'000
Amounts due from Castle Trust Capital plc	2,824	7,407
Other	104	-
Total Trade and other receivables	2,928	7,407

The fair value of trade and other receivables approximates to carrying value as presented in the statement of financial position and these related notes.

10. Share capital

The following table sets out the share capital at the beginning and end of the year:

	2018 £'000	2017 £'000
Issued and fully paid:		
7,200,000 (2017: 4,200,000) ordinary shares of £0.10 each	720	420

Movement in issued share capital for the year ended 30 September:

	Issued capital £'000	Share premium £'000	Total £'000
At 1 October 2017	420	3,780	4,200
Issued on 29th March 2018	100	900	1,000
Issued on 29th June 2018	200	1,800	2,000
At 30 September 2018	720	6,480	7,200

	Issued capital £'000	Share premium £'000	Total £'000
At 1 October 2016	420	3,780	4,200
At 30 September 2017	420	3,780	4,200

11. Amounts due to group companies

The following table sets out the components of amounts due to group companies:

	2018 £'000	2017 £'000
Amounts due under MILA	139,834	118,129
Other amounts due	2	85
Total amounts due to group companies	139,836	118,214

Financial liabilities in respect of MILA amounts to group companies are valued at amortised cost, less transaction costs incurred in raising the liabilities.

For fair value and fair value hierarchy classifications disclosure refer to note 13.

MILA funding is fixed rate intercompany funding designed to reduce interest rate risk in the Company. The terms of the MILA are up to 10 years. Interest is compounded daily based on the funds transfer pricing rate determined by CTT, based on underlying market conditions, which ranges from 3.8% to 6.3% (2017: 2.2% to 6.3%). Interest is paid at maturity with the principal amount of the MILA. Refer to note 14 for details on the maturity profile of the MILA.

12. Derivatives held for risk management

The Company used derivative financial instruments in the prior year to hedge its exposure to interest rate risk in relation to increases/decreases in interest rates relating to loans and advances to customers.

The Company applied fair value hedge accounting on a portfolio basis. The hedging relationship was between a portfolio of assets and a portfolio of derivatives. The Company analyses cash flows from these portfolios into repricing time periods based on the expected maturity profile. A hedged item was then designated as a portion of the cash flows within this profile that the Company wished to hedge. The Company designated the hedging instrument as the portfolio of derivatives. A quantitative approach was applied on a periodic basis to measure the effectiveness of the hedge based on the fair value movements of the hedged items and hedging instruments relating to the designated hedged risk. Providing the hedge was proved highly effective, the Company recognised the change in fair value of each hedged item in the statement of comprehensive income, with the cumulative movement in the hedged item being shown in the statement of financial position. Hedge accounting was discontinued from 1 July 2017.

The following table shows a breakdown of the derivatives at year end:

	2018 Contract or underlying principal amount £'000	2018 Fair value £'000	2017 Contract or underlying principal amount £'000	2017 Fair value £'000
Interest rate swaps (fair value hedges)	-	-	95,000	1,177

The interest rate swaps are valued using a discounted cash flow model. The model is based on observable market inputs. The most important input is the forward rate which is observed from the interest rate swap market.

For fair value hierarchy classifications disclosure refer to note 13.

13. Fair value modelling and fair value hierarchy

13.1 Fair value modelling

The Company has developed a model to value its financial assets, liabilities and derivatives. The model uses either stochastic or discounted cash flow techniques to calculate the net present value of expected future cash flows.

The cash flows are based on assumptions about the range of possible future events and information concerning the terms of the financial instruments. It is run by a specialist team within Castle Trust within a control framework. Model assumptions are reviewed by the board.

The models make use of certain significant model inputs. The inputs could be market quoted levels or unobservable inputs which are calibrated using a set of methodologies developed in conjunction with the valuation models.

Mortgage fair value measurement

The model, as applied to mortgage product lending, incorporates various inputs, of which the most significant are as follows:

		2018		2017	
Input	**Description**	**Min**	**Max**	Min	Max
Castle Trust's LTV	Castle Trust's loan relative to property value	**1.7%**	**76.3%**	1.6%	70.0%
Senior LTV	Primary mortgage relative to property value	**0.0%**	**80.4%**	0.0%	78.7%
House price movement	Percentage movement since origination to indexed value	**(6.7%)**	**46.4%**	(3.1%)	48.8%
Expected house price growth	Assumed annual rate of future HPI growth	**2.6%**	**2.6%**	4.7%	4.7%
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	**11.5%**	**11.5%**	11.7%	11.7%
House price volatility	There is also an allowance for index volatility and volatility above the index	**3.4%**	**47.9%**	3.6%	35.9%
Expected repayment rates	Dependent on elapsed term of mortgage. There are adjustments for seasonality and market conditions	**0.0%**	**13.9%**	0.0%	13.9%
Discount rates	Derived to be consistent with future house price growth.				
IPS & BTL: fixed income component					
Risk free discount rates		**0.6%**	**1.7%**	0.2%	1.4%
Credit premium discount rate		**1.0%**	**8.4%**	3.3%	9.2%

The assumption for house price growth is currently 2.6% which has been based on external forecasts and market consensus of the expected growth in house prices. This is a long term average growth rate and as such a short term drop in house price growth rates as a result of Brexit will have a lesser impact on this long term average. However, it is expected that uncertainty will be higher in the near term as a result of Brexit, and in addition, there is the risk of further

interest rate hikes following the August's increase. These uncertainties are offset by 1) the shortage of houses for sale and high, 2) currently rising employment (which is supportive for the housing market) and 3) mortgage interest rates at historically low levels. A sudden drop in house prices of up to 10% is considered a reasonably possible impact as a result of Brexit and this is reflected in the note under the sensitivity for movement in HPI.

Derivatives fair value measurement

Interest rate swaps are valued using a valuation technique with market-observable inputs. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves.

The model, as applied to interest rate swaps, incorporates various inputs, of which the most significant are as follows:

		Range					Sensitivity			
		2018		2017			2018		2017	
Input	Description	Min	Max	Min	Max	Sensitivity Range	+1%	-1%	+1%	-1%
Interest rates	Fixed leg interest rates	-	-	1.22%	2.58%	1%	-	-	(1,486)	1,486
	Floating leg interest rates	-	-	6M LIBOR	6M LIBOR	1%	-	-	1,486	(1,486)
Discount rates	Discounted using OIS (overnight indexed swap) curve	-	-	0.20%	1.06%	1%	-	-	32	(34)

Amounts due to group companies fair value measurement

The fair value of the amounts due to CTT and CTD are determined according to the related Fortress Bonds' published Annual Equivalent Rates ("AERs") adjusted for product specific characteristics, using a discounted cash flow model. The hierarchy position is considered to be Level 3, as the lowest level input, being the discount rate, is unobservable.

13.2 Fair values and fair value hierarchy analysis

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The tables below show the determination of fair value according to a three-level valuation hierarchy. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

For loans and advances to customers held at amortised cost, fair values are determined according to the model referred to above. For amounts due to group companies these are determined according to published interest rates, adjusted for the time value of money and credit spread risk, using a discounted cash flow model. The hierarchy position is considered to be Level 3, as the lowest level input, being the discount rate, is unobservable.

For financial instruments where the receipt of the related cash is not more than three months from the date of the recognition of the asset/liability and which are not subject to significant credit risk, carrying value approximates fair value, and they are consequently not included in the fair value analysis below.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the statement of financial position at fair value, grouped into Levels 1 to 3:

Financial assets and liabilities as at 30 September 2018

	Level 1 Fair value £'000	Level 2 Fair value £'000	Level 3 Fair value £'000	Total £'000	Carrying value £'000
Financial assets					
Loans and advances to customers	-	-	147,094	147,094	143,448
Fair value hedge asset	-	383	-	383	383
Financial liabilities					
Amounts due to group companies	-	-	142,077	142,077	139,836
Derivatives held for risk management	-	-	-	-	-

Financial assets and liabilities as at 30 September 2017

	Level 1 Fair value £'000	Level 2 Fair value £'000	Level 3 Fair value £'000	Total £'000	Carrying value £'000
Financial assets					
Loans and advances to customers	-	-	118,468	118,468	116,235
Fair value hedge asset	-	667	-	667	667
Financial liabilities					
Amounts due to group companies	-	-	124,205	124,205	118,214
Derivatives held for risk management	-	1,177	-	1,177	1,177

14. Risk management

The Company is subject to financial risks, such as credit risk, liquidity risk and market risk, as well as non-financial risks, such as operational risk. The section below provides further details on financial risks only. The Board is responsible for setting the risk appetite for each of these risks and reviewing these risks on a regular basis.

14.1 Credit risk

Credit risk is the risk that a counterparty will fail to meet its obligations in accordance with agreed terms. In general, it arises from the counterparty being either unwilling or unable to settle its obligations. This risk is managed in the loan origination and servicing processes. In addition, mortgage credit risk is monitored via performance monitoring, including past due, maturity and concentration risk assessment.

Wholesale lending is managed by monitoring of non-performing loans, monitoring of actual bad debt rates against predicted bad debt rates and write off levels. The Company has modelled the scenarios which might lead to a change in these risks and these are measured and monitored on a quarterly basis by the Risk Committee.

The Company manages its credit risk in accordance with policies set by the Board and seeks to obtain a return commensurate with underlying credit risk. The Company is exposed to credit risk from its loans and advances to customers, derivative financial instruments, cash and cash equivalents and intercompany positions. The Company's maximum exposure to credit risk in relation to its mortgage lending as at 30 September 2018 is considered to be the entire mortgage balance of £143,447,830 (2017: £116,235,046).

CTC has transferred substantially all the risks and rewards associated with the purchase of the principal and fixed income element of mortgage lending to CTF via the Purchase Agreement. Whilst the legal title and security associated with mortgages remain with CTC, the terms of sale ensure that benefits of both legal title and security are transferred to CTF. CTC has not provided a guarantee or credit enhancement in respect of the transferred cash flows given the remote likelihood (taking into account CTC's underwriting criteria) of there being both value in the house price option ("HPO") and a shortfall in the collateral value. CTC bears credit risk on the retained part being the house price option, and should the borrower default, CTC will bear losses first but only in respect of that retained part.

The following table shows split of forborne loans at the end of the year:

As at 30 September 2018

	Neither past due nor impaired		Past due but not impaired		Individually impaired		Collective and specific	
	Performing	Forborne loans	Not forborne loans	Forborne loans	Not forborne loans	Forborne loans		Forborne loans
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Loans and advances to customers	135,946	25	3,362	-	6,563	235	(2,683)	0.16%
Derivatives held for risk management	383	-	-	-	-	-	-	-
Total	136,329	25	3,362	-	6,563	235	(2,683)	0.16%

As at 30 September 2017

	Neither past due nor impaired		Past due but not impaired		Individually impaired		Collective and specific	
	Performing	Forborne loans	Not forborne loans	Forborne loans	Not forborne loans	Forborne loans		Forborne loans
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Loans and advances to customers	116,214	-	343	-	196	-	(518)	0.00%
Derivatives held for risk management	667	-	-	-	-	-	-	-
Total	**116,881**	**-**	**343**	**-**	**196**	**-**	**(518)**	**0.00%**

As at 30 September 2018 £24,000 (2017: nil) of loans were forborne

The Company's exposure to credit risk arising from cash and cash equivalents is managed by the treasury function within the Group. Moody's credit rating for HSBC Bank is Aa2. These exposures are not considered to result in significant credit risk.

The following table shows the maturity profile of the Company's past due or impaired financial assets.

As at 30 September 2018	Total	Specific and collective	Neither past due nor impaired	Not past due but impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets									
Loans and advances to customers	143,448	(2,683)	135,971	14	827	654	895	227	7,543
Fair value hedge asset	383	-	383	-	-	-	-	-	-
	143,831	(2,683)	136,354	14	827	654	895	227	7,543

As at 30 September 2017	Total	Specific and collective impairment	Neither past due nor impaired	Not past due but impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets									
Loans and advances to customers	116,235	(518)	116,214	196	-	-	343	-	-
Fair value hedge asset	667	-	667	-	-	-	-	-	-
	116,902	(518)	116,881	-	-	-	343	-	-

Credit risk associated with mortgages is mitigated by the collateral that the Company holds a charge over. This totalled £527.58 million (2017: £653.65 million), which represents the indexed value of properties at the reporting dates. In many cases Castle Trust's charge over this collateral is subordinated by another lender's charge. The following table shows combined first and second charge loan to value ("LTV") analysis for all loans by band held at the end of the period.

LTV band %	2018 £'000	2018 %	2017 £'000	2017 %
0-20	**268**	**0%**	7,938	7%
21 - 50	**12,328**	**13%**	23,329	20%
51 - 80	**79,065**	**85%**	83,510	71%
81 - 90	**1,772**	**2%**	1,976	2%
91+	**23**	**0%**	-	0%
Carrying value before impairment provision	**93,456**	**100%**	116,753	100%
Unsecured Lending	**52,675**	**-**	-	-
Total Lending before impairment provision	**146,131**		116,753	

Credit concentration

Credit concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Company manages its exposure to credit concentration risk by monitoring the level of concentration across a number of dimensions and in some cases limiting the exposure. For example, the Company limits its maximum exposure to individual obligors. The level of the limit is dependent on the credit quality of the counterparty. Similarly, the Company's exposure to certain geographic concentrations is monitored to ensure it remains within the Board's risk appetite.

Mortgage assets have a maximum loan exposure which limits concentration risk. The maximum single counterparty exposure as at the reporting date is £22,722,218 relating to wholesale lending (2017: Amount due from CTC under Trade and other receivables £7,406,636).

14.2 Forbearance

Mortgages

The Company sometimes makes concessions to borrowers with respect to the original terms of mortgages as a response to a borrower's financial difficulties. Forbearance within the Company may take the form of a change of contractual terms (e.g. transfer to interest only, extension of term, payment holiday or further advance) made as a concession to a borrower who is unable to meet the original contractual terms of the mortgage. In addition, other activities are also considered to be indicative of forbearance such as paying costs to support a voluntary sale of the property, waiving of Early Redemption Charges and providing a reduced concessionary interest rate that would not normally have been done had the borrower not been in financial difficulties. Forbearance offered by the primary mortgage provider does not necessarily result in the Company's mortgage being forborne.

Forbearance provided by the Company is considered to be an indicator of impairment. Forbearance provided by other lenders to the Company's borrowers is not automatically considered to be an indicator of impairment of the Company's mortgage but is considered on a case by case basis if further information is available. Once the terms of the original mortgage have been amended, any impairment is measured by discounting the revised expected cash flows under the new terms discounted at the original effective interest rate of the mortgage. After a mortgage has been classified as forborne, it will remain classified as forborne until its revised contractual terms have been adhered to for 6 months since the revised agreement was entered into or if the original contractual terms were not changed, when the mortgage has returned to the same position had no concession been made to the borrower. If modifications are substantial the loan is derecognised.

Wholesale lending

The Company sometimes makes concessions to the original terms of loans as a response to a customer's financial difficulties. Indicators of financial difficulties considered by the Company that trigger consideration of forbearance are the aggregate arrears status, which takes into account both the number of missed payments and the months elapsed since the date of contractual maturity. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions, such as freezing interest, a reduced payment arrangement or debt management plan arrangement.

Once the terms have been amended any impairment is measured using a collectively modelled provision. The specific provision is modelled on a collective basis as each loan advanced by the Company is individually not significant and the approach is consistent with IAS39 as contemplated in the application guidance AG92.

After a loan has been classified as forborne, it will remain forborne unless it returns to or close to its original contractual terms. If modifications are substantial the loan is derecognised.

14.4 Liquidity risk

Liquidity risk is the risk that a firm is unable to meet its liabilities as they fall due, without incurring unacceptably large losses. In general, the risk arises from mismatches between the maturity profile of assets and liabilities and the ability of the firm to liquidate its holding in certain assets.

The Company is exposed to liquidity risk due to nature of its business actives. The exposure is monitored regularly and formally reviewed by the Board on an annual basis. The Company regularly conducts stress testing assessments of the balance sheet to measure its exposure. The exposure is controlled by active management of the amount, type and maturity profile of its assets and liabilities. In addition, the Company's funding from CTT is matched to its loans and advances to customers so as to reduce liquidity risk.

The following table shows the maturity profile of assets and liabilities. The analysis is based on the remaining period to the contractual maturity date based on undiscounted cashflows. Interest rate swap payments relating to interest were settled on a net basis and hence shown net below.

As at 30 September 2018

	Within 1 year £'000	1-3 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Assets					
Loans and advances to customers	33,141	92,240	13,298	23,037	161,716
Fair value hedge asset	383	-	-	-	383
Trade and other receivables	2,928	-	-	-	2,928
	36,452	92,240	13,298	23,037	165,027
Liabilities					
Amounts due to group companies	21,613	101,406	6,789	30,058	159,865
	21,613	101,406	6,789	30,058	159,865

As at 30 September 2017

	Within 1 year £'000	1-3 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Assets					
Loans and advances to customers	20,165	54,329	15,117	47,322	136,933
Fair value hedge asset	667	-	-	-	667
Trade and other receivables	7,407	-	-	-	7,407
	28,239	54,329	15,117	47,322	145,007
Liabilities					
Amounts due to group companies	54,805	36,249	13,402	32,883	137,339
Derivatives held for risk management	320	293	318	277	1,208
	55,125	36,542	13,720	33,160	138,547

14.5 Market risk

Market risk is the risk that the fair value of future cash flows from financial instruments will fluctuate as a result of changes in market variables. Interest rate risk is a type of market risk where variability arises from interest rates.

The Company is exposed to interest rate risk which was managed through its hedging via interest rate swaps in the prior year. In the current year interest rate risk management is performed by CTT on behalf of the Group. The Company's exposure to interest rate risk at the reporting date, measured as the impact of a 1% parallel shift in interest rates, was £(787) (2017: £(108,070)).

15. Capital management

The Company's equity is comprised of £720,000 (2017: £420,000) ordinary share capital and £6,480,000 share premium (2017: £3,780,000), issued by the Company on 18 May 2015, 28 September 2016, 29 March 2018 and 29 June 2018 together with retained earnings of £(392,607) (2017:£719,003).

The Company is not a regulated entity and, therefore, is not subject to capital adequacy requirements.

The objectives of the company in managing its capital are to:

- maintain financial strength and liquidity in order for the company to meet its obligations as they fall due
- match the profile of its assets and liabilities, taking account of the risks inherent in the business;

The Company's direct operating expenses including ongoing expenses are borne by CTC.

16. Related party transactions

The following outstanding balances arose from the ordinary course of business. The interest rates charged to, and by, related parties are at normal commercial rates. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 September 2018, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2017: Nil).

Transactions between the Company and Group members meet the definition of related party transactions.

	Nature	Amount of transactions		Amount outstanding at year end	
		2018	2017	**2018**	2017
		£'000	£'000	**£'000**	£'000
Transactions with:					
Parent company	Fee due to CTC for servicing mortgages in CTF	**(26)**	(32)	**(2)**	(7)
	Cash received by CTC due to CTF	**-**	-	**2,824**	7,407
Fellow subsidiary	Interest and amounts due under the BLA with CTD	**-**	(2,812)	**-**	-
	Interest and amounts due under the MILA with CTT	**(6,954)**	(1,418)	**(139,834)**	(118,129)

Directors' remuneration

The directors of the Company are also directors of other group undertakings. The directors received their total remuneration from the Group and have disclosed their estimate of the apportionment of this to the Company. The following table summarises the directors' remuneration.

	2018	2017
	£'000	£'000
Aggregate remuneration in respect of qualifying services	**93**	86
The highest paid director's remuneration	**37**	39
Company contributions to defined contribution pension plan	**1**	-

Included within directors' remuneration are amounts paid of £36,438 (2017: £34,485) as consultancy fees to entities controlled or jointly controlled by directors.

Key management compensation

The Company considers that members of the executive committee of the Group meet the definition of key management. The following table sets out compensation for key management personnel. This does not include directors as they are presented above.

	2018 £'000	2017 £'000
Compensation of key management personnel:		
Short-term employee benefits	**233**	129
Post-employment benefits	**3**	-
Total	**236**	129

	2018 £'000	2017 £'000
Close members of the family of key management personnel	**7**	-

17. Reconciliation of financing liabilities

This section sets out an analysis of financing liabilities and the movements in financing liabilities for the year.

	At 1 Oct 2017 £'000	Non cash changes		
		Cash flows £'000	Interest accretion £'000	At 30 Sept 2018 £'000
Amounts due to related parties	118,129	14,750	6,954	**139,834**
	118,129	14,750	6,954	**139,834**

18. Ultimate controlling party

The Company's immediate parent undertaking is Castle Trust Capital plc which is incorporated in the United Kingdom. The Company's ultimate parent company is CTC Holdings (Cayman) Limited which is incorporated in the Cayman Islands. The ultimate controlling party of the Company is considered to be Mr James Christopher Flowers.

The largest and smallest group in which these accounts are consolidated is the Castle Trust Capital plc Group. Castle Trust Capital plc is incorporated in the United Kingdom. The address from which those financial statements may be obtained is 10 Norwich Street, London, EC4A 1BD, United Kingdom.

19. Events after the reporting date

There are no adjusting nor non-adjusting events after the reporting period.