Castle Trust Bank

Castle Trust Holdings Limited

Annual report and financial statements for the year ended 30 September 2021

Registered No: 12161224

Castle Trust Bank

Annual report and financial statements

For the year ended 30 September 2021

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Corporate Information

Registered No: 12161224

Directors

Mr Richard Alan Pym

Mr Andrew Spencer Doman

Mr Timothy John Hanford

Ms Marian Macdonald Martin

Ms Melba Margaret Montague

Mr Eric Edward Anstee

Mr Tughan Alioglu (appointed 1 October 2020)

Mr Martin Paul Bischoff (appointed 23 March 2021)

Mr Paul Nicholas Lloyd-Jones (appointed 23 March 2021)

Secretary

Mr Andrew Macdonald

Auditors

Deloitte LLP, 1 New Street, London, EC4A 3HQ

Bankers

HSBC Bank PLC, First Floor, 60 Queen Victoria Street, London, EC4N 4TR

NatWest Bank PLC, 1 Princes Street, Bank, London, EC2R 8BP

Lawyers

Macfarlanes LLP, 20 Cursitor Street, London, EC4A 1LT

Registered office

10 Norwich Street, London, EC4A 1BD

Principal place of business

Tower 42, 25 Old Broad Street, London, EC2N 1HQ

Chairman's Report

The UK is still reshaping its economy following its withdrawal from the European Union and dealing with the consequences of the pandemic. Against this background of uncertainty, it is encouraging that Castle Trust Bank has delivered another increase in annual profit. The Executive team has been established for several years and, knowing their customers and markets well, have a strong track record for delivering good business results and successfully implementing complex change projects.

Business performance

The business has delivered a strong performance in 2021 resulting in a Profit Before Tax ("PBT") of £3.6m compared to £0.8m in 2020. The continued outperformance by Omni Capital Retail Finance Limited ("Omni"), our retail point of sale business, has compensated for the impact of the pandemic on property lending volumes. This resilience demonstrates the benefit of our multi-asset strategy. As an established bank and after three years of profitability, we have recognised a deferred tax asset of £12.5m in respect of prior period losses which resulted in a Profit After Tax of £15.9m compared to £0.8m in 2020. We are a strongly capitalised bank and at the end of the year our unaudited core equity tier one ratio was 17.2% (2020: 17.5%).

Creating a digital and socially responsible bank

A key factor in securing these impressive results is the investment we have made in digital technologies across our three business lines. We have benefited from our new savings platform which was launched in 2020 providing the opportunity to introduce a modern customer self-service portal and a mobile app. Our point of sale business, Omni, is underpinned by powerful credit decisioning technology that automates around 200,000 lending decisions a year and has generated high quality, low arrears assets onto our balance sheet. Our property business has a broker portal that enables frictionless submission and management of cases. We will continue to implement digital technologies with a focus on improving customer journeys, capturing further automation opportunities to enhance customer service and to enhance scalability and operational resilience.

Building a digital bank is also consistent with our environmental, social and governance ("ESG") strategy. We are proud that Castle Trust Bank has delivered a range of initiatives that are not only socially responsible but also protect our customers and our business.

The Board

The Board is well-established and highly competent. A long-standing colleague Tughan Alioglu, of J.C. Flowers & Co., joined the board as a director in October 2020. The tenure of the Board together with its diverse expertise and experience enables it to operate effectively.

I would like to thank Marian Martin our chair of Risk Committee, Eric Anstee our Chair of Audit Committee and Andrew Doman our Chair of Remuneration Committee for their stewardship over the last year. In addition, I would like to thank Melba Montague for drawing on her technology expertise to shape our digital strategy and our two non-executive directors from our shareholder, J.C. Flowers & Co., Tim Hanford and Tughan Alioglu, for their contributions and support.

The Executive team and our colleagues

The Executive team continues to be led by our Chief Executive Officer, Martin Bischoff, who is approaching four years in role. The Executive team is well-established; Nick Bennett joined them during the year as Chief Technology and Operations Officer and he has made an immediate positive impact.

On behalf of my non-executive Board colleagues, I would like to thank our outstanding Executive team for the way that they have executed our business plan and delivered a substantial outperformance in an extraordinarily difficult year and thank all our colleagues for their flexibility and commitment as we have implemented changed working practices. I have had the privilege of meeting many colleagues through Q&A sessions or through our range of committees and they speak highly of our open and collaborative culture and flexible working practices. This personal experience is backed up by positive colleague engagement survey results. This team drives Castle Trust Bank on a journey of change and business growth as we embrace the exciting opportunities which are available to us.

R.A. Pym

Richard Pym
Chairman

Chief Executive Officer's Report

Castle Trust has operated as a bank for almost two years and is a high growth, specialist lender delivering strong returns. We operate in areas with large addressable markets creating significant growth of earnings opportunities. In property we have innovative products generating attractive returns, high repeat business and an established position in a growing segment. Our retail point of sale business, Omni, is in a strong position in the high growth UK market. Our lending is funded by a loyal savings customer base generating low-cost deposits through a modern, cloud-based digital platform. I am proud that 2021 saw us deliver a strong and growing profit, demonstrating the resilience and scalability of our digital business model.

Despite the disruption caused by the pandemic, the business built on last year's performance and delivered a Profit Before Tax of £3.6m, which was up from £0.8m the previous year. The ongoing economic recovery and improving arrears rates and collections performance have all resulted in a reduced cost of risk for the period. The results for the year include £4.5m* of costs incurred in relation to conversion to a fully regulated bank, corporate development opportunities and non-core product losses.

Total lending assets benefited from a strong performance in Omni with assets rising to £165m. This compensated for a marginal reduction in property assets as we finished the year on £399m following the effect of disruptions caused by the pandemic on our ability to service the segments we lend to. Wholesale lending continues to run off in line with expectations.

As the economy returns to pre-pandemic levels, I remain determined to make sure Castle Trust Bank is the place to do business with, the place to work and the place to invest.

The place to do business with

Castle Trust Bank operates across three main business lines:

- Our property business helps to alleviate the UK's housing crisis by financing the building of new homes and providing homeowners and landlords with specialist solutions to match their individual financial needs. Our property business was remarkably resilient despite the pandemic and our sales team returning from furlough in late 2020. I am impressed by how quickly we reconnected with our intermediaries, agents and surveyors to grow our lending pipeline. By the second half of the year, as the environment normalised, we had a strong pipeline and run rate ready to deliver our ambitious 2022 origination volumes. We successfully introduced a new product, Bridge to Let, which helps landlords complete light refurbishment works safe in the knowledge they can switch onto a Buy to Let mortgage when the works are completed, utilising any uplift in property value.
- Omni works with retailers and their customers to provide finance that enables both businesses to thrive and people to access valued goods and services. It is our aim to become the first choice point of sale finance provider for the UK's mid-sized retailers and we made great strides towards that goal in 2021. We worked with our network of more than 2,200 retailers to originate £182m of lending which was up 41% on our previous financial year. The credit quality has remained very strong with the average customer credit

*Castle Trust Bank incurred £2.2m in costs relating to conversion to a fully regulated bank, £1.5m in costs associated with exploring corporate opportunities and an operating loss on non-core activities of £0.8m.

score rising whilst arrears fell to all-time lows. We completed our annual retailer and customer surveys and maintained astonishingly high net promoter scores of +35 and +68 respectively. These scores are well ahead of the +19 banks typically achieve. We continued to leverage Omni's digital business model and have added approximately 10,000 customers to the Self-Service Portal making it even more convenient for customers to do business with us, generating a pronounced fall in customer calls.

- Our Savings business is based on a market-leading mobile first proposition. In 2021 we made full use of our cutting-edge mobile app by launching a new range of online only savings accounts to help new and existing customers manage their money in a convenient way. Customers can open accounts in a matter of minutes using the latest digital facial and fingerprint recognition technology and swiftly fund accounts through Faster Payments. 2021 saw us benefit from being included in comparison websites for the first time, helping us to tap into the deep, low-cost UK savings market with increasing ease and minimal marketing spend. We were particularly successful in our ability to access the low-cost ISA market. All this helped us to increase our Savings Net Promoter Score from +28 to +30.

The place to work

We have embraced the new world of work and fundamentally changed our operating model so that most of our 200 colleagues can spend three days a week in our London or Basingstoke offices and work from home a couple of days a week if they wish to. Our successful return is reflected in our latest colleague survey, which saw a rise across all our metrics culminating in a significant increase in our prime metric, Engagement, which increased 18%. Our colleague wellbeing programme has gone from strength to strength, and we have enhanced our maternity benefits and launched a new colleague healthcare package. We continued to invest in the development of our line managers by offering a formal leadership qualification from the prestigious City & Guilds, which more than 30 colleagues participated in.

The place to invest

I would like to thank our shareholder, J. C. Flowers & Co., for their long-term support, which has enabled Castle Trust Bank to focus on its customers and its business. Our relentless focus on risk management underpins our resilient balance sheet, strong risk-adjusted returns and high regulatory standing built on the back of the recent PRA & FCA banking licence authorisation. Our capital position remains robust with an unaudited Tier 1 Capital Ratio of 17.2%, consistent with the prior year and comfortably above our regulatory requirements - enabling continued investment in technology, people and growth. Our plan is based on leveraging our competitive advantage in the property and consumer finance markets to sustainably grow our assets. At the same time, we will continue to fund ourselves through the UK savings markets at rates that are materially lower than could be achieved when we were an investment firm. We will continue to support our loyal savings customer base by providing new ways for them to save with us including enabling customers to transfer their ISAs online.

We made good progress on our ESG deliverables, with a particular focus on climate change, which we have already incorporated into our product governance, stress tests and capital plans.

We have invested significantly in developing our digital, data and cloud infrastructure to deliver a better customer experience. This has also delivered further benefits in terms of improved efficiency, scalability and operational resilience. From a digital perspective, we have a broad online and mobile offering across our proposition with plans to complete a significant transformation of our property platforms in the coming year. Our investments in data and cloud include the introduction of a new cloud-based data platform and data lake thereby enabling improved data lineage and automation. Our intention is to continue our investment in these core areas as we look to further enhance our customer proposition and introduce new product innovations.

As our attention now turns to the next financial year and beyond, I am very proud of the track record our colleagues and our business have for delivering both financial results and complex change. Castle Trust Bank is in a prime position to grow both organically and inorganically and that is down to the incredibly strong foundations we have put in place over the last couple of years and the stability and resilience of our digital business model.

Martin Bischoff
Chief Executive Officer

Castle Trust Bank

Key Highlights

Financial Performance

- Strong growth in Profit Before Tax to £3.6m (2020: £0.8m)
- The results for the year include £4.5m* of costs incurred in relation to conversion to a fully regulated bank, corporate development opportunities and non-core product losses.
- Property Finance assets reduced marginally in line with the disruption in the market caused by the pandemic to £399m (2020: £451m).
- Omni Point of Sale demonstrated its potential for exponential growth delivering assets ahead of plan totalling £165m (2020: £116m) through new lending which was up 42% year on year.
- The Cost of Risk strengthened to 52 basis points reflecting the high asset quality of our loan books (2020: 117 basis points).
- Unaudited Tier 1 Capital Ratio of 17.2%, comfortably above our regulatory requirements (2020: 17.5%).
- Optimised our savings balances and reduced our funding costs to 2.0% (2020: 3.0%).

Customers & Products

- We helped almost 200,000 customers across our Property, Omni and Savings business lines.
- Exceptionally strong customer Net Promoter Scores of +30 for Savings, +35 for Omni retailers and +68 for Omni customers.
- Excellent progress on innovating and digitalising our product offering launching:
  - Online only savings account – leveraging our cutting-edge mobile app and self-service portal.
  - Deferred products – giving Omni customers more flexibility by deferring their first payment.
  - Bridge to Let – helping landlords complete light refurbishment work safe in the knowledge they can switch onto a Buy to Let mortgage when works are completed, utilising any uplift in property value.
- Featured on comparison websites for the first time, showcasing our savings accounts to attract customers with minimal marketing spend.
- Year on year improvements in complaints volumes through continual process improvements across all business lines.

Colleagues

- 18% rise in colleague engagement as measured by our independent People Partner, Peakon.
- Embedded flexible working into our business enabling colleagues to work from home or the office.
- Enhanced benefits relating to maternity pay, sick pay and employer pension contributions.
- Invested in our line managers by offering a formal leadership qualification from the prestigious City & Guilds, which more than 30 colleagues participated in.

*Castle Trust Bank incurred £2.2m in costs relating to conversion to a fully regulated bank, £1.5m in costs associated with exploring corporate opportunities and an operating loss on non-core activities of £0.8m.

Castle Trust Bank

Strategic Report

Castle Trust Bank

Strategic Report

The directors present their strategic report of the consolidated financial statements of Castle Trust Holdings Limited (the "Group", "Castle Trust Bank" or the "Bank") incorporating the individual financial statements for Castle Trust Holdings Limited (the "Company") for the year ended 30 September 2021.

Throughout these financial statements, "Castle Trust Bank" is used as a term that captures all operational activity of the Group. This is principally the property lending and deposit taking activities of Castle Trust Capital plc ("CTC") and the point of sale consumer lending activities of Omni Capital Retail Finance Limited ("Omni").

Our Purpose

Castle Trust Bank is a specialist bank with a simple purpose: to help customers achieve their financial goals. Our purpose is particularly significant because many of our customers are not well served by mainstream financial services.

We are here to help customers by:

- doing our bit to alleviate the UK's housing crisis by financing the building of new homes,
- providing homeowners and landlords with specialist solutions to match their individual financial needs,
- working with retailers and their customers to provide finance that enables both businesses to thrive and people to access valued goods and services; and
- providing a secure home for people's savings.

Did you know?

In 2021 Castle Trust Bank:

Helped to build almost 300 new homes

Assisted more than 1,000 homeowners and landlords

Supported more than 2,200 small and medium sized businesses to help them grow

Helped more than 160,000 customers finance the goods and services they needed ranging from musical instruments to dentistry work

Provided a safe and secure home for the savings of almost 20,000 savers

Everyone who works for Castle Trust Bank contributes to our purpose, creating a unique culture which is critical to the business's success. Castle Trust Bank's culture is underpinned by its values, which are celebrated and promoted whether it is the little things we do on a daily basis or recognising colleagues who have gone above and beyond in our monthly and annual awards. Castle Trust Bank wants to be The Place To Work, a place where all colleagues can thrive and grow as they contribute to our purpose. Our home is in Basingstoke, and we contribute to the local community through local campaigns such as collections for Basingstoke Foodbank. We plan to grow our contribution to the community whilst becoming the employer of choice in the district of Basingstoke and Deane.

Our Values

We are passionate about living our values which are:

We put customers first
Customers at the heart of everything we do

We are forward thinking
Investing in our people, our business and our future

We take professional pride
We treat people the way we want to be treated and we take pride in everything we do

We achieve together
One team, making a difference

We are open & transparent
We're approachable, authentic and open-minded

In 2021, our Head of Projects, was awarded our highest accolade, Most Valuable Player, for embodying our values throughout the year.

Castle Trust Bank

Business Model and Strategy

Castle Trust Bank is a speciality finance provider in the UK and considers its competitive advantage is its ability to deliver products that are valuable for customers but not offered by the traditional banking industry. The Bank 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. This is supplemented by knowledge of the distribution networks in which the Bank operates, the strength of Castle Trust Bank's underwriting and superior market insight. This has enabled the Bank to deliver competitive pricing in both lending and deposit taking products relative to its peers.

Castle Trust Bank principally provides point of sale consumer finance and mortgage finance (which includes residential development finance ("RDF")). These flexible lending solutions are currently funded using savings from retail customers.

The way we do business is underpinned by our values. In a complex world, we strive for openness and clarity. We place the highest importance on treating our customers, and colleagues, fairly not just because it's the right thing to do but because we know that the trust of our customers and colleagues is crucial to the Group's future success.

Property – a leading specialist UK property lender

We are a leading specialist UK property lender. Our property business is based on innovative products with attractive returns, high repeat business and an established position in growing segments. We are competitively priced across the specialist mortgage sector and look to dominate in target areas. The return we earn more than compensates for the risk we take, and we have the confidence to amend volumes as opportunities arise. We serve the full spectrum of the lending cycle from bridging through to development, bridge to let exit and buy-to-let. We source business from our strong and growing relationships with the main specialist intermediaries and the main networks and mortgage club panels. We are renowned for our high service levels (speed and certainty of lending) supported by technology, with a pragmatic approach to underwriting utilising digitalised technology. This is exemplified by our broker portal, which enables frictionless submission and management of cases.

In Mortgage Finance, the product range encompasses both first and second charge lending secured against a range of residential property including specialist assets such as houses in multiple occupation, buy-to-let portfolios, holiday lets and apartment blocks. Target customers include portfolio investors and high net worth individuals. Castle Trust Bank has a flexible and innovative approach to structuring including the ability for interest to be rolled up on some, or all, of the loan. This focus enables Castle Trust Bank to deliver attractive and sustainable risk adjusted returns in excess of those which are available in the mainstream mortgage market.

For Residential Development, Castle Trust Bank serves property developers by offering senior financing to experienced professionals, who want to enhance their returns through the efficient use of their equity capital. A broad range of schemes are considered including refurbishment, conversions under permitted development rights and new build houses/apartments.

Omni - becoming the first choice point of sale finance provider for the UK's mid-sized retailers

Omni works with more than 2,200 retailers and their customers by providing finance at the Point of Sale ("POS"). This enables retailers to grow their businesses and customers to access the valued goods and services they need. Omni's aim is to be the first choice POS finance provider for the UK's mid-sized retailers.

Omni works with a carefully selected network of retailers across a range of sectors including home improvement, medical and dental, and sports and hobbies. Omni offers a digital credit approval system which fits seamlessly with the sales processes of the retailers we work with. Once a new retailer is approved, it takes a matter of hours to set them up on our plug and play solution, minutes for a customer to complete an application and seconds for the lending to be approved. This is all possible because Omni is underpinned by powerful credit decisioning technology that automates around 200,000 lending decisions a year, generating high quality, low arrears assets.

Customers are offered either interest free or interest-bearing finance depending on the retailers and the products they are buying. Most of our lending, about 65%, is interest free, with the retailer paying a subsidy. The customer benefits from affordable finance enabling them to access the good or service they need, and the retailer gets to complete a sale it might not otherwise have made. The customer then has a clear schedule of payments that are typically spread over 1 to 5 years. In 2021, we launched a deferred product that enables customers to defer their first repayment for up to 12 months, helping them to manage their finances responsibly and us to broaden our target markets.

The Omni business model is based on the latest digital technology and customers have access to a self-service portal to manage their finances. We continue to automate the Omni business model and have added approximately 10,000 customers to the Self-Service Portal making it even more convenient for customers to do business with us, generating a pronounced fall in customer calls.

We complete surveys of both our retailers and customers to make sure we understand their needs. The surveys also provide us with net promoter scores so we can see how we are doing. The latest retailer survey provided an impressive score of +35 and the latest customer survey was an astonishingly high +68, which is well ahead of the +19 score banks typically achieve.

The combination of Omni's platform with the Group's low cost of funding and capability in credit analytics is expected to enable significant growth in Omni's loan book and accelerate the Group's profitability.

"The Omni business model is based on the latest digital technology and customers have access to a self-service portal to manage their finances. "

Savings - a market-leading mobile first proposition

Our Savings business is based on a market-leading mobile first proposition. In 2021 we made full use of our cutting-edge mobile app by launching a new range of online only savings accounts to help new and existing customers manage their money in a convenient way. Customers can open accounts in a matter of minutes using the latest digital facial and fingerprint recognition technology and swiftly fund accounts through Faster Payments. Our mobile app is available from the Apple App Store and Google Play. New accounts are for fixed terms typically ranging from 1 to 5 years providing customers with certainty over the interest they earn and providing Castle Trust Bank with certainty over our funding. When a fixed term product matures, it becomes an easy access account enabling customers to choose to reinvest their funds into another fixed term product, keep them in the easy access account whilst they decide what to do or return the funds to their nominated bank account. Typically 60% of customers choose to reinvest into another fixed term product with us.

Unlike many comparable banks, Castle Trust Bank can serve both the ISA and non-ISA savings markets. This is a valuable capability as it gives us a broad range of options for accessing the funding we need. The ISA and non-ISA markets both have their own nuances relating to product design and pricing strategies. Castle Trust Bank has served both markets for a long time and now has considerable expertise in retaining and attracting customers in both markets and providing them with competitive returns on their savings. Now we are a bank, we are able to reach new customers through price comparison websites and showcase our accounts on these platforms without any marketing spend.

Castle Trust Bank received its full banking licence in June 2020 and is approaching two years of operating a digital savings business. At the time of gaining our banking licence, our legacy investment products were converted into savings accounts. More than 80% of our customer base is comprised of customers who were with us before we became a bank and many of these customers have saved with us multiple times.
Our years of experience in the retail savings market gives us a deep understanding of our loyal customer base, their needs and how best to serve them.

Our understanding of our Savings customers is developed further through regular customer surveys. In our latest survey we received an impressive net promoter score of +30. We understand that the most important thing for our customers is knowing that their savings are safe. Customers benefit from saving with a bank with a robust business model and retail customers are protected by the Financial Services Compensation Scheme ("FSCS") up to a maximum of £85,000 per eligible investor.

"Customers can open accounts in a matter of minutes using the latest digital facial and fingerprint recognition technology and swiftly fund accounts through Faster Payments."

Castle Trust Bank

Business Review

Overview

Covid-19 continued to dominate the economic landscape in 2021, however the UK economy's recovery has proved more robust than many expected. This, along with careful management of the Bank's credit and other risk exposures, has enabled the Bank to report an improved financial result in the current year with Profit Before Tax increasing to £3.6m (2020: £0.8m). The Bank was able to recognise deferred tax assets in the year which has seen a one-off tax benefit drive total profit to £15.9m (2020: £0.8m)

On the lending side, the opening up of the retail sector following the recent lockdown saw a significant increase in point of sale consumer lending with a loan book which grew to £165.2m (2020: £115.6m). In Property, we continued to reposition the product offering both in Mortgages and Residential Development. Whilst the overall Property lending book fell to £398.9m (2020: £450.6m), this was expected following the effect of disruptions caused by the pandemic on our ability to service the segments we lend to. With new products being launched to market, Property is expected to return to growth in 2022 with a strong new business pipeline supported by competitive pricing.

Savings balances fell in the year as we purposefully managed down the significant liquidity surplus that had been established to support the transition to a bank in the prior year. As at year end our customers held £557m of savings with us (2020: £650m).

Covid-19 impact

In the prior year, Castle Trust Bank provided specific forbearance to support customers during the pandemic following regulatory guidance. This was typically in the form of payment holidays for a period of 1-6 months or, for mortgages maturing, some customers were offered an extension to their mortgage settlement. Customer support continued during the first half of the financial year and since the opening up after lockdown, the second half has seen customers returning to their existing contractual payment arrangements or, where financial difficulties exist, they were managed sensitively through the Bank's standard forbearance measures. As a result, by year end there were no material Covid-19 specific forbearance measures in place.

The pandemic has had an extensive impact in both the prior and current year on the Bank in terms of economic and social disruption. The Bank has maintained the existing level of support provided to customers whilst ensuring the safety and wellbeing of colleagues. Operational effectiveness was maintained throughout further lockdowns in the current year with the office environment being made Covid-19 safe since the beginning of the pandemic. Colleagues have been encouraged to find a balance between home and office working since the lockdowns have ended and these working practices are now considered to be business as usual. As a result of the workplace policies implemented, the Bank has seen stable operations throughout this period of uncertainty and is proud of how it has been able to adapt to continue to support both customers and colleagues.

Credit and remediation

Over the last 3 years, Castle Trust Bank has focused on improving the quality of lending, moderating its risk appetite across all lending classes. With a challenging external environment because of the Covid-19 pandemic, careful underwriting decisions have been adopted which should improve credit performance. This can be seen by the reduction in the cost of risk year on year, as lower levels of provisions against large mortgage cases have been recognised along with improved arrears performance of the consumer lending book. See Note 21.1 for more details.

The RDF legacy portfolio work out has largely been completed and the product line was relaunched in the year with the first new facility approved in the summer of 2021.

Having designated our historic wholesale funding positions as in run off, we have now largely exited these exposures and expect to exit the remainder shortly.

Group evolution

The function and role of the Group and its subsidiary entities has changed significantly over the last few years as the business embarked on the journey to become a bank. A key part of the process was a group simplification exercise where the activities of several subsidy entities were either wound down or transferred to other subsidiaries, principally CTC.

The first stage of the simplification took place in the prior year with the sale of the house price derivative component of the HPI mortgage book and several house price option contracts to a related entity outside of the Group on 30 September 2019. Once completed, this left a de-risked conventional mortgage book, with minimal exposure to the related house price index component of the HPI mortgage product.

The second stage of the group simplification saw the treasury activity for the Group transferring to the CTC from another subsidiary Castle Trust Treasury Limited ("CTT"). From this point, CTC became the principal funding entity for the Group's lending activities, in particular the consumer loan business and wholesale loan activities in Omni.

As a result of the first and second stages being completed, two subsidiary entities, CTT and Castle Trust Finance Limited ("CTF") ceased trading activities and were dissolved on 6 October 2020.

The final stage of the group simplification was intrinsically linked to banking licence approval, as the Group launched bank deposits to replace the legacy Fortress Bonds and Housa investment products. Prior to being authorised by the regulators, the Group undertook a legal process to convert customers holdings in Fortress Bonds and Housas issued into new fixed term and structured deposit accounts.

This stage was completed successfully in June 2020. As a result, several subsidiary entities including Castle Trust Capital Management Limited ("CTCM"), Castle Trust Direct plc ("CTD"), Castle Trust Income House plc ("CTIH") and Castle Trust Growth Housa PC ("the PC") had no ongoing trading activity. CTIH and the PC were dissolved in September 2020. CTCM and CTD are in the process of being wound up.

The current operating structure of the Group is as follows:

Castle Trust Holdings Limited		Group holding company
Castle Trust Capital PLC	100%	Regulated banking entity
Castle Trust POS Limited	100%	Interim holding company
Omni Capital Retail Finance Limited	100%	Point of sale consumer finance entity

Colleagues

Castle Trust Bank's people are what makes the business work, creating great, bespoke solutions for its customers and developing the business for the future.

The business has a strong management team in position and working well together, bringing experience from a range of small banks, high street banks and building societies, regulators and specialist lenders.

We continue to embed our values based on a bottom-up approach using colleague generated feedback. Colleagues are asked to complete regular surveys to aid and inform management of what is working well and where the business needs to do more to improve empowerment and engagement. In our most recent colleague survey, 91% of colleagues participated and the engagement score rose by 18%. All colleagues have performance agreements which contain both objectives and the behaviours colleagues are expected to display by living our values.

Recent market developments

As global economies recover from the pandemic, rising food and energy costs are fuelling higher inflation in many countries. The UK is no exception with inflation recently tracking above monetary policy targets. This led to the Bank of England raising interest rates in December 2021 for the first time since 2018 and further rate rises are expected in 2022. Inflationary pressures, along with interest rate rises, may put additional constraints on household income which potentially impacts both new lending affordability and the ability of customers to service their payment commitments with us. Castle Trust Bank will continue to assess its credit risk appetite for these factors and support customers where they experience financial difficulty through our robust forbearance policies. The Bank continues to monitor its pricing for both loan and savings products to ensure that, in a changing interest rate environment, our products remain competitive and attractive to customers.

Following the ending of the Brexit transition period, the United Kingdom left the EU single market and customs union in December 2020. To date, the impact of Brexit on our core products and customers has not been significant. However, the Bank remains exposed to Brexit risk as a period of significant disruption to trade, transportation and unemployment or construction delays and reduced demand for residential rental property may increase credit losses. Castle Trust Bank continues to monitor the impact of Brexit on its business.

UK financial markets continue to transition from LIBOR to alternative risk-free rates with SONIA the preferred new benchmark. With the run off of the Wholesale lending loan facility, Castle Trust Bank has completed its program to transition away from LIBOR to SONIA.

In the mortgage industry, certain customers continue to experience difficulties in selling or obtaining finance in relation to properties where there may be a potential cladding issue. Castle Trust works closely with existing customers who are experiencing these difficulties and has robust forbearance policies in place to provide support where required.

Outlook and future developments

As we hope 2022 brings further relief from the pandemic, the future for Castle Trust Bank and its customers remains positive. Castle Trust Bank now offers its savings customers a broader range of products and an upgraded online experience. The core borrowers the business serves will remain unchanged and Castle Trust Bank continues to support them to achieve their financial goals where others are unable or unwilling to.

Despite the ongoing uncertainty facing the UK economy and financial services sector following the Covid-19 pandemic, Castle Trust Bank remains well capitalised with surplus liquidity. This robust balance sheet will enable the Bank to pursue its growth plans and to also be in a strong position to engage in strategic opportunities were they to arise in the market.

Principal risks and uncertainties

Principal risks and uncertainties are carefully monitored by the Group to ensure all risks undertaken are aligned to the Group's overall objectives and future direction of the Company. Risks are ultimately managed by the Chief Risk Officer who, whilst ensuring risks to the Company are understood and controlled, also ensures risks undertaken are commensurate with expected returns. All risks undertaken by the Group are done so with our values at heart to ensure that both customers and colleagues are treated fairly.

The principal risks of the business are managed by Castle Trust Bank's Risk Management Framework which is further detailed in the Risk Management Report on page 28.

Further, principal uncertainties are defined as Emerging Risks in the Risk Management Report on page 34.

ESG and Climate Change

The way we execute our business strategy is consistent with the plans we are developing for our Environmental, Social and Governance (ESG) strategy. Castle Trust Bank has already delivered a range of initiatives that are not only the socially responsible thing to do but also protect our customers and our business.
These initiatives cover the whole of the ESG framework whether that is sourcing our electricity from renewable energy, being a signatory to HM Treasury's Women in Finance Charter or incorporating climate change in our stress tests and capital planning. Like all banks, there is more that we can do and, over the next year, we will continue to develop our ESG strategy. In line with best practice, all executives have ESG deliverables as part of their performance plans. The Company's approach to climate change risk is detailed on page 34 and the Streamlined Energy and Carbon Report Regulations disclosure within the Directors' Report can be found on page 48.

"Castle Trust Bank has already delivered a range of initiatives that are not only the socially responsible thing to do but also protect our customers and our business."

Castle Trust Bank

Key Financial Performance Indicators

The following Key Financial Performance Indicators ("KPIs") are used by management to track how the business is performing.

Key performance indicator	At 30 September 2021	At 30 September 2020	Variance
Loan book balances (£'000s)			
Property finance	398,997	450,584	(51,587)
Point of sale consumer lending	165,261	115,604	49,657
Wholesale lending	3,654	11,654	(8,000)
Total	**567,912**	577,842	(9,930)
Savings/Investment balances (£'000s)	557,396	649,535	(92,139)
Liquid assets (£'000s)	76,857	153,778	(76,922)
Liquidity Coverage Ratio (unaudited)	223%	481%	(258.0)%
CET1 Capital Ratio (unaudited)	17.2%	17.5%	(0.3)%
Impairment coverage ratio	3.8%	4.5%	(0.6)%
Cost of Risk (Basis Points)	46	117	(71)
Net interest income (£'000s)	34,983	34,183	801
Profit before tax (£'000s)	3,644	819	2,825

The property finance loan book represents the value of assets loaned to mortgage and RDF customers net of related impairments. The decrease in the loan balance in the year is due principally to the continued run off and maturity of the legacy product set whilst a new product offering has been structured and launched. The pipeline of new business remains strong and with the expectation is for the property division to grow its loan balances once more in the upcoming financial year.

The point of sale consumer lending loan book represents the value of consumer loans less any related impairments. The year on year growth is due to strong new loan origination volumes in the months subsequent to the opening up following the Covid-19 lockdowns. We principally saw strong performance from the Healthcare sectors as hospitals, dental practices and clinics reopened.

Wholesale lending balances have decreased in the year in line with expectations as Castle Trust Bank continues to wind down its existing Wholesale lending relationship.

Savings/investment balances relate principally to fixed deposits held by customers. The decrease in this balance has been driven by the requirement to hold significant levels of surplus liquidity as the business prepared to become a bank in the prior financial year. Once the banking licence was approved, the Bank found itself with surplus cash to its funding requirements and the Bank carefully managed down this surplus through restricting access to new deposit accounts. Towards the latter half of the year online only accounts were launched to new customers and the deposit book has begun to build up once more.

Liquid assets is a measure of readily available liquid funds that Castle Trust Bank can utilise to meet customer and business needs. The decrease of £77m in the year reflects the decline in deposit balances as explained above with the Bank reducing its liquidity surplus following the granting of the banking licence. Castle Trust Bank continues to manage this balance closely to ensure optimal profitability whilst operating within conservative liquidity limits.

The liquidity coverage ratio is an unaudited key regulatory metric which requires banks to hold enough high-quality liquid assets ("HQLA") that can be sold during a 30-day stress scenario. The year-end position of 223% (2020: 481%) compares favourably with the regulator's target guidance of 100%.

The CET1 Capital ratio is a key unaudited metric used throughout the industry to measure the capital adequacy of a business. It shows the ratio between the calculated risk weighted assets and Tier 1 capital. The increase to risk weighted assets from the Omni loan book growth has been partially offset by the capital increase from retained profits. This has resulted in a small decrease of the unaudited ratio of 0.3% year on year and we remain comfortably above our regulatory requirement.

The impairment coverage ratio details the impairment provision as a percentage of the total loan book and is an indicator of changes to the credit profile of the loan portfolio. This year has seen a decrease of 0.7% in comparison to prior year due to improved Omni credit performance, sizable debt sales of the aged default population and an improvement in the economic forecasts that are used within the impairment models.

Cost of Risk is calculated by looking at the cost of loan impairment per the income statement as a proportion of average loan assets. The fall in the year is due to an overall improvement in credit performance in Omni and impairment provision releases triggered by the improving macro-economic environment as the UK economy proved to be more resilient to the Covid-19 pandemic than previously expected.

Net interest income demonstrates the return generated on the loan book less the associated cost of funding paid to investment customers and is a key indicator in assessing underlying profitability. This has increased marginally year on year to £35.0m (2020: 34.2m) as a reduction in interest income due to a lower risk balance sheet has been offset by reduced interest expense as market deposit rates fell and the Group realised the funding benefits of becoming a bank.

Profit Before Tax is a measure of profitability and business performance. Current Profit Before Tax is £3.6m (2020: £0.8m) with the growth broken down as follows:

- Net interest income improving by £0.8m, as detailed above.
- Administration expenses increased by £0.7m following additional software licencing costs required to support the new savings platform.
- Reduction in impairment charges of £4.2m as detailed in the Cost of Risk movement above.

Key non- financial performance indicators are detailed in the Key Highlights section on page 9.

Section 172(1) Statement

S172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and in doing so, have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's colleagues;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

The Board of directors of Castle Trust Bank consider they have discharged this duty ensuring decisions made during the year ended 30 September 2021 were in good faith and likely to promote the success of the company for the benefit of its members as a whole. In addition to incorporating the above-mentioned factors, the Board incorporates the Group's purpose statement, key values and strategic priorities into its decision making.

During the year, the Board reviews matters relating to business strategy, financial and operational performance, key risks and legal, regulatory and compliance matters. The Board delegates authority for the day-to-day running of the business to the CEO, and through him, to Senior Management and various sub-committees to oversee the execution of the Bank's strategy and related policies.

Purpose statement

Castle Trust Bank is a specialist bank with a simple purpose: to help customers achieve their financial goals. Our purpose is particularly significant because many of our customers are not well served by mainstream financial services.

We are here to help customers by:

- doing our bit to alleviate the UK's housing crisis by financing the building of new homes,
- providing homeowners and landlords with specialist solutions to match their individual financial needs,
- working with retailers and their customers to provide finance that enables both businesses to thrive and people to access valued goods and services; and
- providing a secure home for people's savings.

Stakeholders

Engaging with the Bank's stakeholders is an important element to ensuring the Board has the relevant information when making decisions. Key stakeholder management is maintained via regular dialogue throughout the year. The table below sets out the Bank's key stakeholders and the main method by which the Board and Management engage.

Stakeholder	Description	Engagement
Shareholders	The Bank has one shareholder holding the majority of the Bank's ordinary share capital.	The shareholder is represented on the Board and Board subcommittees by Non-Executive Directors and is therefore fully involved in the decision making of the company.
Customers	The Bank has around 20,000 deposit customers and over 160,000 lending customers.	The Bank undertakes regular customer feedback surveys. The results of these inform product and business line strategies. Customer journeys and customer interactions are regularly reviewed and quality assured. This helps inform staff training plans and improve the experience of our customers.
Colleagues	The average number of people employed by the Bank during the year was approximately 200.	The Bank undertakes an annual Colleague Opinion Survey. Colleague engagement is high and the results are positive. The survey is a key input for the staff engagement strategy. There are regular Q&A sessions with Board members and a cross-section of colleagues. In addition to the fortnightly CEO Blog, staff are engaged through regular 'meet the CEO' sessions and monthly all staff 'Townhalls'. The Bank is also a signatory of the Women in Finance Charter. To support the mental health and wellbeing of the colleagues, the Bank has signed up to the Mortgage Industry Mental Health Charter.
Suppliers	Businesses and individuals who provide the Bank with services and goods.	Management regularly meet the Bank's key suppliers particularly those providing important business services and information technology systems.

Stakeholder	Description	Engagement
Regulators	The Bank is regulated by the PRA and FCA.	The Bank's management has regular meetings with its Supervisory teams to discuss its strategy, plan and performance.
Communities	The geographic locations in which the Bank has offices, colleagues and customers.	The Bank is a member of a number of Trade Bodies and Industry Groups in the regions in which we operate.

Key decisions

In terms of key decisions undertaken by the Board in the year, the following have been identified which will have the greatest impact on the stakeholders described above:

- Approval of the Business Plan
- Strategic Growth opportunities and acquisitions

Approval of the business plan

In September 2021, the Board approved the Business Strategy and Medium-Term Plan. This sets out product growth targets in key business lines with related capital, resourcing and investment requirements defined. The plan is set to grow the business on a sustainable level and forms the baseline of the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP").

The business plan outcomes will have impacted some of our key stakeholders. This was considered by the Board in detail before deciding to approve the business plan.

Stakeholder	Impact
Customers	The plan targets growth in all key business line through the provision of competitively priced and innovative products that Castle Trust Bank believes will meet customers' diverse needs.
Colleagues	The business plan provides growth and opportunities to the Bank's staff with detailed resourcing requirements embedded to ensure that business growth is aligned with the growth of a high functioning and motivated workforce.
Regulators	The ICAAP and ILAAP documents provide comfort to the regulator that the business plan and strategy ensure that Castle Trust Bank will continue to meet its stringent capital and liquidity requirements until September 2025. This provides protection to customers and the wider financial services market.
Shareholders	The strategy and plan provide the shareholder with a clear direction of how Castle Trust Bank will grow in a sustainable manner, deliver a growing positive return on equity and therefore meet its investment objectives.

Strategic growth opportunities and acquisitions

Growth opportunities are being actively pursued by the Bank as it continues its strategic priority to expand the business, either organically or through acquisition/merger opportunities. During the year, a number of strategic prospects were considered and reviewed by the Board, who in turn make the ultimate decision whether to proceed or not. The Board also approve and monitor additional out of budget expenditure relating directly to these opportunities. Although no prospects successfully crystalised in the year, the Board and senior management continue to explore opportunities as they arise.

Stakeholder	Impact
Customers	The Bank would use growth opportunities to establish a larger scaled operation. This in turn would offer customers a wider product set, improved pricing and opportunities and an enhanced customer journey.
Colleagues	A growing Bank offers colleagues wider development and career opportunities. This will enhance retention rates and improve attractiveness of the Bank for future recruitment.
Regulators	The Bank remains open and has a constant dialogue with the Regulators as strategic opportunities are pursued. Ultimately Regulatory approval is required for any acquisition/ merger undertaken.
Shareholders	The intention of pursuing a strategic priority of growth is to increase the market valuation of the Bank and in return maximise shareholder value.

Strategic Report Approval

Approved by the Board of Directors and signed on behalf of the Board

Andrew Macdonald
Company Secretary
24 January 2022

Risk Management and Governance

Risk Management and Governance

Risk Management Report

Purpose of Risk Management

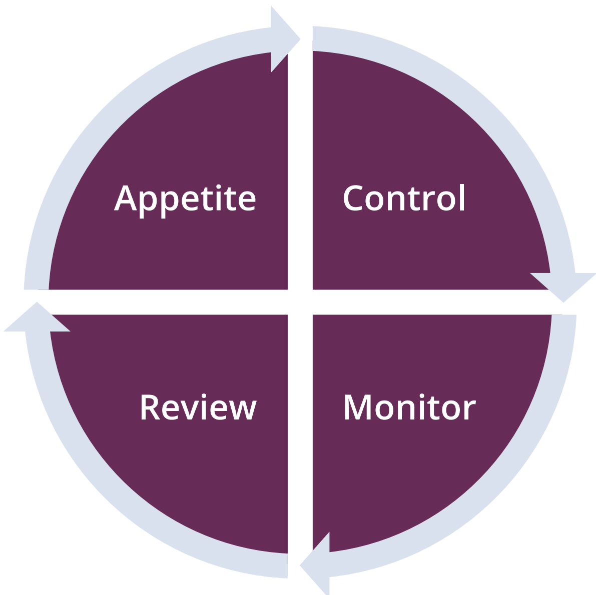
The purpose of Castle Trust Bank's Risk Management Framework is to give stakeholders confidence that risk is understood, monitored and controlled and that the level of risk that Castle Trust Bank takes is aligned to its objectives, including operational, conduct and prudential risk. This ensures that the risks are commensurate to the returns and financial resources of the institution and that treating customers fairly is embedded into its culture and operational processes. The Risk Management Framework ensures that:

- In the normal course of business, Castle Trust Bank's operations, customer outcomes and prudential metrics are stable and in line with objectives; and
- Under stress, Castle Trust Bank can continue to operate, to fulfil its obligations to customers and to meet its prudential requirements.

The Risk Management Framework is owned by the CRO and overseen by the Board Risk Committee. The following sections of the report explain how the Risk Management Framework is applied in Castle Trust Bank.

Risk Management Process Lifecycle

Castle Trust Bank's Risk Management Framework operates alongside a comprehensive suite of risk-specific policies, manuals and procedures to specify the Risk Management Processes the bank is required to follow in respect of each risk. The framework groups the Risk Management Processes into four phases as set out in the following diagram and table.



Lifecycle Phase	Intended outcome	Description
Appetite	To identify Castle Trust Bank's objectives and set appetite having regard for the resilient and sustainable areas of customer need for which an attractive service can be provided and from which an appropriate risk adjusted return can be generated.	A combination of annual, regular and ad hoc processes which ensure that Castle Trust Bank has clear objectives and has the resources and processes in place to meet its objectives. Setting of risk appetite is part of the Plan phase. Examples include • Setting of operational resilience standards • New product approval • Regular risk appetite and limit calibration reviews • Annual corporate plan, ICAAP and ILAAP
Control	To operate robust controls that ensure that the objectives, including risk appetite, are met.	Regular processes which are designed to control risk and deliver Castle Trust Bank's objectives. Examples include: • Business continuity and disaster recovery scenario test exercises • Affordability and credit checks • Vulnerable customer procedures • Quality assurance • Board limits
Monitor	To provide management with clear measures as to execution of the objectives, the risk incurred and the effectiveness of controls.	Regular information and governance processes that ensure each risk has appropriate monitoring information and that there is a regular forum which has responsibility for reviewing that information. Castle Trust Bank provides regular reporting against operational, customer and prudential objectives.
Review	To undertake periodic stock takes to ensure that the Risk Management Framework is delivering the objectives and risk appetite as intended.	A combination of annual, regular and ad hoc processes which ensure that Castle Trust Bank is meeting the objectives it has set during its planning processes. • Risk based Compliance Monitoring or Internal Audit Reviews • Annual product reviews • Annual CRO reports

Culture, Lines of Defence and Responsibilities

Responsibility for risk management lies with every colleague of Castle Trust Bank. All colleagues are expected to manage the risks of their own area in accordance with the Risk Management Framework and to escalate issues and emerging risks appropriately.

Primary ownership for risk management sits with the 1st line business areas that manage their own specific risks and controls. The 2nd line is responsible for providing independent challenge, specialist advice, risk monitoring and ensuring the Risk Management Framework is operating effectively. The 3rd line provides independent assurance that the Risk Management Framework is working as intended.

Line of Defence	Owner	Oversight	Functional areas	Responsibilities aligned to Risk Management Process Lifecycle
1st	CEO	Board	Business units, HR, Technology and Finance	• Plan – to identify objectives and risk appetite • Control – to operate controls prescribed in the Risk Management Framework • Monitor – to identify and escalate emerging risks
2nd	CRO	Risk and Audit Committees[1]	Risk and Compliance	• Plan – to manage the risk appetite • Control – to provide independent advice and challenge in respect of key decisions / judgements and specialist risk areas • Monitor – to track performance, risk and control effectiveness • Review – to provide periodic stock takes as to effectiveness of Risk Management Framework
3rd	Head of Internal Audit	Audit Committee	Internal Audit	• Review – to provide assurance as to the effectiveness of the Risk Management Framework

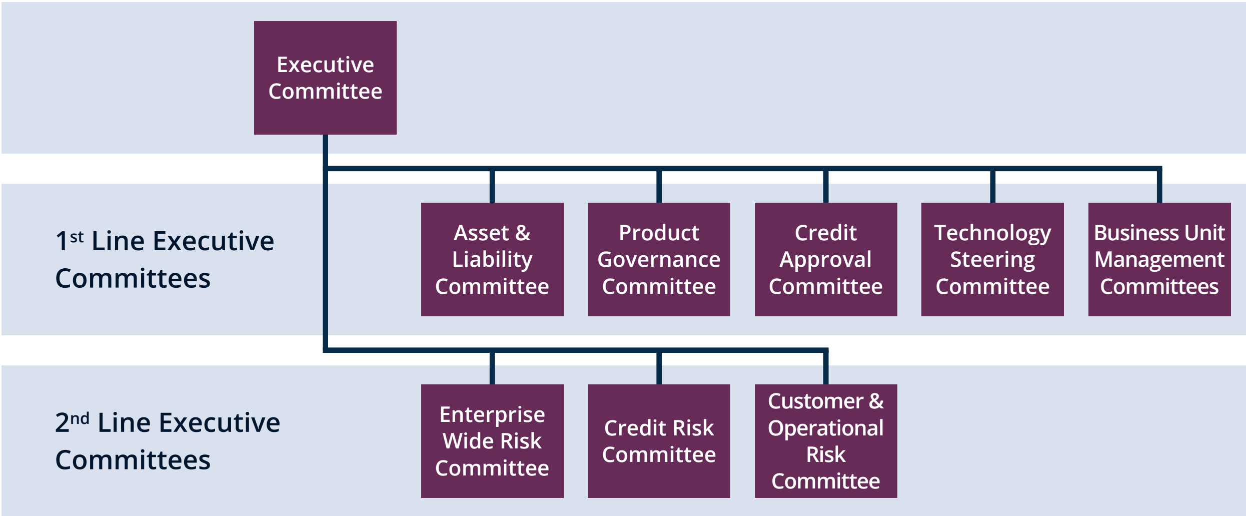
[1] Audit Committee has oversight of Compliance Monitoring; otherwise Risk Committee has oversight

The Board Risk Committee is responsible for agreeing Risk Appetite on behalf of the Board and providing oversight of the application of the Risk Management Framework.

Governance

Castle Trust Bank has a comprehensive suite of governance arrangements to ensure that each risk is effectively managed and has appropriate oversight.

In order to ensure that there is independent challenge, all Executive Committees require the CRO or Head of Compliance to attend in order to be quorate and the Credit Risk Committee and the Customer and Operational Risk Committee are chaired by the CRO and Head of Compliance respectively.



Below the Executive Committees there is a hierarchy of sub-committees and working groups with responsibility for managing specific risks.

Risk Groups

Castle Trust Bank allocates every individual risk to a Risk Group.

Each Risk Group has an owner, an Executive Committee member responsible for its oversight and a tailored suite of processes aligned to the Risk Management Process Lifecycle described above. The appetite and exposure to each Risk is monitored at the executive risk committees and also at the Enterprise Wide Risk Committee where the risks are considered in aggregate.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Strategic	The risk that Castle Trust Bank is unable to achieve its long-term objectives due to changes in its key markets or in the economic or regulatory context.	CEO	Executive Committee

Exposure Description	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank has significant experience and well-established franchises in its chosen markets and plans to continue controlled growth in those markets. Economic or regulatory change may mean it is unable to meet its objectives or that the risk profile of those markets' changes.	Castle Trust Bank undertakes a detailed planning process at least annually and more frequently when required by changes to the external environment. Supporting the plan, , there are detailed assessments of the adequacy of capital and liquidity and of recovery options available in case of stress as well as 2nd line challenge and review. The plan is then monitored for performance and risk levels with key risk indicators triggering management review and recovery options when necessary.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Property Credit Risk	The risk of credit losses arising from the inability of a customers to meet their obligations or of Castle Trust Bank to liquidate collateral in a timely and effective manner.	MD Property	Credit Risk Committee

Exposure Description (as at 30 Sept 2021)	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank has £403m of exposure to mortgages and residential development of which £62m is classified as non- performing. (See also Note 11).	Limits and Policies covering origination and portfolio are set by the Board Risk Committee. Origination is controlled by a risk-based mandate. Origination characteristics and performance are monitored monthly against portfolio limits and risk indicators. Annual and ad-hoc reviews are undertaken by the 2nd line and 3rd line.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Omni Credit Risk	The risk of credit losses arising from the inability of customers to meet their obligations	MD Omni	Credit Risk Committee

Exposure Description (as at the 30 Sept 2021)	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank has £179m of exposure to Omni lending of which £13m is classified as non-performing. (See also Note 11) In the course of its business, Castle Trust Bank also incurs varying and transitory levels of exposure to intermediaries under the provisions of Section 75 of the Consumer Credit Act.	Limits and Policies covering origination and portfolio are set by the Board Risk Committee. Origination is predominantly controlled by an automated decision set; intermediary risk is controlled though a hierarchy of approval and review committees. Origination and performance characteristics are monitored against risk limits and risk indicators at least monthly and more frequently in some instances. Annual and ad-hoc reviews are undertaken by the 2nd line and 3rd line.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Market and Funding Risk	The risk of losses occurring due to market movements, or the inability of a counterparty to meet its obligations. Also the risk that Castle Trust Bank is unable to meet its obligations due to a shortfall of Capital or Liquidity.	CFO	Asset and Liability Committee

Exposure Description	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank has £38m of exposure to non-governmental counterparties. (See also Note 8) Castle Trust Bank has £349m of contractual liabilities falling due over the next year (see Note 22). It is also exposed to interest rate risk and Castle Trust Bank is subject to individual Capital and Liquidity arrangements. Castle Trust Bank had total liquidity of £77m at 30 Sept 2021.	Limits and Policies covering origination and portfolio are set by the Board Risk Committee. Exposures to market movements and customer behaviour are monitored daily against limits and risk indicators with the ability to mitigate through market transactions.

Risk Group	Description	Owners	Executive Committee responsible for oversight
Customer Conduct and Operational Risk	The risk of customers not being treated fairly or losses occurring because of operational or conduct failings in Castle Trust Bank's dealings with customers or processes.	MD Property MD Omni MD Savings	Conduct and Operational Risk Committee

Exposure Description	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank supports approximately 1,000 customer accounts in its Property business unit; approximately 20,000 customers in its Savings business unit and 160,000 customers in its Omni business unit. Customers are supported through a variety of automated and manual operational process which are also variously subject to regulatory requirements.	All Products are subject to a structured approval process controlled by Product Governance Committee and are then reviewed on annual basis. A wide variety of controls are deployed including quality assurance, customer satisfaction surveys and complaints root cause analysis. Key risk indicators designed to identify unsuitability of the product or poor customer outcomes are monitored at least monthly. Regular, annual and ad-hoc reviews are undertaken by the 2nd line and 3rd line.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Group Operational Risk	The risk of losses occurring because of operational failings in Group operations and infrastructure.	Various	Enterprise Wide Risk Committee

Exposure Description	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank operates a wide range of internal processes to support its business; the primary risks relate to people (including retention and conduct), data and cyber, financial processes (including the operation of complex financial models) and operational resilience which are also variously subject to regulatory requirements.	This Risk Group consists of a broad range of individual risks, each meriting its own bespoke processes to control that risk.

Emerging Risks

As well as the overarching Risk Groups noted above, the following emerging risks have been noted for enhanced monitoring and the Risk Management Framework continues to evolve to manage these risks

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Climate Change Risk	The risk that Castle Trust Bank incurs losses or is otherwise unable to meet its objectives due to climate change and associated regulatory or other Government intervention.	CRO	Enterprise Wide Risk Committee

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is primarily exposed to climate change risk through its credit risk exposure. A significant change in the UK climate may result in property collateral becoming obsolete and / or being down valued due to changes in environmental risk or prevailing mortgage and insurance markets. Castle Trust Bank may also be required to make changes to its business model and / or processes due to new regulation or market expectations in respect of Climate Change.	Castle Trust Bank has set origination policy restrictions in respect of property collateral with specific exposure to climate change. Castle Trust Bank continues to monitor policy evolution to identify risks to its existing property collateral value or liquidity and to the viability of its Omni intermediaries.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Covid-19 Pandemic Risk	The risk that Castle Trust Bank is unable to adapt to the structural changes brought about by the Covid-19 pandemic, incurring losses or being otherwise unable to meet its objectives.	CEO	Executive Committee

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank's operations, those of its suppliers and intermediaries, the UK's legal system as well as the activities of Castle Trust Bank's customers are exposed to disruption and delays arising from Covid-19 related restrictions. The COVID-19 pandemic continues to evolve in both intensity, clinical variations and government and societal reactions, In particular there is a risk that further restrictions or changes to societal behaviours adversely impact certain credit segments. Castle Trust Bank has particular exposure to the property market through its Property Credit Risk (as above) and to the employment market through both Property and Omni Credit risk (as above).	Castle Trust Bank has deployed technology enabling the workforce to be location independent and work from home when required. All borrowers have now exited the Covid-19 forbearance programmes initiated due to the pandemic. Castle Trust Bank has reviewed its credit risk appetite and adjusted its origination approach in respect of certain segments likely to be adversely impacted by Social Distancing requirements. Castle Trust Bank continues to monitor existing customers and has a range of forbearance tools available if required.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Brexit Risk	The risk that Castle Trust Bank is unable to operate effectively or incurs losses due to Brexit.	CRO	Executive Committee

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is primarily exposed to Brexit risk as a function of its credit risk exposure. A period of significant disruption to trade, transportation and unemployment or construction delays and reduced demand for residential rental property may increase credit losses. It is also exposed to general regulatory change in this area.	Castle Trust Bank continues to monitor the impact of Brexit on its business. At the current time no specific risk mitigation is deemed necessary.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Economic Risk	The risk that Castle Trust Bank incurs losses or is otherwise unable to meet its objectives due to unforeseen changes in the levels of economic activity.	CRO	Executive Committee

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is primarily exposed to economic risk as a function of its credit risk exposure. It has a limited exposure to interest rate risk. A material change in the levels or nature of economic activity may increase credit losses and / or reduce credit opportunities. Castle Trust Bank has specific credit risk exposure to customers who may be impacted by changes to the housing market, household cost of living, mortgage availability & rates and employment. Following the pandemic and unprecedented level of Government intervention in the economy, economic uncertainty remains very high. Castle Trust Bank is exposed to inflation through its staff and supplier costs as well as a second order impact upon the affordability of its lending for borrowers. The majority of economic forecasts now include rising interest rates to which Castle Trust Bank is exposed through its fixed rate deposits and loans.	Castle Trust Bank has reviewed its credit risk appetite and adjusted its origination approach in respect of certain segments likely to be adversely impacted by an adverse economic scenario. Castle Trust Bank has carefully considered its corporate plan, has assumed a conservative growth strategy and has stress-tested severe but plausible downside scenarios, including a persistent high inflation scenario. Castle Trust Bank continues to monitor its Interest Rate Risk exposure and manages that exposure through the matching of assets and liabilities.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Competitor Risk	The risk that Castle Trust Bank is unable to meet its objectives because of competitor action and in particular the under-pricing of cost of risk.	MDs of Business Units	Executive Committee

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is exposed to competition in all areas it operates in. It is exposed to future pricing and product feature competition in its originations of assets and liabilities. As markets have recovered during the second half of the year, competition and pricing in certain markets has intensified.	Castle Trust Bank continues to monitor the impact of competitor risk appetite and pricing on its objectives and risks.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Regulatory Change Risk	The risk that Castle Trust Bank is unable to meet its objectives or regulatory requirements, because of the costs or restrictions associated with regulatory requirements, or due to inability to adapt to changes in the regulatory framework.	CRO	Enterprise Wide Risk Committee

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is subject to several different regulatory type regimes, including Bank of England, PRA, FCA, HMRC and ICO, which variously have the power to institute change requirements, levy fines or require specific remediation activity. In addition, HM Treasury is currently consulting upon changes to the Consumer Credit Act which may impact the Group's annual asset originations; albeit we expect the impact to be limited.	Castle Trust Bank continues to work closely with its regulators, adopting an open and co-operative approach at all times. Regulatory Change is tracked through the committee structure; Change Programmes are instituted to manage required changes to business model, operations and technology.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Cyber Risk	The risk that Castle Trust Bank is unable to operate, incurs losses or breaches customer confidentiality due to the misuse or misappropriation of data it holds.	CTOO	Technology Steering Committee

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is exposed to cyber risk through its holding of personal data in respect of its customers and colleagues. Castle Trust Bank operates and holds data upon a combination of in-house platforms and 3rd party platforms which may be hosted by Castle Trust Bank (dedicated Cloud hosting) or by 3rd parties These platforms require multiple levels of controls over access and data sharing.	Castle Trust Bank continually monitors exiting customer data and systems for indicators of an external breach. Specialised IT Security software is utilised across all systems and is continually updated. Operational software operates on a cycle of upgrades to ensure that the latest IT security controls are embedded. Independent third parties are periodically engaged to test the resilience of key systems to Penetration and Cyber Attacks. Strengthened and rolling programme of review over access controls.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Data & model risk (including change management)	The risk that Castle Trust Bank is unable to operate, takes inappropriate decisions or otherwise incurs losses due to deficiencies in internal or third-party models, data, system changes and / or reporting.	CFO & CTOO	EWRC

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is exposed to data and model risk in multiple areas of operations with the greatest exposure in financial and regulatory reporting, prudential risk management and automated decisioning in respect of Omni credit risk. The risk is classified as emerging primarily due to the continued evolution and growth of the business. In particular: increased diversity / complexity of product set; increased reliance upon complex models due to the requirements of IFRS 9; evolution of customer strategies and data requirements necessitating manual workarounds; continued expansion of technology estate, reliance upon 3rd parties and deployment of third-party integrations increases complexity and downstream impact of change.	Project to harmonise data repositories and data interrogation tools across the bank commenced 2021 with first phase completed. Policy agreed and project to identify and standardize controls across all End User Computing Applications commenced 2021. All 3rd Parties subject to diligence in respect of data compliance and overall suitability; extra resource deployed to Risk Function to take ownership of certain key models.

Castle Trust Bank

Corporate Governance Report

Purpose

Castle Trust Bank's corporate governance is designed to give stakeholders confidence that the bank's objectives have been subject to thorough challenge and review and that performance against objectives is continually monitored, resulting in regular review and evolution of strategy.

Castle Trust Bank's strategy includes the following specific objectives:

Area	Objective	Outcome
Customers	Castle Trust Bank identifies and meets its customer needs and provides a high quality service	The place to do business with
Commercial	Castle Trust Bank has a suite of attractive products with appropriate pricing, and effective distribution	
Technology	Castle Trust Bank has the right technology to deliver its objectives in a secure, resilient, cost efficient and customer friendly manner	
People	Castle Trust Bank's Board, senior management team and wider workforce have the skills, experience and motivation to deliver its objectives	The place to work
Financial Sustainability	Castle Trust Bank has the right financial resources to achieve its objectives, including capital and liquidity resources and generation of sustainable, attractive returns from its activities	The place to invest
Risk	Castle Trust Bank controls and monitors the risks that it takes in order to meet its objectives, including customer, conduct, operational and financial risks, and ensure that the risks are commensurate to the returns and financial resources of the institution	

The Board

The Board of directors has the ultimate responsibility for all aspects of Castle Trust Bank. It has instituted four sub-committees which are explained in the next section. The Board holds formal meetings ten times per year and these are variously supplemented by ad-hoc workshops, site visits, strategy reviews and private meetings of the Non-Executive Directors.

The most important decisions are reserved to the Board, with advice from sub-committees where appropriate. The Board delegates more routine decisions to the Executive Directors who in turn delegate decisions to individuals (as determined by specific mandates) or to committees (as determined by the relevant policy). Executive decisions are taken within the framework of a comprehensive range of Board approved policies and an annual plan setting Group and subsidiary budgets, and product and organisational strategies.

At least annually, and more frequently if required, the Board agrees a corporate plan which sets out the specific objectives of the business and forecasts the financial position based upon that plan and taking into account the prevailing economic outlook. The forecasts must demonstrate that Castle Trust Bank is able to meet its risk appetite.

The Board overseas the effectiveness of the corporate plan delivery through a combination of regular qualitative and quantitative reports summarised into key performance and risk indicators covering all of the key areas in the business, as well as periodic deep dives.

The Board has access to all Executives and any information it requires. The Executives responsible for the 2nd and 3rd lines of defence (see Risk Management Report) have direct access to the Board Chair and the Chairs of Risk and Audit.

Independent Directors

Castle Trust Bank is not subject to the UK Corporate Governance Code; however, it still places a significant value on the independence of its directors and it has deemed the following directors to be independent:

Richard Pym (Chairman)

Eric Anstee (Senior Independent Director)

Marian Martin

Andrew Doman

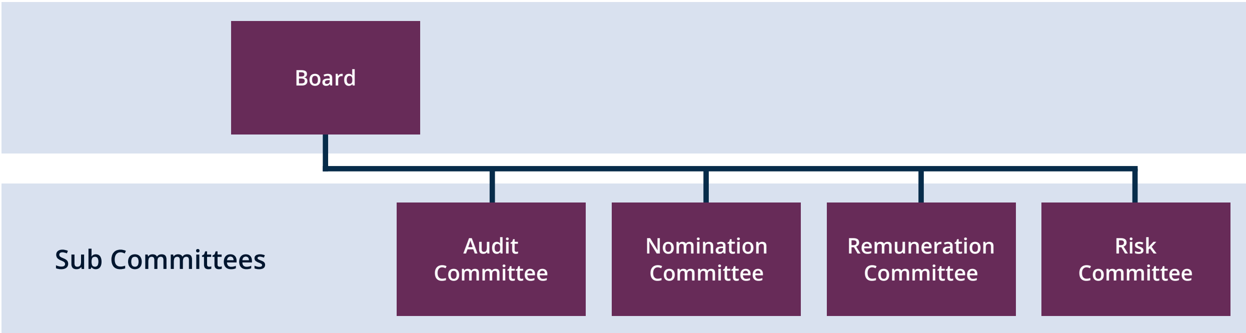
Melba Montague

The Chair of the Board, the Risk Committee and the Audit Committee are deemed to be independent.

The Senior Independent Director is responsible for ensuring that the collective views of the Independent Directors are reflected at the Board; the Chair is effective; and the Board meetings, information and training meets the needs of the Independent Directors and allows them to exercise appropriate influence.

Board Sub-Committees

The Board operates four standing sub-committees, which enable additional focus to be given to areas of complexity or detail, approving business plans, making recommendations to management and to the Board as appropriate.



Sub-committee	Chair	Other Members
Audit	Eric Anstee	Marian Martin, Melba Montague, Tim Hanford
Nomination	Richard Pym	Andrew Doman, Tim Hanford
Remuneration	Andrew Doman	Richard Pym, Tim Hanford
Risk	Marian Martin	Richard Pym, Eric Anstee, Andrew Doman, Tim Hanford

Each sub-committee has its own Terms of Reference setting out its objectives.

Board and Sub-Committee Overviews 2021

Sub-committee	Overview of Financial Year 2021
Board	During the course of the year, the Board provided oversight and challenge in respect of the operational performance of the Bank and of the ongoing change programme as the Bank seeks to further digitize and enhance its IT security. The Board had primary decision making powers over inorganic strategic opportunities during the year including the approved of related third party expenses. The Board oversaw the approach of working through Covid-19 social distancing requirements and finished the year by approving a new corporate plan, incorporating a conservative economic outlook.
Audit	The Audit Committee started the financial year reviewing and recommending to the Board the Financial Statements. During the course of the year it provided challenge and oversight of the Compliance Monitoring and Internal Audit programme. The Committee commissioned an independent Internal Audit Quality assessment which concluded that the work of Internal Audit generally conforms to standards and guidelines from Institute of Internal Auditors and that they are satisfied with the level of internal audit resources. Following the appointment of Deloitte as auditor for the year commencing 1 October 2020, the comprehensive audit plan was reviewed and agreed. The Committee concluded that the Internal Audit function remained effective and the external auditor's were independent and effective. The Audit Committee provided ongoing challenge and oversight of Castle Trust Bank's impairment modelling in light of continued economic uncertainty relating to the Covid-19 pandemic. The Audit Committee reviewed the going concern assessment and other key accounting judgments, estimates and policies as detailed in Notes 2.3 and 2.4 in the notes to the accounts.
Nomination	During the year the committee kept under review the composition and performance of the board and executive management teams and their succession plans.
Remuneration	The Remuneration Committee oversaw the administration of the LTIP Scheme, Gender Pay Gap Analysis and the SMCR regime. The Committee approved the new balanced scorecard approach to performance review and also undertook its usual role in the oversight of appraisals, pay rises and bonuses.
Risk	The Risk Committee started the year with additional workshops to review macro-economic stress testing – reflecting the high level of economic uncertainty at the time. In the first formal meeting it focused upon Climate Change and a 3rd Party review of IFRS 9 model effectiveness. The 2nd meeting undertook a review of the Recovery Plan. Subsequent meetings covered a wide variety of topics including but not limited to credit performance by sector, interest rate risk (and implementation plan for hedging capability), liquidity risk (and implementation plan for Sterling Monetary Framework access), data strategy, Covid-19 forbearance and Vulnerable Customers. The Risk Committee ended the year reviewing the Liquidity stress testing framework and the overall Risk Management Framework & plans to enhance it over the next year. Throughout the year the committee monitored the performance and impact of short-dated property loans as they approached maturity; reviewing the impact upon forbearance, collections activity and capital requirements as borrower's loans matured during periods of disruption in the housing market. During the year, the Risk Committee, in line with the credit mandate structure, specifically considered credit approvals for the largest Property and Omni credit concentrations.

Attendance

The table below shows the attendance of members at their respective committee. Other Castle Trust Bank colleagues are invited to attend committees as non-voting members.

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Richard Pym	11/11		3/3	4/4	6/6
Eric Anstee	11/11	6/6			6/6
Marian Martin	11/11	6/6			6/6
Andrew Doman	11/11		3/3	4/4	6/6
Melba Montague	11/11	6/6			
Tim Hanford	9/11	6/6	2/3	3/4	4/6
Martin Bischoff	11/11				
Paul Lloyd-Jones	11/11				
Tughan Alioglu	11/11				

Directors' Report

The directors present their report of the consolidated financial statements of Castle Trust Holdings Limited (the "Group", "Castle Trust Bank" or the "Bank") incorporating the individual financial statements for Castle Trust Holdings Limited (the "Company") for the year ended 30 September 2021.

Throughout these financial statements, "Castle Trust Bank" is used to as a term that captures all operational activity of the Group. This is principally the property lending and deposit taking activities of CTC and the point of sale consumer lending activities of Omni Capital Retail Finance Limited ("Omni").

Directors

Details of directors who served during the year and up to the date of signing are provided on page 3.

Regulatory environment

CTC, which has been awarded a banking licence, is regulated by the PRA and FCA. Omni (with respect to consumer credit only) is authorised and regulated by the FCA.

Results and dividends

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 57. The Group has made a profit before tax in the current financial year of £3.6 million (2020: £0.8 million).

The directors do not recommend the payment of a dividend (2020: £nil). Please refer to Note 23 for details of share capital.

Financial risk management and exposure to risk

The Group measures and monitors risk on a regular basis and formally reviews its risk position at the Risk Committee every quarter. The main financial risk to which the Group is exposed to as at 30 September 2021 is credit risk as set out in the Risk Management Report. The Group is also exposed to other market risks (primarily interest rate risk and house price risk) and liquidity risk as these risks are inherent in the business. Each of these risks are regularly measured and monitored, and appropriately managed. Refer to the strategic report on page 11 and Note 21 for full details.

The Risk Function helps to set risk appetite, develops an appropriate risk management framework and oversees exposures. It is independent of the business areas responsible for managing these risks and has direct access to the Risk Committee responsible for setting and oversight of risk strategy and policies. The Risk Committee (which has formally met 6 times during the financial year with a number of ad-hoc discussions and workshops held in addition to address specific issues) has delegated various decision making and monitoring responsibilities to the following executive committees: the monthly Credit Risk Committee, the monthly Customer and Operational Risk Committee, and the Credit Approval Committee.

Principle risks and uncertainties

The principal risks of the business have been defined as Risk Groups in the Risk Management Report on page 31 which details the oversight and mitigation the company has undertaken.

Principal uncertainties are defined as Emerging Risks in the Risk Management Report on page 34.

Going concern assessment

The consolidated financial statements of Castle Trust have been prepared on a going concern basis. In assessing whether the going concern assumption remains appropriate for the Group, the directors have focussed on the liquidity and funding position for the next 12 months.

The Group is strongly capitalised with total equity of £95.2 million, total assets of £666.5 million and liquidity of £76.9 million.

The Group undertakes an annual Individual Capital Adequacy Assessment Plan ("ICAAP") and Individual Liquidity Adequacy Assessment ("ILAAP") which assess the group capital and liquidity position over a 4 year time horizon. Stress scenarios are applied to a base case financial plan, the outcomes of which determine the level of capital and liquidity required to be maintained by the Group incorporating additional conservative buffer levels set by the Board.

The stress scenarios applied assume a severe downturn against these forecasts. For capital purposes the following assumptions were applied:

- Significant increase in unemployment and a reduction in house prices greater than base case forecast levels which in turn increase credit losses and impairments.
- Large one-off losses on the property portfolio.
- Significant deposit system failure results in lower customer retention and originations.
- Climate change event resulting in material losses
- One off idiosyncratic cost event which drives down profitability.
- High inflation and volatile interest rate environment.

For liquidity stress scenarios, the following was considered:

- No new deposits raised for a 60 and 90 day period.
- Material reduction in the reinvestment rate and an increase in ISA early withdrawals.
- Significant haircuts applied to contractual repayments from property and consumer finance balances.

To each of these stress scenarios, management actions were considered to assess the Group's response.
These actions included:

- Tightening of risk appetite in response to worsening credit environment.
- Flexible pricing on deposit products to respond to liquidity needs.
- Tighter cost control in line with reduced revenue to maintain profitability.

Furthermore, a reverse stress scenario was performed that considers similar risk drivers in more severe but less plausible scenarios, which if unmitigated would render the business model unviable. The directors consider the possibility of this outcome to be remote and have identified mitigation that would be adopted in such circumstances.

The ability of the Group to attract new savings customers is continuously assessed, together with sensitivity analysis on potential changes in the interest rate offered on new fixed term deposits which may occur as a result of changes in the macro economic environment and alternative rates available in the market. The Group is further diversifying its sources of funding with access to the Bank of England's Sterling Monetary Framework and the offering of its deposit products through financial intermediaries expected in early 2022.

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 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 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.

Events since the balance sheet date

No significant adjusting or non-adjusting events after the reporting date have been identified. Please refer to Note 31.

Capital management

CTC is regulated by the Financial Conduct Authority ("FCA") and Prudential Regulatory Authority ("PRA") and is subject to the requirements of the Capital Requirements Regulation which governs capital levels. Regulatory capital requirements are monitored as part of the overall management of capital, with Key Risk Indicators assigned and monitored for regulatory capital ratios. Omni is also subject to FCA regulation over its consumer credit activities.

Capital management disclosures, to the extent they are not included in the financial statements are published in a Supplementary Regulatory Capital and Remuneration Disclosure on Castle Trust Bank's website (www.castletrust.co.uk).

Future Developments

Despite the challenges facing the UK economy and financial services sector following the Covid-19 pandemic, Castle Trust Bank remains well capitalised with significant levels of surplus liquidity. This robust balance sheet will enable the Bank to pursue its growth plan and to be in a strong position to engage in strategic opportunities were they to arise in the market.

Streamlined Energy and Carbon Report Regulations ("SECR") disclosure

The SECR disclosure presents the Group's carbon footprint, together with an appropriate intensity metric and total energy use of electricity and gas. For shared premises spaces, the Group receives an allocation of energy usage based on gross internal floor area. All emissions are Scope 2.

	2021	2020
Gross Internal Floor Area (m^2)	1,416	1,416
Scope 2 emissions and indirect energy use (kWh) - Energy use of purchased electricity	93,672	99,881
Emissions and energy use totals		
Absolute emissions (kg CO_2e)	21,839	23,286
Total energy use (kWh)	93,672	99,881
Intensity measures		
Emissions per m^2 gross internal area ($kgCO_2e/m^2/year$)	15.42	16.45
Energy use per m^2 gross internal area ($kWh/m^2/year$)	66.22	70.54

During the year initiatives to reduce the Group's carbon footprint were undertaken including a review of energy consumption, reduction in paper usage and implementation of proposals from the Group's "Community and Green Team", a committee of colleagues responsible for ensuring sustainable business practices are implemented and promoted.

Government grants

In the prior year, the Group took advantage of the Government furlough scheme following the reduction in economic activity because of the Covid-19 pandemic.

Political contributions and donations

The Group has made no political contributions or donations during the year.

Branches outside the UK

The Group has no branches outside the UK.

Directors' indemnity and directors & officers liability insurance

The Group maintains a qualifying directors and officers liability insurance policy. In accordance with the Group's Articles of Association, the Board may also indemnify a director from the assets of the Group 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 Group 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 Group's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Appointment of Auditors

After undertaking a competitive tender process, the Board selected Deloitte to provide the Group with audit services for the financial period commencing 1 October 2020. Deloitte replaced EY who performed audit services for the prior year.

Deloitte have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be considered at the next Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

Andrew Macdonald
Company Secretary
24 January 2022

Statement of Directors’ Responsibilities

The directors are responsible for preparing the strategic report, the directors’ report, and the consolidated 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 consolidated financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

In preparing the consolidated financial statements the directors are required to:

- present fairly these financial positions, financial performance and cash flows of the Group;
- 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 international accounting standards in conformity with the requirements of the Companies Act 2006 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s financial position and financial performance;
- state whether the Group’s financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 Group and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

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

Financial Statements

Castle Trust Bank

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Castle Trust Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity 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.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 group's and the parent 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 group or the parent 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included Prudential Regulation Authority (PRA) Rulebook and Financial Conduct Authority (FCA) Handbook.

We discussed among the audit engagement team including relevant internal specialists, such as tax, credit, valuations, regulatory, economic, real estate, IT and analytics and modelling specialist, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- The assessment of expected credit loss (ECL) on loans to customers involves significant management judgement surrounding identification of significant increase in credit risk (SICR), macroeconomics assessment, cure rate and hair-cut rate assumption, and collateral valuations used in individually assessed loans. We challenged these fraud risks through the following procedures
  - › We assessed the appropriateness of SICR assumption for a sample of loans to determine whether these have been appropriately allocated to the correct staging in accordance with the group's staging criteria.
  - › With the support of our economic specialists, we assessed and challenged the group's assessment of economic scenarios considered and probability weightings assigned to them in the light of the economic position as at 30 September 2021.
  - › We recalculated cure rate and hair-cut assumption observed on recent default cases and compared it against the rates in determining ECL provision.
  - › Supported by our real estate specialists, we challenged collateral valuation for a sample of individually assessed loans.

- Effective interest rate (EIR) is a complex area and involves significant management judgement in respect of conditional prepayment rate (CPR) curves used in estimating behaviour lives on property mortgage portfolio and amortisation of subsidy fee for unsecured consumer loans (Omni portfolio). We challenged these fraud risks through the following procedures
  - With the support of our internal modelling specialists, we independently developed a CPR curve for the portfolios using the Group's historic repayment data.
  - For a sample of loans, we estimated the proportion of subsidy fee amortised during the period using management's simplified approach. We also independently estimated the amortised cost and interest income for a sample of loans using the effective interest rate method and compared it against the outstanding loan balance and interest income recorded in general ledger.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of Boards and other committees, reviewing internal audit reports and reviewing correspondence with Financial Conduct Authority and Prudential Regulation Authority.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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 parent company 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.

We have nothing to report in respect of these matters.

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.

Atif Yusuf

Atif Yusuf FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24 January 2022

Castle Trust Bank

Consolidated statement of comprehensive income

For the year ended 30 September 2021

	Notes	Group 2021 £'000	Group 2020 £'000
Interest and similar income	3	**47,254**	54,336
Interest and similar expense	4	**(12,271)**	(20,153)
Net interest income		**34,983**	34,183
Fees and commission income		**736**	786
Fees and commission expense		**(48)**	(575)
Realised / unrealised (loss) / gain on financial instruments at fair value through profit or loss	5	**(1,328)**	615
Total operating income		**34,343**	35,009
Administrative expenses	6	**(25,710)**	(24,709)
Impairment losses	11	**(2,698)**	(7,210)
Depreciation and amortisation	13, 15	**(2,291)**	(2,271)
Total operating expenses		**(30,699)**	(34,190)
Profit before tax		**3,644**	819
Corporation tax credit / (charge)	7	**12,277**	(21)
Total profit		**15,921**	798
Other comprehensive income			
Items not reclassified to profit or loss in subsequent periods			
Fair value of own credit risk changes of financial liabilities at FVPL		**(4)**	(4)
Total other comprehensive (expense) / income for the period		**(4)**	(4)
(Loss) / profit for the period attributed to:			
Non-controlling interests	14	**-**	8
Equity holders of the parent		**15,921**	790
Total profit		**15,921**	798
Total comprehensive (expense) / income for the period attributed to:			
Non-controlling interests		**-**	8
Equity holders of the parent		**15,917**	786
Total comprehensive income		**15,917**	794

The results for all years presented comprise continuing operations.

Notes on pages 64 to 120 are an integral part of these financial statements.

Castle Trust Bank

Consolidated and Company statement of financial position

Registered number: 12161224

As at 30 September 2021

Assets	Notes	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Cash and cash equivalents	8	**56,858**	36,861	**-**	-
Debt instruments	9	**19,999**	116,918	**-**	-
Trade and other receivables	10	**974**	1,032	**-**	-
Loans to customers					
At amortised cost	11	**563,438**	572,336	**-**	-
Designated at fair value through profit or loss	12	**4,474**	5,506	**-**	-
Prepayments		**1,580**	2,063	**-**	-
Deferred tax	7	**12,464**	-	**-**	-
Property and equipment and right-of-use assets	13	**1,450**	1,939	**-**	-
Investment in subsidiaries	14	**-**	-	**81,497**	81,497
Intangible assets	15	**5,230**	5,454	**-**	-
Total assets		**666,467**	742,109	**81,497**	81,497
Liabilities					
Trade and other payables	16	**11,971**	11,500	**-**	-
Provisions for liabilities	17	**614**	394	**-**	-
Amounts due to customers					
At amortised cost	18	**557,396**	649,535	**-**	-
At fair value through profit or loss	19	**1,317**	1,444	**-**	-
Total liabilities		**571,298**	662,873	**-**	-
Equity					
Share capital	23	**81,497**	81,497	**81,497**	81,497
Capital contribution		**57,916**	57,916	**-**	-
Equity share based payment reserve	23	**171**	155	**-**	-
Own credit revaluation reserves		**33**	37	**-**	-
Retained earnings		**(44,448)**	(60,369)	**-**	-
Issued capital and reserves attributable to owners of the parent		**95,169**	79,236	**81,497**	81,497
Non-controlling interests	14	**-**	-	**-**	-
Total equity		**95,169**	79,236	**81,497**	81,497
Total equity and liabilities		**666,467**	742,109	**81,497**	81,497

Notes on pages 64 to 120 are an integral part of these financial statements.

There were no transactions during the current year and prior year and accordingly the profit for the year of £nil (2020: £nil) is attributable to the Company.

The financial statements were approved by the Board of directors and authorised for issue on 24 January 2022 and were signed on its behalf by:

Martin Bischoff
Director
24 January 2022

Consolidated statement of changes in equity

For the year ended 30 September 2021

	Share capital £'000	Other reserve £'000	Equity settled share based payment reserve £'000	Own credit revaluation reserves £'000	Retained earnings £'000	Total equity £'000
At 1 October 2020	**81,497**	**57,916**	**155**	**37**	**(60,369)**	**79,236**
Total profit	-	-	-	-	**15,921**	**15,921**
Other comprehensive income						
- Fair value of own credit risk changes of financial liabilities at FVPL	-	-	-	**(4)**	-	**(4)**
Total comprehensive income	-	-	-	**(4)**	**15,921**	**15,917**
Equity settled share based payment reserve			**16**			**16**
At 30 September 2021	**81,497**	**57,916**	**171**	**33**	**(44,448)**	**95,169**

For the year ended 30 September 2020

		Share capital £'000	Share Premium £'000	Other reserve £'000	Equity settled share based payment reserve £'000	Own credit revaluation reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1 October 2019		13,212	106,147	-	-	41	(61,159)	58,241	(8)	58,233
Group Reserves reorganisation								-		-
Cancellation of reserves in old group		(13,212)	(106,147)					(119,359)		(119,359)
Recognition of reserves in new group		61,443		57,916				119,359		119,359
Total profit / (loss) for the year		-	-	-	-	-	790	790	8	798
Other comprehensive income										
Fair value of own credit risk changes of financial liabilities at FVPL		-	-	-	-	(4)	-	(4)	-	(4)
Total comprehensive income		-	-	-	-	(4)	790	786	8	794
Equity settled share based payment reserve					155			155		155
Issue of share capital	23	20,054	-	-	-	-	-	20,054	-	20,054
At 30 September 2020		81,497	-	57,916	155	37	(60,369)	79,236	-	79,236

Castle Trust Bank

Company statement of changes in equity

For the year ended 30 September 2021

	Share capital £'000	Retained earnings £'000	Other Reserve £'000	Total £'000	Total equity £'000
At 1 October 2020	**81,497**	**-**	**-**	**81,497**	**81,497**
At 30 September 2021	**81,497**	**-**	**-**	**81,497**	**81,497**

For the year ended 30 September 2020

		Share capital £'000	Retained earnings £'000	Other Reserve £'000	Total £'000	Total equity £'000
At 1 October 2019		-	-	-	-	-
Issue of share capital	23	81,497	-	0	81,497	81,497
Excess of consideration for investment in subsidiary over fair value				5,301	5,301	
Impairment of investment in subsidiary				(5,301)	(5,301)	
At 30 September 2020		81,497	-	0	81,497	81,497

Notes on pages 64 to 120 are an integral part of these financial statements.

Consolidated and Company statement of cash flows

For the year ended 30 September 2021

Cash flows from operating activities	Notes	Group 2021 £'000	Group 2020 (Restated) £'000
Profit before tax		3,644	819
Adjustments for non-cash items:			
Depreciation and amortisation	13, 15	2,295	2,271
Loss on disposal of intangible assets/Property and equipment	13, 15	78	122
P&L interest charged on deemed payable		-	536
Interest on lease liabilities		52	80
Share-based payment expense	27	16	155
Impairment losses	11	3,020	7,210
Fair value losses / (gains) on loans to customers at fair value	12	1,032	(742)
Fair value losses on amounts due to customers at fair value	19	154	74
Changes in operating assets and liabilities:			
Decrease in trade and other receivables (excluding corporation tax receivable)		58	843
Decrease in loans to customers at amortised cost		5,877	30,936
Decrease / (increase) in prepayments		483	(1,091)
Increase in trade and other payables (excluding corporation tax payable and lease liability)		586	4,756
Decrease in loans to customers at fair value		-	564
(Increase) in amounts due to customers at fair value		(285)	(2,070)
(Decrease) in amounts due to customers at amortised cost		(92,139)	(61,593)
Increase in provisions for liabilities		220	20
Net cash generated from / (used in) operating activities		(74,909)	(17,110)
Cash flows from investing activities			
Purchase of intangible assets		(1,588)	(3,432)
Proceeds from fixed deposits		-	14,926
Purchase of property and equipment		(72)	(116)
Disposal / (purchase) of debt instruments		96,919	(116,918)
Net cash generated from / (used in) investing activities		95,259	(105,540)

Consolidated and Company statement of cash flows

For the year ended 30 September 2021 - continued

Cash flows from operating activities	Notes	Group 2021 £'000	Group 2020 (Restated) £'000
Cash flows from financing activities			
Proceeds from issue of share capital	23	-	20,054
Interest paid on debt securities - Senior loan		-	(536)
Lease interest paid		(52)	(80)
Lease payment of principal		(301)	(276)
Net cash generated from / (used in) financing activities		(353)	19,162
Net increase / (decrease) in cash and cash equivalents		19,997	(103,488)
Cash and cash equivalents at beginning of the year		36,861	140,349
Cash and cash equivalents at end of the year	8	56,858	36,861

The amount of undrawn borrowing facilities that may be available in the future for operating activities and settling capital commitments is £nil (2020: £nil).

The Company did not have a bank account in the year and consequently no cash flow statement for the Company is presented.

In the current accounting year, the method of preparation of the cash flow required under IAS 7 has been changed from the direct method to the indirect method. The prior year period comparatives have also been restated under the indirect method. Please see Note 2.5.14.

Notes on pages 64 to 120 are an integral part of these financial statements.

Castle Trust Bank

Notes to the consolidated financial statements

For the year ended 30 September 2021

1. Corporate information

Castle Trust Holdings Limited was incorporated on 16 August 2019 to act as a holding company of the CTC group. It is domiciled in the UK and registered in England and Wales as a private company limited by shares. The consolidated financial statements for the year ended 30 September 2021 were authorised for issue in accordance with a resolution of directors on 24 January 2022.

2. Accounting policies

2.1 Basis of preparation

The Group's statutory consolidated financial statements for the year ended 30 September 2021 and the Company's statutory financial statements for the period ended 30 September 2021 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Group has consistently applied the same accounting policies as at 30 September 2021 as in the prior year.

The consolidated financial statements comprise the financial statements of the Group and the subsidiaries that it controls as at 30 September 2021.

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities that are measured at fair value. The consolidated financial statements are presented in sterling which is also the Group and the Company's functional currency and all values are rounded to the nearest one thousand pounds (£'000) except where otherwise indicated.

The Group has taken advantage of the exemption in Section 394A of the Companies Act 2006 not to prepare individual accounts for its dormant subsidiaries and of the exemption in Section 479A of the Companies Act 2006 not to file individual accounts for its dormant subsidiaries. The dormant subsidiaries and their registered numbers are listed in Note 14.

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its own statement of comprehensive income.

2.2 Going Concern

The consolidated financial statements of Castle Trust have been prepared on a going concern basis. In assessing whether the going concern assumption remains appropriate for the Group, the directors have focussed on the liquidity and funding position for the next 12 months.

The Group is strongly capitalised with total equity of £95.1 million, total assets of £666 million and liquidity of £77 million.

The Group undertakes an annual Individual Capital Adequacy Assessment Plan ("ICAAP") and Individual Liquidity Adequacy Assessment ("ILAAP") which assess the group capital and liquidity position over a 4 year time horizon. Stress scenarios are applied to a base case financial plan, the outcomes of which determine the level of capital and liquidity required to be maintained by the Group incorporating additional conservative buffer levels set by the Board.

The stress scenarios applied assume a severe downturn against these forecasts. For capital purposes the following assumptions were applied:

- Significant increase in unemployment and a reduction in house prices greater than base case forecast levels which in turn increase credit losses and impairments.
- Large one-off losses on the property portfolio.
- Significant deposit system failure results in lower customer retention and originations.
- Climate change event resulting in material losses.

For liquidity stress scenarios, the following was considered:

- No new deposits raised for a 60 and 90 day period.
- Material reduction in the reinvestment rate and an increase in ISA early withdrawals.
- Significant haircuts applied to contractual repayments from property and consumer finance balances.

To each of these stress scenarios, management actions were considered to assess the Group's response. These actions included:

- Tightening of risk appetite in response to worsening credit environment.
- Flexible pricing on deposit products to respond to liquidity needs.
- Tighter cost control in line with reduced revenue to maintain profitability.

Furthermore, a reverse stress scenario was performed that considers similar risk drivers in more severe but less plausible scenarios, which if unmitigated would render the business model unviable. The directors consider the possibility of this outcome to be remote and have identified mitigation that would be adopted in such circumstances.

The ability of the Group to attract new savings customers is continuously assessed, together with sensitivity analysis on potential changes in the interest rate offered on new fixed term deposits which may occur as a result of changes in the macro economic environment and alternative rates available in the market. The Group is further diversifying its sources of funding with access to the Bank of England's Sterling Monetary Framework and the offering of its deposit products through financial intermediaries expected in early 2022.

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 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 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.

2.3 Basis of consolidation

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).

- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control.

To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated 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 disclosures 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 periods.

In the process of applying the Group's accounting policies, management has made the following 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 Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

(i) Impairment losses on loans to customers

The Group uses internal models in estimating Expected Credit Loss ("ECL"). Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Judgement is also required in:

- Determining the appropriate segmentation of the Group's portfolio so that the appropriate model is used and the assumptions used in that model have been derived from historic data that is representative of the current portfolio in the current economic climate.
- Identifying which stage a loan is in (for example by determining what constitutes a significant deterioration in credit quality) and the criteria for movement between the stages. Please also see Note 21 for further details surrounding methodology.

Where there is little prospect of a recovery being made for a Stage 3 financial asset, the impairment provision is utilised and the carrying value of the loan is then directly reduced. The impairment loss on loans to customers is disclosed in more detail in Note 11.

(ii) Fair. value measurement of financial assets and liabilities

The Group measures certain financial instruments at fair value through profit or loss. 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from some observable market data but some judgement is required to establish fair values.

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:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value related disclosures for financial instruments that are measured at fair value or amortised cost are disclosed in Note 20.

(iii) 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 procedure, by its nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments.

(iv) Deferred tax assets

The status, measurements and treatment of deferred tax assets recognised in the consolidated financial statements are disclosed in Note 7. The decision to recognise the assets is based on the Group's estimation of profits arising in the short to medium term against which the brought forward losses and temporary differences might be relieved. The status, measurement and treatment of these assets are monitored at each reporting date.

Key sources of estimation uncertainty

The following are key estimations that the directors ha ve used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

(i) Impairment losses on loans to customers

Internal models are used to determine expected Credit Losses ("ECLs") Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD") and forecast economic scenarios.

Key estimates underpinning the models when determining Expected Credit Losses ("ECLs") are explained below:

- **Mortgage Stage 1 and Stage 2 LGD** – the Group uses a number of models to assess the likelihood of a recovery from default and the resulting proceeds from following that recovery. Key estimates for mortgage Stage 1 and Stage 2 accounts are the Cure Rate (the likelihood of a defaulted account resuming payments), the Valuation Haircut (the discount applied to the valuation as a result of a forced sale) and the Time to Sell (the time taken for any collateral of a defaulted mortgage to be sold.
- **Mortgage Stage 3 LGD** – For mortgage accounts which are in default, a specific individual assessment is made of future recoverability. Key estimates in this assessment are the Collateral Valuation and the Valuation Haircut (discount applied to the Collateral Valuation).
- **Omni LGD** – For Omni accounts, the key estimate used in the calculation of the LGD is the Cure Rate (the likelihood of a defaulted account resuming payments).
- **Mortgage and Omni PDs** – the Group uses an economic scenarios model when determining the forward-looking assumptions to be used in different economic scenarios and the weighting of the likelihood of those scenarios. The development of this model requires estimates when assessing the correlations between macroeconomic scenarios and economic inputs (such as unemployment levels and collateral values) and the effect on PDs.

For sensitivity analysis, see Note 21.1.8

(ii) Effective Interest Rate (EIR) method

In calculating the EIR for mortgages, a conditional prepayment rate ("CPR"), being a loan prepayment rate equivalent to the proportion of a loan's principal that is assumed to be paid off ahead of time in each period, is estimated. The calculation of this estimate is based on a number of factors, such as historical prepayment rates for previous loans similar to ones and future economic outlooks. The current calculation uses a 3-year product time window to assess the most appropriate rate to apply. If a 4-year time window were to be used, the amortised cost of mortgage loan balances would reduce by £533k.

(iii) Fair value measurement of financial assets and liabilities

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments.

Estimates include considerations such as liquidity, discount rates and early redemption assumptions.

There is one mortgage designated at fair value retained in the Group as at 30 September 2021 (2020: one mortgage). As the strike date of the embedded House Price Option has passed for this loan, its fair value is no longer sensitive to any changes in inputs into the model and its fair value has been estimated as the amount recoverable. It was moved out of Level 2 and reclassified as Level 3 in the prior year due to a reduction in observable inputs and increased uncertainty in the macroeconomic environment.

Structured deposit liabilities /Housas at fair value are measured using various estimates, principally the movement in the house price index ("HPI") and a house price risk premium. They are classified as level 3 in the fair value hierarchy.

2.5 Significant accounting policies

2.5.1 Interest and similar income

2.5.1.1 *Interest and similar income calculated using EIR*

The Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

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

For acquired loan books the EIR calculated at acquisition is not changed for subsequent variances in actual to expected cash flows. The Group monitors the actual cash flows for each acquired book and where they diverge significantly from expectation, the future cash flows are reset. In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute basis. Where cash flows for an acquired portfolio are reset, they are discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income.

2.5.1.2 Other interest and similar income

Interest income and expense on financial assets and financial liabilities at fair value though profit or loss are presented in the statement of comprehensive income within other interest and similar income, and interest and similar expense, respectively (except for one product named Partnership Mortgages). Interest income and expense is calculated based on similar principles to the EIR basis. Partnership Mortgages differ from the other products in that none of the Partnership Mortgages have a minimum repayment amount or fixed interest rate, and are potentially subject to greater variability given the Group is obliged to make payments to the customer in the event of a fall in valuation of the underlying property, in certain cases.

2.5.2 Fees and commission income and expense

Fee and commission income and expense include fees other than those that are an integral part of EIR. Fee and commission income and expense relate to bank charges, processing costs, pre-completion solicitor's fees, valuation fees, title insurance fees and late payment fees relating to mortgages and consumer loans.

Fee and commission expenses with regards to services are accounted for as the services are received.

2.5.3 Financial assets and liabilities

2.5.3.1 *Initial recognition*

Financial assets and liabilities, with the exception of loans to customers, are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. Loans to customers are recognised when funds are transferred to the customers' accounts.

Financial assets and liabilities are initially measured at their fair value and transaction costs are added to, or subtracted from, this amount, except in the case of financial assets and financial liabilities recorded at Fair Value through Profit or Loss ("FVPL"), where transaction costs are expensed.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instrument as set out below.

2.5.3.2 *Subsequent measurement of financial assets and liabilities*

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either amortised cost, fair value through profit or loss ("FVPL") or fair value through other comprehensive income ("FVOCI").

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL (when they are held for trading, derivative instruments or the fair value designation is applied).

Debt instruments, loans and advances to credit institutions, loans to customers and trade and other receivables

The Group only measures financial instruments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The details of these conditions are outlined below. The Group classifies the following financial assets at amortised cost:

- Loans and advances to credit institutions;
- Loans to customers (for those not accounted for at FVPL as set out below).
- Debt instruments; and
- Trade and other receivables.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective (not on an instrument-by-instrument basis) and is based on observable factors such as:

- How the performance of the business model and the financial assets held are evaluated and reported to keymanagement personnel;
- The risks that affect the performance of the business model and the financial assets held and, in particular, theway those risks are managed;
- How managers of the business are compensated; and
- The expected frequency, value and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

The Solely Payments of Principal and Interest ("SPPI") test

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as early repayment features.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

After initial measurement, these are measured at amortised cost using the 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 calculated using EIR in the statement of total comprehensive income.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities classified in this category include those that have been designated upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9 as further described below.

The Group has only designated an instrument at fair value through profit or loss upon initial recognition when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss.

Amounts due to customers at fair value through profit and loss

- These comprised liabilities to redeemable preference ("Foundation Housas" and "Growth Housas") shareholders and loan note ("Income Housas") holders. In the prior year, the Housas were modified by Schemes of Arrangement and became structured deposits, remaining in this classification.

Historically, loans to customers at fair value through profit or loss included house price linked products: Partnership Mortgages ("PMs"), Index Profit Share mortgages ("IPS") and Buy-to-let equity loans ("BTLEL").

- PMs were only available to owner occupiers with a term of c15 years and more. The repayment amount incorporated a profit/loss share based on any change in the value of the individual's mortgaged property.
- 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.

In 2019, the embedded house price derivatives of all the mortgages designated at fair value through profit or loss were sold to CTC Holdings (Cayman) Limited except for two mortgages which were not sold. In the prior year, the terms and conditions of one of these two loans were amended so that it became substantially remodified. It was thus derecognised from "Designated at fair value" and re-recognised as "At amortised cost." There is consequently one loan left designated at fair value at the year end and no other assets at fair value through profit or loss.

Financial liabilities at amortised cost

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

- Trade and other payables
- Amounts due to customers

These comprise fixed rate customer deposits and, formerly, fixed rate Fortress Bonds liabilities.

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 issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date. The EIR amortisation is included in interest and similar expense in the statement of comprehensive income.

2.5.3.3 *Derecognition*

Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. Please see Note 11. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or Credit Impaired ("POCI").

When assessing whether or not to derecognise a financial asset, amongst others, the Group considers the following factors: introduction of an equity feature; change in counterparty and if the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

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 financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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.

2.5.4 Impairment of financial assets

Financial Instruments

The Group records the allowance for expected credit losses for all financial assets, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss "12m ECL". The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 21.1.

The 12m ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12m ECLs are calculated on an individual basis.

In relation to the Group's wholesale loan relationship, a specific assessment is applied to the total counterparty balance which considers the secured collateral levels, the counterparty guarantee and overall covenant compliance.

The Group has established a policy to perform an assessment, half-yearly, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12m ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit-impaired (as outlined in Note 21.1.2). The Group records an allowance for the LTECLs.

Further details on staging can be found in Note 21.1.4.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Group calculates ECLs based on five probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that are expected to be received.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a 12 month period then extrapolated over the life of each loan.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that are expected to be received, including from the realisation of any collateral.
- Loan commitments: When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the five scenarios. The expected cash shortfalls are discounted at the EIR of the loan.

When estimating the ECLs, the Group considers five scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value. Provisions for ECLs for undrawn loan commitments are assessed as part of the ECL calculation.

Forward looking information

In its ECL models, the Group uses the following forward-looking information as economic inputs:

- GDP growth;
- Unemployment rates;
- Central Bank base rates; and
- House price index.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are material.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as guarantees, real estate, receivables, inventories and other non-financial assets. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and at default with values modelled through the lifetime of the loan.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Write-offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If modifications are substantial, the loan is derecognised, as explained above.

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 6-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of one year has passed from the date the forborne contract was considered performing; and
- Regular payments of more than an insignificant amount of principal or interest have been made during the probation period.

Details of forborne assets are disclosed in Note 21.

Impairment of financial assets other than financial instruments

IFRS 9 allows a simplified approach to assess impairment of other financial assets. The simplified approach allows lifetime expected losses on other financial assets to be recognised without the need to identify significant increases in credit risk. The Group has adopted this simplified approach in its assessment of impairment of other financial assets by determining the appropriate grouping of receivables by product type and rating, determining the period over which historical loss rates are appropriate and then determining the historical loss rates based on the forward looking macro-economic factors identified for the Group. The Group also determined the appropriate PD estimate for other financial assets by reference to publicly available credit ratings, the Loss Given Default by comparison with other similar exposures without eligible collateral and the Exposure at Default by using the outstanding balance at the reporting date.

2.5.5 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.

2.5.6 Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to a cash generating unit. Each unit to which the goodwill is allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

2.5.7 Property and equipment and right-of-use assets

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

- Office and computer equipment: 3 years
- Leasehold improvements: Over the term of the lease
- Right of use assets Over the term of the lease

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the statement of comprehensive income in the year the asset is derecognised.

Right-of-use assets are presented as described in Note 2.5.10.

2.5.8 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Internally generated

In some instances, the Group develops its own operational systems, primarily a suite of systems that allow the Group to operate, record and value its products. These systems are developed in separate releases. The cost of each release can be measured reliably and the future economic benefits can be assessed as certain to flow to the Group.

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the requirements of IAS 38 are met.

In some instances, a number of technical releases are required before the system can be said to achieve the requirements of IAS 38 Intangible Assets, in which case, the related expenses are capitalised as development costs as long as the technical and operational feasibility of the asset has been established. Once the resultant system(s) meets the definition as such under IAS 38, the assets are transferred into the computer software category of intangible assets.

The estimated useful lives are as follows:

- Internally generated software: 5 years

Amortisation of the asset begins when development is complete and the asset is available for use.

Acquired

Intangible assets acquired separately are initially measured at cost. After initial measurement, intangible assets are carried at cost less accumulated amortisation and impairment losses. The estimated useful lives are as follows:

- Acquired software: 3 years

The value that will be derived from acquired computer software is assessed and recognised as an intangible asset where the asset is expected to enhance the Group's future income.

For both internally generated and acquired assets

The Group assesses at the end of each reporting period whether there is any indication that an intangible asset may be impaired via external and internal sources of information. Refer to Note 2.5.12 for further details.

Each asset, or related group of assets, is assessed as to its expected useful life and the expected pattern of benefits to the Group over that period. Each asset is amortised on a systematic (straight line) basis and the amortisation share is recorded in depreciation and amortisation. Research and development costs are not amortised until the resultant system has met the criteria of a computer system and has been transferred into that category.

2.5.9 Provisions

Provisions are recognised when the Group 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 statement of comprehensive income net of any reimbursement. A contingent liability is disclosed where this is not probable but more likely than remote.

2.5.10 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group does not act as a lessor.

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less and accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less and lease incentives received. Right-of-use assets are depreciated in a straight-line basis over the lease term.

The right-of-use assets are presented within Note 13 Property and equipment and right-of-use assets and are subject to impairment in line with the Group's policy as described in Note 2.5.12 Impairment of non-financial assets.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

There were no concessions, payment holidays or breaches of lease contract as a result of the Covid-19 pandemic.

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

The average lease term is 5.8 years.

2.5.11 Taxes

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 and 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 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 differences 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 the 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 related to the same taxable entity and the same taxation authority.

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

2.5.12 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

Both internal and external sources of information have been used to assess impairment. As a result of the continued uncertainty as to recoverable amounts in the light of the pandemic, the Group continues to monitor the impairment of non-financial assets closely.

2.5.13 Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in staff costs, together with a corresponding increase in equity (retained earnings), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of shares that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The Covid-19 pandemic has had no material impact on the probability of satisfying non-market performance vesting conditions over the vesting period under share-based payment arrangements.

2.5.14 Voluntary change in accounting policy

In the current accounting year, the method of preparation of the cash flow required under IAS 7 has changed from the direct method to the indirect method. The prior year period comparatives have also been restated under the indirect method.

The reason for the change in method of preparation is to bring the presentation of the cash flow into line with the standard presentation of peers within the banking industry.

The change in method of preparation only effects the presentation of net cash generated from operating activities showing this amount by way of adjustment of profit for non-cash items and changes in operating assets and liabilities rather than as gross operating cashflows. The accounting policy change also resulted in certain classification changes in the statement of cash flows.

2.6 New and amended standards and interpretations

Several amendments and interpretations apply for the first time in 2021, but do not have an impact on the Group's consolidated financial statements.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2021, unless otherwise stated. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2.7 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 Group's consolidated financial statements do not affect the Group. The Group does not intend to adopt these standards early, so they will be adopted in the relevant year of mandatory adoption.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients: A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest; Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

There are other standards and amendments that will apply in future periods but which will also not have an impact on the Group:

New or amended standard or interpretation	Effective date – for annual periods beginning on or after
Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3 (May 2020) Reference to Conceptual Framework	1 January 2022
Amendments to IAS 1 Classification of liabilities as current or non-current and Classification of Liabilities as Current or Non-current- Deferral of Effective Date	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2023
Amendments to IAS 8 Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 17 (including the June 2020 Amendments to IFRS 17) Insurance Contracts	1 January 2023

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

3. Interest and similar income

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

	Group 2021 £'000	Group 2020 £'000
Interest and similar income calculated using EIR		
Loans to customers		
- Property Loans	**30,402**	37,270
- Wholesale Loans	**717**	1,648
- Consumer Loans	**16,098**	14,495
	47,217	53,413
Other interest and similar income		
Debt instruments	**35**	923
Bank of England interest	**2**	-
	37	923
Total interest and similar income	**47,254**	54,336

4. Interest and similar expense

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

	Group 2021 £'000	Group 2020 £'000
Interest on Fortress Bonds on an EIR basis	**-**	15,540
Interest on Customer Deposits	**12,187**	4,249
Interest expense on financial liabilities at fair value through profit or loss: Housas	**32**	6
Interest expense on leases	**52**	80
Other interest expense	**-**	278
Total interest and similar income	**12,271**	20,153

5. Realised and unrealised gain / (loss) on financial instruments at fair value through profit or loss

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

5.1 Realised gains / (losses)

	Group 2021 £'000	Group 2020 £'000
Net realised loss on financial liabilities designated at fair value through profit or loss	**(84)**	(678)
Net realised loss on financial instruments at fair value through profit or loss	**(84)**	(678)

5.2 Unrealised gains / (losses)

	Group 2021 £'000	Group 2020 £'000
Net unrealised (loss) / gain on financial assets designated at fair value through profit or loss	**(1,086)**	891
Net unrealised (loss) / gain on financial liabilities designated at fair value through profit or loss	**(158)**	402
Net unrealised (loss) / gain on financial instruments at fair value through profit or loss	**(1,244)**	1,293
Total realised/ unrealised (loss)/gain on financial instruments at fair value through profit or loss	**(1,328)**	615

Gains and losses for financial liabilities relate to fair value movements on structured deposits. Gains and losses on financial assets related to fair value movements on mortgages held at fair value.

6. Administrative expenses

The following tables summarise the components of staff and other administrative expenses:

Staff expenses	Group 2021 £'000	Group 2020 £'000
Wages and salaries	**12,808**	12,194
Social security costs	**1,238**	1,327
Company contributions to defined contribution pension plan	**410**	365
Termination costs	**-**	-
Other personnel costs	**557**	718
Total staff expenses	**15,013**	14,604

Other operating expenses	2021 £'000	2020 £'000
Advertising and marketing	**367**	251
Professional fees	**3,080**	3,851
Rental charges paid under operating leases	**-**	-
Non-recoverable VAT expense	**1,799**	1,829
Bank charges and similar expense	**290**	250
Other operating expenses	**5,161**	3,924
Total operating expenses	**10,697**	10,105
Total administrative expenses	**25,710**	24,709

The Group operates a defined contribution pension plan for eligible employees and contributes 4.5% of an employee's salary.

Administrative expenses increased in the year primarily due to additional software licencing costs required to support the new savings platform. Included within professional fees are the costs of contractors of £177k (2020: £1,091k).

There are no staff costs in the Company.

Included within professional fees are the following expenses related to services provided by the Group's auditors:

	2021 £'000	2020 £'000
Audit of the Company's statutory financial statements	**120**	80
Non-audit services:		
Audit related assurance services	**-**	-
Total company auditors' remuneration	**120**	80
Subsidiaries		
Audit of the Group subsidiaries' statutory financial statements	**655**	690
Non-audit services:		
Audit related assurance services of Group subsidiaries	**30**	100
Total Subsidiary auditors' remuneration	**685**	790
Total Group auditors' remuneration	**805**	870

6.1 Employee numbers

The following table summarises the monthly average number of people employed by the Group during the year.

Other operating expenses	2021 Number	2020 Number
Monthly average number of people employed in:		
Legal, compliance and risk	**21**	18
Sales and marketing	**27**	33
Operations	**154**	158
Monthly average number of people employed during the year	**202**	209

There are no employees of the Company.

6.2 Key management compensation

The Company considers that directors and members of the Executive Committee of the Company meet the definition of key management. The following table presents key management excluding directors as director's compensation is set out separately below. The following table summarises key management personnel's compensation apportioned to the Company.

Company	2021 £'000	2020 £'000
Compensation of key management personnel:		
Short-term employee benefits	**295**	161
Post-employment benefits	**7**	9
	302	170

The total aggregate key management compensation for all legal entities in the Group is as follows:

Company	2021 £'000	2020 £'000
Compensation of key management personnel:		
Short-term employee benefits	**1,976**	1,337
Post-employment benefits	**44**	73
	2,020	1,410

6.3 Directors' remuneration

The directors of the Company are also directors of other group undertakings. The directors received their total remuneration from the Group, as disclosed below, and have estimated an apportionment of this to each entity in the Group. The following table summarises the directors' remuneration allocated to the Company.

Company	**2021 £'000**	2020 £'000
Aggregate remuneration in respect of qualifying services	**317**	106
Highest paid director's remuneration	**126**	22
Company contributions to defined contribution pension plan	**-**	-

The total aggregate director remuneration for all legal entities in the Group is as follows:

Group	**2021 £'000**	2020 £'000
Aggregate remuneration in respect of qualifying services	**1,569**	1,575
Highest paid director's remuneration	**708**	707
Company contributions to defined contribution pension plan	**-**	-

Included within directors' remuneration are amounts of £nil (2020: £nil) as compensation for loss of office.

7. Corporation tax

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.

Total tax

	Group 2021 £'000	Group 2020 £'000
Current tax	**187**	21
Deferred tax (credit) / charge	**(12,464)**	-
Total tax	**(12,277)**	21
Accounting profit / (loss) before tax	**3,644**	819
UK corporation tax at 19% (2020: 19%)	**692**	156
Adjustment to reflect deferred tax movements in the period to the current tax rate	**-**	-
Income not taxable	**(67)**	(26)
Disallowable expenses	**353**	-
Deferred tax	**(13,255)**	(109)
Total tax (credit) / charge	**(12,277)**	21

The following table shows the deferred tax recorded in the consolidated statement of financial position and changes recorded in corporation tax expense:

Deferred tax

	Group 2021 £'000	Group 2020 £'000
As at 1 October	**-**	-
Recognised in profit and loss during the year	**(12,464)**	-
At 30 September	**(12,464)**	-

Analysis of deferred tax asset

	Group 2021 £'000	Group 2020 £'000
Losses	**(11,552)**	(2,175)
Other temporary differences	**(914)**	2,175
Fixed asset differences	**2**	-
At 30 September	**(12,464)**	-

A deferred tax asset in respect of corporation tax losses is recognised based on the expected utilisation of the loss against forecast profits based on the group's current business plan for the period up to 30 September 2025.

Group

As at 30 September 2021, the Group had trading losses of £11,552k, short term timing differences of £914k and decelerated capital allowances of £(2k) (2020: £426k). The Group has limited the recognition of deferred tax to the value of four years forecasted profit; hence deferred tax has not been recognised on £4,146k of those losses. A deferred tax asset of £12,464k has thus been recognised.

In 2021, a net deferred tax liability had arisen at consolidation totalling £404k (2020: £2,175k asset) due to consolidation adjustments. The deferred tax liability has been offset against the unrecognised deferred tax asset arising from losses resulting in a net deferred tax balance on consolidation of £12,464k (2020: £nil).

Company

As at 30 September 2021, the Company had total trading losses of £nil short term timing differences of £nil and decelerated capital allowances of £nil in respect of which no deferred tax asset has been recognised.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax asset at 30 September 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences. Deferred tax is calculated using the rate expected to apply when the relevant timing differences are forecast to unwind.

8. Cash and cash equivalents

Cash and cash equivalents consist of loans and advances to central banks and loans and advances to banks.

The following table sets out each component of cash and cash equivalents.

	Group 2021 £'000	Group 2020 £'000
Loans and advances to central banks	**18,502**	-
Loans and advances to banks	**38,356**	36,861
Total cash and cash equivalents	**56,858**	36,861

Loans and advances to central banks constitute balances held with the Bank of England.

Loans and advances to banks constitute balances held with NatWest and HSBC to facilitate operating requirements.

The carrying value of loans and advances to central banks and to banks approximate to fair value

9. Debt instruments

Group	2021 £'000	2020 £'000
Treasury Bills and Gilts	**19,999**	106,911
Certificates of deposit	**-**	10,007
Total debt instruments	**19,999**	116,918

Investment securities comprise Treasury Bills, Gilts and Certificates of Deposit held at amortised cost.
The carrying value of these balances approximates to fair value

10. Trade and other receivables

The following table sets out carrying amount of trade and other receivables:

Group	2021 £'000	2020 £'000
Trade and other receivables	**2,465**	3,546
Impairment	**(1,491)**	(2,514)
	974	1,032

Trade and other receivables Gross	**Other trade and other receivables £'000**	**Retailer debtors £'000**	**Total £'000**
Gross carrying amount as at 1 Oct 2020	**898**	**2,648**	**3,546**
New assets originated or purchased	**-**	**796**	**796**
Recoveries	**-**	**(595)**	**(595)**
Amounts written off	**-**	**(1,219)**	**(1,219)**
Net Movement	**(63)**	**-**	**(63)**
Total gross carrying amount at 30 September 2021	**835**	**1,630**	**2,465**

Trade and other receivables ECL	**Other trade and other receivables £'000**	**Retailer debtors £'000**	**Total £'000**
At 1 Oct 2020	**-**	**2,514**	**2,514**
New assets originated or purchased	**-**	**286**	**286**
Recoveries	**-**	**(135)**	**(135)**
Amounts written off	**-**	**(1,174)**	**(1,174)**
Total gross carrying amount at 30 September 2021	**-**	**1,491**	**1,491**

Trade and other receivables Gross	Other trade and other receivables £'000	Retailer debtors £'000	Total £'000
Gross carrying amount as at 1 Oct 2019	1,489	3,278	4,767
New assets originated or purchased	-	705	705
Recoveries	-	-	-
Amounts written off	-	(1,335)	(1,335)
Net Movement	(591)	-	(591)
Total gross carrying amount at 30 September 2020	898	2,648	3,546

Trade and other receivables ECL	Other trade and other receivables £'000	Retailer debtors £'000	Total £'000
At 1 Oct 2019	-	2,892	2,892
New assets originated or purchased	-	967	967
Amounts written off	-	(1,345)	(1,345)
Total gross carrying amount at 30 September 2020	-	2,514	2,514

Retailer debtors represent balances owed by Omni retail partners. The carrying value of these balances approximates to fair value.

The significant write off in the year relates to retailers who had experienced financial difficulty in prior periods and have now completed the administration or corporate wind-up process. The majority of this balance was fully provided for in the prior year.

The fair value of trade and other receivables approximates to the carrying value as presented in the statement of financial position as the receipt of the related cash is not more than three months from the date of the recognition of the asset and is not subject to significant credit risk.

11. Loans to customers at amortised cost

Loans to customers at amortised cost comprise property loans (Serviced and Interest Roll Up mortgages, RDF loans) and the fixed income component of all house price linked loans), wholesale loans and consumer loans.

The following table sets out the carrying value of loans to customers by product type.

Group	Amortised Cost 30 September 2021 £'000	Gross 30 September 2021 £'000	ECL 30 September 2021 £'000
Consumer loans	165,261	179,031	(13,770)
Wholesale lending	3,654	3,654	-
Property loans	394,523	403,196	(8,673)
Total loans to customers at amortised cost	563,438	585,881	(22,443)

	Amortised Cost 1 October 2020 £'000	Gross 1 October 2020 £'000	ECL 1 October 2020 £'000
Consumer loans	115,604	135,164	(19,560)
Wholesale lending	11,654	11,654	-
Property loans	445,078	452,251	(7,173)
Total loans to customers at amortised cost	572,336	599,069	(26,733)

Movement in impairment provision in year	30 September 2021 £'000	30 September 2020 £'000
Consumer loans	(5,790)	1,160
Wholesale lending	-	-
Property loans	1,500	(2,271)
Total movement in impairment provisions	(4,290)	(1,111)
Write-offs in year		
Consumer loans	9,434	2,205
Property loans	392	5,005
Total impairment losses on loans to customers	5,536	7,210

For fair values, fair value hierarchy classifications, sensitivities and modelling techniques refer to Note 20.

Reconciliation of gross loan and ECL movements in the year

The following tables set out a reconciliation, from the start to the end of the year, of the movement in gross loan balance in the statement of financial position for loans and advances at amortised cost.

Total	Stage 1 Gross £'000	Stage 1 ECL £'000	Stage 2 Gross £'000	Stage 2 ECL £'000	Stage 3 Gross £'000	Stage 3 ECL £'000	Total Gross £'000	Total ECL £'000
Gross carrying amount as at 1 Oct 2020	482,846	(4,851)	50,732	(1,581)	65,491	(20,301)	599,069	(26,733)
New assets originated or purchased	283,124	(3,332)	8,902	(157)	171	(54)	292,197	(3,543)
Assets derecognised or repaid	(290,181)	2,176	(18,832)	641	(28,847)	10,375	(337,860)	13,192
Transfers to Stage 1	2,427	(33)	(2,417)	33	(10)	-	-	-
Transfers to Stage 2	(80,941)	1,187	80,987	(1,194)	(46)	7	-	-
Transfers to Stage 3	(27,101)	2,028	(3,984)	903	31,085	(2,931)	-	-
Amortisation of interest	19,065	-	6,531	-	6,879	-	32,475	-
Change in ECL on commitments	-	144	-	-	-	-	-	144
Impact on period end ECL of exposures transferred between stages during the period	-	310	-	(626)	-	(5,187)	-	(5,503)
Changes in assumptions and model parameters	-	-	-	-	-	-	-	-
Total gross carrying amount at 30 September 2021	389,239	(2,371)	121,919	(1,981)	74,723	(18,091)	585,881	(22,443)

Consumer loans	Stage 1 Gross £'000	Stage 1 ECL £'000	Stage 2 Gross £'000	Stage 2 ECL £'000	Stage 3 Gross £'000	Stage 3 ECL £'000	Total Gross £'000	Total ECL £'000
Gross carrying amount as at 1 Oct 2020	109,659	(2,559)	7,645	(1,210)	17,860	(15,791)	135,164	(19,560)
New assets originated or purchased	185, 941	(3,206)	-	-	-	-	185,941	(3,206)
Assets derecognised or repaid	(138,606)	1,562	(4,362)	559	(9,799)	9,886	(152,767)	12,007
Transfers to Stage 1	1,774	(25)	(1,764)	25	(10)	-	-	-
Transfers to Stage 2	(3,893)	777	3,939	(784)	(46)	7	-	-
Transfers to Stage 3	(2,126)	1,628	(1,109)	880	3,235	(2,508)	-	-
Amortisation of interest	8,207	-	646	-	1,840	-	10,693	-
Change in ECL on commitments	-	89	-	-	-	-	-	89
Impact on period end ECL of exposures transferred between stages during the period	-	47	-	(417)	-	(2,730)	-	(3,100)
Total gross carrying amount at 30 September 2021	160,956	(1,687)	4,995	(947)	13,080	(11,136)	179,031	(13,770)

Wholesale loans	Stage 1 Gross £'000	Stage 1 ECL £'000	Stage 2 Gross £'000	Stage 2 ECL £'000	Stage 3 Gross £'000	Stage 3 ECL £'000	Total Gross £'000	Total ECL £'000
At 30 September 2020	11,654	-	-	-	-	-	11,654	-
New assets originated or purchased	-	-	-	-	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(8,717)	-	-	-	-	-	(8,717)	-
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Amortisation of interest	717	-	-	-	-	-	717	-
Amounts written off	-	-	-	-	-	-	-	-
Total gross carrying amount at 30 September 2021	3,654	-	-	-	-	-	3,654	-

Property loans	Stage 1 Gross £'000	Stage 1 ECL £'000	Stage 2 Gross £'000	Stage 2 ECL £'000	Stage 3 Gross £'000	Stage 3 ECL £'000	Total Gross £'000	Total ECL £'000
Gross carrying amount as at 1 Oct 2020	**361,533**	**(2,292)**	**43,087**	**(371)**	**47,631**	**(4,510)**	**452,251**	**(7,173)**
New assets originated or purchased	**97,183**	**(126)**	**8,902**	**(157)**	**171**	**(54)**	**106,256**	**(337)**
Assets derecognised or repaid	**(142,858)**	**614**	**(14,470)**	**82**	**(19,048)**	**489**	**(176,376)**	**1,185**
Transfers to Stage 1	**653**	**(8)**	**(653)**	**8**	**-**	**-**	**-**	**-**
Transfers to Stage 2	**(77,048)**	**410**	**77,048**	**(410)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(24,975)**	**400**	**(2,875)**	**23**	**27,850**	**(423)**	**-**	**-**
Amortisation of interest	**10,141**	**-**	**5,885**	**-**	**5,039**	**-**	**21,065**	**-**
Change in ECL on commitments	**-**	**55**	**-**	**-**	**-**	**-**	**-**	**55**
Impact on period end ECL of exposures transferred between stages during the period	**-**	**263**	**-**	**(209)**	**-**	**(2,457)**	**-**	**(2,403)**
Total gross carrying amount at 30 September 2021	**224,629**	**(684)**	**116,924**	**(1,034)**	**61,643**	**(6,955)**	**403,196**	**(8,673)**

Reconciliation of impairment movements in prior year

Group	Stage 1 Gross £'000	Stage 1 ECL £'000	Stage 2 Gross £'000	Stage 2 ECL £'000	Stage 3 Gross £'000	Stage 3 ECL £'000	Total Gross £'000	Total ECL £'000
Gross carrying amount as at 1 Oct 2019	499,636	(6,542)	86,989	(2,835)	51,701	(18,467)	638,326	(27,844)
Prior year restatement	-	-	-	-	-	-	-	-
Transfers in staging to adjust opening balances	2,955	2,181	56	89	(3,011)	(2,270)	-	-
New assets originated or purchased	188,423	(3,341)	-	-	-	-	188,423	(3,341)
Drawdowns	-	-	2,446	(50)	277	(123)	2,723	(173)
Assets derecognised or repaid	(212,209)	1,921	(39,231)	956	(23,192)	9,307	(274,632)	12,184
Transfers to Stage 1	22,416	(292)	(15,829)	268	(6,587)	(18)	-	(42)
Transfers to Stage 2	(31,294)	978	32, 223	(1,104)	(929)	126	-	-
Transfers to Stage 3	(15,971)	2,666	(19,335)	1,849	35,306	(4,515)	-	-
Amortisation of interest	28,890	-	3,413	-	11,926	-	44,229	-
Provisions for commitments	-	74	-	(0)	-	-	-	74
Unwind of discount	-	(118)	-	(134)	-	(1,839)	-	(2,091)
Impact on period end ECL of exposures transferred between stages during the period	-	(2,378)	-	(620)	-	(2,502)	-	(5,500)
Total gross carrying amount at 30 September 2020	482,846	(4,851)	50,732	(1,581)	65,491	(20,301)	599,069	(26,733)

Consumer loans	Stage 1 Gross £'000	Stage 1 ECL £'000	Stage 2 Gross £'000	Stage 2 ECL £'000	Stage 3 Gross £'000	Stage 3 ECL £'000	Total Gross £'000	Total ECL £'000
Gross carrying amount as at 1 Oct 2019	97,204	(3,829)	6,623	(1,454)	19,003	(13,117)	122,830	(18,400)
Prior year restatement	-	-	-	-	-	-	-	-
Transfers in staging to adjust opening balances	2,182	1,710	(31)	-	(2,151)	(1,710)	-	-
New assets originated or purchased	120,352	(2,872)	-	-	-	-	120,352	(2,872)
Assets derecognised or repaid	(109,120)	1,204	(3,339)	530	(5,806)	5,045	(118,265)	6,779
Transfers to Stage 1	924	(34)	(878)	31	(46)	3	-	-
Transfers to Stage 2	(6,226)	923	6,319	(949)	(93)	26	-	-
Transfers to Stage 3	(3,214)	2,648	(1,677)	1,430	4,891	(4,078)	-	-
Amortisation of interest	7,557	-	628	-	2,062	-	10,247	-
Provisions for commitments	-	-	-	-	-	-	-	-
Unwind of discount	-	(135)	-	(139)	-	(1,823)	-	(2,097)
Impact on period end ECL of exposures transferred between stages during the period	-	(2,174)	-	(659)	-	(137)	-	(2,970)
Amounts written off	-	-	-	-	-	-	-	-
Total gross carrying amount at 30 September 2020	109,659	(2,559)	7,645	(1,210)	17,860	(15,791)	135,164	(19,560)

Wholesale loans	Stage 1 Gross £'000	Stage 1 ECL £'000	Stage 2 Gross £'000	Stage 2 ECL £'000	Stage 3 Gross £'000	Stage 3 ECL £'000	Total Gross £'000	Total ECL £'000
Gross carrying amount as at 1 Oct 2019	24,699	-	-	-	-	-	24,699	-
New assets originated or purchased	-	-	-	-	-	-	-	-
Assets derecognised or repaid	(14,509)	-	-	-	-	-	(14,509)	-
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Amortisation of interest	1,464	-	-	-	-	-	1.464	-
Net commitments	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Total gross carrying amount at 30 September 2020	11,654	-	-	-	-	-	11,654	-

Property loans	Stage 1 Gross £'000	Stage 1 ECL £'000	Stage 2 Gross £'000	Stage 2 ECL £'000	Stage 3 Gross £'000	Stage 3 ECL £'000	Total Gross £'000	Total ECL £'000
Gross carrying amount as at 1 Oct 2019	377,733	(2,713)	80,366	(1,381)	32,698	(5,350)	490,797	(9,444)
Transfers in staging to adjust opening balances	773	471	87	89	(860)	(560)	-	-
Prior year restatement	-	-	-	-	-	-	-	-
New assets originated or purchased	68,071	(469)	-	-	-	-	68,071	(469)
Drawdowns	-	-	2,446	(50)	277	(123)	2,723	(173
Assets derecognised or repaid	(88,580)	717	(35,892)	426	(17,386)	4,262	(141,858)	5,405
Transfers to Stage 1	21,492	(258)	(14,951)	237	(6,541)	(21)	-	(42)
Transfers to Stage 2	(25,068)	55	25,904	(155)	(836)	100	-	-
Transfers to Stage 3	(12,757)	18	(17,658)	419	30,415	(437)	-	-
Amortisation of interest	19,869	-	2,785	-	9,864	-	32,518	-
Provision for commitments	-	74	-	(0)	-	-	-	74
Unwind of discount	-	17	-	5	-	(16)	-	6
Impact on period end ECL of exposures transferred between stages during the period	-	(204)	-	39	-	(2,365)	-	(2,530)
Total gross carrying amount at 30 September 2020	361,533	(2,292)	43,087	(371)	47,631	(4,510)	452,251	(7,173)

Interest income recognised during the year on Stage 3 impaired loans was £4,837k (2020: impaired loans £3,009k)

12. Financial assets designated at fair value through profit or loss

Mortgages designated at fair value through profit or loss together are measured at fair value because they are managed and their performance is evaluated on a fair value basis. Mortgage assets are measured at fair value on a recurring basis and their valuation is categorised at Level 3. For fair value hierarchy classifications, modelling and sensitivities disclosures refer to Note 20.

The following tables show a reconciliation from the opening balances to the closing balances, including the total gains for the year that are recognised in the statement of comprehensive income within 'Realised / unrealised gain on financial instruments at fair value through profit or loss'.

In 2019, the embedded house price derivatives of all the mortgages designated at fair value through profit or loss were sold to CTC Holdings (Cayman) Limited except for two mortgages which were not sold. The remaining financial instruments, having been substantially modified, were thus derecognised. New financial instruments, being the remaining fixed income host contracts, were recognised as loans at amortised cost. Of the two mortgages which were not sold, one was substantially modified in the prior year, derecognised and re-recognised as a loan at amortised cost, leaving only one mortgage still recognised at fair value through profit or loss as at 30 September 2021. This one mortgage is classified as Level 3 in the fair value hierarchy in the year due to a reduction in observable inputs and increased uncertainty in the macroeconomic environment.

Group **Movements in the period to 30 September 2021**	**Index Profit Share mortgages** **£'000**	Total £'000
At 1 October 2020	**5,506**	5,506
Net gain / (loss) on financial assets designated at fair value through profit or loss	**(1,032)**	(1,032)
Closing balance at 30 September 2021	**4,474**	4,474

Group Movements in the period to 30 September 2020	Index Profit Share mortgages £'000	Total £'000
At 1 October 2019	5,328	5,328
Derecognition of substantially modified loan	(564)	(564)
Net gain / (loss) on financial assets designated at fair value through profit or loss	742	742
Closing balance at 30 September 2020	5,506	5,506

The total unrealised loss during the year was £(1,032k) (2020: £742k gain).

13. Property and equipment and right-of-use assets

The following table sets out components of property and equipment and a reconciliation of the cost and net book value during the year:

Cost	Office and computer equipment £'000	Leasehold improvements £'000	Right of Use Assets £'000	Total £'000
At 1 October 2019	1,056	710	-	1,766
Additions due to recognition of IFRS 16 assets	-	-	1,093	1,093
Additions in period	98	18	923	1,039
Disposals in period	(364)	-	-	(364)
At 30 September 2020	**790**	**728**	**2,016**	**3,534**
Additions due to recognition of IFRS 16 assets	**-**	**-**	**-**	**-**
Additions in period	**72**	**-**	**-**	**72**
Disposals in period	**(63)**	**(18)**	**-**	**(81)**
At 30 September 2021	**799**	**710**	**2,016**	**3,525**
Depreciation and impairment				
At 1 October 2019	665	647	-	1,312
Depreciation charge for the year	171	63	371	605
Depreciation charge on disposed assets	(322)	-	-	(322)
At 30 September 2020	**514**	**710**	**371**	**1,595**
Depreciation charge for the period	**173**	**-**	**370**	**543**
Depreciation on disposed assets	**(63)**	**-**	**-**	**(63)**
At 30 September 2021	**624**	**710**	**741**	**2,075**
Net book value				
At 30 September 2020	276	18	1,645	1,939
At 30 September 2021	**175**	**-**	**1,275**	**1,450**

Right of use assets relate to leases capitalised in line with IFRS 16. The relating liability is detailed in Note 16. There were no indicators of impairment for the property and equipment at September 30 2021.

14. Investment in subsidiaries

The following table sets out the carrying value of subsidiaries.

Cost	£'000
At 1 October 2020	81,497
Investment in subsidiary	-
Capital injection	-
At 30 September 2021	**81,497**
Impairment	
At 1 October 2020	-
At 30 September 2020	**-**
Net book value	
At 1 October 2020	81,497
At 30 September 2021	**81,497**

There were no indicators of impairment for the investment in subsidiary as at 30 September 2021.

The Group and the parent company hold the following proportion of the nominal value (£0.10) of shares in the following Group subsidiary undertakings included in the consolidated accounts:

Name of Company	Registration Number	Holding	Proportion of voting rights & nominal value of shares held	Nature of business	Country of incorporation
Castle Trust Capital plc	7454474	Ordinary shares	100%	Authorised credit institution and specialty finance provider	UK
Castle Trust Capital Management Limited	7504954	Ordinary shares	100%	Active proposal to strike off	UK
Castle Trust Income Housa plc***	-	Ordinary shares	100%	Dissolved 6th October 2020	Jersey
Castle Trust Direct plc	9046984	Ordinary shares	100%	Active proposal to strike off	UK
Castle Trust Capital Nominees Limited*	7801931	Ordinary shares	100%	Dissolved 2 November 2021	UK
Castle Trust Finance Limited	9596607	Ordinary shares	100%	Dissolved 6th October 2020	UK
Castle Trust Services Limited (formerly Castle Trust Treasury Limited)	9791830	Ordinary shares	100%	Dissolved 6th October 2020	UK
Castle Trust POS Limited	10493733	Ordinary shares	100%	Holding company	UK
Castle Trust Treasury Limited	10452649	Ordinary shares	100%	Dissolved 6th October 2020	UK
Omni Capital Retail Finance Limited**	7232938	Ordinary shares	100%	Point of sale consumer finance provider	UK
Castle Trust PCC	-	-	0%	Dissolved	Jersey
Castle Trust Growth Housa PC	-	-	0%	Dissolved	Jersey
Castle Trust Belfry Limited	11206748	-	0%	Dormant SPV. In liquidation.	UK

The holding of Castle Trust POS Limited ("CTPOS") is held indirectly via CTC.

**The holding of Omni is held indirectly via CTPOS.

***The registered office for all these companies is 10 Norwich Street, London, EC4A 1BD with the exception of Castle Trust Income Housa plc whose registered office is PO Box 1075, JTC House, 28 Esplanade Street, St Helier, Jersey, JE2 3QA and Castle Trust Belfry Limited ("CTB") whose registered office is 11th Floor 200 Aldersgate Street, London, United Kingdom, EC1A 4HD.

14.1 Interests in structured entities

The entire ordinary share capital in CTB is owned by Maples FS UK Group Services Limited.

The Group was required to consolidate CTB as the purpose and design of the entity was to allow Omni to continue providing point of sale consumer loans whilst securing lower funding costs by securitising the assets. This funding relationship ended in August 2020 and CTB is currently in the process of being liquidated.

CTB acted as a vehicle to facilitate this securitisation and hence all decisions about relevant activities of CTB were made by Omni. Omni had power over CTB because it remained the servicer of the loans, had rights to appoint key management personnel and established budgets. Additionally, Omni was exposed to variable returns principally in relation to the 25% junior tranche it held and retained its ability to use its power to affect the amount of its returns, subject to prescribed criteria in the Term Sheet and borrower restrictions within the Senior Facility Agreement which were considered to be protective rights.

In the prior year, the Group had interests in consolidated structured entities as described below.

The entire ordinary share capital in the Castle Trust PCC ("the PCC") and its Protected Cell, Castle Trust Growth Housa PC, ("the PC") were owned by JTC Trustees Limited as trustee of The Housing Foundation Charitable Trust. Following the conversion of Housa balance to structured deposits in June 2020, the PCC and the PC were dissolved on 23 September 2020.

The Group was required to consolidate the PCC and PC as the purpose and design of the entities to act as special purpose entities results in returns received by the Group. The Group had the ability to direct those activities and therefore exhibited control over the operational activities of these entities.

The Group had a contractual arrangement with the PCC and PC in relation to the HPI derivative swaps and also in relation to the redemption of Participating Preference Shares, which means that if an investor redeems before maturity, any gain / loss would be borne by the Group and not the PC.

The Group entered into inter-company swap transactions each month with the PC. The substance and legal form of this transaction was to transfer the PC's liability to its investors to the balance sheet of the Company. In addition, the Group received and managed the funds received from Housa investors using these to fund mortgages, up to a maximum of 80% of the balance of funds received. Shareholder funding was also used to provide mortgage funding.

In addition, through CTCM, the Group provided marketing and investment management services to the PC, thereby providing the majority of its operational functionality

As a result, the Group presented a non-controlling interest in relation to the PCC and PC in the consolidated statement of financial position.

14.2 Non-controlling interests

The shareholder's reserves of the PC and CTB constituted the balance of non-controlling interests within Group equity. This represents the position that although the entities were consolidated within the Group by virtue of control, the Group did in fact have no share in the interest of the shareholder's equity of the PC or CTB. The movement on this balance is shown on the face of the Group statement of comprehensive income, and the final balance as at 30 September 2021 is shown on the face of the Group statement of financial position.

Non-controlling interests: shareholders equity of Castle Trust Growth Housa PC and Castle Trust Belfry Limited	**2021 £'000**	2020 £'000
Opening balance	-	(8)
Total comprehensive loss for the year attributable to equity holders of the PC	-	8
Total comprehensive profit for the year attributable to equity holders of Castle Trust Belfry	-	-
Closing balance	-	-

14.3 Significant restrictions

There are no restrictions on the ability of subsidiaries to transfer funds to the Group in the form of cash dividends or to repay loans and advances. There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

15. Intangible assets

The following table sets out the net book value of intangible assets recorded in the consolidated statement of financial position by category of intangible asset. Software includes mortgage operations, valuation, consumer loans administration and customer deposit systems.

Cost	**Internally developed software £'000**
At 1 October 2019	7,041
Adiditions in the year	3,432
Written off in the year	(161)
At 30 September 2020	10,312
Additions in the year	1,588
Written off in the year	(64)
At 30 September 2021	**11,836**
Accumulated amortisation and impairment	
At 1 October 2019	3,273
Amortisation charge for the year	1,666
Amortisation on written off assets	(81)
At 30 September 2020	4,858
Amortisation charge for the year	1,752
Amortisation on written off assets	(4)
At 30 September 2021	6,606
Net book value	
At 30 September 2020	5,454
At 30 September 2021	**5,230**

The remaining amortisation period of internally developed software for consumer loans is 3.9 years with a carrying value of £1,044k and internally developed software used for investment operations with a carrying value of £2,834k is 2.2 years. There were no indicators of impairment of the intangibles as at 30 September 2021.

16. Trade and other payables

The following table sets out the components of trade and other payables.

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Trade creditors	**5,133**	6,172	**-**	-
Accruals and deferred income	**5,326**	3,652	**-**	-
Taxation payable	**187**	-	**-**	-
Lease liabilities	**1,325**	1,676	**-**	-
Total trade and other payables	**11,971**	11,500	**-**	-

Trade and other payables consist of expenses paid in relation to the on-going costs of the business. They are recorded at cost, which approximates to fair value due to the short payment terms on which the Group operates, with the majority of trade liabilities being extinguished within 30 days of the recognition of the liability.

Lease liabilities relate to the occupation of premises in London and Basingstoke. The maturity profile this lease liabilities is detailed in Note 22.

17. Provisions for liabilities

The following table sets out the components of provisions for liabilities.

Cost	Claims under Consumer Credit Act 1974 £'000
Opening balance at 1 October 2020	**394**
Charge for the year	**465**
Utilisation	**(245)**
Closing balance at 30 September 2021	**614**
Opening balance at 1 October 2019	374
Charge for the year	394
Utilisation	(374)
Closing balance at 30 September 2020	394

Omni is exposed to risk under s.75 of the Consumer Credit Act (CCA) in relation to misrepresentations or breaches of contract by suppliers of goods and services to customers where the purchase of those goods and services is financed by Omni. Omni has recourse to the supplier in the event of such a liability and as such a provision is held to cover the cases where the supplier is distressed and unlikely to be able to compensate customers. The provision is validated using claim volumes, management's estimate of claims upheld and the loss given each claim.

18. Amounts due to customers at amortised cost

In the prior year, on 22 June 2020, by Schemes of Arrangement, Fortress Bond holders transferred their investment into new banking deposit products, the structure of which (the interest rate and maturity profile) matched their existing investment holding. For each series of Fortress Bonds where there was a record maintained by Castle Trust Capital Nominees Limited ("CTCN") as holding a beneficial interest, CTC opened a corresponding fixed rate account in the name of the scheme creditor. These fixed rate accounts are valued at amortised cost, as were the originating Fortress Bonds. New fixed term deposits customers were welcomed in 2021.

Having considered the qualitative and quantitative factors relating to the Fortress Bonds and Term deposits, it was concluded that the conversion was not a substantial modification at Group level principally because the underlying cash flows, structure and counterparties remained the same. Consequently, the Group Financial Liabilities at Amortised Cost relating to the Fortress Bonds were not derecognised and re-recognised at fair value at the time of the exchange but instead continued to be recognised at amortised cost, with their associated transaction cost, and are amortised over the lifetime of the original bonds.

The Group's amounts due to customers at amortised cost in respect of Customer Deposits and Fortress Bonds are valued at amortised cost, less transaction costs incurred in issuing the original bonds or raising the liabilities.

	2021 £'000	2020 £'000
Amounts owed to customers excluding unamortised transaction costs	**557,956**	651,494
Brought forward unamortised transaction costs	**(1,959)**	(3,185)
Additional transaction costs in the period	**-**	(1,045)
Amortisation of transaction costs in the period	**1,398**	2,271
Total amounts due to customers at amortised cost	**557,395**	649,535

Fortress Bonds were fixed rate bonds of between 1 and 5 years' term that were issued to the public and listed on the Irish Stock Exchange. Interest was paid based on the applicable Annual Equivalent Rate ("AER") prevailing at the date of issuance which ranged from 1% to 4%. Depending on the Fortress Bond subscribed for, interest was either paid quarterly or at maturity with the principal amount of the Fortress Bond. These terms have been consistently applied to customers when converting Fortress bond balances to fixed term deposit accounts. Refer to Note 22 for details on the maturity profile of the deposit accounts.

For fair value, fair value hierarchy classifications and sensitivities disclosure refer to Note 20.

The hierarchy position is considered to be Level 3, as the lowest level input, being the discount rate, is unobservable.

19. Amounts due to customers at fair value through profit or loss

Group financial liabilities at fair value through profit or loss include structured deposits that are designated at fair value through profit or loss.

In the prior year, on 22 June 2020, by Schemes of Arrangement, Housa customers with investments issued by subsidiary companies transferred their investment into new banking structured deposit products in the Company, the structure of which (return and maturity profile) matched their existing investment holding. For each series of Housas, CTC opened a corresponding structured deposit. These structured deposits replaced and exactly matched the previous intercompany swaps the Company held with PC and CTIH. These structured deposits, consistent with the Housas, are valued at fair value as the performance continues to be evaluated on a fair value basis.

	2021 £'000	2020 £'000
Structured deposits	**1,317**	1,444
Total amounts due to customers at fair value through profit or loss	**1,317**	1,444

The existing book is in run-off. However, there were three main variants of the Housa issued which converted into structured deposits, as explained below.

Income Housas were Loan Notes issued up to July 2014 by Castle Trust Income Housa plc which paid investors a quarterly coupon. Growth Housas were participating preference shares of Castle Trust PCC issued up to October 2015 which paid investors a coupon at the maturity of the Housa. The Housa was a retail investment product of fixed term between 2 and 10 years.

The returns (and potentially share in losses) for both Growth and Income Housas were also linked to the movement in the Halifax House Price Index. Foundation Housas were participating preference shares of Castle Trust PCC issued up to October 2015 where the capital amount investors subscribed to was guaranteed.

Structured deposits/Housas are measured at fair value (on a recurring basis) because they are managed and their performance is evaluated on a fair value basis. The following table shows a reconciliation from the opening balance to the closing balance, including the loss for the period that is recognised in the statement of comprehensive income.

	Structured Deposits £'000
Opening balance at 1 October 2020	**1,444**
Net (gain) / loss on financial liabilities at fair value through profit or loss	**158**
Redemptions in the year	**(285)**
Closing balance at 30 September 2021	**1,317**

	Housas £'000	Structured Deposits £'000
Opening balance at 1 October 2019	3,436	-
Redemptions in the period	(1,610)	-
Net (gain) / loss on financial liabilities at fair value through profit or loss	50	-
Conversion to structured deposits	(1,876)	1,876
Redemptions in the period	-	(460)
Net (gain) / loss on financial liabilities at fair value through profit or loss	-	28
Closing balance at 30 September 2020	-	1,444

The total unrealised gains/losses as at year end was £565k (2020 £402k). For fair value hierarchy classifications and sensitivities disclosure refer to Note 20. There were no transfers into Level 3 assets other than the completions in the period, and no transfers out other than redemptions.

The change in fair value attributable to change in credit risk for financial liabilities designated at fair value through profit or loss is a loss of £(4k) (2020: profit of £37k). The difference between fair value and the amount contractually due at maturity is cumulatively £401k (2020: £421k).

The changes in fair value attributable to changes in credit risk for financial liabilities designated at fair value through profit or loss have been calculated by determining the changes in credit spread implicit in the fair value of financial instruments issued by entities with similar credit characteristics.

For fair value hierarchy classifications, modelling and sensitivities disclosure refer to Note 20.

20. Fair value modelling, sensitivities and fair value hierarchy

20.1 Fair value modelling & sensitivities

The Group has developed a model to value its financial assets, liabilities and derivatives at fair value. The model uses stochastic 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 on a monthly basis for internal management information and Board reporting purposes. It is run by a specialist team within the Group 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. The most significant inputs are set out in the table below.

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

There is significant correlation between model parameters where movements in a parameter would likely result in opposing movement in other parameters creating offsetting valuation impacts.

The fair value sensitivity to changes in the model inputs have been assessed using reasonable upward and downwards shifts to the model inputs while keeping all remaining inputs constant. The following tables set out the relevant sensitivities.

Sensitivity analysis has been provided below where a reasonable change in each input has a material impact on the reported figures. In determining this, a sensitivity range is defined for each parameter, such as the standard error of the estimated parameter value. In certain circumstances management's judgement is used where this is not always possible (such as where there is not sufficient data for each parameter). A threshold is defined and where the valuation sensitivity is greater than the threshold the parameter is included in the sensitivity disclosure below. The threshold applied is 1% of total mortgage assets..

Mortgage fair value measurement

The model was applied to mortgage product lending. As disclosed in Note 12, there is one mortgage designated at fair value retained in the group as at 30 September 2021 (2020: 1 mortgage). As the strike date of the embedded House Price Option has passed for this loan, its fair value is no longer sensitive to any changes in inputs into the model and its fair value has been estimated as the amount recoverable. The loan is classed as Level 3 due to low levels of observable inputs and increased uncertainty in the macroeconomic environment.

Amounts due to customers at fair value measurement

The model, as applied to structured deposits (formerly Housa liabilities), incorporates various inputs, of which the most significant are as follows:

		Range					Sensitivity			
		September 2021		September 2020		**Sensitivity**	**September 2021**		September 2020	
Input	Description	**Min**	**Max**	Min	Max	**Range**	**Min**	**Max**	Min	Max
							£'000	**£'000**	£'000	£'000
Movement in HPI	Percentage movement since origination to indexed value	**34.4%**	**73.0%**	16.0%	49.3%	+-10%	**(127)**	**127**	(138)	136
Expected house price growth	Assumed annual rate of future HPI growth	**3.1%**	**11.1%**	2.6%	2.6%					
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	**11.2%**	**11.2%**	11.2%	11.2%					
Discount rates :	Derived to be consistent with future house price growth.									
	Risk free discount rates	**0.1%**	**1.5%**	0.6%	0.8%					
	Credit premium discount rate	**0.3%**	**0.6%**	1.9%	2.2%					
	House price risk premium	**21.1%**	**21.1%**	8.0%	37.2%	+-10%	**(143)**	**112**	(55)	78

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 Covid-19 and 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 Covid-19 or Brexit factors. These uncertainties are offset by string current house price growth and mortgage interest rates at historically low levels. A sudden drop in house prices of up to 10% is considered a reasonably possible impact due to Covid-19 and this is reflected in the note under the sensitivity for movement in HPI.

20.2 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 to the fair value measurement as a whole.

For loans and receivables held at amortised cost fair values are determined according to the most recent and where possible 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 that is significant to the valuation, being the discount rate, is unobservable.

For amounts due to customers for deposits a range of fair value is determined using the latest issuance rate and both an external and internal funding rate. The carrying value of the deposits sits within the range of calculated fair values and so is used as an approximation of fair value. The hierarchy position is considered to be Level 3, as the lowest level input that is significant to the valuation, being the discount rate, is unobservable.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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.

As at 30 September 2021

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Debt instruments	19,999	-	-	19,999	19,999
Loans to customers					
At amortised cost	-	-	570,591	570,591	563,438
Designated at fair value through profit or loss	-	-	4,474	4,474	4,474
Total	19,999	-	575,065	595,064	587,911
Liabilities					
Amounts due to customers for deposits	-	-	557,396	557,396	557,396
Financial liabilities at fair value through profit or loss	-	-	1,317	1,317	1,317
Total	-	-	558,713	558,713	558,713

As at 30 September 2020

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Debt instruments	116,913	-	-	116,913	116,918
Loans to customers					
At amortised cost	-	-	585,591	585,591	572,336
Designated at fair value through profit or loss	-	-	5,506	5,506	5,506
Total	116,913	-	591,097	708,010	694,760
Liabilities					
Amounts due to customers for deposits	-	-	649,535	649,535	649,535
Financial liabilities at fair value through profit or loss	-	-	1,444	1,444	1,444
Total	-	-	650,979	650,979	650,979

The loans to customers at fair value through profit or loss was moved from Level 2 to Level 3 in the current year due to a reduction in observable inputs and increased uncertainty in the macroeconomic environment. This was the only transfer in or out of Level 3 in the year.

The maximum exposure to credit risk for these instruments is equal to the carrying value.

21. Risk management

The Group's activities expose it to various types of financial risk that are associated with the financial instruments and markets in which it participates. The main risk to which the Group is exposed is credit risk. The Group is also exposed to liquidity risk and market risk as these risks are inherent in the business. The Board is responsible for setting the risk appetite for each of these risks. The Group measures its exposure to the risks on a regular basis and reviews the exposure every quarter. The Group assesses all these risks and its capital adequacy as part of its ICAAP which is conducted on an annual basis. The section below provides further details on financial risks only.

21.1 Credit risk

21.1.1 Overview

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. RDF loans are individually reviewed and monitored by the credit committee or the Board Risk Committee if larger in size.

Consumer point of sale lending and 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 Group 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 Group manages its credit risk in accordance with policies set by the Board to ensure that the credit risk assumed is commensurate with the return required. The Group is exposed to credit risk from its loans to customers, cash and cash equivalents, its loans and advances to credit institutions and debt instruments. The Group's maximum exposure to credit risk is set out in the table below.

As at 30 September 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	ECL £'000	Total £'000
Financial assets					
Loans and advances to central banks	18,502	-	-	-	18,502
Loans and advances to banks	38,356	-	-	-	38,356
Debt instruments	19,999	-	-	-	19,999
Trade and other receivables	2,465	-	-	(1,491)	974
Loans to customers					
At amortised cost					
- Consumer loans	160,956	4,995	13,080	(13,770)	165,261
- Wholesale loans	3,654	-	-	-	3,654
- Property loans	224,629	116,924	61,643	(8,673)	394,523
Designated at fair value through profit or loss	-	-	-	-	4,474
	468,561	121,919	74,723	(23,934)	645,743
Commitments	28,689				28,689

As at 30 September 2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	ECL £'000	Total £'000
Financial assets					
Loans and advances to banks	36,861	-	-	-	36,861
Debt instruments	116,918	-	-	-	116,918
Trade and other receivables	3,546	-	-	(2,514)	1,032
Loans to customers					
At amortised cost					
- Consumer loans	109,659	7,645	17,860	(19,560)	115,604
- Wholesale loans	11,654	-	-	-	11,654
- Property loans	361,533	43,087	47,631	(7,173)	445,078
Designated at fair value through profit or loss	-	-	-	-	5,506
	640,171	50,732	65,491	(29,247)	732,653
Commitments	27,178				27,178

The increase in Property Stage 3 balances in the year is predominately due to the several RDF cases in run off falling into this category as they reached the end of their contractual term. Stage 2 balances have also increased as a larger number of short-term contract extensions were offered in the year to give customers additional time to refinance and sell their properties following Covid-19 related delays.

Financial Instruments held at amortised cost are within the scope of the IFRS 9 impairment policy described in Note 2.5.4. IFRS 9 permits a simplified approach where it may be assumed that an instrument's credit risk has not increased significantly since initial recognition if it is determined to have a low credit risk at the reporting date. Such low risk instruments are categorised as stage 1, with the provision based upon a 12 month probability of default. The Group has applied this simplified approach to its cash and cash equivalents, loans and advances to credit institutions, trade and other receivables and debt instruments in accordance with its accounting policy (refer to page 76) which is evidence that the instrument is of low risk.

The Group assesses impairment on offers which have been made at year end, but not yet accepted. Whilst the offer value is only reflected on the balance sheet upon acceptance, the related impairment is included in Stage 1 above.

The impairment provisioning applied to the loan book provides an indicator of the overall credit quality of the loan portfolio. Movements in the coverage ratio (impairment provision value as a percentage of the gross loan value) can be used to understand how the credit position of the loans has evolved. The table below compares the coverage ratios by stage at the year-end date with the prior year.

30 September 2021	Stage 1	Stage 2	Stage 3	Total
Consumer Loans	1.05%	18.96%	85.14%	7.69%
Wholesale	0.00%	0.00%	0.00%	0.00%
Property	0.30%	0.88%	11.28%	2.15%
Total	0.61%	1.62%	24.21%	3.83%

30 September 2020	Stage 1	Stage 2	Stage 3	Total
Consumer Loans	2.33%	15.83%	88.42%	14.47%
Wholesale	0.00%	0.00%	0.00%	0.00%
Property	0.63%	0.86%	9.47%	1.59%
Total	1.00%	3.12%	31.00%	4.46%

In the consumer loan portfolio, the Stage 1 coverage ratio has improved as more favourable macroeconomic factors and underlying arrears performance has reduced the probability of default across the portfolio. The Stage 2 population has also benefited from the improved arrears performance with a reduction in the total balance. However, the Stage 2 coverage ratio has increased as a larger proportion of the loans in Stage 2 fall under the significant increase in credit risk criteria (refer to Note 22.1.4) which resulted in a higher impairment charge. Stage 3 has seen a decrease in coverage ratio due to an improvement in debt collections experienced in the year which included negotiating an increased debt sale price and multiple debt sales.

The Wholesale loan has been individually assessed with an ECL of £nil due to the high levels of security against the loan balance, a £10m guarantee provided by the counterparty and the facility's covenants consistently being maintained.

In Property, the fall in stage 1 coverage ratios is due to the larger number of short-term contract extensions being granted which have moved these cases to stage 2. These cases typically have a higher individual coverage ratio assigned to them. The increase in Stage 3 coverage ratios is due a number of RDF cases which are in run off moving into Stage 3. These specialist development finance loans will also typically have a higher ECL in comparison to a mortgage.

21.1.2 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 Group manages its exposure to credit concentration risk by monitoring the level of concentration on each of its portfolios through several dimensions and in some cases limiting the exposure.

The Group's exposure to credit risk arising from cash and cash equivalents and loans and advances to credit institutions is managed by the Treasury function. The credit ratings for counterparties used by the Group are summarised below.

As at 30 September 2021	Fitch Rating	Outlook	Moody's Rating	Outlook	S&P Rating	Outlook
HSBC Bank plc	AA-	Negative	A1	Stable	A+	Stable
National Westminster Bank plc	A+	Stable	A1	Stable	A+	Stable
United Kingdom	AA-	-	-	-	AA	-

These exposures are not considered to result in significant credit risk.

At 30 September 2021 the Group was exposed to credit risk in terms of its holdings in Treasury Gilts. The Group performed its own credit analysis and considered the counterparty to be creditworthy.

Credit risk associated with Serviced and Interest Roll Up mortgages, RDF loans and other loans designated at fair value through profit or loss is mitigated by the collateral that the Group holds a charge over. This totalled £1.21 billion (2020: £1.46 billion), which represents the expected collateral value in case of loans that are assessed individually and indexed collateral in case of loans that are assessed in collective ECL model. In the majority of cases the Group's charge over this collateral is subordinated by another lender's charge. The following table shows the loan balance by combined first and second charge loan to value ("LTV") analysis for all loans by band held at the end of the period:

LTV band %	2021 £'000	2021 %	2020 £'000	2020 %
0 - 21	13,470	3%	7,129	2%
21 - 50	55,464	14%	62,713	14%
51 - 70*	208,450	50%	249,822	55%
71 - 85	104,477	26%	124,739	27%
86 - 90	2,384	1%	8,034	2%
91+	23,425	6%	5,321	1%
Carrying value before impairment provision	407,670	100%	457,758	100%
Wholesale and consumer loans	182,685		146,818	
	590,355		604,576	

* Band includes loan designated at fair value

The LTV used in the table above for RDF is based on the Gross Development Value (the estimated value at completion). Total exposure to Development Finance is £51m (2020: £62m) with an average LTV of 48% (2020: 69%).

The breakdown of LTV by region is shown in the following tables:

London LTV band %	2021 £'000	2021 %	2020 £'000	2020 %
0 - 21	2,744	1%	5,031	2%
21 - 50	25,435	13%	30,515	13%
51 - 70*	108,499	54%	146,277	64%
71 - 85	50,288	25%	46,039	20%
86 - 90	1,893	1%	626	0%
91+	11,242	6%	2,483	1%
Carrying value before impairment provision	200,101	100%	230,971	100%

* Band includes loan designated at fair value

South LTV band %	2021 £'000	2021 %	2020 £'000	2020 %
0 - 21	7,609	6%	1,463	1%
21 - 50	23,752	20%	24,693	21%
51 - 70	39,618	34%	57,863	49%
71 - 85	34,998	30%	27,359	23%
86 - 90	437	0%	7,324	6%
91+	11,288	10%	249	0%
Carrying value before impairment provision	117,702	100%	118,951	100%

Rest of UK LTV band %	2021 £'000	2021 %	2020 £'000	2020 %
0 - 21	3,117	3%	636	1%
21 - 50	6,277	7%	7,505	7%
51 - 70	60,332	68%	45,680	42%
71 - 85	19,192	21%	51,341	48%
86 - 90	54	0%	84	0%
91+	894	1%	2,589	2%
Carrying value before impairment provision	89,866	100%	107,835	100%

The Group assesses the underlying credit risk of customers for both the property and consumer loan portfolios, determining high, standard, and sub-standard risk grades based on underlying loan characteristics. The table below shows this credit assessment and the related impairment staging for loans at amortised cost:

Property Total	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	24,517	29,825	14,475	68,817
Standard grade	188,770	85,016	23,277	297,063
Sub-standard grade	11,342	2,083	23,891	37,316
Total gross carrying amount at 30 September 2021	224,629	116,924	61,643	403,196

Consumer Loans and Wholesale Loan As at 30 September 2021 Internal rating grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	103,554	1,815	2,207	107,576
Standard grade	56,586	2,962	7,276	66,824
Sub-standard grade	4,470	218	3,597	8,285
Total gross carrying amount at 30 September 2021	164,610	4,995	13,080	182,685

Total Group As at 30 September 2021 Internal rating grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	128,071	31,640	16,682	176,393
Standard grade	245,356	87,978	30,553	363,887
Sub-standard grade	15,812	2,301	27,488	45,601
Total gross carrying amount at 30 September 2021	389,239	121,919	74,723	585,881

Property Total	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	61,581	5,955	4,082	71,618
Standard grade	295,332	37,132	40,855	373,319
Sub-standard grade	9,620	-	2,694	12,314
Total gross carrying amount at 30 September 2020	366,533	43,087	47,631	457,251

Consumer Loans and Wholesale Loan As at 30 September 2020 Internal rating grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	89,110	2,327	4,380	95,817
Standard grade	31,508	1,846	6,332	39,686
Sub-standard grade	684	3,474	7,157	11,315
Total gross carrying amount at 30 September 2020	121,302	7,647	17,869	146,818

Total Group As at 30 September 2020 Internal rating grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	150,691	8,282	8,462	167,435
Standard grade	321,840	38,978	47,187	408,005
Sub-standard grade	10,304	3,474	9,851	23,629
Total gross carrying amount at 30 September 2020	482,835	50,734	65,500	599,069

For property loans, the Group has utilised the current LTV of exposures as the rating criteria for the property portfolio.

The following criteria was applied.

- High grade exposures have an LTV of less than 50%;
- Standard grade exposures have an LTV between 50% and 80%; and
- Substandard grade exposures have an LTV in excess of 80%.

For consumer loans, the Group has utilised the Gauge Credit Score of the borrower as the rating criteria for the Omni portfolio. The score is measured at origination. The following criteria was applied.

- High grade exposures have a Gauge Score in excess of 625
- Standard grade exposures have a Gauge Score between 550 and 625
- Substandard grade exposures have a Gauge Score less than 550.

For Wholesale loans, the Group has assessed the exposure as Standard quality to reflect the underlying loans which provide security against this balance.

Within Property, the Group limits its maximum exposure to individual obligors and certain product types (1st line mortgages versus 2nd line mortgages for example). Regional concentration and other concentration risks are also monitored by the Group Credit Risk Committee.

Consumer loan concentration risk focusses principally on individual retailers with specific limits in place set by the Board Risk Committee or Group Credit Risk Committee. The Group's exposure to specific industry sectors is also closely monitored.

Mortgage assets have a maximum loan exposure which limits concentration risk. The maximum single counterparty exposure is to the Bank of England.

21.1.3 Impact of Covid-19 pandemic on credit risk

Following the start of the Covid-19 outbreak in early 2020, the Group provided specific forbearance to support customers in line with regulatory guidelines. This was typically in the form of payment holidays for a period of 1-6 months. All such arrangements have now been concluded with customers then affected now being assessed for forbearance measures in accordance with normal procedures.

21.1.4 Staging overview

Significant increase in credit risk ("SICR") (composition of Stage 2)

The Group's transfer criteria as described below, determine what constitutes a significant increase in credit risk, which results in an exposure being moved from Stage 1 to Stage 2.

	Backstop only		Missed payment in the past		Watchlist		Forborne / Extensions		Other qualitative		Total
	31-60 DPD's	61-90 DPD's	<30 DPD's	>30 DPD's	<30 DPD's	>30 DPD's	<30 DPD's	>30 DPD's	<30 DPD's	>30 DPD's	
Analysis of Stage 2 loans	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Consumer Loans	1,288	586	2,146	-	-	-	-	-	975	-	4,995
Property Loans	347	-	1,474	925	591	-	87,162	6,795	19,629	-	116,923
Total	1,635	586	3,620	925	591	-	87,162	6,795	20,604	-	121,918

The Group constantly monitors the ongoing appropriateness of the transfer criteria, where any proposed amendments will be reviewed and approved by the Group's Management Committees and the Risk and Audit Committees at least semi-annually or more frequently if required.

IFRS 9 includes a rebuttable presumption that if an account is more than 30 days past due it has experienced a significant increase in credit risk. The Group considers more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted this presumption.

For mortgages and RDF, other credit related criteria are considered in assessing whether a significant increase in credit risk has occurred. This includes changes to a customer's credit profile through reference to external credit agencies, changes to the current product terms offered to the customer, payment holidays and extension of term.

Within consumer loans, customers who have no outstanding arrears but who have fallen more than 30 days in arrears within the last 12 months, continue to be classified as having a significantly increased credit risk and will remain within Stage 2. Due to the nature of the consumer loans portfolio, it is not practicable to use external credit agency data to predict additional deterioration of credit. As a result, the increase in expected credit losses to Stage 1 loans are estimated over the lifetime of the loan, as opposed to calculating the default over a period of 12 months. This is then weighted using the existing Stage 1 probability of default.

A borrower will move back into Stage 1 where the SICR definition is no longer satisfied and when payments are up to date.

Definition of default (movement to Stage 3)

The Group uses a number of quantitative and qualitative criteria to determine whether an account meets the definition of default and therefore moves to Stage 3.

The rebuttable assumption is that more than 90 days past due (for property - on either primary or secondary mortgage) is an indicator of default. The Group has not rebutted this assumption and therefore deems that more than 90 days past due is an indicator of default. This acts as an appropriate back stop measure as it agrees with the observed performance and known behaviour of accounts reviewed.

For mortgages and RDF, additional criteria are considered in the assessment as to whether a loan meets the definition of default. This includes increased likeness of repossession, defaulted arrangements on other properties the customer may hold, significant fall in the valuation of a property, reduced or frozen interest charges and other criteria assessed by management which indicate an increased likelihood of default.

For consumer loans, any loan where a fraud allegation has been raised is immediately classified as Stage 3.

A borrower will move out of Stage 3 when their credit risk improves such that any outstanding payments on the loan are less than 90 days in arrears. The borrower will move to Stage 1 or Stage 2 dependent on whether the SICR applies.

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

As at 30 September 2021	Total £'000	ECL £'000	<30 days £'000	30-60 days £'000	61-90 days £'000	91-120 days £'000	>120 £'000
Financial assets							
Loans and advances to central banks	**18,502**	**-**	**18,502**	**-**	**-**	**-**	**-**
Loans and advances to banks	**38,356**	**-**	**38,356**	**-**	**-**	**-**	**-**
Debt instruments	**19,999**	**-**	**19,999**	**-**	**-**	**-**	**-**
Trade and other receivables	**974**	**(1,491)**	**2,465**	**-**	**-**	**-**	**-**
Loans to customers							
At amortised cost							
- Consumer loans	**165,261**	**(13,770)**	**164,077**	**1,288**	**586**	**433**	**12,647**
- Wholesale loans	**3,654**	**-**	**3,654**	**-**	**-**	**-**	**-**
- Property loans	**394,523**	**(8,673)**	**340,246**	**5,833**	**2,802**	**9,128**	**45,187**
Designated at fair value through profit or loss	**4,474**	**-**	**-**	**-**	**-**	**-**	**4,474**
	645,742	**(23,934)**	**587,298**	**7,121**	**3,388**	**9,561**	**62,308**

As at 30 September 2020	Total £'000	ECL £'000	<30 days £'000	30-60 days £'000	61-90 days £'000	91-120 days £'000	>120 £'000
Financial assets							
Cash and cash equivalents	36,861	-	36,861	-	-	-	-
Debt instruments	116,918	-	116,918	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	-	-	-
Trade and other receivables	1,032	(2,514)	3,546	-	-	-	-
Loans to customers							
At amortised cost							
- Consumer loans	115,604	(19,560)	115,264	1,451	729	505	17,215
- Wholesale loans	11,654	-	11,654	-	-	-	-
- Property loans	445,078	(7,173)	377,701	595	17,470	41,738	14,747
Designated at fair value through profit or loss	5,506	-	-	-	-	-	5,506
	732,653	(29,247)	661,944	2,046	18,199	42,243	37,468

21.1.5 Forbearance (non Covid-19)

Outside of Covid-19 forbearance measures, the Group sometimes makes other concessions to borrowers with respect to the original terms of mortgages as a response to a borrower's financial difficulties. All forborne loans will be classified as either Stage 2 or Stage 3.

Within property, forbearance 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 Bank's mortgage being forborne.

Forbearance provided by the Group is considered to be an indicator of impairment. Forbearance provided by other lenders to the Group's borrowers is not automatically considered to be an indicator of impairment of the Group's mortgage but is considered on a case-by-case basis if further information is available.

For consumer loans, forbearance may involve to the original terms of loans as a response to a customer's financial difficulties. Indicators of financial difficulties considered by the Group 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 the 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 on a consumer loan, any impairment is measured using a collectively modelled provision. Additional impairment calculated as part of the Significant Increase in Credit Risk is modelled on a collective basis as each loan advanced by the Group is individually not significant.

The forbearance classification on property is discontinued when all the following conditions are met:

- the contract is considered as performing, including if it has been reclassified from the non-performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as nonperforming.
- a minimum 2-year period has passed from the date the forborne exposure was considered as performing.
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

The following tables show the loans in forbearance (non Covid-19) at the year end.

	Stage 1		**Stage 2**		**Stage 3**		**ECL**	**Total**	**Forborne %**
	Performing	**Forborne**	**Not forborne**	**Forborne**	**Not forborne**	**Forborne**			
As at 30 September 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets									
Loans to customers									
At amortised cost									
- Consumer loans	**160,956**	**-**	**4,551**	**444**	**8,342**	**4,738**	**(13,770)**	**165,261**	**2.89%**
- Wholesale loans	**3,654**	**-**	**-**	**-**	**-**	**-**	**-**	**3,654**	**0.00%**
- Property loans	**224,629**	**-**	**84,076**	**32,848**	**53,747**	**7,896**	**(8,673)**	**394,523**	**10.11%**
Designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**4,474**	**-**	**-**	**4,474**	**-**
	389,239	**-**	**88,627**	**33,292**	**66,563**	**12,634**	**(22,443)**	**567,912**	**-**

	Stage 1		Stage 2		Stage 3		ECL	Total	Forborne %
	Performing	Forborne	Not forborne	Forborne	Not forborne	Forborne			
As at 30 September 2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets									
Loans to customers									
At amortised cost									
- Consumer loans	109,659	-	6,882	763	14,228	3,632	(19,560)	115,604	3.25%
- Wholesale loans	11,654	-	-	-	-	-	-	11,654	0.00%
- Property loans	361,533	-	31,161	11,926	46,766	865	(7,173)	445,078	2.83%
Designated at fair value through profit or loss	-	-	-	-	5,506	-	-	5,506	-
	482,846	-	38,043	12,689	66,500	4,497	(26,733)	577,842	-

21.1.6 Modelling assumptions and approach

The modelling assumptions and approach are defined by the accounting policy as shown in Note 2.5.4. The models are recalibrated on a quarterly basis with all input parameters assessed and the latest macroeconomic assumptions applied.

The results of the quarterly parametrisation, significant modelling changes and post model adjustments and overlays are scrutinised first by a second line review and then through internal governance committees. The final outcome is then reviewed by the Audit Committee prior to any updates being adopted.

21.1.7 Forward looking macroeconomic scenarios

IFRS 9 requires firms to consider the risk of default and impairment loss taking into account expectations of economic changes that are reasonable.

The Group uses a bespoke macroeconomic model to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. At present, the most significant macroeconomic factors for property loans relate to the House Price Index ("HPI") and GDP growth rates. For consumer loans the GBP rate along with the unemployment rate are the key drivers.

The Group has derived an approach for factoring probability weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates. The macroeconomic scenarios feed directly into the ECL calculation, as the adjusted PD, lifetime PD and LGD estimates are used within the individual account ECL allowance calculations.

The Group currently does not have an in-house economics function and therefore sources the economic forecast from an appropriately qualified third party. The Group considers five probability weighted scenarios; base, upside, mild upside, downside and severe downside scenarios.

The models are then weighted to the scenarios based on the severity of the modelled outcomes and underlying parameters. A benchmarking assessment is undertaken considering the economic parameters and related scenario weightings to provide additional support to the final weightings applied.

The base case is also utilised within the Group's impairment forecasting process which in turn feeds the wider business planning processes, capital projections and liquidity forecasts. This economic forecast is also used within analysis to set the Group's credit risk appetite thresholds and limits.

Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 2.5.4. To ensure completeness and accuracy, the Group obtains the data used from third party sources and the Credit Risk group verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected credit loss and the assumptions used for the Group's base case estimate, ECLs based on the base case, plus the use of multiple economic scenarios as at 30 September 2021 and 30 September 2020.

The tables show the value of the key forward looking economic variables/ assumptions at the end of the calendar year (31 December) as used in each of the economic scenarios for the ECL calculations.

Subsequent years are calculated by taking the average of the calendar year end values for the outer years provided within the forecast data set.

As at 30 September 2021

Key Drivers	ECL Scenario	Assigned Probabilities %	2021 %	2022 %	2023 %	2024 %	2025 %	Subsequent years %
GDP growth %	Upside	10%	10.3%	6.4%	2.4%	1.8%	1.4%	1.2%
	Mild Upside	10%	9.2%	5.5%	2.2%	1.7%	1.5%	1.3%
	Base Case	60%	7.9%	3.7%	1.8%	1.5%	1.5%	1.3%
	Downside	10%	4.4%	2.6%	1.3%	1.3%	1.6%	1.4%
	Severe Downside	10%	2.7%	1.7%	1.1%	1.2%	1.7%	1.5%
Unemployment rates %	Upside	10%	3.3%	2.6%	2.5%	2.5%	2.4%	2.7%
	Mild Upside	10%	4.0%	3.7%	3.7%	3.7%	3.6%	3.6%
	Base Case	60%	4.8%	4.4%	4.2%	4.0%	3.8%	3.7%
	Downside	10%	5.9%	6.2%	6.4%	6.4%	6.1%	5.5%
	Severe Downside	10%	6.3%	6.6%	6.7%	6.7%	6.4%	5.7%
10-Yr UK Government Bond Yield %	Upside	10%	0.9%	2.1%	2.7%	2.7%	2.7%	2.7%
	Mild Upside	10%	0.9%	1.7%	2.2%	2.2%	2.2%	2.2%
	Base Case	60%	0.8%	1.2%	1.7%	1.8%	1.9%	2.1%
	Downside	10%	0.7%	0.6%	0.7%	0.9%	1.1%	1.5%
	Severe Downside	10%	0.6%	0.2%	0.2%	0.3%	0.5%	0.8%
House Price Index	Upside	10%	7.1%	3.1%	8.5%	9.1%	3.5%	2.9%
	Mild Upside	10%	5.4%	0.8%	5.8%	7.2%	3.6%	3.1%
	Base Case	60%	3.0%	-1.8%	1.5%	3.3%	3.8%	3.3%
	Downside	10%	-0.4%	-10.0%	-6.3%	-2.0%	4.4%	3.9%
	Severe Downside	10%	-2.3%	-14.1%	-11.2%	-6.1%	4.9%	4.3%

As at 30 September 2020

Key Drivers	ECL Scenario	Assigned Probabilities %	2021 %	2022 %	2023 %	2024 %	2025 %	Subsequent years %
GDP growth %	Upside	20%	-6.2%	11.8%	8.7%	5.6%	2.5%	2.5%
	Base Case	60%	-8.1%	5.0%	2.1%	1.8%	1.7%	1.9%
	Downside	20%	-25.1%	-8.2%	-5.1%	-2.1%	1.0%	1.0%
Unemployment rates %	Upside	20%	4.8%	4.2%	3.9%	4.0%	3.9%	4.1%
	Base Case	60%	6.3%	6.7%	4.6%	4.0%	3.9%	4.1%
	Downside	20%	6.3%	10.0%	9.7%	6.9%	5.3%	4.4%
Central Bank base rates %	Upside	20%	0.2%	0.3%	0.3%	0.3%	0.3%	0.2%
	Base Case	60%	0.0%	-0.1%	-0.1%	-0.1%	0.0%	0.1%
	Downside	20%	-0.4%	-0.5%	-0.5%	-0.5%	-0.5%	0.0%
House Price Index	Upside	20%	1.1%	8.7%	7.3%	4.7%	3.5%	2.8%
	Base Case	60%	1.1%	1.5%	3.5%	3.5%	3.5%	2.6%
	Downside	20%	1.1%	-15.3%	-10.3%	-7.1%	-1.1%	2.1%

21.1.8 Sensitivity Analysis

The calculation of ECLs is complex and involves use of estimates in reaching the calculated results. Sensitivity analysis has been performed on the material estimates of PD and LGD as detailed in Note 2.4 to illustrate the impact on ECLs of any changes to the main components of the calculation.

Within the Property portfolio, the Stage 1 and Stage 2 LGD calculations use a current blended cure rate of defaulted loans of 60%. An increase/decrease of 10% would result in a decrease/increase in impairment by £0.3m. The LGD calculations also use a time to sell for defaulted loan estimate of 18 months. An increase/decrease by 6 months would result in an increase/decrease in impairment of £0.2m. Within the LGD calculations a valuation haircut is also applied. A 5% increase/decrease in the haircut would result in an increase/decrease in impairment of £0.3m.

On the Property Stage 3 specific loan assessments(excluding RDF loans which are all individually assessed), the key estimates relating to LGD are the collateral value and the valuation haircut applied. Decreasing and increasing the collateral value by 10% on these loans increases and decreases impairment by £2.6m and £1.2m respectively. A 5% increase and decrease in the valuation haircut would result in an increase and decrease in ECL of £1.3m and £0.8m respectively.

The most sensitive LGD parameter for the Omni portfolio is the cure rate of defaulted loans. The current blended cure rate across the Omni portfolio is 2%. Increasing/decreasing the cure rate by 1% results in a decrease/increase in impairment of £0.3m.

For PD, the key estimate relates to the macroeconomic scenarios and the associated weightings. The following table shows the ECL impact of 100% weighting to base/upside/downside in comparison to the weighted ECL. Weighting the scenarios accordingly, the baseline and upside scenarios reduce the ECL whereas the downside scenarios result in an increase.

	Property ECL Impact £'000	Customer Loans ECL Impact £'000	Total ECL Impact £'000
100% Base	103	17	120
100% Downside	(543)	(250)	(793)
100% Severe Downside	(886)	(356)	(1,242)
100% Mild Upside	338	186	520
100% Upside	475	320	795

21.1.9 Post-model adjustments and overlays

The Group reviews the modelled impairment outcomes through a detailed governance process. In some instances, adjustments to the model are applied where it is felt the modelled outcome does not to represent the underlying credit risk appropriately. In the current economic environment, with continued uncertainty around the outcome of the Covid-19 pandemic, this has resulted in an additional adjustment and overlay assumption being applied to account for significant increases in credit risk.

The key post-model adjustment and overlay applied by management is detailed below:

	Modelled impact	Post model adjustments and overlays
Significant Increase in Credit Risk	Significant increases in credit risk are calculated based on additional criteria for both Property and consumer loans.	Whilst arrears performance remains the key indicator of credit risk, additional criteria are considered in the assessment of significant increases in credit risk for customers currently within Stage 1 for both property and consumer loans. Further details can be found in Note 21.1.4.
Watchlist	Loans which have certain characteristics (i.e., they have been approved for an extension or are forborne) are monitored and put onto a Watchlist.	The ECL on loans on the Watchlist are captured in Stage 2 and calculated through the model. The impairment calculated, and corresponding coverage ratio, is assessed against the average Stage 2 coverage ratio. Where the individual loans on the Watchlist have a lower-than-average Stage 2 coverage ratio, the impairment against these loans is uplifted to match the average as a pre-emptive measure for potential worsening behaviour.

The net impact of the adjustments and overlays detailed above as at 30 September 2021 is an additional ECL of £0.4 million (2020: £0.8 million).

21.2 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 Group 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 Group 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 Group maintains a liquidity buffer to ensure it has adequate liquidity to meet its liabilities as they fall due.

The Covid-19 pandemic poses unique challenges for the banking sector and wider economy. The liquidity stress scenarios that are applied as part of the annual ILAAP assessment and ongoing liquidity monitoring captured downside scenarios in relation to potential Covid-19 economic outcomes. This includes a material reduction in the ability to source funding through deposits and reductions in loan repayments caused by economic hardship to customers. The Group is able to maintain liquidity over and above Board prescribed limits through all periods assessed in these scenarios.

Please refer to Note 22 for details of the maturity profile of assets and liabilities.

21.3 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. Similarly, house price risk is a type of market risk where the variability arises from changes in house prices.

The Group is exposed to market risk in the form of interest rate risk and house price risk. This exposure is monitored regularly and formally reviewed by the Board, as part of its ICAAP and ILAAP, on an annual basis. The Company's exposure to market movements in interest rates has been assessed as not being material.

Following the sale of the house price derivatives relating to PM, BTL and IPS mortgages the Group's exposure to house price risk is immaterial.

22. Maturity profile of all financial assets and liabilities

Investments, trade and other receivables, cash and cash equivalents, trade and other payables are all carried at historic cost for maturity analysis purposes. As they are all short term items that will crystallise within one month or less, this is a close if not exact cash equivalent value.

Financial assets at fair value (mortgages) are discounted for up to 30 years, therefore the undiscounted cash values as at 30 September 2021 are significantly higher than the fair value. The timing of the cash flows also reflects the Group's expectations in terms of early repayments based on expected customer behaviour, alongside contractual maturity dates. Amounts due to customers at amortised cost comprise principally of term deposits which are often reinvested upon maturity.

The analysis is based on the remaining period to the contractual maturity date based on undiscounted cashflows. The tables below indicate the maturity profile of the Group and Company's financial assets and liabilities as at 30 September 2021.

Group As at 30 September 2021	Within 1 year £'000	1-3 years £'000	3-5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
Financial assets						
Loans and advances to central banks	18,502	-	-	-	-	18,502
Loans and advances to banks	38,356	-	-	-	-	38,356
Debt instruments	19,999	-	-	-	-	19,999
Trade and other receivables	974	-	-	-	-	974
Loans to customers						
At amortised cost	386,212	136,857	63,352	43,821	8,217	638,459
Designated at fair value through profir or loss	8,126	-	-	-	-	8,126
	472,169	136,857	63,352	43,821	8,217	724,416
Financial liabilities	-	-	-	-	-	-
Trade and other payables	10,646	-	-	-	-	10,646
Lease liabilities	429	857	208	-	-	1,494
Amounts due to customers						
At amortised cost	338,254	166,026	53,716	-	-	557,996
At fair value through profit or loss	-	1,482	224	-	-	1,706
	349,329	168,365	54,148	-	-	571,842
Loan commitments	28,689	-	-	-	-	28,689

Group As at 30 September 2020	Within 1 year £'000	1-3 years £'000	3-5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
Financial assets						
Cash and cash equivalents	36,861	-	-	-	-	36,861
Debt instruments	116,918	-	-	-	-	116,918
Trade and other receivables	1,0.32	-	-	-	-	1,032
Loans to customers						
At amortised cost	385,942	169,131	55,219	10,268	5,357	625,917
Designated at fair value through profir or loss	5,506	-	-	-	-	5,506
	546,259	169,131	55,219	10,268	5,357	786,234
Financial liabilities						
Trade and other payables	11,500	-	-	-	-	11,500
Lease liabilities	352	857	636	-	-	1,845
Amounts due to customers						
At amortised cost	504,455	147,750	227	21	-	652,453
At fair value through profit or loss	325	489	977	75	-	1,866
	516,632	149,096	1,840	96	-	667,664
Loan commitments	27,178	-	-	-	-	27,178

23. Share capital

The following table sets out the movement in share capital of Castle Trust Holdings Limited during the year.

	2021 **£'000**	2020 £'000
Issued and fully paid:		
At 1 October	**81,497**	-
Issued to acquire Castle Trust Holdings (Jersey) Limited's 's holding of CTC	**-**	61,443
Issued in Feb & March 2020	**-**	20,054
At end of year 81,496,774,170 (2019: 1) ordinary shares of £0.10 each	**81,497**	81,497

The other reserve of £57,916k arose on the reconstruction of the group and is the difference between the nominal value and the fair value of the shares issued in exchange for the shares of the Group's previous parent.

24. Reconciliation of financing liabilities

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Group	**At 1 Oct 2020** **£'000**	**Cash flows** **£'000**	**Interest accretion** **£'000**	**Other non-cash movements** **£'000**	**Fair value changes** **£'000**	**At 30 September 2021** **£'000**
Lease liabilities	**1,676**	**(353)**	**3**	**-**	**-**	**1,326**
	1,676	**(353)**	**3**	**-**	**-**	**1,326**

	At 1 Oct 2019 £'000	Cash flows £'000	Interest accretion £'000	Other non-cash movements £'000	Fair value changes £'000	At 30 September 2020 £'000
Amounts due to customers for Fortress bonds / Deposits	711,128	-	-	(711,128)	-	-
Financial liabilities at fair value through profit or loss	3,436	-	-	(3,436)	-	-
Debt securities	536	(536)	-	-	-	-
Lease Liabilities	1,093	(356)	32	907	-	1,676
	716,193	(892)	32	(713,657)	-	1,676

25. Commitments

In 2021, the Group had future aggregate minimum lease payments under non-cancellable operating leases that fell due as follows:

	2021 £'000	2020 £'000
Within one year	**429**	364
Between one and five years	**1,065**	806
	1,494	1,170

Non-cancellable mortgage and consumer loan commitments total £28,689k (2020: £27,178k).

26. Ultimate controlling party

Castle Trust Holdings Limited's immediate and ultimate parent company is CTC Holdings (Cayman) Limited which is incorporated in the Cayman Islands. The ultimate controlling party of the Group is Mr James Christopher Flowers.

27. Long term incentive scheme

The Group operates a management incentive scheme. Members of management can be awarded B Ordinary shares of the Group's holding company, CTC Holdings (Cayman) Limited. The B shares vest at the grant date, which is the date that the award is communicated to the employee. The following table summarises the number of shares, brought forward, granted in the period, forfeited, cancelled/redeemed and carried forward. B shares were redeemed at nil value.

	At 1 October 2020	Granted in the year	Forfeited cancelled	Redeemed	As at 30 September 2021
Highest paid director	25,600	0	0	0	25,600
Directors	10,000	5,000	0	0	15,000
Other	34,545	2,750	(5,549)	0	31,746
Total	70,145	7,750	(5,549)	0	72,346

The fair value of all B shares granted in the period was £16k (2020: £155k). Based on the current valuation of the Group there would be no payment due in respect of the shares on an exit event. As such an independent valuation was commissioned which calculated the fair value based on a Black Scholes model using the current value of the Group and the volatility of comparative banks to calculate the option value of the shares.

There was a charge to the profit and loss account of £16k (2020: £155k) in relation to share based payments.

The weighted average share price of shares granted and forfeited was £2.10.

28. Related party transactions

Key management personnel

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group considers the members of the Board of directors and the Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures. Please refer to Note 6 for details of transactions with them.

There were no other related party transactions between the Company and other related parties.

29. Capital management

The primary objectives of the Group's capital management policy are to ensure that the Group complies with externally imposed capital requirements and maintains an appropriate capital position, relative to its risk, in order to support its business.

Castle Trust Capital plc and Castle Trust Capital Management Limited are subject to FCA and PRA regulation and are additionally subject to the requirements of the Capital Requirements Regulation which governs capital levels. Regulatory capital requirements of 8% of Risk-Weighted Assets ("RWAs") are monitored as part of the overall management of capital, with Key Risk Indicators assigned and monitored for regulatory capital ratios. During the current and prior period the Group complied with all external regulatory capital requirements.

The Group manages its capital structure to reflect changes in the prevailing economic conditions and the risk characteristics of its activities. The Group may adjust the quantum, tenor or riskiness of its activities and hedging strategies in order to reduce the risk that it runs, including exposures to house price, credit, interest rate, and operational risk. the Group may also seek to issue additional capital instruments. The Group's Board regularly reviews its capital position and has instituted objectives, policies and procedures for the sound management of its capital position.

Regulatory capital consists of CET1 capital, which comprises share capital, share premium, retained earnings.

As at 30 September 2021, the Group's total equity was £95.2m (2020: £79.2m).

30. Contingent liabilities

The Group operates in a legal and regulated environment that exposes it to litigation and regulatory risks. As a result the Group receives complaints, is subject to threatened or actual legal proceedings and manages regulatory enquiries and investigations, and is in continual dialogue with the Regulator, Financial Ombudsman and HMRC to ensure the compliance of its products. Where it is concluded that it is more likely than not that a payment will be made a provision is raised based on management's best estimate of the amount payable. All material matters, if any, are subject to periodic review to determine if they can be reasonably estimated. The Company does not expect the ultimate resolution of any matters to have a materially adverse impact on its financial statements except where already provided. Individual FOS fees and remediation costs where they are probable are provided for within provision for liabilities.

31. Events after the reporting date

As at the date of signing the financial statements no impact has been identified which would be deemed an adjusting or non-adjusting event, however it has been considered by the directors in their assessment of risk and the Group's ability to continue as going concern. There are no other adjusting or non-adjusting events after the reporting date.

Castle Trust Capital Nominees Limited ("CTCN") and Castle Trust Capital Management Limited ("CTCM"), were dissolved on 2 November 2021 and 11 January 2022 respectively. In addition, the activities of Castle Trust Direct plc ("CTD") have been wound down and applications have been made for them to be struck off.

Castle Trust Bank

Castle Trust Bank