CASTLE TRUST

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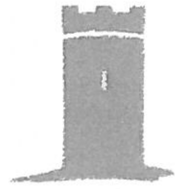

Castle Trust Capital plc

Unaudited condensed consolidated interim financial statements

31 March 2014

Registered No: 07454474

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Mr Keith William Abercromby
Mr Timothy John Hanford
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Directors' report

The directors present the Unaudited Condensed Consolidated Interim Financial Statements for Castle Trust Capital plc ('the Group' or 'Castle Trust') for the period ended 31 March 2014. The information on page 1 forms part of this report.

Significant activity in the period

Mortgage lending activity has increased considerably in the period, with lending as at 31 March 2014 standing at £9,892,367 (30 September 2013: £19,000), and with Investment funding standing at £5,210,412 (30 September 2013: £1,801,008) In order to diversify funding, manage risk and support the increase in lending, the Group has started to expand its investment offering, including a proposed fixed rate bond programme with such bonds to be listed on the Irish Stock Exchange.

Group structure

The Group comprises four operating entities: Castle Trust Capital plc, Castle Trust Capital Management Limited ('CTCM'), and Castle Trust Income Housa plc ('CTIH') plus one nominee company, Castle Trust Capital Nominees Limited ('CTCN'). In addition, Castle Trust PCC ('the PCC') and its Protected Cell, Castle Trust Growth Housa PC, are special purpose entities which are not owned by the Group but consolidated by virtue of control. On 19 May 2014, a new subsidiary was incorporated to issue fixed rate bonds on the Irish Stock Exchange. Castle Trust Direct plc is owned 100% by Castle Trust Capital plc.

Group activities

Castle Trust offers investors a simple way of accessing the UK residential housing market and UK property owners a unique alternative to conventional mortgage finance.

Castle Trust's investment products – Housas – deliver returns directly linked to UK house prices, as measured by the Halifax House Price Index ('HHPI'). They are available in three formats with varying terms: Protected (5 year), Growth (3, 5 and 10 year) and Income (3, 5 and 10 year). The Protected Housa, with the same structure as the Growth Housa, was introduced on 3 February 2014.

Castle Trust's equity loan mortgages, available to both buy to let landlords and owner occupiers, are second charge loans which require no monthly mortgage repayments. Typically, no conventional interest is payable on the loans. Instead, Castle Trust receives a share of the rise in house prices (individual property specific or house price index linked) at the end of a pre-arranged term.

CTCM provides services to the Group and its customers. In its administrative capacity it provides sales and marketing, and investment and administration management services to the PCC and its Protected Cell. It provides sales and marketing services to CTIH and provides management services to its parent, Castle Trust Capital plc. For ISA customers, CTCM provides ISA management services. Most durations of Income and Growth Housas may be placed in an ISA wrapper, except for a 3 year Income Housa.

Castle Trust subscribes for the redeemable preference shares in the PCC or loan notes in CTIH and immediately sells them to the investors for payment. Castle Trust, simultaneously, writes a swap agreement for the subscription amounts between either Castle Trust PCC or Castle Trust Income Housa plc that lends such monies from the Housa to Castle Trust. The subscription amounts due from Castle Trust to either the PCC or Castle Trust Income Housa plc will therefore be offset against the advance due under the swap agreement. The swap transactions are eliminated in the consolidated financial statements.

Regulatory environment

Castle Trust is permitted to carry out regulated investment activities and to issue Partnership Mortgages by the Financial Conduct Authority ('FCA').

Director's report

Reporting basis
The Group unaudited condensed consolidated financial statements have been prepared in accordance with IAS34 Interim Financial Reporting.

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 risks to which Castle Trust is exposed are credit, liquidity and market (ie interest rate and index tracking error) risk. None of these risks is sought, but these risks are inherent in Castle Trust's business model, and as such are regularly measured and monitored, and appropriately managed. Risks are described in full in Note 7.

The mix of Castle Trust's lending by geography, property type, age and type of borrower will create volatility in Castle Trust's profits. As the volume of business written increases, the margin between the funding and lending products will flow through to the Statement of Comprehensive Income.

Results and dividends
The results of the Group for the period are set out in the Group unaudited condensed consolidated Statement of Comprehensive Income on page 4. The Group has made a total comprehensive loss in the current financial period amounting to £4,511,115 (31 March 2013: £3,944,665). No dividends have been declared (2013: Nil).

By order of the Board

Mr Mark Banham
Company Secretary

24 June 2014

Unaudited condensed consolidated interim statement of comprehensive income

for the period ended 31 March 2014

	Note	**31 March 2014 6 months**	31 March 2013 6 months
Interest and similar income		**90,587**	77,019
Interest and similar expense		**(28,848)**	(6,409)
Net interest income		**61,739**	70,610
Fees and commission income		**8,019**	1,690
Fees and commission expense		**(110,812)**	(308)
Net fee and commission income		**(102,793)**	1,382
Net income		**(41,054)**	71,992
Net unrealised gain on financial assets at fair value through profit or loss	5	**229,288**	-
Net loss on financial liabilities at fair value through profit or loss	6	**(169,859)**	(2,448)
Total operating income		**18,375**	69,544
Personnel expenses		**(1,685,388)**	(2,060,976)
Depreciation of property and equipment		**(8,941)**	(10,146)
Other operating expenses		**(2,835,201)**	(1,925,192)
Total operating expenses		**(4,529,530)**	(3,996,314)
Loss before tax from continuing operations		**(4,511,155)**	(3,926,770)
Income tax expense	3	**-**	(15,797)
Total comprehensive loss		**(4,511,155)**	(3,942,567)
Loss for the period			
Attributable to:			
Equity holders of the parent		**(4,577,045)**	(3,966,629)
Non-controlling interests		**65,890**	24,062
Total comprehensive loss		**(4,511,155)**	(3,942,567)

The results for all periods comprise continuing operations.

Unaudited condensed consolidated interim statement of financial position

as at 31 March 2014

	Note	31 March 2014	30 September 2013
Assets		**£**	£
Property and equipment		**17,433**	7,464
Trade and other receivables		**131,019**	127,669
Financial assets at fair value through profit and loss	5	**9,892,367**	19,000
Non-current assets		**10,040,819**	154,133
Investments	4	**27,561,590**	42,438,978
Trade and other receivables		**218,656**	113,122
Prepayments		**450,522**	254,562
Cash and cash equivalents		**6,378,124**	2,666,290
Current assets		**34,608,892**	45,472,952
Total assets		**44,649,711**	45,627,085
Equity			
Share capital	8	**6,478,000**	6,478,000
Share premium		**45,540,000**	45,540,000
Retained earnings		**(13,648,800)**	(9,071,755)
Non-controlling interests		**104,007**	38,117
Total equity		**38,473,207**	42,984,362
Non-current liabilities			
Financial liabilities at fair value through profit and loss	6	**5,210,412**	1,801,008
Current tax liabilities		**-**	2,854
Trade and other payables		**931,276**	697,509
Employee benefits		**34,816**	141,352
Current Liabilities		**966,092**	841,715
Total Liabilities		**6,176,504**	2,642,723
Total Equity and liabilities		**44,649,711**	45,627,085

[signature]

Chief Financial Officer
24 June 2014

Unaudited condensed consolidated interim statement of changes in equity

For the period ended 31 March 2014

	Share capital	Share premium	Retained earnings	Total	Non-controlling interest	Total equity
	£	£	£	£	£	£
At 1 October 2013	6,478,000	45,540,000	(9,071,755)	**42,946,245**	38,117	**42,984,362**
Total comprehensive loss for the year	-	-	(4,577,045)	**(4,577,045)**	65,890	**(4,511,155)**
At 31 March 2014	**6,478,000**	**45,540,000**	**(13,648,800)**	**38,369,200**	**104,007**	**38,473,207**

For the year ended 30 September 2013

	Share capital	Share premium	Retained earnings	Total	Non-controlling interest	Total equity
	£	£	£	£	£	£
At 1 October 2012	6,478,000	45,540,000	(1,044,296)	**50,973,704**	-	**50,973,704**
Total comprehensive loss for the year	-	-	(8,027,459)	**(8,027,459)**	38,117	**(7,989,342)**
At 30 September 2013	**6,478,000**	**45,540,000**	**(9,071,755)**	**42,946,245**	**38,117**	**42,984,362**

Unaudited condensed consolidated interim statement of cash flows

for the period ended 31 March 2014

Cash flows from operating activities	Notes	31 March 2014 £	31 March 2013 £
Loss before tax from continuing operations		**(8,570,873)**	(3,926,770)
Adjustments to reconcile loss before tax to net cash flow:			
Depreciation of property and equipment		**39,381**	10,146
Interest income		**(167,606)**	-
Fair value movements through profit or loss		**(26,241)**	2,448
Mortgages issued		**(9,663,079)**	-
Taxation paid		**-**	-
Interest paid		**(22,788)**	(6,409)
		(18,411,206)	(3,920,585)
Working capital adjustments:			
Increase in other receivables		**(35,699)**	-
Decrease/(increase) in trade and other receivables		**19,069**	(227,781)
Increase in prepayments		**(300,513)**	-
Increase/(decrease) in trade and other payables		**441,229**	(217,986)
Decrease in employee benefits		**(237,123)**	-
Net cash used in operating activities		**(113,037)**	**(445,767)**
Cash flow from investing activities			
Decrease in investments		**15,909,995**	2,432,881
Interest received		**148,601**	77,019
Net cash inflow from investing activities		**16,058,596**	2,509,900
Cash flow from financing activities			
Distributions paid on Housa investments		**(17,903)**	-
Proceeds from issue of Housas	6	**4,620,546**	-
Net cash inflow from financing activities		**4,602,643**	
Net increase/(decrease) in cash at bank and in hand		**2,136,996**	(1,856,452)
Cash at bank and in hand brought forward		**4,241,128**	6,097,580
Cash at bank and in hand carried forward		**6,378,124**	4,241,128

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

1. Corporate information

Castle Trust Capital plc is incorporated and domiciled in the UK. These unaudited condensed consolidated interim financial statements for the period ended 31 March 2014 were authorised for issue in accordance with a resolution of the directors on 24 June 2014.

The Group earned income in the period from mortgage application fees and from interest earned on liquidity funds. The main expenses of the Group arise in the provision of sales and marketing, operations, and investment management services.

2. Accounting Policies

2.1 Basis of preparation

The Group's unaudited condensed consolidated interim financial statements for the period ending 31 March 2014 have been prepared under IAS 34, Interim Financial Reporting. The Group has applied the same accounting policies and methods of computation as at 30 September 2013, without alteration.

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value. The consolidated financial statements are presented in sterling and all values are rounded to the nearest pound (£) except where otherwise indicated.

Statutory consolidated financial statements dealing with the financial year ended 30 September 2013 have been delivered to the registrar. An unqualified auditor's report has been issued on the consolidated financial statements for that financial year.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 September 2013. The Group has included comparative figures for the previous full year in these financial statements. In compliance with the provisions of S.435 of the Companies Act 2006 regarding the publication of non-statutory accounts, the interim condensed consolidated financial statements do not constitute statutory accounts.

2.2 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2014.

Subsidiaries are consolidated from either the date of acquisition, being the date on which the Group obtains control, or from the date at which the Group is deemed to have gained control. Subsidiaries continue to be consolidated until the date when control ceases.

The financial statements of the subsidiaries used in the preparation of these consolidated financial statements are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. Total comprehensive income within a consolidated structured entity is attributed to non-controlling interests even where it results in a deficit balance.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

2.3 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 disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The policies presented in this section comprise the IFRS accounting policies adopted for the Group that apply as at the date of authorisation of these interim unaudited condensed consolidated financial statements.

2.3.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Consolidation of structured entities

The Group's Ultimate Controlling Party sponsors the formation of Structured Entities (SEs), which may or may not be directly or indirectly-owned subsidiaries of Castle Trust Capital plc. The Group consolidates the SEs that it controls. In determining whether the Group controls an SE, judgement is exercised to establish the following:

- whether the activities of the SE are being conducted on behalf of the Group to obtain benefits from the SE's operation;
- whether the Group has the decision–making powers to control or to obtain control of the SE or its assets;
- whether the Group has rights to obtain the majority of the benefits of the SE's activities; and
- whether the Group retains the majority of the risks related to the SE or its assets in order to obtain benefits from its activities.

See Note 10 for further information.

2.3.2 Estimates and assumptions

The key assumptions concerning the future and 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, are described below. 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.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

(i) Going concern

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

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position 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 (including the Halifax House Price Index ('HHPI')) but some judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as discount rates and early redemption assumptions.

(iii) Deferred tax assets

The status, measurement and treatment of deferred tax assets is disclosed in note 4 however these assets are not recognised in the interim condensed consolidated financial statements. The decision to not 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 might be relieved. As profits against which to offset losses are not expected to arise in the foreseeable future, no asset has been recognised. The status, measurement and treatment of these potential assets are monitored on an on-going basis.

2.4 Summary of significant accounting policies

2.4.1 Financial Instruments – Classification

The particular accounting policies adopted for financial instruments are disclosed in the individual policy statements associated with each item below.

(i) Financial assets at fair value through profit and loss recognised in the Statement of Comprehensive Income

Financial assets at fair value through profit and loss relate to mortgages originated by the group and to the Company's investment in Housas. The mortgage assets have no coupon and an explicit risk and reward sharing on the realised value of the underlying property. The Housa assets include a coupon in addition to a share of risk and reward. The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention in acquiring them.

(ii) Financial assets at amortised cost

The Group classifies its investments in short term deposits and liquidity funds as loans and receivables. Trade debtors and other receivables are classified as loans and receivables.

(iii) Financial liabilities at fair value through profit or loss

The Group designates its liabilities to Redeemable Preference ('Growth Housas') shareholders and its Loan Note ('Income Housas') holders upon initial recognition as financial liabilities at fair value through profit and loss.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

(iv) Financial liabilities at amortised cost

Trade creditors and amounts due to staff or payable in relation to staff (employee benefits) are recorded at amortised cost. In most instances, this equates to historic cost, as these liabilities are extinguished in a short time frame.

2.4.2 Financial instruments – initial recognition

(i) Date of recognition

All financial assets and liabilities are initially recognised on the date that the Group becomes a party to the contractual provisions of the instrument.

(ii) Initial measurement of financial instruments

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

2.4.3 Subsequent measurement

Subsequent to initial measurement, the Group re-measures financial instruments at fair value through profit or loss at fair value. Changes in the fair value are recognised in the Statement of Comprehensive Income. Interest and dividend income earned from such instruments are recorded separately. Other financial assets and financial liabilities are subsequently measured at amortised cost.

(i) Financial assets at fair value through profit of loss

Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in the Statement of Comprehensive Income.

The valuation of the mortgage portfolio is based on the modelled value of the dwellings underlying the individual mortgages in the portfolio. The Halifax house Price index (HHPI) provides the initial model input (adjusted for actual experience) and the index for each dwelling is adjusted for expected individual asset volatility (adjusted for actual experience) to provide the valuation. This valuation is verified by testing the estimated asset value distribution using an Automated Valuation Model 'AVM' sample valuation and these are verified on a random basis using surveyor valuations.

A gain or loss is only recognised to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. One such factor is the change in the spot price of the underlying property. This would have the effect of recognising profit and losses over the expected life of the underlying portfolio.

(ii) Financial assets at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. The losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

(iii) Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in net gains/losses on financial liabilities at fair value through profit and loss in the Statement of Comprehensive Income.

The fair value of financial liabilities at fair value through profit and loss is determined by using appropriate modelling techniques. When the fair value of financial assets, financial swap liabilities and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, their fair value is determined using Black Scholes options pricing models and discounted cash flows. The models incorporate various inputs as follows:

- Movement in HHPI: this is the percentage movement in HHPI from the Initial Index Level of each share class to the latest published value of HHPI as of the end of the year;
- Elapsed Term: this is the amount of time that has elapsed from the closing date of each share class to the end of the year;
- Expected future movement in the HHPI: this is the assumed annual rate that the HHPI is expected to grow at in the future;
- Volatility of the movement in HHPI: this is the assumed annualised volatility of the future HHPI returns; and
- Product Terms: these are terms that are specific to each share class such as profit share, loss share, coupon rate and term.

IFRS 13 requires disclosures relating to the fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, then that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. At the year end, the swap assets and liabilities at fair value through profit or loss have been classified at Level 3, because their fair value has been derived from unobservable data.

A gain or loss is only recognised to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. One such factor is the change in the HHPI index. This would have the effect of recognising profit and losses over the expected life of the underlying portfolio.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

2.4.4 De-recognition of financial assets and financial liabilities

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

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement;
  and either:
- The 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.

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

(ii) Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.4.5 Impairment of financial assets

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

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

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

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

2.4.6 Treatment of interest income and expense on financial assets and liabilities at fair value through profit and loss

Interest income and expense on financial assets and financial liabilities at fair value through profit and loss are presented in the Statement of Comprehensive Income within interest and similar income and interest and similar expense respectively Interest expense is calculated based on the Effective Interest rate associated with the underlying financial assets and financial liabilities at fair value through profit and loss.

2.4.7 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise current account balances that are available on demand.

2.4.8 Client monies

The Group holds client monies on behalf of Housa investors prior to the underlying investments being recorded in their name. Castle Trust does not obtain the rewards, nor is exposed to the risks of ownerships. Client monies are not included in the balance sheet of the Group or Company on that basis. The amount of client monies held as at 31 March 2014 was £343,000 (30 September 2013: £55,000).

2.4.9 Property and equipment

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:

- Computer equipment: 3 years
- Office equipment: 3 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition 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.

2.4.10 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.

2.4.11 Taxes

(i) 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.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

See Note 3 for further description of the current status of deferred tax assets.

2.4.12 Dividends payable on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group. Dividends for the period that are approved after the reporting date are disclosed as an event after the reporting date.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

2.4.13 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.

2.4.14 Segmental Reporting

The Group does not collate or report separately Management Information data by business segment. All business is transacted within the UK, and consequently, no geographical segmental analysis is presented.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

3. Income tax

The components of income tax expense for the period/year ended:	31 March 2014	31 March 2013
	£	£
Current tax	-	15,797
Under-provision of prior year tax	-	-
Total	-	15,797
Reconciliation of total group tax charge		
Accounting loss before tax	**(4,382,155)**	(3,926,770)
At prevailing UK statutory income tax rate of 23% (2013: 24%)	**(964,074)**	(903,157)
Tax relating to prior year loss before tax	-	
Disallowable expenses	**249**	-
Losses for which a deferred tax asset is not recognised	**963,825**	918,954
Income tax expense reported in the consolidated Statement of Comprehensive Income	-	15,797

The effective tax rate is calculated as the average rate for the year under review, being 23% to 31 March 2014 and 21% thereafter (31 March 2013: 24% and 23% respectively). Therefore the Company is subject to an average tax rate calculated over the two six month periods of its statutory accounting year.

At 31 March 2014, the Group had total trading expenses of £23,232,737 and decelerated capital losses of £1,033,308 in respect of which a deferred tax asset of £4,853,209 (2013: £3,521,997) has not been recognised due to uncertainty surrounding the availability of taxable profits against which these could be offset. The tax rate applied in determining the value of the asset not recognised is a rate of 20% which is applicable from April 2015.

4. Investments

	31 March 2014	30 September 2013
	£	£
Amounts on long term deposit	**4,955,315**	4,900,000
Amounts invested in sterling liquidity fund	**22,606,275**	37,538,978
	27,561,590	42,438,978

Amounts on long term deposit relate to funds placed with Lloyds Bank on a three month and twelve month term (2013: 12 month term deposit, receivable within twelve months of the year end).

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

5. Financial assets at fair value through profit and loss

	31 March 2014	30 September 2013
	£	£
Owner occupied and buy to let loans	**8,058,497**	19,000
Index linked mortgages	**1,833,870**	-
	9,892,367	19,000

5.1 Mortgage products

5.1.1 Owner occupier mortgages

Owner occupier mortgages (Partnership Mortgages) are secured via a second charge which sits behind a traditional mortgage. Partnership Mortgages are typically up to 20% of the property value. The maximum combined (first and second charge) loan to value (LTV) that Castle Trust will lend at is 90%. The minimum and maximum terms of lending are 6 and 30 years respectively.

There are no monthly repayments and no conventional interest is payable. Instead, the original amount of the loan is repaid at redemption - plus a share of any increase in the value of the property during the life of the loan. This share will be twice the Castle Trust LTV. For example, if a client borrows 20% LTV, the share will be 40% of the rise in the value of the property.

5.1.2 Buy to Let mortgages

Castle Trust's Buy to Let Equity Loans are mortgages to landlords usually limited to a maximum LTV of 20% secured via a legal charge which would sit behind any existing first charge mortgage. The maximum LTV is 85% (including the first charge mortgage), with minimum and maximum terms of 1 and 10 years respectively.

There are no monthly repayments and no conventional interest is payable. Instead, the original amount of the loan is repaid at redemption plus a share of any increase in the value of the property during the life of the loan. This share will be twice the Castle Trust LTV or the Minimum Repayment Amount (2% pa), whichever is higher.

5.1.3 Index Profit Share mortgages

An Index Profit Share (IPS) Mortgage is a mortgage on a property or portfolio of properties. The customer must retain a minimum of 15% equity if using an IPS Mortgage. IPS Mortgages are only issued to good credit quality customers for the re-mortgage of residential property.

There are no monthly repayments. The original amount of the loan is repaid at redemption with a deferred interest payment and (up to) twice the increase in value of the national house price index, if the property has increased in value. The product is only available to borrowers who are exempt from the Consumer Credit Act (buy to let or satisfying high net worth/business exemption tests).

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

5.2 Fair value of financial assets

The table below shows the fair values of financial assets together with their notional amounts. These assets are measured at fair value as their performance is evaluated on the basis of the movement of the HHPI. The notional amount, recorded gross, is the basis upon which changes in the value of the assets are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or the credit risk.

As at 31 March 2014	**Notional Amount**	**Fair Value**
	£	**£**
Owner occupied and equity loans	7,883,079	8,058,497
Index profit share mortgages	1,780,000	1,833,870
	9,663,079	9,892,367

As at 30 September 2013	**Notional Amount**	**Fair Value**
	£	**£**
Owner occupied and equity loans	19,000	19,000
Index profit share mortgages	-	-
	19,000	19,000

5.3 Fair value modelling

Castle Trust has developed a model to value its mortgage assets and Housa liabilities. The model uses stochastic techniques to calculate the net present value of simulated future cash flows. The simulated cash flows are based on assumptions about the range of possible events and inputs concerning the terms of the mortgages and investments.

5.3.1 Fair value measurement

The Housa model incorporates various inputs as follows:

- Movement in House Prices: the percentage movement in the house price from origination to the indexed value is between -6% and +4%.
- Elapsed Term: this is the amount of time that has elapsed from the date of completion of each mortgage to the end of the half year. As at 31 March 2014, this value varied between 6 to 0 months.
- Volatility of House Prices: this ranges from 6% to 32% in addition to this there is an allowance for index volatility as well as volatility above the index.
- Product Terms: these are terms that are specific to the mortgage products, such as Mortgage Term, Early Repayment Charge and Minimum Repayment Amount. The product terms are defined in the terms and conditions of each mortgage. The mortgage terms were between 2 and 30 years.
- Discount rates: the discount rates were calculated to be consistent with the assumptions about future house price growth. This calculation produced discount rates between 8% and 13% per annum.

Notes to the unaudited condensed consolidated interim financial statements

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5.4 Fair value hierarchy continued

All financial instruments for which fair value is recognised 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 market prices in an active market (that are unadjusted) 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).

For financial assets that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The financial assets at fair value through profit and loss have been classified as Level 3, as the lowest level input identified is the discount rate is derived from unobservable data.

Financial assets measured at fair value through profit and loss as at 31 March 2014	Level 1	Level 2	Level 3
Mortgage assets	-	-	9,892,367

Financial assets measured at fair value through profit and loss as at 30 September 2013	Level 1	Level 2	Level 3
Mortgage assets	-	-	19,000

Mortgage assets are measured at fair value on a recurring basis, and as discussed above, their valuation is categorised at level 3. The following table shows a reconciliation from the opening balances to the closing balances, including the total (unrealised) gains for the period that are recognised in profit or loss, and in other comprehensive income. There were no transfers into level 3 assets other than the completions in the period, and no transfers out.

	Owner occupied and equity loans	Index linked mortgages	Total
	£	£	£
Opening balance as at 1 October 2013	19,000	-	19,000
Completions in the period	7,864,079	1,780,000	9,644,079
Net gain on financial assets at fair value through profit or loss	175,418	53,870	229,288
Closing balance as at 31 March 2014	8,058,497	1,833,870	9,892,367

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

5.4 Fair Value Hierarchy continued

	Owner occupied and equity loans	Index linked mortgages	Total
	£	£	£
Opening balance as at 1 October 2012	-	-	-
Completions in the period	19,000	-	19,000
Net gain on financial assets at fair value through profit or loss	-	-	-
Closing balance as at 30 September 2013	19,000	-	19,000

5.5 Sensitivity of Fair Value movements

Castle Trust's model for calculating the fair value of its mortgage assets and Housa liabilities includes unobservable inputs. Changing one of these inputs, whilst holding the others constant, would lead to higher or lower fair values. There is a strong interrelationship between the discount rates and the other inputs described below. This interrelationship mitigates the majority of the effect of changes in the inputs on the fair value. This is because Castle Trust's valuation methodology is to derive the discount rate using the issuance terms as evidence of a market price. Analysis of the sensitivity of the changes in one of the inputs combined with a change to the discount rate concluded that the fair value model is materially insensitive to changes in these unobservable inputs.

The most significant unobservable inputs are considered below:

Expected future movement in the HHPI: increasing this parameter will increase the modelled house prices at maturity, which will increase the modelled cash flows at maturity and therefore increase the fair value. However, any increase in this input produces an increase in the discount rates which largely mitigates the impact on the fair value.

Discount rates: increasing this parameter will reduce the fair values.

Volatility of the movement in HHPI: increasing this parameter will increase the range of expected house price outcomes. Given the product terms, this will increase the modelled cash flows at maturity and therefore increase the fair value.

Volatility of house prices: increasing this parameter will have a similar effect to increasing the 'Volatility of the movement in HHPI'.

The most significant input that materially changes the fair value of the Mortgage assets is the published HPPI value, analysed below:

Financial assets at fair value through profit and loss	Increase HHPI by 10%	Decrease HHPI by 10%
	£	£
Impact on net assets	**762,011**	**(725,348)**

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6. Financial Liabilities at fair value through profit and loss

6.1 Fair value of financial liabilities

The table below shows the fair values of financial liabilities together with their notional amounts. These liabilities are measured at fair value as their performance is evaluated on the basis of the movement of the HHPI. The gross notional amount is the basis upon which changes in the value of the liabilities are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or the credit risk.

As at 31 March 2014	Notional Amount	Fair Value
	£	£
Liability to Income Housa customers	1,273,990	1,315,415
Liability to Growth Housa customers	3,732,237	3,894,997
	5,006,227	5,210,412

As at 30 September 2013	Notional amount	Fair Value
	£	£
Liability to Income Housa customers	472,665	477,396
Liability to Growth Housa customers	1,292,807	1,323,612
	1,765,472	1,801,008

Fair value modelling

During the period, the fair values of the Housa Liabilities have been modelled using a new model. The 'QRS' model uses stochastic cash flow simulation techniques, as opposed to the Housa Pricing System in use as at 30 September 2013, which used Black Scholes and other conventional finance techniques. The underlying assumptions behind both models are very similar, and the difference between the fair values of the Housa Liability as at 30 September 2013 calculated by each do not materially differ.

The QRS (and the Housa Pricing System) models incorporate various inputs including the movement in HHPI from issuance to the latest published value of HHPI as at 31 March 2014, the amount of time elapsed from issuance to 31 March 2014, the expected future movement in HHPI, the amount of variation or volatility in this future movement and the product terms, as described in more detail below. During the cooling off period, the fair value is determined as being the purchase price of the HHPI swap. The financial liabilities at fair value through profit and loss have been classified as Level 3, as the lowest level input identified is the discount rate is derived from unobservable data.

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6.1 Fair value of financial liabilities

Fair value measurement

The QRS model incorporates various inputs as follows:

- Movement in HHPI: this is the percentage movement in HHPI from the Initial Index Level of each share class to the latest published value of HHPI as of the end of the year. As at 31 March 2014, the latest published value of HHPI was 577.4. The Initial Index Level varied from 517.2 for the November 2012 series to 577.4 for the March 2014 series. As at 30 September 2013, the published value of HHPI was 550.5. The Initial Index Level varied from 517.2 for the November 2012 series to 556.7 for the August 2013 series.
- Elapsed Term: this is the amount of time that has elapsed from the closing date of each share class to the end of the half year. As at 31 March 2014, this value varied between 17 months for the October 2012 series to 0 months for the March 2014 series.
- Expected future movement in the HHPI: this is the assumed annual rate that the HHPI is expected to grow at in the future and was 4.5% per annum.
- Volatility of the movement in HHPI: this is the assumed annualised volatility of the future HHPI returns and was 12.91% per annum. This is defined consistently with market practice for financial option valuation approaches.
- Product Terms: these are terms that are specific to each share class such as profit share, loss share, coupon rate and term, as set out in further detail in sections **6.2** and **6.3** below. The product terms are defined in the terms and conditions of each Housa. In summary, the profit share was between 170% and 100%; the loss share was between 100% and 0%; the coupon rate was between 0% and 3% per annum and the term was 3, 5 or 10 years.
- Discount rates: The discount rates were calculated to be consistent with the assumptions about future house price growth. This calculation produced discount rates between 5% and 10% per annum.

6.2 Income Housas

Income Housas are loan notes issued by Castle Trust Income Housa plc and were first listed on the Channel Islands Stock Exchange on 4 October 2012. The loan notes are divided into classes. There are currently 3 classes offered each month: 3 year term, 5 year term, and 10 year term. The Income Housa is designed for investors who seek both returns linked to house price movements and also a fixed income.

Investment Return

The Investment Return is the amount payable as calculated under the relevant investment product with respect to each Loan Note on its maturity date by Castle Trust as follows:

(HHPI Percentage Change x Investment Amount) + Investment Amount

Interest

Each Loan Note bears interest from (and including) the first day following the end of the offer period at the rate per annum stated in the table below. Interest will be payable in arrears quarterly in each year up to (and including) the quarter immediately preceding the maturity date of the Loan Note.

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Maturity Period of Loan Note	Annual interest
3 years	2.0%
5 years	2.5%
10 years	3.0%

6.3 Growth and Protected Housas

Growth and Protected Housas are Participating Preference Shares issued by Castle Trust PCC. Growth Housas were first listed on the Channel Islands Stock Exchange on 4 October 2012; Protected Housas were first listed on 3 February 2014. The Participating Preference Shares of the Cell are divided into classes. There are currently 3 classes offered each month: 5 year protected growth term shares, 5 year term shares, and 10 year term shares. The Growth Housa is an investment product which is designed to grant the investor exposure to the potential growth or fall of the HHPI over the life of the product. It will provide a return such that the amount invested will be adjusted by the returns providing an enhanced exposure to the upside in the HHPI and a reduced exposure to the downside. The precise terms of the return payable to Investors depend on the duration of the product and whether the investment is held until redemption or early redeemed at the Group's discretion. See Table 6.4b below for details of the nominal and fair values of the Growth Housas as at 31 March 2014.

Investment return on the Growth Housas

The Investment Return is the amount payable as calculated under the relevant Investment Product with respect to each Participating Preference Share on the relevant Maturity Date calculated by Castle Trust as follows:

((Return Multiple x HHPI Percentage Change) + 1) x Investment Amount

Where:

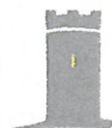
The 'Return Multiple' is:

(i) if the Final HHPI Level is greater than the Initial HHPI Level:

Maturity Period of Participating Preference Shares	Return multiple
3 years	1.25
5 years	1.5
10 years	1.7

(ii) if the Final HHPI Level is lower than the Initial HHPI Level:

Maturity Period of Participating Preference Shares	Return Multiple
3 years	0.75
5 years	0.5
10 years	0.3



Notes to the unaudited condensed consolidated interim financial statements

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Investment return on the Protected Housas
The Investment Return is the amount payable as calculated with respect to each Participating Preference Share on the relevant Maturity Date calculated by Castle Trust as follows:

((Return Multiple x HHPI Percentage Change) + 1) x Investment Amount

(i) **if the Final HHPI Level is greater than the Initial HHPI Level, the return multiple is 1**

(ii) **if the Final HHPI Level is lower than the Initial HHPI Level, the return multiple is 0, ie the initial investment amount is returned to the investor**

6.4 Financial Instruments

Fair value hierarchy
The Group held the following classes of financial instruments measured at fair value. There were no movements between classes.

Financial Instruments measured at fair value as at 31 March 2014	**Level 1**	**Level 2**	**Level 3**
Financial liabilities measured at fair value through profit and loss	-	-	5,210,412
Financial Instruments measured at fair value as at 30 September 2013	**Level 1**	**Level 2**	**Level 3**
Financial liabilities measured at fair value through profit and loss	-	-	1,801,008

Housa liabilities are measured at fair value on a recurring basis, and as discussed above, their valuation is categorised at level 3. The following table shows a reconciliation from the opening balances to the closing balances, including the total realised and unrealised gains for the period that are recognised in other comprehensive income. There were no transfers into level 3 assets other than the completions in the period, and no transfers out other than redemptions.

	Income Housas	**Growth Housas**	**Total**
	£	**£**	**£**
Opening balance as at 1 October 2013	**477,396**	**1,323,612**	**1,801,008**
Creations in the period	**1,304,738**	**2,478,980**	**3,783,718**
Redemptions in the period	**(503,413)**	**(40,760)**	**(544,173)**
Realised loss on financial liabilities at fair value through profit & loss	**28,370**	**1,164**	**29,534**
Unrealised loss on financial liabilities at fair value through profit or loss	**8,324**	**132,001**	**140,325**
Closing balance as at 31 March 2014	**1,315,415**	**3,894,997**	**5,210,412**

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6.5 Sensitivity of Fair Value movements

Castle Trust's model for calculating the fair value of its mortgage assets and Housa liabilities includes unobservable inputs. Changing one of these inputs, whilst holding the others constant, would lead to higher or lower fair values. There is a strong interrelationship between the discount rates and the other inputs described below. This interrelationship mitigates the majority of the effect of changes in the inputs on the fair value. This is because Castle Trust's valuation methodology is to derive the discount rate using the issuance terms as evidence of a market price. Analysis of the sensitivity of the changes in one of the inputs combined with a change to the discount rate concluded that the fair value model is materially insensitive to changes in these unobservable inputs.

The most significant unobservable inputs are considered below:

Expected future movement in the HHPI: Increasing this parameter will increase the modelled house prices at maturity, which will increase the modelled cash flows at maturity and therefore increase the fair value. However, any increase in this input produces an increase in the discount rates which largely mitigates the impact on the fair value.

Discount rates: Increasing this parameter will reduce the fair values.

Volatility of the movement in HHPI: Increasing this parameter will increase the range of expected house price outcomes. Given the product terms, this will increase the modelled cash flows at maturity and therefore increase the fair value.

The most significant input that materially changes the fair value of the Mortgage assets is the published HPPI value, the impact of which is analysed below:

Financial liabilities at fair value through profit and loss	**Increase HHPI by 10%**	**Decrease HHPI by 10%**
	£	**£**
Impact on net assets	**457,070**	**(431,645)**

7. Risk Management

The Group's activities expose it to various types of financial risk that are associated with financial instruments and markets in which it participates. The Group's overall risk management objective is to minimise the potential adverse effects of these financial risks on its performance and maximise the correlation of the company's performance to the HHPI. The Investment Manager monitors and reports to the directors the performance of the Group, at least quarterly.

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for the period ended 31 March 2014

7.5.1 Credit risk

Retail credit risk is inherent in the Castle Trust Partnership Mortgage product. This risk is managed in the loan origination and servicing processes. 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 is also exposed to Credit risk in terms of its investments in fixed deposit funds with Lloyds Bank of £4,955,315 (2013: £4,900,000). It has considered its exposure with respect to HSBC, in terms of their current accounts and liquidity funds, where the maximum exposure is £33,939,714 (2013: £45,105,268). As the liquidity funds comprise a well-diversified set of underlying investments, they are not considered to pose a significant credit risk. The current accounts retain an element of such risk, which was considered when Castle Trust assessed its exposure to credit risk as part of its ICAAP. Credit risk for the mortgages was quantified at £27,596 as at 31 March 2014 (nil as at 30 September 2013).

7.5.2 Liquidity risk

Liquidity risk is inherent within the Castle Trust Business Model. However, active management of the duration profile of the assets and liabilities significantly reduces the Group's exposure to liquidity risk. In addition, a minimum twenty per cent of the balance of funds received from the issuance of the redeemable preference shares and loan notes will be maintained, to ensure adequate liquidity is available to service redemption obligations. Triggers which define risk tolerance have been determined by the Risk Committee, which has been delegated authority from the main Board. These risk limits can only be changed with Board approval, and are reviewed on a quarterly basis.

7.5.3 Concentration risk

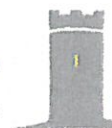
Currently, concentration risk is not considered material in any category other than Credit risk, with respect to the Counterparty risk of Castle Trust's investments held with Lloyds Bank of £4,955,315 (30 September 2013:£4,900,000). The Group's exposure to HSBC liquidity funds is not considered a concentration risk since the underlying investments of the liquidity fund are themselves diverse.

7.5.4 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 such as interest rates and given the inherent nature of the underlying investment product, the company is exposed to movements in the HHPI.

7.5.4.1 Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments. The Group manages interest rate risk by placing funds on deposit with a variety of credit institutions with varying durations of not more than two years. Castle Trust assesses its exposure to interest rate risk as part of its ICAAP. The maximum exposure to interest risk in 2014 could be expressed as the loss of all interest received of £90,587 (30 September 2013: £176,061). However, the actual risk is considerably lower than this, as investments are managed regularly to optimise the interest receivable.



Notes to the unaudited condensed consolidated interim financial statements

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7.5.4.2 Index tracking error risk

Index tracking error risk is the risk that gains or losses on the combined Partnership Mortgage and Housa portfolio arise due to over or under performance of house prices in certain segments. Index tracking error risk arises from the following sources: systemic differences between the portfolio of Partnership Mortgaged houses and the composition of the index, for example by region; over or underperformance of index due to index specific reasons; concentration of the portfolio of Partnership Mortgaged houses in a finite number of dwellings. It is measured on a monthly basis and reported to the quarterly Board Risk Committee meetings. The maximum potential exposure to index tracking error risk in the portfolio was £9,892,367 (30 September 2013: £19,000).

The table below indicates the maturity profile of the Group's financial assets and financial liabilities at the reporting date. Financial assets and liabilities at fair value through profit and loss are measured at the value of the HHPI index as at the reporting date, with the assumption that the index remains at this level. The analysis is based on the remaining period to contractual maturity date as at the reporting date.

As at 31 March 2014	Within 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years	Total
Financial assets	£	£	£	£	£
Other receivables	-	-	131,019	-	**131,019**
Financial assets at fair value through profit and loss	-	339,584	1,995,217	7,557,566	**9,892,367**
Investments	27,561,590	-	-	-	**27,561,590**
Trade and other receivables	218,656	-	-	-	**218,656**
	27,780,246	**339,584**	**2,126,236**	**7,557,566**	**37,803,632**
Financial liabilities					
Financial liabilities through profit and loss – Growth Housa	-	875,843	1,751,686	1,324,443	**3,951,972**
Financial liabilities through profit and loss – Income Housa	-	294,690	589,381	443,749	**1,327,820**
Trade and other payables	931,276	-	-	-	**931,276**
Employee benefits	34,816	-	-	-	**34,816**
	966,092	**1,170,533**	**2,341,067**	**1,768,192**	**6,245,884**

Note that the fair values of Trade and other receivables, and Trade and other payables approximate to cost due to the short settlement duration of these assets and liabilities. The fair value of Other receivables approximates materially to cost, however we regularly consider the duration of settlement of this balance and will adjust accordingly in future periods should the discounted value differ materially from historic cost. Investments are included at fair value, which is the same as cost for cash equivalents, and includes accrued but unearned interest on term deposits.

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for the period ended 31 March 2014

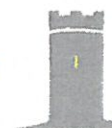
As at 30 September 2013	Within 1 year	More than 1 year less than 3 years	More than 3 years less than 5 years	More than 5 years	Total
Financial assets	£	£	£	£	£
Other receivables	-	-	127,669	-	**127,669**
Financial assets at fair value through profit and loss	-	-	-	19,000	**19,000**
Investments	42,438,978	-	-	-	**42,438,978**
Trade and other receivables	113,122	-	-	-	**113,122**
	42,552,100	**-**	**127,669**	**19,000**	**42,698,769**
Financial liabilities					
Financial liabilities through profit and loss – Growth Housa	-	331,351	630,110	362,154	**1,323,615**
Financial liabilities through profit and loss – Income Housa	96,637	59,769	344,524	58,300	**559,230**
Current tax liabilities	-	2,854	-	-	**2,854**
Trade and other payables	697,509	-	-	-	**697,509**
Employee benefits	141,352	-	-	-	**141,352**
	935,498	**393,974**	**974,634**	**420,454**	**2,724,560**

8. Share Capital

Issued capital: Group and Company **Authorised, allotted, called up and fully paid**	**31 March 2014**	30 September 2013
Ordinary shares (Number)	**64,780,000**	64,780,000
Ordinary shares (£) at £0.10 par value per share	**6,478,000**	6,478,000

Movement in issued share capital in the period:

	Issued Capital	Share Premium	Total
	£	£	£
At 1 October 2013 and 31 March 2014	**6,478,000**	**45,540,000**	**52,018,000**



Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

9. Capital management

The primary objectives of Castle Trust's capital management policy are to ensure that Castle Trust complies with externally imposed capital requirements and healthy capital ratios in order to support its business.

Castle Trust manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, Castle Trust may adjust the ratio of investment to mortgage business, and can manage the duration and investment strategy for funds on deposit. No changes have been made to the objectives, policies and processes from the previous years. However, they are under constant review by the Board. Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium and retained earnings including current year losses.

Castle Trust Capital plc and Castle Trust Capital Management Limited are regulated by the Financial Conduct Authority.

Regulated capital requirements are monitored as part of the overall management of capital, with Key Risk Indicators assigned and monitored for key capital ratios.

As at 31 March 2014, the Group's capital totalled £38,473,207 (30 September 2013: £42,984,362).

10. Consolidated entities

The Group holds 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	Holding	Proportion of voting rights & shares held, & nominal value	Nature of business	Country of incorporation
Castle Trust Capital Management Limited	Ordinary shares	100%	Investment company	UK
Castle Trust Income Housa plc	Ordinary shares	100%	Investment Company	Jersey
Castle Trust Capital Nominees Limited*	Ordinary shares	100%	Nominee Company	UK

* The holding of Castle Trust Capital Nominees Limited is indirectly held through Castle Trust Capital Management Limited.

Notes to the unaudited condensed consolidated interim financial statements

for the period ended 31 March 2014

10. Consolidated entities continued

10.1 Consolidation of Structured Entities

The shares in the Castle Trust PCC ('the PCC') and its cell ('the PC') are held by an independent nominee company, whose shares are held in trust. Although Castle Trust Capital plc does not own, directly or indirectly, any of the share capital of the PCC or PC or their parent companies, it retains the majority of the residual risks and rewards related to the assets, liabilities and returns of the companies, and they have therefore been treated as subsidiaries for the purpose of consolidation of the consolidated financial statements.

Castle Trust enters into swap transactions each month with the PC. The substance and legal form of this transaction is to transfer the PC's liability to its investors to the balance sheet of Castle Trust Capital plc. In addition, Castle Trust receives and manages the funds received from Housa investors using these to fund Partnership Mortgages, up to a maximum of 80% of the balance of funds received. Shareholder funding is also used to provide Partnership Mortgages.

In addition, through Castle Trust Capital Management Limited, the Group provides Sales and Marketing, and Investment Management services to the PC, thereby providing the majority of its operational functionality. The terms of the Investment Management agreement do not include a restricted mandate; therefore the Group is able to substantially control the results of the PC.

11. Events after the reporting date

On 11 June 2014, Castle Trust Capital plc invested £500,000 in the Ordinary Share Capital of Castle Trust Direct plc, an investment company incorporated in England and Wales on 19 May 2014. Castle Trust Capital plc holds 100% of the voting rights and nominal value of shares in Castle Trust Direct plc.