Castle Trust Capital plc

Unaudited condensed consolidated interim financial statements for the six months ended 31 March 2017

Interim management report and unaudited condensed consolidated interim financial statements

For the six months ended 31 March 2017

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Corporate information

Registered No: 07454474

Directors

Mr Andrew Spencer Doman	(appointed 28 March 2017)
Mr Richard Alexander McGregor Ramsay	
Dr David Raymond Morgan	(resigned 2 December 2016)
Mr Jonathan James Cox	(appointed 20 January 2017)
Mr Timothy John Hanford	
The Rt Hon The Lord Deben	
Mr Patrick Nigel Christopher Gale	
Mr Sean Oldfield	
Mr Matthew Peter Vincent Wyles	

Secretary

Mr Mark Banham	(resigned 5 April 2017)
Mr Andrew Macdonald	(appointed 3 May 2017)

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

Registered office
10 Norwich Street
London
EC4A 1BD

Interim management report

The directors present their interim management report and the unaudited condensed consolidated interim financial statements (the "interim financial statements") of Castle Trust Capital plc (the "Company", "Castle Trust" or "CTC") and consolidated entities (the "Group") for the six months ended 31 March 2017.

Business overview

Castle Trust is a leading specialty finance provider in the UK supported by a stable retail funding base. We compete 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. We see our competitive advantage as our ability to deliver products that are highly valuable for our customers but not offered by the traditional banking industry. This is supplemented by our knowledge of the distribution networks in which we operate, the strength of our underwriting and our superior market insight. This has enabled us to deliver competitive pricing relative to our peers.

In the half year to 31 March 2017, we have aligned our business activities into four segments namely: mortgage finance, residential development finance, point of sale consumer lending and funding. The main strategic priorities for the reporting period were to grow the value of the loan book across all business lines, so as to lead to growth in net interest income and to invest in our systems. We are pleased to report success in achieving these priorities: the total loan book has grown by 32% from £339.5 million to £449.4 million; net interest income has grown by a factor of 3.8x from £1,662k for the 6 months to 31 March 2016 to £6,358k for the 6 months to 31 March 2017; the system implementation work is running to schedule and, amongst other benefits, it will allow Castle Trust to insource its investment operations. As expected, the Group made a total comprehensive loss in the six month period to 31 March 2017 of £2,828k (31 March 2016: loss of £3,913k). The Company is confident that it will reach profitability by continuing to deliver against its targets to grow the loan book and therefore net interest income.

Mortgage finance

This business serves discrete niche segments within the UK mortgage market, where competitive pressures are less acute. This encompasses both first and second charge lending secured against a range of residential property including specialist assets such as houses in multiple occupation, purpose built student accommodation, holiday lets and apartment blocks. Target customers include portfolio investors and high net worth individuals. We have a flexible and creative approach to structuring. This focus enables us to deliver attractive and sustainable risk adjusted returns in excess of those which are available in the mainstream mortgage market.

The key strategic priority for this business is to grow the mortgage book so as to benefit from efficiencies of scale. Over the reporting period the book grew by 25.4% (annualised rate) from £328.7 million as at 30 September 2016 to £370.5 million as at 31 March 2017. This success is driven by our ability to offer mortgages that are tailored to our customers' requirements. We pride ourselves on our ability to provide innovative solutions and a customer centric approach and have developed a reputation for this with our mortgage brokers.

Residential development finance

This business serves residential 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 site acquisition, refurbishment, conversions under permitted development rights and new build houses/apartments.

The key strategic priority for this business is to grow the lending book by establishing our brand in the development finance market and tapping into a stream of opportunities to deploy our capital. The reporting period has seen gross new commitments of £16.0 million (£1.8 million for the half year to 31 March 2016). This success is driven by our proposition that incorporates a strong structuring capability, complemented by a culture of high quality service and pragmatic, responsive underwriting.

Point of sale consumer lending

Castle Trust has established a business line in point of sale finance to consumers through the acquisition of Omni Capital Retail Finance Ltd ("Omni"), which completed on 17 January 2017. Consideration paid was £4.9 million which resulted in goodwill arising on acquisition of £8.2 million, please refer to note 18 for further details. The Group, therefore, now provides point of sale finance allowing small to medium-sized retailers to offer finance to their customers in store or online with credit decisions provided within seconds. The combination of Omni's platform with the Group's low cost of funding and capability in credit analytics is expected to allow significant growth in Omni's loan book and accelerate the Group's transition to profitability.

The key strategic priority for this business line is to increase its origination volume by offering retailers a higher acceptance rate than other lenders are able to. This is achieved through Castle Trust's capability in credit analytics and the use of market leading credit decision making technology. Gross new lending in the half year to 31 March 2017 was £25.9 million (£19.9 million for the half year to 31 March 2016). This has resulted in a growth of the loan book from £45.0 million as at 30 September 2016 to £47.9 million as at 31 March 2017.

Funding business

This business line supplies funding to the other business lines of Castle Trust to enable them to grow their lending. The funding is sourced through a structure that enables Castle Trust to offer fixed rate bonds ("Fortress Bonds") to retail customers that are protected by the investment arm of the Financial Services Compensation Scheme ("FSCS"). The programme has demonstrated a track record of offering customers attractive returns. Our ability to secure funding at a competitive cost enables us to continue to grow our lending activities in line with our strategic objectives.

The key strategic priorities for this business are to grow the size of the funding base and to diversify the funding through other channels and products. Our funding business has continued to deliver strong results. We have raised a further £118.2 million in the period through new issuances and our existing customers elected to re-invest an average 68% of the proceeds of their maturing bonds during the period. This activity led to an increase in funding liabilities (amounts due to customers and Housa liabilities) of 20% (annualised rate) from £422.3 million as at 30 September 2016 to £465.5 million as at 31 March 2017. The growth in this business line is driven by our investment in our digital marketing capability.

Principal risks and uncertainties

Castle Trust is prepared to take on considered risk in order to meet its strategic objectives provided the reward is sufficient to compensate for the risk. In addition, the risks are controlled to meet the reasonable expectations of key stakeholders and to safeguard Castle Trust's reputation and capital. The Group is subject to financial risks, such as credit risk, market risk and liquidity risk, as well as non-financial risks, such as operational risk. The Board is responsible for setting the risk appetite for each of these risks. The Group measures its exposure to the risks on a regular basis and reviews the exposure every quarter.

Two areas of uncertainty of particular interest impacting the Group are the UK Election in June 2017 and the UK's withdrawal from the European Union ("EU"). The UK government started the formal process of withdrawing from the EU (commonly referred to as "Brexit") on 29 March 2017 following the referendum vote in 2016, putting the UK on course to leave the EU by April 2019. It may take several years before the impact of Brexit on Castle Trust's business becomes clear. However, the Board has considered the potential impact of Brexit as part of setting the risk appetite for the business and will continue to monitor this and the outcome of the UK Election closely.

The Group remains well capitalised with abundant liquidity reserves. The common equity tier one ("CET1") ratio was 24.7% as at 31 March 2017 (2016: 21.3%) which is well in excess of the regulatory minima and market standards. The Group held 14.1% (2016: 26.1%) of its balance sheet in liquid assets.

There have been no significant changes to the principal risks and uncertainties faced by the Group since 30 September 2016. Risks are further described in note 14.

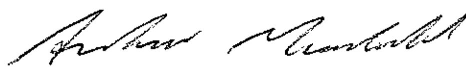
Directors and secretary

The names of the persons who served as directors / secretary of the Group at any time during the six months ended 31 March 2017 and up to the date of the approval of the unaudited condensed consolidated interim financial statements are set out on page 1. Except where indicated, they served as directors / secretary for the entire period.

Results and dividends

The results of the Group for the period are set out in the unaudited condensed statement of comprehensive income on page 5. The directors have not elected or proposed to pay a dividend (2016: £nil).

By order of the Board



Mr Andrew Macdonald
Company Secretary
29 June 2017

Statement of directors' responsibilities

The directors confirm that to the best of their knowledge:

- the condensed set of consolidated financial statements, which has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and undertakings included in the consolidation as a whole as required by DTR 4.2.4R;

- the interim management report includes a fair review of the information required by DTR 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the year.

By order of the Board

Sean Oldfield
Founder and Chief Executive Officer
29 June 2017

Unaudited condensed consolidated interim statement of comprehensive income

For the six months ended 31 March 2017

	Notes	**Six months ended 31 March 2017 £'000**	Six months ended 31 March 2016 £'000
Interest and similar income		**14,775**	7,405
Interest and similar expense		**(8,417)**	(5,743)
Net interest income		**6,358**	1,662
Fees and commission income		**140**	34
Fees and commission expense		**(20)**	(9)
Realised gain on financial instruments at fair value through profit or loss		**1,998**	1,278
Unrealised gain on financial instruments at fair value through profit or loss		**(417)**	(444)
Total operating income		**8,059**	2,521
Administrative expenses		**(10,451)**	(6,888)
Impairment losses on loans to customers	5	**(566)**	(55)
Depreciation and amortisation		**(272)**	(147)
Total operating expenses		**(11,289)**	(7,090)
Loss before tax		**(3,230)**	(4,569)
Corporation tax	3	**402**	656
Total comprehensive loss		**(2,828)**	(3,913)
Loss for the period attributed to:			
Non-controlling interests		**(25)**	(3)
Equity holders of the parent		**(2,803)**	(3,910)
Total comprehensive loss		**(2,828)**	(3,913)

The results for all periods presented comprise continuing operations.

Notes on pages 9 to 29 are an integral part of these financial statements.

Unaudited condensed consolidated interim statement of financial position

Registered No: 07454474
As at 31 March 2017

Assets	Notes	As at 31 March 2017 £'000	As at 30 September 2016 £'000
Cash and cash equivalents	4	**76,482**	108,803
Loans and advances to credit institutions		**1,250**	16,150
Loans to customers			
At amortised cost	5	**360,704**	244,840
Designated at fair value through profit or loss	6	**81,910**	88,021
Derivative financial instruments			
House price option	7	**6,820**	6,662
Derivatives held for risk management	8	**536**	970
Fair value hedge asset		**779**	1,125
Trade and other receivables		**5,191**	3,394
Prepayments		**313**	199
Other receivables		**374**	2,426
Deferred tax asset	3	**6,246**	5,759
Property and equipment		**389**	163
Intangible assets	9	**10,928**	645
Total assets		**551,922**	479,157
Liabilities			
Trade and other payables		**5,572**	2,426
Derivatives held for risk management	8	**1,592**	2,258
Fair value hedge liability		**-**	101
Amounts due to customers	11	**454,688**	410,614
Financial liabilities at fair value through profit or loss	10	**25,871**	27,210
Total liabilities		**487,723**	442,609
Equity			
Share capital	12	**9,526**	6,478
Share premium		**72,971**	45,540
Retained earnings		**(18,372)**	(15,569)
Non-controlling interests		**74**	99
Total equity		**64,199**	36,548
Total equity and liabilities		**551,922**	479,157

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2017 and were signed on its behalf by:

Sean Oldfield
Founder and Chief Executive Officer
29 June 2017

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 31 March 2017

	Share capital	Share premium	Retained earnings	Total	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 October 2016	6,478	45,540	(15,569)	36,449	99	36,548
Total comprehensive loss for the period	-	-	(2,803)	(2,803)	(25)	(2,828)
Issue of share capital	3,048	27,431	-	30,479	-	30,479
At 31 March 2017	9,526	72,971	(18,372)	64,125	74	64,199

For the six months ended 31 March 2016

	Share capital	Share premium	Retained earnings	Total	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 October 2015	6,478	45,540	(12,556)	39,462	157	39,619
Total comprehensive loss for the period	-	-	(3,910)	(3,910)	(3)	(3,913)
At 31 March 2016	6,478	45,540	(16,466)	35,552	154	35,706

Notes on pages 9 to 29 are an integral part of these financial statements.

Unaudited condensed consolidated interim statement of cash flows

For the six months ended 31 March 2017

	Six months ended 31 March 2017	Six months ended 31 March 2016
Cash flows from operating activities	**£ '000**	£'000
Bank interest received	**143**	67
Bank charges and interest paid	**(113)**	(27)
Fees and commission paid	**(1,107)**	(1,000)
Fees and commission received	**4,553**	1,226
Payments to suppliers	**(7,933)**	(7,725)
Payments to employees	**(4,421)**	(3,599)
Mortgages issued	**(94,460)**	(67,684)
Mortgages principal redeemed	**37,419**	12,654
Mortgage profit share received	**2,205**	1,111
Mortgage interest received	**5,681**	760
Consumer loans issued	**(11,702)**	-
Consumer loans principal redeemed	**8,833**	-
Consumer loan interest received	**1,134**	-
Net cash used in operating activities	**(59,768)**	(64,217)
Cash flow from investing activities		
Purchase of subsidiary	**(4,865)**	-
Cash and cash equivalents acquired in purchase of subsidiary	**5,692**	-
Repayment of loans on purchase of subsidiary	**(53,835)**	-
Purchase of intangible assets	**(1,076)**	(367)
Proceeds from sale of / (payments to purchase) loans and advances to credit institutions	**14,900**	(11,458)
Purchase of property, plant and equipment	**(93)**	(16)
Net cash (outflow) / inflow from investing activities	**(39,277)**	(11,841)
Cash flow from financing activities		
Proceeds from issue of financial liabilities at fair value through profit or loss	**-**	
Proceeds from issue of share capital	**30,479**	-
Proceeds from issue of financial liabilities at amortised cost	**115,916**	331
Interest paid for financial liabilities at fair value through profit or loss	**(20)**	(15)
Distributions of principal for redemptions of financial liabilities at fair value through profit or loss	**(687)**	(21)
Distributions of profit share for financial liabilities at fair value through profit or loss	**(207)**	-
Interest paid for financial liabilities at amortised cost	**(4,377)**	(8,905)
Distributions of principal for maturities of financial liabilities at amortised cost	**(74,380)**	81,545
Net cash inflow from financing activities	**66,724**	72,935
Net increase / (decrease) in cash and cash equivalents	**(32,321)**	(3,123)
Cash and cash equivalents at beginning of the period	**108,803**	49,389
Cash and cash equivalents at end of the period	**76,482**	46,266

Notes on pages 9 to 29 are an integral part of these financial statements.

1. Corporate information

Castle Trust Capital plc is incorporated and domiciled in the UK. These unaudited condensed consolidated interim financial statements for the six months ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors on 29 June 2017.

Product range

Mortgage finance business

Max loans

Max loans are mortgages issued to Buy-To-Let ("BTL") landlords. They are secured by way of a first or second charge on residential property. Interest is charged on a fixed rate basis and is serviced monthly. The loans are priced individually, dependent upon a range of factors including duration and loan to value ("LTV") ratio. Loans typically have a contractual term of less than three years. The maximum combined LTV (including first charge mortgage, if any) is generally 82.5%.

Flex loans

Flex loans are similar to Max loans expect the interest is deferred until the maturity of the loan. The Group considers the deferred interest element as part of assessing the LTV of the loan

Residential Development Finance loans

Residential Development Finance ("RDF") loans are available to property developers and priced on a case-by-case basis depending on the risk (i.e. complexity, location, liquidity, size & personal guarantee quality) of the scheme and developer. Security is typically by way of a first legal charge over the site and personal guarantees from the key principals. The maximum term is typically up to 2 years with a loan size typically between £1 million to £10 million.

Point of sale consumer loans

Castle Trust has established a business line in point of sale finance to consumers through the acquisition of Omni, which completed on 17 January 2017. The Group, therefore, now provides point of sale finance allowing small to medium-sized retailers to offer finance to their customers in store or online with credit decisions provided within seconds.

Funding business - Fortress bonds

Fortress bonds are fixed rate bonds of between 1 and 5 years' term that are issued to the public and listed on the Irish Stock Exchange. Interest is paid either quarterly or at maturity depending on the type of the product. The Fortress Bonds are eligible to be held within an ISA. Early encashment is not permitted. The bonds benefit from protection offered by the investment arm of the Financial Services Compensation Scheme ("FSCS"), which as at 31 March 2017, offers compensation up to a maximum of £50,000 per eligible investor.

Legacy products

Castle Trust holds legacy mortgage and investment products that are linked to individual house prices or the Halifax House Price Index ("HPI"). The Index Profit Share ("IPS") mortgage was the last house price linked product available and ceased to be available post March 2016. The Housa is a retail investment product of fixed term (between 2 and 10 years) which pays the customer a return linked to the HPI and was available up to October 2015.

2. Accounting policies

2.1 Basis of preparation

The Group's unaudited condensed consolidated interim financial statements for the six months ended 31 March 2017 have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted for use in the EU. The Group has applied the same accounting policies and methods of computation as at 30 September 2016.

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

These interim financial statements should be read in conjunction with the audited financial statements for the year ended 30 September 2016, which were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU.

Statutory accounts

The unaudited condensed consolidated interim financial statements do not represent statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial statements for the year ended 30 September 2016 were approved by the Board of Directors on 24 January 2017 and filed with the Registrar of Companies on 15 February 2017. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498 of the Companies Act 2006.

Basis of consolidation

The unaudited condensed consolidated interim financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2017. 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 arrangement 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.

Significant accounting judgements, estimates and assumptions

The preparation of the Group's unaudited condensed 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 unaudited condensed interim 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.

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.

Structured entities are entities whereby consolidation is not solely determined by voting rights and share ownership.

The Group determines whether it is a parent by assessing whether it controls the SEs. The Group considers all relevant facts and circumstances when assessing whether it controls the SEs. The Group controls the SEs when it is exposed, or has rights, to variable returns from its involvement with the SEs and has the ability to affect those returns through its power over the SEs.

The Group consolidates the SEs that it controls. The Group's involvement with consolidated SEs is detailed in note 16.

Impairment losses on loans to customers

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

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

The impairment loss on loans to customers is disclosed in more detail in note 5.

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.

The unaudited condensed consolidated interim 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 considered:

- business activities, future developments and the financial position of the Group;
- risk management policies and how the Group is placed to manage business risks;
- risks to the Group's going concern arising from support it has committed to other Group members.

The Group remains adequately capitalised to continue operations.

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. The judgements include considerations of liquidity, discount rates and early redemption assumptions.

Fair value of acquired assets and liabilities in business acquisitions

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. The judgements include forecast origination rates, interest rates, discount rates, retail retention rates and bad debt levels.

Impairment of goodwill

Goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to a cash generating unit. Judgement is needed to determine the appropriateness of this allocation. Impairment testing involves a number of judgmental areas: the preparation of cash flow forecasts; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of their separable assets.

Deferred tax assets

The status, measurements and treatment of deferred tax assets recognised in the unaudited condensed consolidated financial statements are disclosed in note 3. 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 might be relieved. The status, measurement and treatment of these assets are monitored at each reporting date.

2.2 Significant accounting policies

The accounting policies and methods of computation and presentation applied by the Group in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those set out in the Group's Annual Report for the year ended 30 September 2016 except for a new accounting policy in respect of the business combinations and acquisition accounting which is set out below. Comparative figures have been adjusted, where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

Business combinations

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.

The future income stream arising from the loyalty of long standing customer relationships acquired as part of the business combination is expected to enhance the Group's future income and is assessed and recognised as an intangible asset. The asset is being amortised over three years. In addition 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.

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

New standards, interpretations and amendments to the existing standards and interpretations

All standards, amendments and interpretations which are effective for the financial year beginning 1 October 2016 are not material to the Group. The Group has not adopted any new or amended accounting pronouncements.

2.3 Standards issued but not yet effective

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

- IFRS 9 Financial Instruments, effective from 1 January 2018, replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a different classification of financial assets based on the entity's business model and the cash flow characteristics of the instruments. IFRS 9 applies one classification approach for all types of financial assets, including those that contain embedded derivative features. The financial assets will be classified in their entirety rather than being subject to complex bifurcation requirements. IFRS 9 will replace the existing incurred loss impairment approach with an expected credit loss approach. Under this approach at initial recognition of a loan, an allowance is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk and the estimation of ECL must be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date.

  IFRS 9 is expected to have a significant impact on the risk and finance functions of the Group. The Group is currently completing its impact assessment.

  Hedge accounting will become more closely aligned with risk management practices under IFRS 9. The Group has elected to continue with IAS 39 hedging that is an option under IFRS 9 until a separate IASB project to address macro hedge accounting strategies is finalised and can be assessed. At this stage it is not possible to quantify the potential impact of IFRS 9, however the Group will provide a further update in the 2017 annual report.

- IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018, replaces IAS 11 Construction contracts, IAS 18 Revenue and several related interpretations. It introduces a single framework for revenue recognition based on new concepts and principles. The Group is currently completing its impact assessment.

- IFRS 16 Leases, effective from 1 January 2019, replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease and two related SIC interpretations. The new standard requires the lessees to recognise right-of-use assets and lease liabilities for most leases over 12 months long. Lessor accounting has largely remained unchanged. The Group is currently completing its impact assessment.

- Amendments to IAS 12 Income Taxes, effective from 1 January 2017, clarifies the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Group is currently completing its impact assessment.

- In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently completing its impact assessment.

3. 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 Group's corporate tax rate for the current and prior period.

Current taxation

	31 March 2017 £'000	31 March 2016 £'000
Current tax		
Current income tax	-	-
Deferred tax (credit) relating to origination and reversal of temporary differences	**(402)**	(656)
Total tax	**(402)**	(656)
Reconciliation of total group tax charge		
Accounting (loss) / profit before tax	**(3,230)**	(4,569)
UK corporation tax at 20% (2016: 20%)	**(646)**	(914)
Effect of change in tax rates on the deferred tax asset	-	249
Adjustment to tax charge in respect of previous periods - deferred tax	**(1)**	-
Difference between current tax rate and rate at which deferred tax asset will unwind	**29**	-
Disallowable expenses	**146**	-
Losses for which a deferred tax asset was not previously recognised	**70**	9
Total tax credit	**(402)**	(656)

The following table shows the deferred tax recorded in the unaudited condensed consolidated interim statement of financial position and changes recorded in corporation tax expense.

Deferred tax

	Period ended 31 March 2017 £'000	Year ended 30 September 2016 £'000
Balance at start of the period / year	**5,759**	5,663
Recognised in profit and loss during the period / year	**402**	96
Deferred tax asset arising from acquisition of subsidiary	**85**	-
Balance at the end of the period / year	**6,246**	5,759

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is probable that future taxable profits will be available to utilise the asset.

As at 31 March 2017, the Group had total trading losses of £28,136k (30 September 2016: £24,352k) and decelerated capital allowances of £1,015k (30 September 2016: £963k) in respect of which a deferred tax asset of £6,246k has been recognised (30 September 2016: £5,759k). Included within the deferred tax was a deferred tax liability of £116k relating to acquisition of Omni and an intangible asset of £606k. The tax rates applied in determining the value of the deferred tax asset unwinding is 19% (2016: 19.5%) which is the tax rate at which the asset is expected to unwind. The Group has tax losses of £3,589k, short term timing differences of £1,985k and decelerated capital allowances of £11k, on which no deferred tax asset has been recognised on the basis that the relevant companies are not likely to become profitable in the near future.

4. Cash and cash equivalents

The following table sets out each component of cash and cash equivalents. Cash and cash equivalents include cash and highly liquid financial assets with original maturities of less than three months from the date of acquisition that are subject to an insignificant risk of changes in their fair value.

	31 March 2017	30 September 2016
	£'000	£'000
Cash at bank	**32,219**	21,653
Short-term deposits and other liquid assets	**44,263**	87,150
	76,482	108,803

A cash collateral account with HSBC of £1,250k (2016: £1,250k) that is associated with the interest rate swaps hedging activities has been included within loans and advances to credit institutions, its carrying amount approximates its fair value.

5. Loans to customers at amortised cost

Loans to customers at amortised cost comprise all Flex & Max, Residential Development Finance loans and consumer loans and the fixed income component of all IPS mortgages issued since 1 October 2014. The following table sets out the notional amount of the loans in comparison to their amortised cost. Notional amounts represent the amounts loaned at issuance.

	31 March 2017		30 September 2016	
	Notional amount	**Amortised cost**	Notional amount	Amortised cost
	£'000	**£'000**	£'000	£'000
Development Finance	**30,456**	**31,095**	10,595	10,821
Max mortgages	**23,100**	**23,213**	6,992	7,006
Index Profit Share mortgages	**68,543**	**76,145**	75,384	81,366
Flexible Zero mortgages	**172,300**	**183,306**	138,189	146,026
Consumer loans	**-**	**47,888**	-	-
Impairment provision	**-**	**(943)**	-	(379)
	294,399	**360,704**	231,160	244,840

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

Fair value modelling techniques are described in note 13.1. There were no transfers into Level 3 assets other than completions and redemptions in the period.

The following table sets out a reconciliation, from the start to the end of the period, of the movement in specific and collective impairment provisions in the unaudited condensed consolidated interim statement of financial position.

Reconciliation of impairment movements in the period to 31 March 2017

	Specific provision	**Collective provision**	**Total**
	£'000	**£'000**	**£'000**
Opening balance at 1 October 2016	**-**	**379**	**379**
Charge for the year	**147**	**419**	**566**
Closing balance at 31 March 2017	**147**	**798**	**945**

Reconciliation of impairment movements in the year to 30 September 2016

	Specific provision	Collective provision	Total
	£'000	£'000	£'000
Opening balance at 1 October 2015	133	58	191
Charge for the year	-	321	321
Unwind of previous provision	(133)	-	(133)
Closing balance at 30 September 2016	-	379	379

6. 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. For fair value hierarchy classifications, modelling and sensitivities disclosures refer to note 13.

Mortgage assets designated at fair value through profit or loss are measured at fair value on a recurring basis and their valuation is categorised at Level 3. The following table shows 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 and unrealised gains on financial assets designated at fair value through profit or loss'.

Movements in the period	**31 March 2017**	30 September 2016
	£'000	£'000
Opening balance at 1 October 2016 / 1 October 2015	**88,021**	87,682
Completions in the period	**-**	1,259
Redemptions in the period	**(6,312)**	(9,510)
Interest income component	**484**	2,317
Net gain on financial assets designated at fair value through profit or loss	**(283)**	6,273
Closing balance at 31 March 2017 / 30 September 2016	**81,910**	88,021

The amount of change in the fair value of financial assets that is attributable to changes in the credit risk during the period is a profit of £2,146k (30 September 2016: loss of £195k) and cumulatively is a profit of £1,586k (30 September 2016: £560k). There were no transfers into Level 3 assets, and no transfers out other than redemptions.

7. House price option

IPS mortgages issued since 1 October 2014 are bifurcated into the host contract, being the fixed interest repayment element included in Loans to customers at amortised cost in note 5, and the house price option, being the return linked to the HPI index. Prior to this date these mortgages were not bifurcated.

The table below shows the fair values of these financial assets together with their notional amounts. These assets are measured at fair value as they are managed and their performance is evaluated on a fair value basis. The notional amount represents the fair value of house price options at inception.

	31 March 2017		30 September 2016	
	Notional amount	**Fair value**	Notional amount	Fair value
	£'000	**£'000**	£'000	£'000
IPS mortgage house price option	**2,913**	**6,820**	3,196	6,662

Movements in the period:

	IPS mortgage house price option £'000
Opening balance at 1 October 2015	5,193
Completions in the year	356
Redemptions in the year	(380)
Net gain on house price derivatives at fair value through profit or loss	1,493
Closing balance at 30 September 2016	6,662
Completions in the period	**-**
Redemptions in the period	**(283)**
Net gain on house price derivatives at fair value through profit or loss	**441**
Closing balance at 31 March 2017	**6,820**

For fair value hierarchy classifications, sensitivities and modelling assumptions underlying the fair value of house price linked derivatives, refer to note 13.

8. Derivatives held for risk management

The Group uses derivative financial instruments to hedge its exposure to interest rate risk in relation to increases/decreases in interest rates relating to loans to customers and liabilities at amortised cost.

The following table shows a breakdown of the derivatives used at the reporting date and the 30 September 2016:

As at 31 March 2017

Derivatives held for risk management	Contract or underlying principal amount £'000	Positive market value £'000	Negative market value £'000	Total £'000
Interest rate swaps (not in hedging relationships)	50,000	-	(704)	(704)
Interest rate swaps (fair value hedges)	223,000	536	(888)	(352)
	273,000	536	(1,592)	(1,056)

As at 30 September 2016

Derivatives held for risk management	Contract or underlying principal amount £'000	Positive market value £'000	Negative market value £'000	Total £'000
Interest rate swaps (not in hedging relationships)	60,000	-	(989)	(989)
Interest rate swaps (fair value hedges)	213,000	970	(1,269)	(299)
	273,000	970	(2,258)	(1,288)

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

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

Hedge accounting

The Group has utilised the hedging rules set out in IAS 39, Financial Instruments: Recognition and Measurement, to designate derivatives as a fair value hedge to reduce accounting volatility where hedge effectiveness is achieved. A fair value hedge is a hedge of the exposure to changes in fair value of a designated asset, liability or unrecognised firm commitment that is attributable to a particular risk that could have an impact on the statement of comprehensive income. As required by IAS 39, documentation is produced for each main class of fair value hedge.

Castle Trust has applied fair value hedge accounting on a portfolio basis. The hedging relationship is between a portfolio of assets or liabilities and a portfolio of derivatives. Castle Trust analyses cash flows from these portfolios into repricing time periods based on the expected maturity profile. A hedged item is then designated as a portion of the cash flows within this profile that Castle Trust wishes to hedge. Castle Trust designates the hedging instrument as the portfolio of derivatives. A quantitative approach is applied on a periodic basis to measure the effectiveness of the hedge based on the fair value movements of the hedged items and hedging instruments relating to the designated hedged risk. Providing the hedge is proved highly effective, Castle Trust recognises the change in fair value of each hedged item in the statement of comprehensive income, with the cumulative movement in the hedged item being shown in the statement of financial position. Hedge ineffectiveness is recorded in the statement of comprehensive income.

9. Intangible assets

The following table sets out the net book value of intangible assets recorded in the unaudited condensed consolidated statement of financial position by category of intangible asset. Software includes mortgage operations, valuation and software acquired as part of the acquisition of Omni Capital Retail Finance Ltd. Goodwill and customer relationships also relate to the acquisition of Omni Capital Retail Finance Ltd (refer to note 18). Software costs are amortised over three years.

	Goodwill	Customer relationships	Software acquired as part of acquisition	Internally developed software	Total
Cost	£'000	£'000	£'000	£'000	£'000
At 1 October 2015	-	-		357	357
Additions in year - internally developed	-	-		412	412
At 30 September 2016	-	-		769	769
Additions in the period	8,212	606	642	1,029	10,489
At 31 March 2017	**8,212**	**606**	**642**	**1,798**	**11,258**
Accumulated amortisation and impairment					
At 1 October 2015	-	-	-	21	21
Amortisation charge for the year	-	-	-	103	103
At 30 September 2016	-	-	-	124	124
Amortisation charge for the period	-	42	71	93	206
At 31 March 2017	-	42	71	217	330
Net book value					
At 30 September 2016	-	-	-	645	645
At 31 March 2017	**8,212**	**564**	**571**	**1,581**	**10,928**

10. Financial liabilities at fair value through profit or loss

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

10.1 Fair value of Housa liabilities

Housa liabilities are measured at fair value (on a recurring basis) because they are managed and their performance is evaluated on a fair value basis. The notional amount, being the actual cash received from the investor, 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 end of the period and are indicative of neither the market risk nor the credit risk. The notional amount as at 31 March 2017 was £9.0 million (30 September 2016: £9.7 million) and fair value of £10.8 million (30 September 2016: £11.8 million).

The amount of change in the fair value of financial liabilities that is attributable to changes in the credit risk during the period is a profit of £140k (2016: loss of £461k) and cumulatively is a loss of £321k (2016: loss of £461k).

The following table shows a reconciliation from the opening balances to the closing balances, including the losses for the period that are recognised in the statement of comprehensive income.

	31 March 2017	30 September 2016
	£'000	£'000
Opening balance at 1 October	**11,792**	10,837
Creations in the period	**-**	331
Redemptions in the period	**(893)**	(213)
Net (gain) / loss on financial liabilities at fair value through profit or loss	**(64)**	837
Closing balance at 31 March / 30 September	**10,835**	11,792

10.2 Fair value of other financial liabilities at fair value through profit and loss

The table below shows the fair values of derivative liabilities together with the notional amounts. These liabilities are measured at fair value because they are managed and their performance is evaluated on a fair value basis. The notional amounts indicate the principal against which the derivative payoff is calculated. Derivative financial liabilities include over-the-counter call options sold to CTC Holdings (Cayman) Ltd, the Company's ultimate parent entity.

	31 March 2017 Notional amount £'000	**31 March 2017 Fair value £'000**	30 September 2016 Notional amount £'000	30 September 2016 Fair value £'000
HPI index contract - call options	**200,000**	**15,036**	200,000	15,418
Total fair value of other financial liabilities at fair value through profit or loss	**200,000**	**15,036**	200,000	15,418

The amount of change in the fair value of derivative liabilities that is attributable to changes in the credit risk during the period is a loss of £251k (2016: profit of £890k) and cumulatively is a profit of £639k (2016: £890k).

11. Amounts due to customers

Amounts due to customers in respect of Fortress Bonds are valued at amortised cost, less transaction costs incurred in issuing the bonds.

	31 March 2017 £'000	30 September 2016 £'000
Nominal value of Fortress Bonds sold	**453,430**	409,998
Transaction costs	**(9,094)**	(8,035)
Interest on an EIR basis	**10,352**	8,651
Amounts due to customers	**454,688**	410,614

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

12. Share capital

On 27 January 2017, the company allotted an additional 30,478,643 ordinary shares of £0.10 each to its immediate parent company, Castle Trust Holdings (Jersey) Limited. The total amount paid was £1 per share with the difference accounted for as share premium.

13. Fair value modelling, hierarchy and sensitivities

13.1 Fair value modelling

Castle Trust has developed a model to value its financial assets, liabilities and derivatives. The model uses standard valuation 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 Castle Trust within a control framework. Model assumptions are reviewed by the board.

The model incorporates various inputs as detailed below.

Mortgage fair value measurement

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

- Castle Trust loan to value: this is the size of Castle Trust's loan relative to the value of the property. It varied from 0.9% to 80% (30 September 2016: 3.3% to 72.5%).
- Senior loan to value: this is the size of primary mortgage relative to the value of the property. It varied from 0% (ie. There is no senior loan), where Castle Trust was a first charge lender, to 81.6% (30 September 2016: 81.6%).
- Change in house prices: the percentage change in the house price from origination to the indexed value is between -8.1% and 44% (30 September 2016: -6% and 45.6%).

- Elapsed term: this is the amount of time that has elapsed from the date of completion of each mortgage to the end of the period. As at 31 March 2017, this value varied between 0 to 41 months (30 September 2016: 6 to 35 months).
- Volatility of house prices: this ranges from 3.4% to 47.9% (30 September 2016: 3.4% to 47.9%). 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 1 and 30 years (30 September 2016: 2 and 30 years).
- Expected repayment rates: this ranges from 0% to 12% per annum (30 September 2016: 0% to 12% per annum) depending on the elapsed time since the mortgage was drawn. In addition, there are adjustments for seasonality and market conditions.
- Discount rates: the discount rates were calculated to be consistent with the assumptions about future house price growth. This calculation produced discount rates as per the below table for the various mortgage products:

	2017 Min %	**2017 Max %**
Partnership Mortgages	**8.4%**	**13.6%**
Buy To Let Equity Loans: fixed income component	**3.7%**	**9.2%**
Buy To Let Equity Loans: house price derivative component	**19.7%**	**25.2%**
Index Profit Share mortgages: fixed income component	**3.7%**	**9.2%**
Index Profit Share mortgages: house price derivative component	**73.7%**	**79.2%**

	2016 Min %	2016 Max %
Partnership Mortgages	8.4%	13.6%
Buy To Let Equity Loans: fixed income component	4.4%	10.1%
Buy To Let Equity Loans: house price derivative component	20.4%	26.1%
Index Profit Share mortgages: fixed income component	4.4%	10.1%
Index Profit Share mortgages: house price derivative component	74.4%	80.1%

Housa liabilities fair value measurement

The financial liabilities at fair value through profit or loss have been classified as Level 3, as the lowest level input identified is the discount rate which is derived from unobservable data.

The model, as applied to Housa liabilities, incorporates various inputs, of which the most significant are as follows:

- Movement in HPI: This is the percentage movement in HPI from the Initial Index Level of each share class to the latest published value of HPI as of the end of the year / period. As at 31 March 2017, the latest published value of HPI was 699.49 (30 September 2016: 692.5). The Initial Index Level varied from 519.3 for the October 2012 series to 656.3 for the October 2015 series (30 September 2016: The Initial Index Level varied from 519.3 for the October 2012 series to 656.3 for the October 2015 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 period. As at 31 March 2017, this value varied between 53 months for the October 2012 series of Housas to 17 months for the October 2015 series (30 September 2016: this value varied between 47 months for the October 2012 series of Housas to 11 months for the October 2015 series).
- Product terms: These are terms that are specific to each share class such as profit share, loss share, coupon rate and term. The product terms are defined in the terms and conditions of each Housa. In summary, the profit share was between 100% and 170% (2016: 100% and 170%); the loss share was between 0% and 100% (2016: 0% and 100%); the coupon rate was between 0% and 3% (2016: 0% and 3%) per annum and the term was 2, 3, 5 or 10 years.
- Discount rates: The discount rates were calculated to be consistent with the assumptions about future house price growth and uncertainty in the underlying cash flows. For the house price derivative component cash flows, this calculation produced discount rates between 12.49% and 51.32% (30 September 2016: between 12.02% and 50.58%) for the Participating Preference shares which are linked to the Greater London Index and between 11.30% and 45.91% (30 September 2016: between 10.83% and 45.19%) for the Participating Preference shares which are linked to the National Index. For the fixed income component cash flows, this calculation produced discount

rates between 1.90% and 2.99% (30 September 2016: between 1.21% and 2.56%) per annum for both components of cash flows).

Derivative liabilities fair value measurement

The model, as applied to derivative liabilities, incorporates various inputs, of which the most significant are as follows:

- Movement in HPI: This is the percentage movement in HPI from the Initial Index Level of option to the latest published value of HPI as of the end of the period. As at 31 March 2017 this is 1.6% (30 September 2016: 0.52%). As at 31 March 2017 the latest published value was 699.49 (30 September 2016: 692.50).
- Elapsed term: This is the amount of time that has elapsed from the trade date of each option to the end of the period. As at 31 March 2017, this value was 11 months (30 September 2016: 5 months).
- Product terms: These are terms that are specific to each option such as strike price and term. In summary, the strike was between 107.5% and 117.5% and the terms are between 3 and 7 years.
- Discount rates: The discount rates were calculated to be consistent with the assumptions about future house price growth. As at 31 March 2017, this calculation produced discount rates between 20.34% and 32.30% per annum (30 September 2016: between 19.92% and 31.77% per annum).

Other inputs which are common to all categories of financial instruments are:

- Expected house price growth rate: this is the assumed annual rate that the HPI is expected to grow at in the future and was 4.7% (2016: 4.7%) per annum. This is defined on a continuously compounded basis.
- Volatility of the movement in HPI: This is the assumed annualised volatility of the future HPI returns and was 11.84% per annum (30 September 2016: 11.84%). This is defined consistently with market practice for financial option valuation approaches.

Consumer loans fair value measurement

The model as applied to valuing the customer loan book, incorporates various inputs, of which the most significant, are as follows:

- Estimation of the probability of future default based on how the portfolio has historically performed. Default rates vary from less than 1% on performing customers to close to 100% on loans which are 6 months in arrears or more.
- Assumption that customers who are not currently paying or are not in a regular payment plan are assumed to stay in default unless cash has been received shortly after measurement date.
- Incorporating a sale value for defaulted accounts depending on their status ranging from single digit %'s for loan balances which have been previously outsourced to specialists for collection up to around 50% for customers on regular but below originally agreed payment plans.
- Discount rates based on comparative benchmarks for similar businesses and consistent with the company's average cost of capital.

13.2 Fair value hierarchy analysis

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

- 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

For loans and receivables and financial liabilities held at amortised cost, the Group also considers the fair value of the items, and as a result, their position in the fair value hierarchy. Fair values are determined according to the published

interest rates, adjusted for the time value of money and credit spread risk, using a discounted cash flow model. The hierarchy position is considered to be Level 3, as the lowest level input, being the discount rate, is unobservable.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

For assets and liabilities that are recognised in the financial statements 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.

Financial instruments whose carrying value approximates their fair value are not included in the fair value analysis below, on the basis that the receipt of the related cash is not more than three months from the date of the recognition of the asset/liability and is not subject to significant credit risk.

The following table provides an analysis of fair values of financial assets and liabilities held on the statement of financial position, grouped into Levels 1 to 3:

As at 31 March 2017

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Loans to customers					
At amortised cost	-	-	366,695	366,695	360,704
Designated at fair value through profit or loss	-	-	81,910	81,910	81,910
Derivative financial instruments					
House price option	-	-	6,820	6,820	6,820
Derivatives held for risk management	-	536	-	536	536
Fair value hedge asset	-	779	-	779	779
Total	-	1,315	455,425	456,740	450,749
Liabilities					
Derivatives held for risk management	-	1,592	-	1,592	1,592
Fair value hedge liability	-	-	-	-	-
Amounts due to customers	-	-	470,160	470,160	454,688
Financial liabilities at fair value through profit or loss	-	-	25,871	25,871	25,871
Total	-	1,592	496,031	497,623	482,151

As at 30 September 2016

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Loans to customers					
At amortised cost	-	-	250,438	250,438	244,840
Designated at fair value through profit or loss	-	-	88,021	88,021	88,021
Derivative financial instruments					
House price option	-	-	6,662	6,662	6,662
Derivatives held for risk management	-	970	-	970	970
Fair value hedge asset	-	1,125	-	1,125	1,125
Total	-	2,095	345,121	347,216	341,618
Liabilities					
Derivatives held for risk management	-	2,258	-	2,258	2,258
Fair value hedge liability	-	-	101	101	101
Amounts due to customers	-	-	430,273	430,273	410,614
Financial liabilities at fair value through profit or loss	-	-	27,210	27,210	27,210
Total	-	2,258	457,584	459,842	440,183

There were no transfers into Level 3 assets other than completions in the year, and no transfers out.

13.3 Sensitivity of fair value movements

Castle Trust's valuation models for calculating the fair value of its mortgage assets, Housa liabilities and derivative liabilities 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:

House Price Index: The house price index level is used in the valuation models to estimate current property values and calculate the settlement amount for assets / liabilities when the payoff is directly linked to the house price index. For house price linked assets an increase / (decrease) in the index level will lead to an increase / (decrease) in the

asset fair value. For house price linked liabilities an increase / (decrease) in the index level will lead to an increase / (decrease) in the liabilities fair value.

Credit Premium Discount Rate: The credit premium discount rate expresses the additional return required by a willing buyer for taking up additional risk. The discount rate is implied from buy to let mortgage rates quoted in the primary market. An increase / (decrease) in the discount rate will lead to a decrease / (increase) in the asset fair value.

Risk Free Discount Rate: The risk-free discount rate is estimated by implied LIBOR zero rates. An increase / (decrease) in the discount rate will lead to a decrease / (increase) in the asset fair value while an increase / (decrease) in the discount rate will lead to a decrease / (increase) in the liability fair value.

House Price Risk Premium: The house price risk premium expresses the additional return required by a willing buyer for taking up additional risk to house price linked exposure.

For house price linked assets an increase / (decrease) in the risk premium will lead to a decrease / (increase) in the asset fair value. For house price linked liabilities an increase / (decrease) in the risk premium will lead to a (decrease) / increase in the liabilities fair value. The asset fair value sensitivity is concentrated in BTL equity loans while the liability fair value sensitivity is concentrated in house price index options.

Expected House Price Growth Rate: The expected growth rate is used in the valuation models to estimate the expected future growth of the house price indices and house prices. The growth rate is used consistently across asset and liability valuations.

For house price linked assets an increase / (decrease) in the growth rate will lead to an increase / (decrease) in the asset fair value. For house price linked liabilities an increase / (decrease) in the growth rate will lead to an increase / (decrease) in the liabilities fair value.

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.

As at 31 March 2017

Model input	Sensitivity range %	Asset fair value sensitivity £'000	Liability fair value sensitivity £'000	Net fair value sensitivity £'000
House Price Index	10%	14,176	(9,521)	4,655
	-10%	(12,923)	7,569	(5,354)
Credit Premium Curve	1%	(2,709)	-	(2,709)
	-1%	2,886	-	2,886
Interest Rates	1%	(2,709)	863	(1,846)
	-1%	2,886	(910)	1,977
House Price Risk Premium	10%	(6,422)	5,316	(1,107)
	-10%	11,168	(8,064)	3,104
HPI Growth Rate	1%	4,028	(3,124)	904
	-1%	(3,822)	2,791	(1,030)

Castle Trust

As at 30 September 2016

Model input	Sensitivity range %	Asset fair value sensitivity £'000	Liability fair value sensitivity £'000	Net fair value sensitivity £'000
House Price Index	10%	14,554	(8,940)	5,614
	-10%	(13,588)	7,358	(6,231)
Credit Premium Curve	1%	(3,023)	-	(3,023)
	-1%	3,226	-	3,226
Interest Rates	1%	(3,023)	1,007	(2,016)
	-1%	3,226	(1,067)	2,159
House Price Risk Premium	10%	(7,096)	6,040	(1,056)
	-10%	12,569	(9,450)	3,119
HPI Growth Rate	1%	4,393	(3,410)	983
	-1%	(4,151)	3,033	(1,118)

Castle Trust's valuation models for calculating the fair value of its consumer loans makes 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:

Probability of future default: The probability of future default is used in the valuation of the loan book to determine, in conjunction with loss given default, the estimated expected losses. An increase/(decrease) in probability of default will typically decrease/(increase) the fair value of consumer loans.

Recovery sale value: The recovery sale value is the estimate used to determine what the based level loss given default is. An increase/(decrease) in the recovery sale value will typically increase/(decrease) the fair value of consumer loans.

Discount factor: Based on the weighted average cost of debt of the consumer loans business that a market participant would be assumed to have. An increase/(decrease) in the discount factor will typically decrease/(increase) the fair value of consumer loans.

Sensitivities are based on the loan book at acquisition as the difference between fair value and carrying value is not expected to have moved materially in the two and a half months' to 31 March 2017.

Model input	**Sensitivity range** **%**	**Asset fair value sensitivity** **£'000**
Probability of future default	1%	(362)
	-1%	352
Recovery sale value	5%	215
	-5%	(235)
Discount factor	1%	(386)
	-1%	395

14. 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. Castle Trust assesses all these risks and its capital adequacy as part of its Internal Capital Adequacy Assessment Process ("ICAAP") which is conducted on an annual basis.

14.1 Credit risk

Credit risk is the risk that a counterparty will fail to meet its obligations in accordance with agreed terms. In general, it arises from the counterparty being either unwilling or unable to settle its obligations.

The Group manages its credit risk in accordance with policies set by the Board. The Group is exposed to credit risk from its loans to customers, derivative financial instruments, cash and cash equivalents and its loans and advances to credit institutions. The Group's maximum exposure to credit risk is set out in the table below.

As at 31 March 2017	Neither past due nor impaired	Past due but not impaired	Individually impaired	Collective and specific provision	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and cash equivalents	76,482	-	-	-	76,482
Loans and advances to credit institutions	1,250	-	-	-	1,250
Loans to customers					
At amortised cost	361,172	-	475	(943)	360,704
Designated at fair value through profit or loss	81,910	-	-	-	81,910
Derivative financial instruments					
House price option	6,820	-	-	-	6,820
Derivatives held for risk management	536	-	-	-	536
	528,171	-	475	(943)	527,702

As at 30 September 2016	Neither past due nor impaired	Past due but not impaired	Individually impaired	Collective and specific provision	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and cash equivalents	108,803	-	-	-	108,803
Loans and advances to credit institutions	16,150	-	-	-	16,150
Loans to customers					
At amortised cost	239,645	5,574	-	(379)	244,840
Designated at fair value through profit or loss	88,021	-	-	-	88,021
Derivative financial instruments					
House price option	6,662	-	-	-	6,662
Derivatives held for risk management	970	-	-	-	970
	460,251	5,574	-	(379)	465,446

Credit risk associated with Flex, Max, Residential Development Finance 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 £1.64 billion at the end of reporting period (30 September 2016: £1.45 billion), which represents the indexed value of properties at the reporting dates. In many cases Castle Trust's charge over this collateral is subordinated by another lender's charge. The following table shows combined first and second charge loan to value analysis for all loans by band held at the end of the period:

LTV band %	31 March 2017 £'000	31 March 2017 %	30 September 2016 £'000	30 September 2016 %
0 - 21	2,490	2%	1,218	1%
21 - 50	62,132	15%	68,836	20%
51 - 70	222,578	55%	191,809	56%
71 - 85	114,293	28%	77,734	23%
86 - 90	941	0%	306	0%
91+	55	0%	-	0%
Carrying value before impairment provision	402,489	100%	339,903	100%

The LTV used in the table above for Development finance is based on the Gross Development Value (the estimated value at completion). Total exposure to Development finance is £31,095k with an average LTV of 69%.

The Group operates a forbearance policy. As at 31 March 2017, the Group deemed 4 mortgages (30 September 2016: 6 mortgages) of notional value of £245k (30 September 2016: £523k) and carrying value of £275k (30 September 2016: £593k) to be in forbearance with the first charge lender. No provision has been deemed necessary for these mortgages.

Omni sometimes makes concessions to the original terms of loans as a response to a customer's financial difficulties. Indicators of financial difficulties considered by Omni that trigger consideration of forbearance are the aggregate arrears status. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions, such as freezing interest a Reduced Payment Arrangement or Debt Management Plan Arrangement.

Once the terms have been amended any impairment is measured using a collectively modelled specific provision. The specific provision is modelled on a collective basis as each loan advanced by Omni is individually not significant and the approach is consistent with IAS39 as contemplated in the application guidance AG92. In modelling the specific provision the discount rate used is the average effective interest rate weighted by issuance. Assumptions are also made with respect to the estimated cash recovery at the termination of the loan agreement.

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

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 Group has considered its exposure with respect to HSBC and the funds that it manages in terms of their current accounts and liquidity funds, where the maximum exposure is £44,263k (30 September 2016: £87,150k). Moody's credit rating for HSBC Bank is Aa2. As the liquidity funds comprise a well-diversified set of underlying investments, they are not considered to pose a significant credit risk. HSBC Global Sterling Liquidity Fund is rated Aaa by Moody and AAA by S&P. The current accounts of £31,519k (30 September 2016: £20,253k) retain an element of credit risk.

The Group is also exposed to credit risk in terms of its exposure to fair value hedges. The Group's maximum exposure to credit risk in relation to fair value hedges as at 31 March 2017 is £1,056k (30 September 2016: £1,288k).

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

14.2 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.

14.3 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, on an annual basis. The Group is exposed to interest rate risk due to the fixed interest rates it receives on its loans to customers and the fixed interest rate it pays to customers. The Group manages its exposure to interest rate risk using interest rate swaps. The Group's exposure to interest rate risk at the reporting date, measured as the impact of a 1% parallel shift in interest rates, was £665k (30 September 2016: £107k). Similarly, the Group is exposed to house price risk due to the nature of its house price linked mortgage contracts and its Housas. The Group manages its exposure to house price risk using house price options that it has sold to CTC Holdings (Cayman) Ltd. The Group's exposure to house price risk as at the reporting date, measured as a 10% fall in house prices, was estimated to be £5,354k (30 September 2016: £6,231k).

15. Ultimate controlling party

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

16. Related party transactions

There were no changes to the nature of the related party transactions during the period to 31 March 2017 that would materially affect the position or performance of the Group, other than the capital injection from Castle Trust Holdings (Jersey) Limited as further described in note 12. Details of the transactions for the year ended 30 September 2016 can be found in the 2016 Annual Report.

16.1 Interests in structured entities

The Group has interests in 2 consolidated structured entities as described below.

The entire ordinary share capital in PCC and PC is owned by JTC Trustees Limited as trustee of Housing Foundation Charitable Trust.

The Group is able to consolidate the PCC and PC as the purpose and design of the entities activities result in returns received by Castle Trust. Castle Trust has the current ability to direct those activities and therefore exhibits control over the operational activities of these entities as evidenced by the following.

Castle Trust has a contractual arrangement with the PCC and PC, which means that if an investor redeems their investment before maturity, any gain / loss will be borne by Castle Trust and not the PC.

In addition, through CTCM, the Group provides 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 activities that most significantly affect returns of the PC.

Finally, all ongoing expenses of PCC and PC are paid and will continue to be paid by CTCM.

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

17. 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 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 The Financial Conduct Authority ("FCA") regulation and, as investment firms, are additionally subject to the requirements of the Capital Requirements Regulation (EU 575/2013) 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 Capital Retail Finance Limited is also subject to FCA regulation over its consumer credit activities.

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

As at 31 March 2017, the Group's total equity was £64,528k (30 September 2016: £36,548k).

18. Acquisition of Omni Capital Retail Finance Limited

On 17 January 2017, the Group acquired 100% of the voting shares of Omni Capital Retail Finance Limited ("Omni"), an unlisted company based in England that provides point of sale finance for small to medium-sized retailers allowing the retailer to offer finance in store or online with credit decisions provided within seconds.

The Group has acquired Omni because it expands both its product range and customer base. The combination of Omni's platform with the Group's low cost of funding and capability in credit analytics is expected to allow significant growth in Omni's loan book and accelerate the Group's transition to profitability. The acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Omni for the period from the acquisition date.

Omni's parent company loan of £21,585k as well as the bank borrowings of Omni of £32,354k were repaid in cash on completion and replaced with a loan from Castle Trust Capital plc.

The fair values of the identifiable assets and liabilities of Omni as at the date of acquisition were:

	Note	Fair value recognised on acquisition £'000
Assets		
Loans to customers		**45,033**
Other receivables		**85**
Deferred tax on write down of acquired loan book		**202**
Property, plant and equipment		**19**
Intangible assets		**1,150**
Cash		**5,692**
		52,181
Liabilities		
Deferred tax on customer relationships		**(116)**
Borrowings		**(53,935)**
Trade payables		**(1,477)**
		(55,528)
Total identifiable net liabilities at fair value		**(3,347)**
Goodwill arising on acquisition	9	**8,212**
Purchase consideration transferred		**4,865**
Analysis of cash flows on acquisition included in investing activities		
Net cash acquired with the subsidiary		**5,692**
Repayment of loans on purchase of subsidiary		**(53,835)**
Cash paid		**(4,865)**
Net cash flow on acquisition		**(53,008)**

The following table shows the reconciliation of the carrying amount of goodwill from the beginning to the end of the reporting period:

	Goodwill £'000
Gross carrying amount	
At 1 October 2016	-
Acquisition of subsidiary	8,212
At 31 March 2017	8,212
Accumulated impairment losses	
At 1 October 2016	-
Impairment losses recognised during the reporting period	-
At 31 March 2017	-
Net book value	
At 1 October 2016	-
At 31 March 2017	**8,212**

At the date of the acquisition, the fair value of the loans to customers was £45,033k. The gross amount of loans to customers was £47,685k. The difference between the fair value and the gross amount is the result of discounting over the expected timing of the cash collection and an adjustment for counterparty credit risk.

From the date of acquisition, Omni has contributed £1,476k of revenue and incurred a loss of £289k to the net loss before tax from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, interest income from continuing operations would have been £17,298k and the loss before tax from continuing operations for the period would have been £3,814k.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Omni with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of £849k have been expensed and are included in administrative expenses in the statement of profit or loss and are part of operating cash flows in the statement of cash flows.

19. Review of interim financial statements

The interim financial statements have not been reviewed or audited by the independent auditors of the Company.

20. Events after the reporting date

Subsequent to period end, Castle Trust introduced a central funding entity, Castle Trust Treasury Limited. This is expected to improve the Group's management of liquidity and interest rate risk, operational efficiency and performance management of Castle Trust's different product segments.