
Castle Trust Capital plc

**Unaudited condensed consolidated interim financial
statements for the six months ended 31 March 2018**

Interim management report and unaudited condensed consolidated interim financial statements

For the six months ended 31 March 2018

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Corporate information

Registered No: 07454474

Directors

Mr Andrew Spencer Doman
Mr Jonathan James Cox
The Rt Hon The Lord Deben
Mr Patrick Nigel Christopher Gale
Mr Timothy John Hanford
Mr Sean Oldfield
Mr Richard Alexander McGregor Ramsay
Mr Matthew Peter Vincent Wyles (resigned 25 March 2018)
Mr Martin Paul Bischoff (appointed 12 June 2018)

Secretary

Mr Andrew Macdonald

Bankers

HSBC Bank PLC
First Floor
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 2018.

Business overview

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

In the previous financial year Castle Trust announced that the Group was actively pursuing opportunities for the provision of wholesale funding to smaller lenders. In the current period this new lending business has begun to grow.

Business review

The Group is pleased to report progress in achieving its strategic priorities of growing the value of the loan book across all business lines and investing in systems. The following Key Performance Indicators ("KPIs") are used by management to track how the business is progressing against its strategic priorities.

Key performance indicator	At 31 March 2018	At 30 September 2017	Variance
	£'000s	£'000s	£'000s
Loan book growth			
Mortgage finance	459,584	446,802	12,782
Residential development finance	52,761	19,615	33,146
Point of sale consumer lending	105,512	66,698	38,814
Wholesale lending	35,068	-	35,068
Total	652,925	533,115	119,810
Funding business	657,262	605,007	52,255
CET1 Capital Ratio	14.3%	17.84%	-3.5%
	Six months ended 31 March 2018	Six months ended 31 March 2017	Variance
	£'000s	£'000s	£'000s
Net interest income	15,409	6,358	9,051
Loss after tax	(10,545)	(2,828)	(7,717)

Over the six month period, Castle Trust increased its loan book by £119.8 million through organic growth. This enabled the business to increase net interest income by £9.0 million compared to the comparable period in 2017, a 141% increase. Castle Trust introduced a new business for the provision of wholesale funding to smaller lenders which has contributed £825k to interest income in the period.

As the Group's legacy products mature, Castle Trust is exposed to less volatility; however this did result in losses arising in the current period, from £1.6 million profit in 2017 to £1.6 million loss in 2018. Administrative expenses increased significantly in the period from £10.5 million to £15.0 million primarily due to the inclusion of Omni's results for the entire period (whilst only being included from the date of acquisition of 17 January 2017 in the prior period). Finally, impairments increased from £0.6 million in 2017 to £7.2 million in 2018. The increase in impairments is primarily as a result of impairments in the consumer lending business due to poor credit performance. As a result of these items the overall loss for the period increased from £2.8 million in 2017 to £10.5 million.

From a capital position the Group remains strongly capitalised with total equity of £64.3 million compared to £58.8 million in 2017. The primary reason for this increase was due to a capital injection of £16 million in the period. This equity has ensured that the Group has held sufficient capital during the period to, at least, meet the regulatory minimum.

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. Castle Trust has a flexible and creative approach to structuring. This focus enables Castle Trust to deliver attractive and sustainable risk adjusted returns in excess of those which are available in the mainstream mortgage market. There are two products within this business, Serviced and Interest Roll Up.

The key strategic priority for this business is to grow the mortgage book to benefit from efficiencies of scale.

Over the reporting period the total mortgage book grew from £446.8 million as at 30 September 2017 to £459.6 million as at 31 March 2018. This success was driven by Castle Trust's ability to offer mortgages that are tailored to individual customers' requirements. Castle Trust prides itself on providing innovative solutions and a customer centric approach and are developing a reputation for this with Castle Trust's 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.

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.

The key strategic priority for this business is to grow the lending book by establishing a strong brand in the development finance market and tapping into a stream of opportunities to deploy Castle Trust's capital.

The reporting period has seen gross new commitments of £85.4 million (2017: £51.2 million). RDF was a new business segment introduced recently and further investment in the RDF team is expected to see the foundations developed in the prior year lead to success over the coming year as a result of Castle Trust's proposition that incorporates a strong structuring capability, complemented by a culture of high quality service and pragmatic, responsive underwriting.

Point of sale consumer lending

Point of sale finance allows small to medium-sized retailers to offer finance to their customers in store or online with credit decisions provided within seconds.

The key strategic priority is to grow this business sustainably.

Over the last six months the loan book growth has been substantial: the loan book grew from £66.7 million as at 30 September 2017 to £105.5 million as at 31 March 2018. With this growth has been higher levels of impairment than expected. The credit loss experience Castle Trust has seen is being used to inform future credit decisions. In addition, the relocation of the consumer lending operations from Watford to Basingstoke has brought operational efficiencies and has allowed further investment to enhance Castle Trust's credit capabilities.

Wholesale lending

In the current period Castle Trust introduced a further business line which focuses on the provision of wholesale funding to smaller lenders.

The key strategic priority for this business is to grow the lending book by establishing a strong brand in the market and tapping into a stream of opportunities to deploy Castle Trust's capital.

There has been significant growth seen in the business during the period. Gross new lending in the period to 31 March 2018 was £37.2 million. This has resulted in growth of the loan book to £35.0 million as at 31 March 2018.

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 who are protected by the investment arm of the Financial Services Compensation Scheme ("FSCS") up to a maximum of £50,000 per eligible investor. The programme has demonstrated a track record of offering customers attractive returns. The Group's ability to secure funding at a competitive cost enables Castle Trust to continue to grow Castle Trust's lending activities in line with the strategic objectives.

Fortress bonds are fixed rate bonds of between 1 and 5 year's 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 generally not permitted.

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.

The funding business has continued to deliver strong results. Castle Trust has raised a further £52.3 million in the period through new issuances and existing customers elected to re-invest an average 67% (2017: 72%) of the proceeds of their maturing bonds during the year. This activity led to an increase in funding liabilities (amounts due to customers) from £605.0 million as at 30 September 2017 to £657.3 million as at 31 March 2018. The growth in this business line is driven by Castle Trust's investment in its digital marketing capability.

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.

Future developments and subsequent events

The Group is pleased to announce that the board of directors has determined that, as its business has grown and evolved, Castle Trust would benefit from conversion to a bank. Accordingly, Castle Trust is in dialogue with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) in order to pursue a banking licence application.

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

Principal risks and uncertainties

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 and reviewing these risks on a regular basis.

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

The Group remains well capitalised with sufficient liquidity reserves. The common equity tier one ("CET1") ratio was 14.3% as at 31 March 2018 (2017: 17.8%) which is well in excess of the regulatory minima and market standards. The Group held 10.3% (2017: 20.4%) 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 2017 other than the potential regulatory risks involved in making a banking licence application, such as increased capital requirements, and that these could make the business less profitable and result in rationalisation of entities within the Group. In addition, there is a risk that the PRA may not grant the Group a banking licence and the directors will have to investigate an alternative business strategy. Risks are further described in note 14.

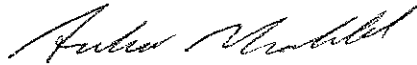
Directors and secretary

The names of the persons who served as directors / secretary of the Group at any time during the six months ended 31 March 2018 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 7. The directors have not elected or proposed to pay a dividend (2017: £nil).

By order of the Board



Andrew Macdonald
Company Secretary
27 June 2018

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



Martin Bischoff
Chief Executive Officer
27 June 2018

Unaudited condensed consolidated interim statement of comprehensive income

For the six months ended 31 March 2018

	Notes	Six months ended 31 March 2018 £'000	Six months ended 31 March 2017 £'000
Interest and similar income		27,608	14,775
Interest and similar expense		(12,199)	(8,417)
Net interest income		15,409	6,358
Fees and commission income		210	140
Fees and commission expense		(266)	(20)
Net realised/unrealised (loss) / gain on financial instruments at fair value through profit or loss		(1,574)	1,581
Total operating income		13,779	8,059
Administrative expenses		(14,953)	(10,451)
Impairment losses on loans to customers	5	(7,194)	(566)
Depreciation and amortisation		(929)	(272)
Total operating expenses		(23,076)	(11,289)
Loss before tax		(9,297)	(3,230)
Corporation tax	3	(1,248)	402
Total comprehensive loss		(10,545)	(2,828)
Loss for the period attributed to:			
Non-controlling interests		(20)	(25)
Equity holders of the parent		(10,525)	(2,803)
Total comprehensive loss		(10,545)	(2,828)

The results for all periods presented comprise continuing operations.

Notes on pages 11 to 28 are an integral part of these financial statements.

Unaudited condensed consolidated interim statement of financial position

Registered No: 07454474
As at 31 March 2018

Assets	Notes	As at	As at
		31 March 2018	30 September 2017
		£'000	£'000
Cash and cash equivalents	4	62,254	127,324
Loans and advances to credit institutions		14,975	15,800
Trade and other receivables		2,903	4,669
Loans to customers			
At amortised cost	5	575,927	444,568
Designated at fair value through profit or loss	6	68,507	76,394
Fair value hedge asset		429	570
Derivative financial instruments			
House price option	7	8,491	12,153
Derivatives held for risk management	8	203	324
Prepayments		454	341
Deferred tax asset	3	4,621	5,869
Property and equipment		643	477
Intangible assets	9	11,573	11,763
Total assets		750,980	700,252
Liabilities			
Trade and other payables		5,324	7,195
Provisions for liabilities		427	421
Derivatives held for risk management	8	3	1,177
Amounts due to customers for Fortress Bonds	11	657,262	605,007
Financial liabilities at fair value through profit or loss	10	23,671	27,614
Total liabilities		686,687	641,414
Equity			
Share capital	12	11,126	9,526
Share premium		87,371	72,971
Retained earnings		(34,238)	(23,713)
Non-controlling interests		34	54
Total equity		64,293	58,838
Total equity and liabilities		750,980	700,252

The financial statements were approved by the Board of Directors and authorised for issue on 27 June 2018 and were signed on its behalf by:



Martin Bischoff
Chief Executive Officer
27 June 2018

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 31 March 2018

	Share capital	Share premium	Retained earnings	Total	Non- controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 October 2017	9,526	72,971	(23,713)	58,784	54	58,838
Total comprehensive loss for the period	-	-	(10,525)	(10,525)	(20)	(10,545)
Issue of share capital	1,600	14,400	-	16,000	-	16,000
At 31 March 2018	11,126	87,371	(34,238)	64,259	34	64,293

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

Notes on pages 11 to 28 are an integral part of these financial statements.

Unaudited condensed consolidated interim statement of cash flows

For the six months ended 31 March 2018

	Six months ended 31 March 2018	Six months ended 31 March 2017
	£ '000	£'000
Cash flows from operating activities		
Bank interest received	498	143
Bank charges and interest paid	(1,363)	(113)
Fees and commission paid	(985)	(1,107)
Fees and commission received	876	4,553
Payments to suppliers	(10,647)	(7,933)
Payments to employees	(7,747)	(4,421)
Mortgages issued	(100,699)	(94,460)
Mortgages principal redeemed	56,276	37,419
Mortgage profit share received	2,928	2,205
Mortgage interest received	10,258	5,681
Consumer loans issued	(83,988)	(11,702)
Consumer loans principal redeemed	40,649	8,833
Consumer loan interest received	4,454	1,134
Wholesale loans issued	(36,228)	-
Wholesale loans principal redeemed	1,357	-
Wholesale loan interest received	659	-
Net cash used in operating activities	(123,702)	(59,768)
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	(563)	(1,076)
Proceeds from sale of / (payments to purchase) loans and advances to credit institutions	900	14,900
Purchase of property, plant and equipment	(364)	(93)
Net cash (outflow) / inflow from investing activities	(27)	(39,277)
Cash flow from financing activities		
Proceeds from issue of share capital	16,000	30,479
Proceeds from issue of financial liabilities at amortised cost	79,530	115,916
Interest paid for financial liabilities at fair value through profit or loss	(14)	(20)
Distributions of principal for redemptions of financial liabilities at fair value through profit or loss	(237)	(687)
Distributions of profit share for financial liabilities at fair value through profit or loss	(95)	(207)
Interest paid for financial liabilities at amortised cost	(4,123)	(4,377)
Distributions of principal for maturities of financial liabilities at amortised cost	(32,402)	(74,380)
Net cash inflow from financing activities	58,659	66,724
Net increase / (decrease) in cash and cash equivalents	(65,070)	(32,321)
Cash and cash equivalents at beginning of the period	127,324	108,803
Cash and cash equivalents at end of the period	62,254	76,482

Notes on pages 11 to 28 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 2018 were authorised for issue in accordance with a resolution of the directors on 27 June 2018.

2. Accounting policies

2.1 Basis of preparation

The Group's unaudited condensed consolidated interim financial statements for the six months ended 31 March 2018 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 2017.

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 2017, which were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU.

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 directors have considered the regulatory risk inherent in the Group's application for a banking licence.

The unaudited condensed consolidated interim financial statements of Castle Trust have been prepared on a going concern basis as the risks inherent in the banking licence application are considered remote. 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.

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 2017 were approved by the Board of Directors on 18 January 2018 and filed with the Registrar of Companies on 26 January 2018. 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 2018. 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 consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur. The following items are considered to be the significant accounting judgements, estimates and assumptions relevant to the Group.

Impairment losses on loans to customers

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

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

Where there is little prospect of a recovery being made for an impaired financial asset the impairment provision is utilised and the carrying value of the loan is then directly reduced. The impairment loss on loans to customers is disclosed in more detail in note 5.

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 such as liquidity, discount rates and early redemption assumptions.

Fair value related disclosures for financial instruments that are measured at fair value or amortised cost are disclosed in note 13.

Effective Interest Rate (EIR) method

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

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.

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.

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 2017. Comparative figures have been adjusted, where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

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 2017 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 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; however based on a preliminary assessment, the Group expects the following implications:

- There will be accounting changes with respect to IPS mortgages issued subsequent to 1 October 2014 that have the house price option bifurcated as an embedded derivative. Currently, the house price option is accounted for at fair value through profit or loss and the fixed income element of the mortgage is accounted for at amortised cost. Under IFRS 9 the whole instrument will have to be accounted for at fair value through profit or loss. As such, changes in market interest rates are expected to generate some additional profit and loss volatility in accounting for the whole instrument at fair value in addition to bringing forward the recognition of expected losses which is part of determining fair value. The carrying value of the bifurcated derivative was £8.5 million and the corresponding host contract was £60.7 million as at 31 March 2018.
- For all mortgages and loans the Group will have to calculate, at a minimum, expected losses resulting from default events that are possible within the next 12 months. In addition, the Group will have to calculate the life time expected losses for assets resulting from all possible default events over the expected life of the financial instrument. This is expected to result in an increase in impairment charges, and in the year of adoption, an additional debit to retained earnings. The consequential impact of this is the additional capital that the Group will be required to hold. At present the Group is also evaluating the guidance provided by the European Banking Authority with respect to transitional requirements relating to the impact of IFRS 9. The Group is expecting to have sufficient capital to absorb these losses.
- With respect to trade receivables the Company expects that the simplified approach using the ECL model will most likely not cause a significant increase in allowances for short-term trade receivables because of their

short term nature. That is to say for trade receivables that are due in 12-months or less, the 12-month ECLs are the same as the lifetime ECLs.

- 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.
- 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 has completed its impact assessment and there is no impact.
- 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 has completed its impact assessment and the net impact on income and equity is not material.
- 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 (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. The amendment is effective from 1 January 2017 and has not been implemented in the current period. 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 2018 £'000	31 March 2017 £'000
Current tax		
Current income tax	-	-
Deferred tax charge / (credit) relating to origination and reversal of temporary differences	1,248	(402)
Total tax	1,248	(402)
Reconciliation of total group tax charge		
Accounting (loss) / profit before tax	(9,297)	(3,230)
UK corporation tax at 19% (2017: 19.5%)	(1,859)	(646)
Losses on which deferred tax is no longer recognised	1,539	-
Movement on deferred tax not recognised	1,604	-
Utilisation of tax losses not recognised for deferred tax	(118)	-
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	23	146
Losses for which a deferred tax asset was not previously recognised	-	70
Other	59	-
Total tax credit	1,248	(402)

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.

Castle Trust Capital plc

Notes to the unaudited condensed consolidated interim financial statements (continued)

For the six months ended 31 March 2018



Deferred tax

	Period ended 31 March 2018	Year ended 30 September 2017
	£'000	£'000
Balance at start of the period / year	5,869	5,759
Recognised in profit and loss during the period / year	(1,248)	25
Deferred tax asset arising from acquisition of subsidiary	-	85
Balance at the end of the period / year	4,621	5,869

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 2018, the Group had total trading losses of £43,557k (30 September 2017: £36,250k), short term timing differences of £1,737k (30 September 2017: £1,656k) and decelerated capital allowances of £999k (30 September 2017: £954k) in respect of which a deferred tax asset of £4,621k has been recognised (30 September 2016: £5,869k). The tax rates applied in determining the value of the deferred tax asset unwinding is 19% (2017: 19%) which is the tax rate at which the asset is expected to unwind.

The Finance (No. 2) Bill 2017, substantively enacted on 31 October 2017, included a provision to restrict the offset of brought forward losses to 50% of group profits arising on or after 1 April 2017 over £5m. In addition, it enables carried forward losses incurred on or after 1 April 2017 to be offset against profits of any description. Deferred tax recognition in the period has been restricted to assets that are expected to be recovered against forecasted profits to 30 September 2019. As a result of the restriction to brought forward losses outlined above, there is a decrease to the deferred tax asset in the group totalling £1,248k.

4. Cash and cash equivalents

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

	31 March 2018	30 September 2017
	£'000	£'000
Cash at bank	28,916	115,207
Short-term deposits and other liquid assets	33,338	12,117
	62,254	127,324

The carrying value of cash and cash equivalents approximates to fair value.

5. Loans to customers at amortised cost

Loans to customers at amortised cost comprise all Serviced and Roll up mortgages, Residential Development Finance loans, consumer loans, wholesale lending and the fixed income component of all IPS mortgages issued since 1 October 2014.

In the previous financial year Castle Trust announced that the Group was actively pursuing opportunities for the provision of wholesale funding to smaller lenders. In the current period this new lending business has been issued from the Group, who have entered into both a flow agreement with a peer-to-peer lender and a £25m committed facility with another lender. The following table sets out the carrying value of loans to customers by product type.

	31 March 2018	30 September 2017
	£'000	£'000
Residential development finance	53,068	19,615
Index Profit Share mortgages	60,681	68,691
Serviced & Roll up loans	325,725	292,080
Consumer loans	110,899	66,698
Wholesale lending	35,264	-
Impairment provision	(9,710)	(2,516)
Total loans to customers at amortised cost	575,927	444,568

There has been an increase in the impairment provision for the current period due to the credit performance of retailers that the Group provides with access to funding. IPS mortgages have also contributed to an increase in the impairment charge.

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

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 2018

	Specific provision £'000	Collective provision £'000	Total £'000
Opening balance at 1 October 2017	731	1,765	2,516
Charge for the year	2,382	4,812	7,194
Closing balance at 31 March 2018	3,113	6,597	9,710

Reconciliation of impairment movements in the year to 30 September 2017

	Specific provision £'000	Collective provision £'000	Total £'000
Opening balance at 1 October 2016	-	379	379
Charge for the year	731	1,406	2,137
Closing balance at 30 September 2017	731	1,785	2,516

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. Mortgage assets are measured at fair value on a recurring basis and their valuation is categorised at Level 3. For fair value hierarchy classifications, modelling and sensitivities disclosures refer to note 13.

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

Movements in the period	31 March 2018 £'000	30 September 2017 £'000
Opening balance at 1 October 2017 / 1 October 2016	76,394	88,021
Redemptions in the period	(4,825)	(12,055)
Interest income component	717	1,802
Net (loss) on financial assets designated at fair value through profit or loss	(3,779)	(1,374)
Closing balance at 31 March 2018 / 30 September 2017	68,507	76,394

The total unrealised gains as at period end was £16,024,939 (2017: £19,086,632).

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

	IPS mortgage house price option £'000
Opening balance at 1 October 2017	12,153
Redemptions in the period	(439)
Net (loss) on house price derivatives at fair value through profit or loss	(3,223)
Closing balance at 31 March 2018	8,491
Opening balance at 1 October 2016	6,662
Redemptions in the year	(683)
Net gain on house price derivatives at fair value through profit or loss	6,174
Closing balance at 30 September 2017	12,153

The total unrealised gains/losses for the group as at year end were £6,417,982 (2017: £9,640,713)).

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

8. Derivatives held for risk management

During the prior period the Group used 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.

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

The following table shows a breakdown of the derivatives used at the reporting date and the 30 September 2017:

As at 31 March 2018

	Contract or underlying principal amount £'000	Positive market value £'000	Negative market value £'000	Total £'000
Derivatives held for risk management				
Interest rate swaps (not in hedging relationships)	91,500	203	(3)	200
	91,500	203	(3)	200

As at 30 September 2017

	Contract or underlying principal amount £'000	Positive market value £'000	Negative market value £'000	Total £'000
Derivatives held for risk management				
Interest rate swaps (not in hedging relationships)	263,000	324	(1,177)	(853)
	263,000	324	(1,177)	(853)

Margin of £nil (2017: £900,000) is included within loans and advances to credit institutions.

The interest rate swaps are valued using a discounted cash flow model. The model is based on observable market inputs. The most significant 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.

9. Intangible assets

The following table sets out the net book value of intangible assets recorded in the unaudited condensed consolidated interim 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.

	Goodwill	Customer relationships	Internally developed software for consumer loans	Internally developed software	Total
Cost	£'000	£'000	£'000	£'000	£'000
At 1 October 2016	-	-	-	769	769
Acquired as part of acquisition	8,212	606	543	-	9,361
Additions in year - internally developed	-	-	491	1,910	2,401
At 30 September 2017	8,212	606	1,034	2,679	12,531
Additions in the period	-	-	416	147	563
At 31 March 2018	8,212	606	1,450	2,826	13,094
Accumulated amortisation and impairment					
At 1 October 2016	-	-	-	124	124
Amortisation charge for the year	-	143	285	216	644
At 30 September 2017	-	143	285	340	768
Amortisation charge for the period	-	101	242	410	753
At 31 March 2018	-	244	527	750	1,521
Net book value					
At 30 September 2017	8,212	463	749	2,339	11,763
At 31 March 2018	8,212	362	923	2,076	11,573

10. Financial liabilities at fair value through profit or loss

Group financial liabilities at fair value through profit or loss include Housa liabilities that are designated at fair value through profit or loss and derivative liabilities.

	31 March 2018	30 September 2017
	£'000	£'000
Housa liabilities	10,227	10,585
HPI index contract - call options	13,444	17,029
	23,671	27,614

10.1 Fair value of Housa liabilities

The existing book is in run-off; however there are three main variants of the Housa, as explained below.

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

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

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 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.

	Income Housa	Growth Housa	Foundation Housa	Total
	£'000	£'000	£'000	£'000
Opening balance at 1 October 2017	1,629	5,960	2,996	10,585
Redemptions in the period	(56)	(176)	-	(232)
Net (gain)/loss on financial liabilities at fair value through profit or loss	(25)	(105)	4	(126)
Closing balance at 31 March 2018	1,548	5,679	3,000	10,227

	Income Housa	Growth Housa	Foundation Housa	Total
	£'000	£'000	£'000	£'000
Opening balance at 1 October 2016	2,163	6,695	2,934	11,792
Redemptions in the period	(573)	(923)	-	(1,496)
Net loss on financial liabilities at fair value through profit or loss	39	188	62	289
Closing balance at 30 September 2017	1,629	5,960	2,996	10,585

The total unrealised losses as at period end were £1,619,553 (2017: £2,112,290). For fair value hierarchy classifications and sensitivities disclosure refer to note 13. There were no transfers into Level 3 assets other than the completions in the period, and no transfers out other than redemptions.

10.2 Fair value of derivative liabilities

Derivative financial liabilities included within financial liabilities at fair value through profit or loss comprise a portfolio of over-the-counter call options sold to CTC Holdings (Cayman) Ltd, the Company's ultimate parent entity to mitigate Castle Trust's exposure to house price risk. Whilst economically Castle Trust considers that these derivatives are part of the business' effective risk management, these derivatives are not included as derivatives held for risk management as they are not designated in any hedging relationships. As such they are classified as held for trading. The portfolio includes options with an original term between 3 and 7 years. The total premium paid for the options was £15,000,000. The table below shows the fair values of derivative liabilities together with the notional amounts. The notional amounts indicate the principal against which the derivative payoff is calculated.

	31 March 2018 Notional amount £'000	31 March 2018 Fair value £'000	30 September 2017 Notional amount £'000	30 September 2017 Fair value £'000
HPI index contract - call options	200,000	13,444	200,000	17,029
Total fair value of other financial liabilities at fair value through profit or loss	200,000	13,444	200,000	17,029

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

11. Amounts due to customers for Fortress Bonds

Financial liabilities in respect of Fortress Bonds are valued at amortised cost, less transaction costs incurred in issuing the bonds.

	31 March 2018 £'000	30 September 2017 £'000
Amounts owed to customers excluding unamortised transaction costs	665,267	615,560
Brought forward unamortised transaction costs	(10,553)	(8,035)
Additional transaction costs in the period	(1,202)	(7,517)
Amortisation of transaction costs in the period	3,750	4,999
Financial liabilities at amortised cost	657,262	605,007

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

12. Share capital

On October 2 2017, the company allotted an additional 1,000,000 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. Additionally in January 2018, the company allotted an additional 15,000,000 ordinary shares of £0.10 each to its immediate parent company, Castle Trust Holdings (Jersey) Limited. The total amount paid was again £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 stochastic techniques to calculate the net present value of expected future cash flows. The cash flows are based on assumptions about the range of possible future events and information concerning the terms of the financial instruments. It is run on a monthly basis for internal management information and board reporting purposes. It is run by a specialist team within Castle Trust within a control framework. Model assumptions are reviewed by the board.

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

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.

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

Mortgage fair value measurement

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

Input	Description	Range				Sensitivity Range	Sensitivity			
		March 2018		September 2017			March 2018		September 2017	
		Min	Max	Mn	Max		Min	Max	Mn	Max
		£'000		£'000			£'000		£'000	
Castle Trust's LTV	Castle Trust's loan relative to property value	2.3%	81.1%	0.3%	80.0%					
Senior LTV	Primary mortgage relative to property value	0.0%	73.2%	0.0%	81.6%					
House price movement	Percentage movement since origination to indexed value	(1.8%)	42.7%	(9%)	48.8%	+10%	(11,832)	13,548	(15,279)	16,709
Expected house price growth	Assumed annual rate of future HPI growth	4.7%	4.7%	4.7%	4.7%	+1%	(3,132)	3,298	(3,710)	3,895
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	11.5%	11.5%	11.7%	11.7%					
House price volatility	There is also an allowance for index volatility and volatility above the index	3.4%	47.9%	3.4%	47.9%					
Expected repayment rates	Dependent on elapsed term of mortgage. There are adjustments for seasonality and market conditions	0.0%	13.9%	0.0%	13.9%					
Discount rates:	Derived to be consistent with future house price growth.									
	Partnership mortgages	8.4%	13.6%	8.4%	13.6%					
	BTL: fixed income component and house price derivative									
	Risk free discount rates	0.5%	1.6%	0.2%	1.4%	+1%	(1,907)	2,027	(2,042)	2,173
	Credit premium discount rate	1.1%	7.4%	3.3%	9.2%	+1%	(1,907)	2,027	(2,042)	2,173
	BTL: house price derivative component									
	House price risk premium	17.0%	17.0%	17.0%	17.0%	+10%	(3,515)	6,000	(4,242)	7,357
	IPS: fixed income component and house price derivative									
	Risk free discount rates	0.5%	1.6%	0.2%	1.4%	+1%	(173)	177	(290)	298
	Credit premium discount rate	1.1%	7.4%	3.3%	9.2%	+1%	(173)	177	(290)	298
	IPS: house price derivative component									
	House price risk premium	29.0%	29.0%	29.0%	29.0%	+10%	(1,021)	1,283	(1,673)	2,144

Housa liabilities fair value measurement

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

Input	Description	Range				Sensitivity Range	Sensitivity			
		March 2018		September 2017			March 2018		September 2017	
		Min	Max	Mn	Max		Min	Max	Mn	Max
		£'000		£'000			£'000		£'000	
Movement in HPI	Percentage movement since origination to indexed value	7.4%	38.2%	0.8%	70.3%	+10%	(861)	846	(819)	805
Expected house price growth	Assumed annual rate of future HPI growth	4.7%	4.7%	4.7%	4.7%					
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	11.5%	11.5%	11.7%	11.7%					
Discount rates:	Derived to be consistent with future house price growth.									
	Risk free discount rates	0.1%	1.8%	0.3%	1.5%					
	Credit premium discount rate	1.1%	3.3%	1.6%	2.1%					
	House price risk premium	3.3%	62.8%	3.3%	62.5%	+10%	(415)	427	(542)	569

Derivative liabilities fair value measurement

Derivative liabilities consist of the call options sold to CTC Holdings (Cayman) Ltd. The model, as applied to derivative liabilities, incorporates various inputs, of which the most significant are as follows:

Input	Description	Range				Sensitivity Range	Sensitivity			
		March 2018		September 2017			March 2018		September 2017	
		Min	Max	Mn	Max		£'000	£'000	£'000	£'000
Movement in HPI	Percentage movement since origination to indexed value	3.8%	3.8%	5.7%	5.7%	+10%	(10,541)	7,192	(10,449)	8,076
Expected house price growth	Assumed annual rate of future HPI growth	4.7%	4.7%	4.7%	4.7%	+1%	(2,335)	2,094	(2,886)	2,606
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	11.5%	11.5%	11.7%	11.7%					
Discount rates :	Derived to be consistent with future house price growth.									
	Risk free discount rates	0.1%	1.8%	0.3%	1.5%					
	Credit premium discount rate	1.1%	3.3%	1.6%	2.1%					
	House price risk premium	15.9%	25.8%	15.9%	25.8%	+10%	(5,101)	3,418	(7,206)	4,716

Derivatives held for risk management fair value measurement

Derivatives held for risk management consist of Interest Rate Swaps. The model, as applied to derivatives held for risk management, incorporates various inputs, of which the most significant inputs are as follows:

Input	Description	Range				Sensitivity Range	Sensitivity			
		March 2018		September 2017			March 2018		September 2017	
		Min	Max	Mn	Max		£'000	£'000	£'000	£'000
Interest rates	Fixed leg interest rates	1.01%	1.63%	0.45%	2.58%	1%	1,556	(1,556)	115	(115)
	Floating leg interest rates	6M	6M	6M	6M	1%	1,556	1,556	(115)	115
		LIBOR	LIBOR	LIBOR	LIBOR					
Discount rates :	Discounted using OIS (overnight indexed swap) curve	.44%	1.07%	0.20%	1.06%	1%	5	(5)	29	(31)

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.

For loans and receivables and financial liabilities held at amortised cost, fair values are determined according to the most recent and where possible published interest rates, adjusted for the time value of money and credit spread risk, using a discounted cash flow model. The hierarchy position is considered to be Level 3, as the lowest level input, being the discount rate, is unobservable.

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

As at 31 March 2018

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Loans to customers					
At amortised cost	-	-	582,845	582,845	575,927
Designated at fair value through profit or loss	-	-	68,507	68,507	68,507
Fair value hedge asset	-	429	-	429	429
Derivative financial instruments					
House price option	-	-	8,491	8,491	8,491
Derivatives held for risk management	-	203	-	203	203
Total	-	632	659,843	660,475	653,557
Liabilities					
Derivatives held for risk management	-	3	-	3	3
Fair value hedge liability	-	-	-	-	-
Amounts due to customers	-	-	658,248	658,248	657,262
Financial liabilities at fair value through profit or loss	-	-	23,671	23,671	23,671
Total	-	3	681,919	681,922	680,936

As at 30 September 2017

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Loans to customers					
At amortised cost	-	-	486,431	486,431	444,568
Designated at fair value through profit or loss	-	-	76,394	76,394	76,394
Fair value hedge asset	-	570	-	570	570
Derivative financial instruments					
House price option	-	-	12,153	12,153	12,153
Derivatives held for risk management	-	324	-	324	324
Total	-	894	574,978	575,872	534,009
Liabilities					
Derivatives held for risk management	-	1,177	-	1,177	1,177
Fair value hedge liability	-	-	-	-	-
Amounts due to customers	-	-	602,569	602,569	605,007
Financial liabilities at fair value through profit or loss	-	-	27,614	27,614	27,614
Total	-	1,177	630,183	631,360	633,798

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. The section below provides further details on financial risks only.

14.1 Credit risk

Credit risk is the risk that a counterparty will fail to meet its obligations in accordance with agreed terms. In general, it arises from the counterparty being either unwilling or unable to settle its obligations. This risk is managed in the loan origination and servicing processes. In addition, mortgage credit risk is monitored via performance monitoring, including past due, maturity and concentration risk assessment. RDF loans are individually reviewed and monitored by either the RDF credit committee or the main Risk Committee if larger in size.

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

The Group manages its credit risk in accordance with policies set by the Board to ensure that the credit risk assumed is commensurate with the return required. The Group is exposed to credit risk from its loans to customers, 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.

Castle Trust Capital plc

Notes to the unaudited condensed consolidated interim financial statements (continued)

For the six months ended 31 March 2018



	Neither past due nor impaired	Past due but not impaired	Individually impaired	Collective and specific provision	Total
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2018					
Financial assets					
Cash and cash equivalents	62,254	-	-	-	62,254
Loans and advances to credit institutions	14,975	-	-	-	14,975
Loans to customers					
At amortised cost	543,965	34,598	7,074	(9,710)	575,927
Designated at fair value through profit or loss	68,507	-	-	-	68,507
Derivative financial instruments					
House price option	8,491	-	-	-	8,491
Derivatives held for risk management	203	-	-	-	203
	698,395	34,598	7,074	(9,710)	730,357
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Collective and specific provision	Total
	£'000	£'000	£'000	£'000	£'000
As at 30 September 2017					
Financial assets					
Cash and cash equivalents	127,324	-	-	-	127,324
Loans and advances to credit institutions	15,800	-	-	-	15,800
Trade and other receivables	4,669	-	-	-	4,669
Loans to customers					
At amortised cost	438,162	7,536	1,386	(2,516)	444,568
Designated at fair value through profit or loss	76,394	-	-	-	76,394
Derivative financial instruments					
House price option	12,153	-	-	-	12,153
Derivatives held for risk management	324	-	-	-	324
	674,826	7,536	1,386	(2,516)	681,232

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

Group	Total	Specific and collective impairment	Neither past due nor impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days
As at 31 March 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets								
Cash and cash equivalents	62,254	-	62,254	-	-	-	-	-
Loans and advances to credit institutions	14,975	-	14,975	-	-	-	-	-
Trade and other receivables	2,903	-	2,903	-	-	-	-	-
Loans to customers								
At amortised cost	575,927	(9,710)	543,965	15,146	5,342	2,373	10,698	8,112
Designated at fair value through profit or loss	68,507	-	67,854	-	-	-	539	114
Derivative financial instruments								
House price option	8,491	-	8,491	-	-	-	-	-
Derivatives held for risk management	203	-	203	-	-	-	-	-
	733,290	(9,710)	700,646	15,146	5,342	2,373	11,237	8,226
Group	Total	Specific and collective impairment	Neither past due nor impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days
As at 30 September 2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets								
Cash and cash equivalents	127,324	-	127,324	-	-	-	-	-
Loans and advances to credit institutions	15,800	-	15,800	-	-	-	-	-
Trade and other receivables	4,669	-	4,669	-	-	-	-	-
Loans to customers								
At amortised cost	444,568	(2,516)	439,115	1,615	20	3,301	1,662	1,371
Designated at fair value through profit or loss	76,394	-	76,394	-	-	-	-	-
Derivative financial instruments								
House price option	12,153	-	12,153	-	-	-	-	-
Derivatives held for risk management	324	-	324	-	-	-	-	-
	681,232	(2,516)	675,779	1,615	20	3,301	1,662	1,371

Credit risk associated with Serviced, Roll up, Residential Development Finance loans and loans designated at fair value through profit or loss is mitigated by the collateral that the Group holds a charge over. This totalled £1.70 billion at the end of reporting period (30 September 2017: £1.64 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:

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LTV band %	31 March 2018	31 March 2018	30 September 2017	30 September 2017
	£'000	%	£'000	%
0 - 21	11,298	2%	2,459	2%
21 - 50	89,568	17%	70,159	15%
51 - 70	237,547	47%	266,732	56%
71 - 85	177,632	34%	127,884	27%
86 - 90	427	0%	1,683	0%
91+	-	0%	16	0%
Carrying value before impairment provision	516,472	100%	468,933	100%
Unsecured Lending	146,163		66,698	
Total Lending before impairment provision	662,635		535,631	

The LTV used in the table above for RDF is based on the Gross Development Value (the estimated value at completion). Total exposure to Development finance is £53,068k (2017:£19,615k) with an average LTV of 37.7% (2017:69%).

Forbearance

Mortgages

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

Forbearance provided by Castle Trust is considered to be an indicator of impairment. Forbearance provided by other lenders to Castle Trust's borrowers is not automatically considered to be an indicator of impairment of Castle Trust's mortgage but is considered on a case by case basis if further information is available. Once the terms of the original mortgage have been amended, any impairment is measured by discounting the revised expected cash flows under the new terms discounted at the original effective interest rate of the mortgage. After a mortgage has been classified as forborne, it will remain classified as forborne unless it returns to or close to its original contractual terms. If modifications are substantial the loan is derecognised.

As at 31 March 2018, the Group deemed 3 mortgages (2017: 1 mortgage) of notional value of £4,594,005 (2017:£2,422,500) and carrying value of £5,181,768 (2017:£2,655,624) to be in forbearance. No provision has been deemed necessary for these mortgages.

Consumer Loans

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

Impairment is measured using a collectively modelled impaired provision as each loan advanced by Castle Trust 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 calculated on an aggregate basis by sector monthly, weighted by issuance. Assumptions are also made with respect to the estimated cash recovery at the termination of the loan agreement.

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

Wholesale Lending

Castle Trust sometimes makes concessions to the original terms of wholesale loans as a response to a customer's financial difficulties. Forbearance may involve the use of a payment plan where an agreement has been reached for monthly instalments to be reduced for a period of time or where individual consideration is given to the customer's circumstances.

Impairment is measured using a collectively modelled impaired provision as each loan advanced by Castle Trust 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 calculated on an aggregate basis by sector monthly, weighted by issuance. Assumptions are also made with respect to the estimated cash recovery at the termination of the loan agreement.

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

As at 31 March 2018, there was a total of £90,152 wholesale loans in forbearance.

Credit concentration

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

The Group manages its exposure to credit concentration risk by monitoring the level of concentration 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.

Mortgage assets have a maximum loan exposure which reduces concentration risk. Consumer loans and lendable are all small ticket loans which are well distributed throughout the country to retail customers. The maximum single party exposure is to HSBC.

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. Moody's credit rating for HSBC Bank is Aa2 and the HSBC Global Sterling Liquidity Fund is rated Aaa by Moody and AAA by S&P. These exposures are not considered to result in significant credit risk.

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 activities. 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 mismatch between 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 £(937k) (30 September 2017: £(615k)). 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 £3,749k (30 September 2017: £6,398k). The Group manages its exposure to interest rate risk using swaps to convert the interest rates on its financial instruments, such as mortgages and Fortress Bonds, from fixed to LIBOR-linked floating rates.

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 2018 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 2017 can be found in the 2017 Annual Report.

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 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 of 8% of Risk-Weighted Assets (RWAs) are monitored as part of the overall management of capital, with Key Risk Indicators assigned and monitored for regulatory capital ratios. Castle Trust targets a capital ratio of no less than 8% as a regulatory minimum. During the current and prior period Castle Trust complied with all external regulatory capital requirements.

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, including exposure to house price, credit, interest rate, and operational risk. 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 2018, the Group's total equity was £64,293k (30 September 2017: £58,839k).

18. Events after the reporting date

The Group is pleased to announce that the board of directors (the "Board") has determined that, as its business has grown and evolved, Castle Trust would benefit from conversion to a bank. Accordingly, Castle Trust is in dialogue with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) in order to pursue a banking licence application.

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