

Castle Trust Capital plc

**Unaudited condensed consolidated interim financial
statements for the six months ended 31 March 2019**

Interim management report and unaudited condensed consolidated interim financial statements

For the six months ended 31 March 2019

Contents	Page
Corporate information	1
Interim management report	2
Statement of directors' responsibilities	6
Unaudited condensed consolidated interim statement of comprehensive income	7
Unaudited condensed consolidated interim statement of financial position	8
Unaudited condensed consolidated interim statement of changes in equity	9
Unaudited condensed consolidated interim statement of cash flows	10
Notes to the unaudited condensed consolidated interim financial statements	11

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 Richard Alexander McGregor Ramsay
Mr Martin Paul Bischoff
Mr Paul Lloyd-Jones (appointed 8 May 2019)

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" or "CTC") and consolidated entities (the "Group" or "Castle Trust") for the six months ended 31 March 2019.

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 its market insight. This has enabled Castle Trust to deliver competitive pricing relative to its peers.

Castle Trust principally provides mortgage finance (which includes residential development finance), point of sale consumer finance and wholesale lending. These business activities are funded by the issuance of Fortress Bonds. Castle Trust also has a number of legacy products, the returns on which are linked to movements in house prices.

Property finance

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, high net worth individuals and residential property developers. There are three products within this business, Serviced, Interest Roll Up and Residential Development Finance ("RDF").

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.

Wholesale lending

This business line which focuses on the provision of wholesale funding to smaller lenders such as a flow agreement with a peer-to-peer lender and committed facilities.

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

Funding business

Castle Trust offers Fortress Bonds to retail customers who are protected by the investment arm of the Financial Services Compensation Scheme ("FSCS") up to a maximum of £85,000 per eligible customer.

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. The Fortress Bonds are eligible to be held within an ISA.

In order to improve liquidity and reduce funding costs, during the last year a portfolio of consumer loans was privately securitised. The securitisation was achieved by transfer of the beneficial interest in those loans to a special purpose vehicle, Castle Trust Belfry Limited ("CTB"). The securitisation enabled the subsequent issue of debt securities by CTB to Citibank and Omni who have security against the underlying assets as collateral.

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.

Business review

The business has been busy during the reporting period, focussing on a number of areas (as set out below) with its primary strategic objective being to obtain a banking licence:

1. Banking licence application

The business has continued to make good progress in its application for a banking licence. It is expected that the Prudential Regulation Authority (PRA) will formally invite Castle Trust to submit its application following positive feedback on the Group's draft Regulatory Business Plan and challenge sessions with the PRA during the period.

2. Point of sale consumer loans impairment performance

In Castle Trust's 2018 annual report the directors reported disappointing performance in the collection of point of sale consumer finance loans which resulted in significant impairments. Many of those losses arose from second line lending and through two retailers in particular.

The business implemented a wide range of changes, such as restructuring the management team and sales function, ceasing trading with a significant number of intermediaries and increasing headcount in risk areas alongside monthly portfolio reviews with the Risk Committee. Significant improvements have been seen and the business's strategy has been highly effective with credit scores improving to be firmly in the prime space and the proportion of loans with 2 or missed payments after 3 months on the book reducing to less than 1%.

3. Leadership team

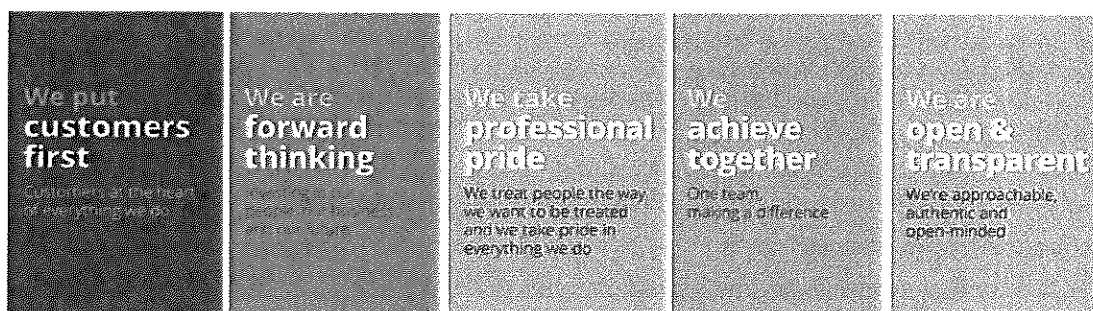
Castle Trust has continued to invest in the executive team with the appointment of:

- Ronnie Denholm as the Managing Director of Castle Trust's point of sale consumer finance business to focus on the business's profitability. Ronnie was previously Managing Director at Barclays Partner Finance.
- Al Southall as Chief Technology Officer to ensure the successful implementation of a deposits system, which will be critical for Castle Trust to become a bank. Al was previously Chief Technology Officer at Masthaven Bank.

In addition, work is underway to strengthen the non-executive team and individuals are expected to be appointed by September 2019.

Finally, Castle Trust has also rolled out a two-year long leadership training programme for all managers and high potential colleagues; the training is bespoke to Castle Trust, incorporates the values set out below and will strengthen management and the embedding of the right organisational culture.

4. Instilling the right organisational culture



Castle Trust has established a new set of values based on a bottom up approach using over 2,000 pieces of feedback. These values have been integrated into colleague's appraisals to further embed them and Castle Trust continues to focus on embedding them over the coming year.

One of Castle Trust's key values is putting customers first. Customers like using Castle Trust and receive good outcomes. Castle Trust's Net Promoter Score for Fortress Bonds is +28 and +59 for point of sale consumer finance. More than 70% of Fortress Bond investors reinvest their Fortress Bonds following maturity indicating strong brand loyalty.

Despite the strong performance over the reporting period, management are cognisant much work still needs to be done over the coming six months. The management team are confident this can be delivered.

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 2019	At 30 September 2018	Variance
	£'000s	£'000s	£'000s
Loan book growth			
Mortgage finance	497,465	532,055	(34,590)
Point of sale consumer lending	111,974	124,922	(12,948)
Wholesale lending	46,591	51,695	(5,104)
Total	656,030	708,672	(52,642)
Funding business	732,593	727,770	4,823
CET1 Capital Ratio	17.5%	19.60%	-2.1%

	Six months ended 31 March 2019	Six months ended 31 March 2018	Variance
	£'000s	£'000s	£'000s
Net interest income	18,345	15,409	2,936
Profit / (loss) after tax	1,200	(10,545)	11,745

The Group is profitable in the period under review. Over the six-month period, the loan book decreased by £52.6 million. However net interest income increased by £2.9 million compared to the comparable period in 2018, an 19% increase.

In the current period, one-off expenses were incurred in regard to the Group's application for conversion to a bank in the amount of £1.2 million.

As the Group's legacy products mature, Castle Trust is exposed to less volatility; however they did contribute a £1.6 million loss in 2018 compared to a £3.5 million profit in 2019. Administrative expenses in the period were £14.1 million compared to £15.0 million in the comparable period in 2018. Finally, impairments decreased from £7.2 million in 2018 to £5.6 million in 2019. The decrease in impairments is primarily as a result of better management of the consumer lending business. As a result of these items the overall profit for the period was £1.2 million compared to a £10.5 million loss in the comparable period in 2018.

From a capital position the Group remains strongly capitalised with total equity of £58.3 million compared to £64.8 million in 2018. The primary reason for this decrease was the implementation of IFRS 9 and an associated increase in impairments of £7.8 million. This equity has ensured that the Group has held sufficient capital during the period to, at least, meet the regulatory minimum.

Future developments and subsequent events

The future legal entity structure of the Group is currently under review and the plan is subject to ongoing discussion with the regulators as part of the banking licence application process. In the event that business activities of certain subsidiaries in the Group are discontinued, the directors anticipate that any wind down would take place in an orderly manner on the basis that key assets in entities that may be discontinued comprise receivables due from other entities.

Castle Trust is expected to continue to offer its current range of products. Castle Trust will continue to put customers first, focus on suitable expansion opportunities and careful management of costs.

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 17.5% as at 31 March 2019 (2018: 19.6%) which is well in excess of the regulatory minima and market standards. The Group held 19.8% (2018: 14.2%) 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 2018. Risks are further described in note 15.

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 2019 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 consolidated statement of comprehensive income on page 7. The directors have not elected or proposed to pay a dividend (2018: £nil).

By order of the Board



Martin Bischoff
Chief Executive Officer
27 June 2019

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 2019

Unaudited condensed consolidated interim statement of comprehensive income

For the six months ended 31 March 2019

	Notes	Six months ended 31 March 2019 £'000	Six months ended 31 March 2018 £'000
Interest and similar income calculated using EIR		29,080	23,385
Other interest and similar income		2,703	4,223
Interest and similar expense		(13,438)	(12,199)
Net interest income		18,345	15,409
Fees and commission income		189	210
Fees and commission expense		(327)	(266)
Net realised/unrealised gain / (loss) on financial instruments at fair value through profit or loss		3,540	(1,574)
Total operating income		21,747	13,779
Administrative expenses		(14,131)	(14,953)
Impairment losses on loans to customers	6	(5,593)	(7,194)
Depreciation and amortisation		(806)	(929)
Total operating expenses		(20,530)	(23,076)
Profit / (loss) before tax		1,217	(9,297)
Corporation tax	3	(17)	(1,248)
Total profit / (loss)		1,200	(10,545)
Other comprehensive income			
<i>Items not reclassified to profit or loss in subsequent periods</i>			
Fair value of own credit risk changes of financial liabilities at FVPL		24	-
Total other comprehensive income for the period		24	-
Profit / (loss) for the period attributed to:			
Non-controlling interests		(30)	(20)
Equity holders of the parent		1,230	(10,525)
Total profit / (loss)		1,200	(10,545)
Total comprehensive income for the period attributed to:			
Non-controlling interests		(30)	(20)
Equity holders of the parent		1,254	(10,525)
Total comprehensive income / (loss)		1,224	(10,545)

The results for all periods presented comprise continuing operations.

Notes on pages 11 to 40 are an integral part of these financial statements.

Unaudited condensed consolidated interim statement of financial position

Registered No: 07454474
As at 31 March 2019

Assets	Notes	As at	As at
		31 March 2019	30 September 2018
		£'000	£'000
Cash and cash equivalents	4	163,115	118,514
Trade and other receivables	5	1,657	2,926
Loans to customers			
At amortised cost	6	532,450	629,742
Designated at fair value through profit or loss	7	123,580	69,780
Fair value hedge asset		121	229
Derivative financial instruments			
House price option	8	-	9,150
Derivatives held for risk management	9	-	176
Prepayments		1,348	1,501
Property and equipment		422	489
Intangible assets	10	3,198	2,657
Total assets		825,891	835,164
Liabilities			
Trade and other payables		4,695	7,566
Debt securities in issue		9,682	9,642
Provisions for liabilities		529	365
Derivatives held for risk management	9	219	-
Amounts due to customers for Fortress Bonds	12	732,593	727,770
Financial liabilities at fair value through profit or loss	11	19,848	24,989
Total liabilities		767,566	770,332
Equity			
Share capital	13	12,998	12,992
Share premium		104,223	104,166
Own credit revaluation reserves		24	-
Retained earnings		(58,906)	(52,342)
Non-controlling interests		(14)	16
Total equity		58,325	64,832
Total equity and liabilities		825,891	835,164

Notes on pages 11 to 40 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 26 June 2019 and were signed on its behalf by:


 Martin Bischoff
 Chief Executive Officer
 27 June 2019

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 31 March 2019

	Note	Share capital £'000	Share premium £'000	Own credit revaluation reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1 October 2018		12,992	104,166	-	(52,342)	64,816	16	64,832
IFRS 9 transition adjustment	2.4.6	-	-	-	(7,794)	(7,794)	-	(7,794)
Restated at 1 October 2018		12,992	104,166	-	(60,136)	57,022	16	57,038
Total comprehensive profit / (loss) for the period		-	-	-	1,230	1,230	(30)	1,200
Issue of share capital		6	57	-	-	63	-	63
Fair value of own credit risk changes of financial liabilities at FVPL		-	-	24	-	24	-	24
At 31 March 2019		12,998	104,223	24	(58,906)	58,339	(14)	58,325

For the six months ended 31 March 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total equity £'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

Notes on pages 11 to 40 are an integral part of these financial statements.

Unaudited condensed consolidated interim statement of cash flows

For the six months ended 31 March 2019

	Six months ended 31 March 2019	Six months ended 31 March 2018
	£ '000	£'000
Cash flows from operating activities		
Bank interest received	394	498
Bank charges and interest paid	(232)	(1,363)
Fees and commission paid	(499)	(985)
Fees and commission received	1,359	876
Payments to suppliers	(8,535)	(10,647)
Payments to employees	(6,852)	(7,747)
Mortgages issued	(39,919)	(100,699)
Mortgages principal redeemed	80,302	56,276
Mortgage profit share received	780	2,928
Mortgage interest received	12,226	10,258
Consumer loans issued	(56,062)	(83,988)
Consumer loans principal redeemed	62,216	40,649
Consumer loan interest received	4,654	4,454
Wholesale loans issued	(3,938)	(36,228)
Wholesale loans principal redeemed	6,475	1,357
Wholesale loan interest received	3,267	659
Net cash inflow/(outflow) in operating activities	55,636	(123,702)
Cash flow from investing activities		
Purchase of intangible assets	(1,172)	(563)
Proceeds from sale of / (payments to purchase) loans and advances to credit institutions	(380)	900
Purchase of property, plant and equipment	(109)	(364)
Net cash (outflow) from investing activities	(1,661)	(27)
Cash flow from financing activities		
Proceeds from issue of share capital	63	16,000
Proceeds from issue of financial liabilities at amortised cost	53,577	79,530
Distributions of principal for redemptions of financial liabilities at fair value through profit or loss	(1,279)	(237)
Distributions of profit share for financial liabilities at fair value through profit or loss	(393)	(109)
Interest paid for financial liabilities at amortised cost	(7,128)	(4,123)
Proceeds from issues of debt securities	-	-
Interest paid on debt securities	(382)	-
Distributions of principal for maturities of financial liabilities at amortised cost	(53,832)	(32,402)
Net cash (outflow)/inflow from financing activities	(9,374)	58,659
Net increase / (decrease) in cash and cash equivalents	44,601	(65,070)
Cash and cash equivalents at beginning of the period	118,514	127,324
Cash and cash equivalents at end of the period	163,115	62,254

Notes on pages 11 to 40 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 2019 were authorised for issue in accordance with a resolution of the directors on 26 June 2019.

2. Accounting policies

2.1 Basis of preparation

The Group's unaudited condensed consolidated interim financial statements for the six months ended 31 March 2019 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 2018 except in relation to the Group's first time adoption of IFRS 9 Financial Instruments ("IFRS 9") from 1 October 2018.

These unaudited condensed consolidated interim financial statements have been prepared on an 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 2018, 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; and
- 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 2018 were approved by the Board of Directors on 23 January 2019 and filed with the Registrar of Companies on 8 February 2019. The report of the auditors on those accounts was unqualified and unmodified and did not contain any statements under section 498 of the Companies Act 2006.

2.2 Basis of consolidation

The unaudited condensed consolidated interim financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2019. 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.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated interim 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 interim 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.

Following Castle Trust's announcement that it is applying for a banking licence and the worse performance than expected observed in the prior year on its consumer lending business, Castle Trust materially revised its forecasts which were used to determine the recoverability of goodwill. As such Castle Trust concluded that it was appropriate to write off the balance of goodwill and so this is no longer considered a significant accounting judgement, estimate or assumption. In addition, "Fair value of acquired assets and liabilities in business acquisitions" is not included below as no acquisitions have occurred in the current or prior period.

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's implementation of IFRS 9 on 1 October 2018 has changed the judgements and estimates used when determining impairments. IFRS 9 replaced the IAS 39 "incurred loss" impairment recognition framework with a three stage expected credit loss ("ECL") approach. In order to implement IFRS 9, internal models were built to determine Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD") and forecast economic scenarios.

Judgement is required to determine the appropriateness of estimates underpinning the models when determining ECLs as explained below:

- **PD models** – the Group uses a number of PD models to assess the likelihood of a default event occurring within the next 12 months, utilising predominately internal information. The Group also computes a lifetime PD estimate for each relevant loan exposure based on the 12 month PD.
- **LGD model** – the Group uses a number of LGD models which include a number of inputs that require judgement and estimation, principally the likelihood of each recovery method and the resulting proceeds from following that recovery method.
- **EAD model** – the Group uses a number of EAD models to determine exposure at default and these follow a consistent approach to existing Effective Interest Rate ("EIR") models which use Conditional Prepayment Assumptions when determining the EIR.
- **Economic scenarios model** – the Group uses an economic scenarios model when determining the forward-looking assumptions to be used in different economic scenarios and the weighting of the likelihood of those scenarios. The development of this model required judgement when assessing the correlations between macroeconomic scenarios and economic inputs (such as unemployment levels and collateral values) and the effect on PDs, EADs and LGD.

In addition to the items noted above judgement is also required in:

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

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 6.

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 14.

Effective Interest Rate 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.

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 any 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.

2.4 Significant accounting policies

The accounting policies (apart from IFRS 9) 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 financial statements for the year ended 30 September 2018. Comparative figures have been adjusted, where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

2.4.1 Interest and similar income

Interest and similar income calculated using EIR

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

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

Other interest and similar income

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

2.4.2 Financial assets and liabilities

2.4.2.1 Initial recognition

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

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

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

2.4.2.2 Subsequent measurement of financial assets and liabilities

From 1 October 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either amortised cost or FVPL.

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

Loans and advances to credit institutions, loans to customers and trade and other receivables

From 1 October 2018, the Group only measures financial instruments at amortised cost if both of the following conditions are met:

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

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

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

Business model assessment

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

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

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

The SPPI test

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

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

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely

payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

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

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

For acquired loan books the EIR calculated at acquisition is not changed for subsequent variances in actual to expected cash flows. The Group monitors the actual cash flows for each acquired book and where they diverge significantly from expectation, the future cash flows are reset (an 'AG8' adjustment). In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute basis. Where cash flows for an acquired portfolio are reset, they are discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities classified in this category include those that have been designated upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. The Group has only designated an instrument at fair value through profit or loss upon initial recognition when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis.

The Group classifies the following financial assets and liabilities at fair value through profit or loss:

- Certain loans to customers as set out below
- Derivatives held for risk management – interest rate swaps not in effective hedging relationships.
- Financial liabilities at fair value through profit or loss

These comprise liabilities to redeemable preference ("Foundation Housas" and "Growth Housas") shareholders and loan note ("Income Housas") holders. In addition, this comprises derivative financial liabilities related to over-the-counter call options sold to CTC Holdings (Cayman) Ltd

- Amounts due to related parties under inter-company swap arrangements.

With respect to the Company only, these comprise liabilities under the swap agreement to Castle Trust Income Housa plc ("CTIH") and the Castle Trust Growth Housa PC ("PC")

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

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

- PMs were only available to owner occupiers with a term of c15 years and more. The repayment amount incorporated a profit/loss share based on any change in the value of the individual's mortgaged property.
- BTLELs were available to buy-to-let investors only with a term of up to 10 years. The repayment amount incorporated a profit share based on any change in the value of the individual's mortgaged property.
- IPS mortgages were available to buy-to-let investors and owner occupiers (who are exempt from the Consumer Credit Act ("CCA") (via the high net worth / business exemption tests)) with a term of typically 5 years. The original amount of the loan is repayable at redemption plus a deferred interest component (typically 5% pa where applicable) plus typically one times the increase in value of the national Halifax House Price Index ("HHPI"), if the property has increased in value, or the minimum repayment amount (typically 3.5% pa), whichever is greater.

The following table summarises the difference in treatment at a company and consolidated level for house price linked products:

	Partnership mortgages	BTLEL	IPS Mortgages	IPS subsequent to 1 October 2014
Company balance sheet	IAS 39 & IFRS 9: Fixed income and house price option at FVTPL	IAS 39 & IFRS 9: House price option at FVTPL	IAS 39 & IFRS 9: House price option at FVTPL	IAS 39 & IFRS 9: Bifurcated house price option at FVTPL
Group balance sheet	IAS 39 & IFRS 9: Fixed income and house price option at FVTPL	IAS 39 & IFRS 9: Fixed income and house price option at FVTPL	IAS 39 & IFRS 9: Fixed income and house price option at FVTPL	IAS 39: Bifurcated house price option at FVTPL Fixed income component at amortised cost IFRS 9: Fixed income and house price option at FVTPL
Group and Company statement of total comprehensive income	IAS 39 & IFRS 9: All gains and losses are presented within Realised and unrealised gains on financial instruments at fair value through profit and loss.	IAS 39 & IFRS 9: Interest income presented separately from fair value movements in other interest and similar income	IAS 39 & IFRS 9: Interest income presented separately from fair value movements in other interest and similar income	IAS 39 & IFRS 9: Interest income presented separately from fair value movements in other interest and similar income

Financial liabilities at amortised cost

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

- Trade and other payables
- Amounts due to customers
These comprise fixed rate Fortress Bonds liabilities
- Amounts due to group companies

With respect to the Company only, these comprise Borrower Loan Agreement liability to Castle Trust Direct Limited ("CTD") and Master Intra Group Lending Agreement ("MILA") to Castle Trust Treasury Limited ("CTT")

After initial measurement, financial liabilities at amortised cost are subsequently measured at amortised cost using the EIR methodology. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date. The EIR amortisation is included in interest and similar expense in the statement of comprehensive income.

2.4.2.3 Derecognition

Derecognition due to substantial modification of terms and conditions

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

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

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

Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

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

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

Derecognition of financial liabilities

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

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

2.4.3 Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 October 2018, the Group has been recording the allowance for expected credit losses for all financial assets, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 15.1.

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

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

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

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 15.1). The Group records an allowance for the LTECLs.

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

The calculation of ECLs

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

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

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

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

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

Forward looking information

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

- GDP growth;
- Unemployment rates;
- 10 year Gilt yields; and
- House price growth rate.

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

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as guarantees, real estate, receivables, inventories and other non-financial assets. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and at default with values modelled through the lifetime of the loan.

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

Write-offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties; please refer to note 15 for further details. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If modifications are substantial, the loan is derecognised, as explained above.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of one year has passed from the date the forborne contract was considered performing; and

- Regular payments of more than an insignificant amount of principal or interest have been made during the probation period.

Details of forborne assets are disclosed in Note 15.1.

2.4.6 Implementation of IFRS 9

The Group implemented IFRS 9 on 1 October 2018. The new standard has two key areas of change from the accounting policies applied in the financial statements for the year ended 30 September 2018 as set out below. The change in accounting policy has been made in accordance with the transitional provisions set out in IFRS 9.

i. Classification and measurement

IFRS 9 introduces a different classification of financial assets based on the entity's business model and the cash flow characteristics of the instruments. IFRS 9 applies one classification approach for all types of financial assets, including those that contain embedded derivative features. The financial assets are now classified in their entirety rather than being subject to complex bifurcation requirements.

This had a significant impact on Castle Trust in relation to bifurcated IPS mortgages (those IPS mortgages issued subsequent to 1 October 2014) in the consolidated financial statements. These mortgages are now measured at FVPL as one instrument. The impact of this is shown in the table below.

IFRS 9 has not changed the classification or measurement of the Group's financial liabilities.

ii. Measurement of ECL

The assessment of credit risk and estimation of ECL are unbiased and probability weighted. ECL is measured on either a 12 month (stage 1) or lifetime (stage 2) basis depending on whether a significant increase in credit risk has occurred since initial recognition or where an account meets the Group's definition of default (stage 3).

The impact of the implementation of IFRS 9 is shown in the table below.

Castle Trust Capital plc consolidated	IAS 39 30/09/2018	Classification	Remeasurement	IFRS 9 01/10/2018
Assets	£'000	£'000	£'000	£'000
Cash and cash equivalents	118,514	-	-	118,514
Trade and other receivables	2,926	(490)	-	2,436
<i>Gross trade and other receivables</i>	2,926	-	-	2,926
<i>Retailer impairment provision</i>	-	(490)	-	(490)
Loans to customers				
At amortised cost	629,742	(49,711)	(7,794)	572,237
<i>Gross loan balances</i>	649,146	(51,549)	-	597,597
<i>Wholesale loans impairment</i>	(980)	-	(589)	(1,569)
<i>Consumer loans impairment</i>	(12,677)	490	(6,011)	(18,198)
<i>Other secured loans impairment</i>	(5,747)	1,348	(1,194)	(5,593)
Designated at fair value through profit or loss	69,780	59,351	-	129,131
Fair value hedge asset	229	-	-	229
Derivative financial instruments				
House price option	9,150	(9,150)	-	-
Derivatives held for risk management	176	-	-	176
Prepayments	1,501	-	-	1,501
Property and equipment	489	-	-	489
Intangible assets	2,657	-	-	2,657
Total assets	835,164	-	(7,794)	827,370
Total liabilities	770,332	-	-	770,332
Equity				
Share capital	12,992	-	-	12,992
Share premium	104,166	-	-	104,166
Retained earnings	(52,342)	-	(7,794)	(60,136)
Non-controlling interests	16	-	-	16
Total equity	64,832	-	(7,794)	57,038
Total equity and liabilities	835,164	-	(7,794)	827,370

The Group has not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 October 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9, but rather those of IAS 39.

2.4.7 Implementation of IFRS 15 Revenue

The Group implemented IFRS 15 on 1 October 2018. There was no material impact.

2.4.8 IAS 1 Presentation of interest income

With effect from 1 January 2018, paragraph 82(a) of IAS 1 Presentation of Financial Statements requires interest revenue calculated using the effective interest rate method to be differentiated and presented separately from interest revenue calculated using other methods. Consequently, interest income on financial instruments at fair value through profit or loss is now disclosed separately on the statement of comprehensive income and the comparative period has been amended to reflect the same presentation.

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 2018 are not material to the Group. The Group has not adopted any new or amended accounting pronouncements.

2.5 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 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.

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 2019 £'000	31 March 2018 £'000
Current tax		
Current income tax	17	-
Deferred tax charge / (credit) relating to origination and reversal of temporary differences	-	1,248
Total tax	17	1,248

Reconciliation of total group tax charge

	31 March 2019	31 March 2018
Accounting profit / (loss) before tax	1,217	(9,297)
UK corporation tax at 19% (2018: 19%)	231	(1,859)
Losses on which deferred tax is no longer recognised	-	1,539
Movement on deferred tax not recognised	(237)	1,604
Utilisation of tax losses not recognised for deferred tax	-	(118)
Adjustment to tax charge in respect of previous periods - deferred tax	(1)	-
Disallowable expenses	24	23
Other	-	59
Total tax charge	17	1,248

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 2019 £'000	Year ended 30 September 2018 £'000
Balance at start of the period / year	-	5,869
Recognised in profit and loss during the period / year	-	(5,869)
Deferred tax asset arising from acquisition of subsidiary	-	-
Balance at the end of the period / year	-	-

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 2019, the Group had total trading losses of £46,938k (30 September 2018: £49,526k), short term timing differences of £1,489k (30 September 2018: £1,613k) and decelerated capital allowances of £915k (30 September 2018: £1,064k). The Group has not recognised deferred tax (30 September 2018: £0).

A net deferred tax asset has arisen at consolidation totalling £319,325 (30 September 2018: £889,980) due to consolidation adjustments. In line with the treatment adopted in prior periods, the deferred tax liability due to the revaluation of mortgages (including related fees) has been offset against the deferred tax asset arising from other consolidation adjustments resulting in a net deferred tax asset. As mentioned previously, the resulting deferred tax asset is not recognised in the group for the period ended 31 March 2019.

The tax rates applied in determining the value of the deferred tax asset unwinding is 19% (2018: 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 £5 million. 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.

4. Cash and cash equivalents

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

	31 March 2019	30 September 2018
	£'000	£'000
Cash at bank	35,695	38,156
Short-term deposits and other liquid assets	17,646	10,415
Treasury Bills	109,774	69,943
	163,115	118,514

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

5. Trade and other receivables

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

	31 March 2019	30 September 2018
	£'000	£'000
Trade and other receivables	3,149	3,416
Impairment	(1,492)	(490)
	1,657	2,926

Reconciliation of gross movements in the period to 31 March 2019

	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	IAS 39	Total
Trade and other receivables	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2018	-	-	649	-	649	490
IFRS 9 transitional adjustment	-	-	-	-	-	-
Gross carrying amount as at 1 Oct 2018	-	-	649	-	-	649
New assets originated or purchased	-	-	819	-	-	819
Recoveries	-	-	142	-	-	142
Amounts written off	-	-	(55)	-	-	(55)
Total gross carrying amount at 31 March 2019	-	-	1,555	-	-	1,555

Reconciliation of impairment movements in the period to 31 March 2019

	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	IAS 39	Total
Trade and other receivables	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2018	-	-	-	-	490	490
IFRS 9 transitional adjustment	-	-	490	-	(490)	-
At 1 Oct 2018	-	-	490	-	-	490
New assets originated or purchased	-	-	1,002	-	-	1,002
Amounts written off	-	-	-	-	-	-
Total gross carrying amount at 31 March 2019	-	-	1,492	-	-	1,492

6. 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 and wholesale lending.

The following tables set out the carrying value of loans to customers.

	Amortised Cost 31 March 2019 £'000	Gross 31 March 2019 £'000	Impairment 31 March 2019 £'000
Consumer loans	111,974	132,023	(20,049)
Wholesale lending	46,591	49,696	(3,105)
Property loans	373,885	379,191	(5,306)
Total loans to customers at amortised cost	532,450	560,910	(28,460)

	Amortised Cost 1 October 2018 £'000	Gross 1 October 2018 £'000	Impairment 1 October 2018 £'000
Consumer loans	119,401	137,599	(18,198)
Wholesale lending	51,106	52,675	(1,569)
Property loans	401,730	407,323	(5,593)
Total loans to customers at amortised cost	572,237	597,597	(25,360)

Movement in impairment provision in period	£'000
Consumer loans	(1,851)
Wholesale lending	(1,536)
Property loans	287
Total movement in impairment provisions	(3,100)
Write-offs in period	(2,493)
Total impairment losses on loans to customers	(5,593)

Reconciliation of gross loan movements in the period to 31 March 2019

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Stage 3 (POCI) £'000	IAS 39 £'000	Total £'000
At 30 September 2018	-	-	-	-	649,146	649,146
IFRS 9 transitional adjustment	520,579	32,945	44,073	-	(649,146)	(51,549)
Gross carrying amount as at 1 Oct 2018	520,579	32,945	44,073	-	-	597,597
New assets originated or purchased	98,964	137	289	-	-	99,390
Assets derecognised or repaid (excluding write offs)	(128,303)	(13,936)	(10,601)	-	-	(152,840)
Transfers to Stage 1	7,499	(2,008)	(4,691)	-	-	-
Transfers to Stage 2	(20,166)	20,305	(139)	-	-	-
Transfers to Stage 3	(8,347)	(7,522)	15,869	-	-	-
Amortisation of interest	13,842	1,604	2,054	-	-	17,500
Amounts written off	-	-	(737)	-	-	(737)
Total gross carrying amount at 31 March 2019	484,068	30,725	46,117	-	-	560,910

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Stage 3 (POCI) £'000	IAS 39 £'000	Total £'000
At 30 September 2018	-	-	-	-	137,599	137,599
IFRS 9 transitional adjustment	114,852	7,674	15,073	-	(137,599)	-
Gross carrying amount as at 1 Oct 2018	114,852	7,674	15,073	-	-	137,599
New assets originated or purchased	50,685	-	-	-	-	50,685
Assets derecognised or repaid (excluding write offs)	(56,822)	(2,182)	(2,523)	-	-	(61,527)
Transfers to Stage 1	414	(405)	(9)	-	-	-
Transfers to Stage 2	(5,532)	5,665	(133)	-	-	-
Transfers to Stage 3	(2,473)	(2,958)	5,431	-	-	-
Amortisation of interest	3,727	449	1,090	-	-	5,266
Amounts written off	-	-	-	-	-	-
Total gross carrying amount at 31 March 2019	104,851	8,243	18,929	-	-	132,023

	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wholesale loans						
At 30 September 2018					52,675	52,675
IFRS 9 transitional adjustment	50,887	952	836	-	(52,675)	-
Gross carrying amount as at 1 Oct 2018	50,887	952	836	-	-	52,675
New assets originated or purchased	3,494	-	-	-	-	3,494
Assets derecognised or repaid (excluding write offs)	(8,440)	(152)	(7)	-	-	(8,599)
Transfers to Stage 1	48	(48)	-	-	-	-
Transfers to Stage 2	(1,263)	1,269	(6)	-	-	-
Transfers to Stage 3	(1,141)	(596)	1,737	-	-	-
Amortisation of interest	1,987	74	65	-	-	2,126
Amounts written off	-	-	-	-	-	-
Total gross carrying amount at 31 March 2019	45,572	1,499	2,625	-	-	49,696
	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Property loans						
At 30 September 2018					458,872	458,872
IFRS 9 transitional adjustment	354,840	24,319	28,164	-	(458,872)	(51,549)
Gross carrying amount as at 1 Oct 2018	354,840	24,319	28,164	-	-	407,323
New assets originated or purchased	44,785	137	289	-	-	45,211
Assets derecognised or repaid (excluding write offs)	(63,041)	(11,602)	(8,071)	-	-	(82,714)
Transfers to Stage 1	7,037	(2,355)	(4,682)	-	-	-
Transfers to Stage 2	(13,371)	13,371	-	-	-	-
Transfers to Stage 3	(4,733)	(3,968)	8,701	-	-	-
Amortisation of interest	8,128	1,081	899	-	-	10,108
Amounts written off	-	-	(737)	-	-	(737)
Total gross carrying amount at 31 March 2019	333,645	20,983	24,563	-	-	379,191

As at 30 September 2018	Consumer Loans £'000	Wholesale Loans £'000	Other Secured Loans £'000	Total £'000
Gross carrying amount				
IAS 39		137,599	458,872	649,146
Total gross carrying amount		137,599	458,872	649,146

There has been an increase in the impairment provision for the current period primarily due to Castle Trust's transition to IFRS9.

For fair values, fair value hierarchy classifications and sensitivities disclosure refer to note 14.

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 2019

	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Total						
At 30 September 2018					19,404	19,404
IFRS 9 transitional adjustment	4,753	2,963	17,644	-	(19,404)	5,956
At 1 October 2018	4,753	2,963	17,644	-	-	25,360
Originations and acquisitions	1,137	2	81	-	-	1,220
Net commitments	(54)	-	-	-	-	(54)
Disposals and write-offs	(2,461)	(744)	(3,688)	-	-	(6,893)
Impact on period end ECL of exposures transferred between stages during the period	(63)	1,474	5,879	-	-	7,290
Transfers:						
-To Stage 1	126	(117)	(9)	-	-	-
-To Stage 2	(396)	515	(119)	-	-	-
-To Stage 3	(219)	(1,344)	1,563	-	-	-
Unwind of discount	320	172	1,045	-	-	1,537
Total movement in impairments	(1,610)	(42)	4,752	-	-	3,100
Closing balance at 31 March 2019	1,533	2,921	22,396	-	-	28,460

	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Consumer Loans						
At 30 September 2018	-	-	-	-	12,677	12,677
IFRS 9 transitional adjustment	2,306	2,305	13,587	-	(12,677)	5,521
At 1 October 2018	2,306	2,305	13,587	-	-	18,198
Originations and acquisitions	995	-	-	-	-	995
Net commitments	(136)	-	-	-	-	(136)
Disposals and write-offs	(2,060)	(527)	(2,343)	-	-	(4,930)
Impact on period end ECL of exposures transferred between stages during the period	(73)	1,017	3,617	-	-	4,561
Transfers:						
-To Stage 1	93	(84)	(9)	-	-	-
-To Stage 2	(285)	399	(114)	-	-	-
-To Stage 3	(169)	(1,087)	1,256	-	-	-
Unwind of discount	234	143	984	-	-	1,361
Total movement in impairments	(1,401)	(139)	3,391	-	-	1,851
Closing balance at 31 March 2019	905	2,166	16,978	-	-	20,049

	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wholesale loans						
At 30 September 2018	-	-	-	-	980	980
IFRS 9 transitional adjustment	585	271	713	-	(980)	589
At 1 October 2018	585	271	713	-	-	1,569
Originations and acquisitions	1	-	-	-	-	1
Net commitments	-	-	-	-	-	-
Disposals and write-offs	(170)	(32)	(5)	-	-	(207)
Impact on period end ECL of exposures transferred between stages during the period	(7)	343	1,288	-	-	1,624
Transfers:						
-To Stage 1	8	(8)	-	-	-	-
-To Stage 2	(27)	32	(5)	-	-	-
-To Stage 3	(23)	(204)	227	-	-	-
Unwind of discount	41	21	56	-	-	118
Total movement in impairments	(177)	152	1,561	-	-	1,536
Closing balance at 31 March 2019	408	423	2,274	-	-	3,105

	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	IAS 39	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Property loans						
At 30 September 2018	-	-	-	-	5,747	5,747
IFRS 9 transitional adjustment	1,862	387	3,344	-	(5,747)	(154)
At 1 October 2018	1,862	387	3,344	-	-	5,593
Originations and acquisitions	141	2	81	-	-	224
Net commitments	82	-	-	-	-	82
Disposals and write-offs	(231)	(185)	(1,340)	-	-	(1,756)
Impact on period end ECL of exposures transferred between stages during the period	17	114	974	-	-	1,105
Transfers:						
-To Stage 1	25	(25)	-	-	-	-
-To Stage 2	(84)	84	-	-	-	-
-To Stage 3	(27)	(53)	80	-	-	-
Unwind of discount	45	8	5	-	-	58
Total movement in impairments	(32)	(55)	(200)	-	-	(287)
Closing balance at 31 March 2019	1,830	332	3,144	-	-	5,306

Reconciliation of impairment movements

	Six months ended 31 March 2019	Six months ended 31 March 2018
	£'000	£'000
Write-off in period	2,493	-
Increase in provision	3,100	7,194
Total impairment losses on loans to customers	5,593	7,194

7. Loans to customers 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 14.

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 gain/(loss) on financial instruments at fair value through profit or loss'.

Movements in the period	31 March 2019	30 September 2018
	£'000	£'000
At 30 September 2018 / 30 September 2017	69,780	76,394
IFRS transitional adjustment	59,351	-
At 1 October 2018 / 2017	129,131	76,394
Redemptions in the period	(8,341)	(10,424)
Interest income component	1,829	1,941
Net gain on financial assets designated at fair value through profit or loss	961	1,669
Closing balance at 31 March 2019 / 30 September 2018	123,580	69,780

The total unrealised gains as at period end were £36,785,727 (Sept 2018: £20,093,485).

8. House price option

IPS mortgages issued since 1 October 2014 were bifurcated into the host contract, being the fixed interest repayment element included in Loans to customers at amortised cost in note 6, and the house price option, being the return linked to the HPI index. Prior to this date these mortgages were not bifurcated. Under IFRS 9 these are no longer bifurcated, Refer to note 2.4.6 for more detail.

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 gain/(loss) on financial instruments at fair value through profit or loss'.

	IPS mortgage house price option
	£'000
At 30 September 2018	9,150
IFRS transitional adjustment	(9,150)
At 1 October 2018	-
Net (loss) on house price derivatives at fair value through profit or loss	-
Closing balance at 31 March 2019	-
Opening balance at 1 October 2017	12,153
Redemptions in the year	(829)
Net gain on house price derivatives at fair value through profit or loss	(2,174)
Closing balance at 30 September 2018	9,150

The total unrealised gains/losses for the group as at period end were £nil (Sept 2018: £7,467,140)).

There were no transfers into Level 3 assets in the period, and no transfers out.

9. 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 2018:

As at 31 March 2019

	Contract or underlying principal amount	Positive market value	Negative market value	Total
	£'000	£'000	£'000	£'000
Derivatives held for risk management				
Interest rate swaps (not in hedging relationships)	91,500	-	(219)	(219)
	91,500	-	(219)	(219)

As at 30 September 2018

	Contract or underlying principal amount	Positive market value	Negative market value	Total
	£'000	£'000	£'000	£'000
Derivatives held for risk management				
Interest rate swaps (not in hedging relationships)	91,500	176	-	176
	91,500	176	-	176

Margin of £230,000 is included in cash and cash equivalents and is encumbered.

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 14.

10. 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
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 October 2017	6,212	606	1,034	2,679	769
Additions in the year	-	-	568	276	844
Written off in the year	(8,212)	(606)	-	-	(8,818)
At 30 September 2018	-	-	1,602	2,955	4,557
Additions in the period	-	-	645	527	1,172
At 31 March 2019	-	-	2,247	3,482	5,729
Accumulated amortisation and impairment					
At 1 October 2017	-	143	285	340	768
Amortisation charge for the year	-	-	401	874	1,275
Amortisation on written off assets	-	(143)	-	-	(143)
At 30 September 2018	-	-	686	1,214	1,900
Amortisation charge for the period	-	-	222	409	631
At 31 March 2019	-	-	908	1,623	2,531
Net book value					
At 30 September 2018	-	-	916	1,741	2,657
At 31 March 2019	-	-	1,339	1,859	3,198

11. 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 2019	30 September 2018
	£'000	£'000
Housa liabilities	7,801	9,650
HPI index contract - call options	12,046	15,339
	19,848	24,989

11.1 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 £'000	Growth Housa £'000	Foundation Housa £'000	Total £'000
Opening balance at 1 October 2018	1,259	5,240	3,151	9,650
Redemptions in the period	(530)	(1,284)	(244)	(2,058)
Net loss on financial liabilities at fair value through profit or loss	12	121	76	209
Closing balance at 31 March 2019	741	4,077	2,983	7,801

	Income Housa £'000	Growth Housa £'000	Foundation Housa £'000	Total £'000
Opening balance at 1 October 2017	1,629	5,960	2,996	10,585
Redemptions in the period	(418)	(955)	(1)	(1,374)
Net loss on financial liabilities at fair value through profit or loss	48	235	156	439
Closing balance at 30 September 2018	1,259	5,240	3,151	9,650

The total unrealised losses as at period end were £1,816,172 (2018: £1,619,553). For fair value hierarchy classifications and sensitivities disclosure refer to note 14. There were no transfers into Level 3 assets other than the completions in the period, and no transfers out other than redemptions.

11.2 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 2019 Notional amount £'000	31 March 2019 Fair value £'000	30 September 2018 Notional amount £'000	30 September 2018 Fair value £'000
HPI index contract - call options	200,000	12,046	200,000	15,339
Total fair value of other financial liabilities at fair value through profit or loss	200,000	12,046	200,000	15,339

For fair value hierarchy classifications, modelling and sensitivities disclosure refer to note 14.

12. 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 2019	30 September 2018
	£'000	£'000
Amounts owed to customers excluding unamortised transaction costs	737,461	735,020
Brought forward unamortised transaction costs	(7,249)	(10,553)
Additional transaction costs in the period	(193)	(3,447)
Amortisation of transaction costs in the period	2,574	6,750
Financial liabilities at amortised cost	732,593	727,770

For fair value, fair value hierarchy classifications and sensitivities disclosure refer to note 14.

13. Share capital

On 5 October 2018, a further 63,309 ordinary shares of £0.10 were allotted to Castle Trust Holdings (Jersey) Limited. The total amount paid was £1 per share with the difference accounted for as share premium.

14. Fair value modelling, hierarchy and sensitivities

14.1 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 determine

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		March 2019		September 2018		
		Min	Max	Min	Max	Min	Max	Min	Max	
Castle Trust's LTV	Castle Trust's loan relative to property value	0.2%	73.4%	1.7%	76.3%					
Senior LTV	Primary mortgage relative to property value	0.0%	75.9%	0.0%	80.4%					
House price movement	Percentage movement since origination to indexed value	-4.6%	52.2%	-6.7%	46.4%	+10%	(12,074)	13,257	(12,961)	14,439
Expected house price growth	Assumed annual rate of future HPI growth	2.6%	2.6%	2.6%	2.5%	+1%	(2,804)	2,942	(3,252)	3,419
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	11.5%	11.5%	11.5%	11.5%					
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%	16.9%	0.0%	16.9%					
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%	1.2%	0.6%	1.7%	+1%	(1,852)	1,958	(1,931)	2,048
	Credit premium discount rate	1.0%	8.5%	1.0%	8.4%	+1%	(1,852)	1,958	(1,931)	2,048
	BTL: house price derivative component									
	House price risk premium	9.5%	9.5%	9.5%	9.5%	+5%	(2,419)	3,134	(2,244)	3,612
	IPS: fixed income component and house price derivative									
	Risk free discount rates	0.5%	1.2%	0.6%	1.7%	+1%	(66)	67	(147)	150
	Credit premium discount rate	1.0%	8.5%	1.0%	8.4%	+1%	(66)	67	(147)	150
	IPS: house price derivative component									
	House price risk premium	35.5%	35.5%	14.6%	14.6%	+5%	(241)	261	(570)	543

House liabilities fair value measurement

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

Input	Description	Range		Sensitivity		March 2019		September 2018		
		Min	Max	Min	Max	Min	Max	Min	Max	
Movement in HPI	Percentage movement since origination to indexed value	13.1%	45.6%	11.8%	44.7%	+10%	(774)	784	(929)	915
Expected house price growth	Assumed annual rate of future HPI growth	2.6%	2.6%	2.6%	2.6%					
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	11.5%	11.5%	11.5%	11.5%					
Discount rates:	Derived to be consistent with future house price growth.									
	Risk free discount rates	0.7%	1.5%	0.8%	2.0%					
	Credit premium discount rate	1.1%	2.7%	1.2%	1.8%					
	House price risk premium	10.5%	42.2%	10.2%	42.5%	+10%	(193)	163	(274)	379

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				
		March 2019		September 2018		March 2019		September 2018		
		Min	Max	Mn	Max	Min	Max	Mn	Max	
Movement in HPI	Percentage movement since origination to indexed value	9.3%	9.3%	8.6%	8.6%	+10%	(16,900)	7,521	(15,056)	9,310
Expected house price growth	Assumed annual rate of future HPI growth	2.6%	2.6%	2.6%	2.6%	+1%	(1,938)	1,716	(2,545)	2,260
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	11.5%	11.5%	11.5%	11.5%					
Discount rates :	Derived to be consistent with future house price growth.									
	Risk free discount rates	0.7%	1.5%	0.7%	2.0%					
	Credit premium discount rate	1.1%	2.7%	1.2%	1.8%					
	House price risk premium	3.2%	6.8%	3.2%	6.8%	+5%	(1,642)	1,383	(2,113)	1,808

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				
		March 2019		September 2018		March 2019		September 2018		
		Min	Max	Mn	Max	Min	Max	Mn	Max	
Interest rates	Fixed leg interest rates	1.01%	1.63%	1.01%	1.63%	+1%	(962)	1,012	(1,223)	1,285
	Floating leg interest rates	6M	6M	6M	6M	+1%	962	(1,012)	1,223	(1,285)
Discount rates :	Discounted using LIBOR	LIBOR	LIBOR	LIBOR	LIBOR					
	Discounted using OIS (overnight indexed swap) curve	0.69%	0.83%	0.44%	1.07%	+1%	9	(5)	(11)	3

14.2 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 2019

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Loans to customers					
At amortised cost	-	-	537,885	537,885	532,450
Designated at fair value through profit or loss	-	-	123,580	123,580	123,580
Fair value hedge asset	-	121	-	121	121
Total	-	121	661,565	661,686	656,151
Liabilities					
Debt securities in issue	-	-	9,682	9,682	9,682
Derivatives held for risk management	-	219	-	219	219
Financial liabilities at amortised cost	-	-	739,939	739,939	732,593
Financial liabilities at fair value through profit or loss	-	-	19,848	19,848	19,848
Total	-	219	769,468	769,688	762,342

As at 30 September 2018

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Loans to customers					
At amortised cost	-	-	642,563	642,563	629,742
Designated at fair value through profit or loss	-	-	69,780	69,780	69,780
Fair value hedge asset	-	229	-	229	229
Derivative financial instruments					
House price option	-	-	9,150	9,150	9,150
Derivatives held for risk management	-	176	-	176	176
Total	-	405	721,493	721,898	709,077
Liabilities					
Debt securities in issue	-	-	9,642	9,642	9,642
Financial liabilities at amortised cost	-	-	734,682	734,682	727,770
Financial liabilities at fair value through profit or loss	-	-	24,989	24,989	24,989
Total	-	-	769,313	769,313	762,401

15. 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.

15.1 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.

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.

	Neither past due nor impaired		Past due but not impaired		Individually impaired		Collective and specific	Total Forborne %
	Performing	Forborne	Not forborne	Forborne	Not forborne	Forborne		
As at 31 March 2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets								
Cash and cash equivalents	163,115	-	-	-	-	-	-	163,115
Trade and other receivables	3,149	-	-	-	-	-	(1,492)	1,657
Loans to customers								
At amortised cost								
- Consumer loans	108,845	153	21,283	1,742	-	-	(20,049)	111,974 1.44%
- Wholesale loans	45,849	92	3,002	753	-	-	(3,105)	46,591 1.70%
- Property loans	302,004	28,597	20,813	3,213	24,564	-	(5,306)	373,885 8.39%
Designated at fair value through profit or loss	117,879	-	5,701	-	-	-	-	123,580 0.00%
	740,841	28,842	50,799	5,708	24,564	-	(29,952)	820,802
As at 30 September 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets								
Cash and cash equivalents	118,514	-	-	-	-	-	-	118,514
Trade and other receivables	3,415	-	-	-	-	-	(489)	2,926
Loans to customers								
At amortised cost								
- Consumer loans	116,407	553	18,057	2,582	-	-	(12,677)	124,922 2.28%
- Wholesale loans	51,092	-	1,558	25	-	-	(980)	51,695 0.05%
- Property loans	390,655	-	36,434	18,408	13,375	-	(5,747)	453,125 4.01%
Designated at fair value through profit or loss	68,725	-	517	28	-	510	-	69,780 0.77%
Derivative financial instruments								
House price option	8,938	-	212	-	-	-	-	9,150
Derivatives held for risk management	176	-	-	-	-	-	-	176
	757,922	553	56,778	21,043	13,375	510	(19,893)	830,288

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

	Total	Specific and collective impairment	Neither past due nor impaired	Impaired but not past due	<30 days	30-60 days	61-90 days	91-120 days	>120 days
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2019									
Financial assets									
Cash and cash equivalents	163,115	-	163,115	-	-	-	-	-	-
Trade and other receivables	1,657	(1,492)	3,149	-	-	-	-	-	-
Loans to customers									
At amortised cost	532,450	(28,460)	485,540	-	14,118	10,475	5,904	13,872	31,001
Designated at fair value through profit or loss	123,580	-	117,879	-	-	-	-	5,701	-
Derivative financial instruments									
House price option	-	-	-	-	-	-	-	-	-
Derivatives held for risk management	-	-	-	-	-	-	-	-	-
	820,802	(28,952)	788,683	-	14,118	10,475	5,904	19,573	31,001
As at 30 September 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets									
Cash and cash equivalents	118,514	-	118,514	-	-	-	-	-	-
Trade and other receivables	2,926	(490)	3,416	-	-	-	-	-	-
Loans to customers									
At amortised cost	629,742	(19,404)	558,707	13,175	11,041	9,058	5,522	11,930	35,683
Designated at fair value through profit or loss	69,780	-	68,725	15	58	18	137	60	725
Derivative financial instruments									
House price option	9,150	-	8,938	-	-	10	46	-	156
Derivatives held for risk management	176	-	176	-	-	-	-	-	-
	830,288	(19,894)	758,476	13,194	11,139	9,086	5,735	11,990	40,562

Credit risk associated with property 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 £2.42 billion at the end of reporting period (30 September 2018: £1.70 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 2019		30 September 2018	
	£'000	%	£'000	%
0 - 21	12,667	3%	9,592	2%
21 - 50	90,550	18%	117,935	22%
51 - 70	256,523	51%	294,976	55%
71 - 85	106,556	21%	113,455	21%
86 - 90	7,231	1%	1,759	0%
91+	29,244	6%	85	0%
Carrying value before impairment provision	502,771	100%	537,802	100%
Unsecured Lending	181,719		190,275	
Total Lending before Impairment provision	684,490		728,077	

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 £78.5m (2018:£69m) with an average LTV of 44.5% (2018:39.2%).

Significant increase in credit risk ('SICR') (movement to stage 2)

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

At the point of recognition a loan is assigned a lifetime PD estimate. For each monthly reporting date thereafter an updated lifetime PD estimate is computed for the life of the loan. The Group's transfer criteria analyse relative changes in lifetime PD versus the origination lifetime PD, where if prescribed thresholds are met, an account will be transferred from stage 1 to stage 2.

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

IFRS 9 includes a rebuttable presumption that if an account is more than 30 days past due it has experienced a significant increase in credit risk. The Group considers more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted this presumption. A borrower will move back into stage 1 where the SICR definition is no longer satisfied.

Definition of default (movement to stage 3)

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

- The rebuttable assumption that more than 90 days past due is an indicator of default. The Group has not rebutted this assumption and therefore deems more than 90 days past due as an indicator of default.
- The Group has also deemed it appropriate to classify accounts that have moved into an unlikelihood to pay position, which includes forbearance or repossession.

A borrower will move out of stage 3 when their credit risk improves such that they roll back to zero days past due and remain there for an internally approved period. The borrower will move to stage 1 or stage 2 dependent on whether the SICR applies.

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.

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 IFRS 9. 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 IFRS 9. 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.

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 those classified as wholesale lending 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.

Forward looking macroeconomic scenarios

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

The Group uses a bespoke macroeconomic model to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. At present, the most significant macroeconomic factors relate to the house price index ('HPI'), unemployment and the Bank of England Base Rate.

The Group has derived an approach for factoring probability weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates. An account's lifetime PD is impacted by the probability weighted macroeconomic scenario and therefore impacts whether an account meets the Group's SICR transfer criteria moving the exposure between stage 1 and stage 2. The macroeconomic scenarios feed directly into the ECL calculation, as the adjusted PD, lifetime PD and LGD estimates are used within the individual account ECL allowance calculations.

The Group currently does not have an in-house economics function and therefore sources economic forecasts from an appropriately qualified third party. The Group will consider a minimum of three probability weighted scenarios, including base, upside and downside scenarios. However, the Group will constantly monitor the ongoing appropriateness of its approach referencing industry best practise.

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

15.2 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.

15.3 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 £(286k) (30 September 2018: £511k). 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 £3,769k (30 September 2018: £3,749k). 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.

16. Debt securities in issue

	2019	2018
	£'000	£'000
Due in more than one year	9,682	9,642
Senior loan notes	9,682	9,642
Total debt securities in issue	9,682	9,642

17. Reconciliation of financing liabilities

	At 1 Oct 2018	Cash flows	Interest accretion	Fair value changes	At 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Debt securities in issue	9,642	(382)	422	-	9,682
Amounts due to customers for Fortress bonds	727,770	(7,383)	12,206	-	732,593
Financial liabilities at fair value through profit or loss	24,989	(1,279)	-	(3,863)	19,848
	762,401	(9,045)	12,628	(3,863)	762,122

	At 1 Oct 2017	Cash flows	Interest accretion	Fair value changes	At 30 Sept 2018
	£'000	£'000	£'000	£'000	£'000
Debt securities in issue	-	9,709	(67)	-	9,642
Amounts due to customers for Fortress bonds	605,007	103,637	19,126	-	727,770
Financial liabilities at fair value through profit or loss	27,614	(1,517)	-	(1,108)	24,989
	632,621	111,829	19,059	(1,108)	762,401

18. 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.

19. Related party transactions

There were no changes to the nature of the related party transactions during the period to 31 March 2019 that would materially affect the position or performance of the Group. Details of the transactions for the year ended 30 September 2018 can be found in the 2018 Annual Report.

20. 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 2019, the Group's total equity was £58,325k (30 September 2018: £64,832k).

21. Events after the reporting date

There are no events after the reporting date that require disclosure under IAS 10.