

Castle Trust Capital plc

**Unaudited condensed consolidated interim financial
statements for the six months ended 31 March 2016**

Interim management report and unaudited condensed interim consolidated financial statements

For the six months ended 31 March 2016

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Corporate information

Registered No: 07454474

Directors

Mr Richard Alexander McGregor Ramsay
Dr David Raymond Morgan
Mr Timothy John Hanford
The Rt Hon The Lord Deben
Dame Deirdre Mary Hutton (resigned 10 March 2016)
Mr Patrick Nigel Christopher Gale
Mr Sean Oldfield
Mr Matthew Peter Vincent Wyles

Secretary

Mr Mark Banham

Auditors

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Bankers

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Chief Executive's report

Introduction

This Report covers a six month period of lending product transition which has been strategically successful. Castle Trust has developed a lending product suite to deliver value to customers and distributors which will help drive a robust financial future for the business.

During the period, we withdrew our house price linked lending products and expanded our range of interest bearing mortgage products. Castle Trust accomplished this change in strategy while experiencing only a moderate reduction in lending volumes due to the strength of our relationships with distributors and the value of our proposition to customers.

Material Sale of House Price Exposure

We continue to offer institutional and high net worth investors exposure to residential house prices through products that demonstrate excellent risk/return characteristics. The returns on residential property have been comparable to equities but with significantly lower volatility, they possess inherent inflation protection and have low correlation with other asset classes, as well as strong structural support for rising prices in the form of an expanding deficit in the supply of housing. During the six months ending 31 March 2016, we sold the majority of the house price exposure held on Castle Trust's balance sheet to J.C. Flowers & Co in a transaction that accelerates Castle Trust's ability to build scale in its lending operations.

Financial performance for period

There has been a substantial change in the results for the results for the six months ended 31 March 2016 and the comparable period last year. The £5m difference between PBT of £0.4m in the six months ending 31 March 2015 (the "2015 period") and PBT of £(4.6)m in the 2016 period is principally the result of the factors explained below:

- A. £2.5m of non-recurring fee income generated in the 2015 period didn't recur in the 2016 period
- B. £1m lower fair value gains in the 2016 period compared with the 2015 period
- C. £1.4m in increased operating costs
- D. £0.1m decrease in net interest income

A. Non-Recurring Fee Income

In the 2015 period we benefitted from a one-off fee of £2.5m for a special transaction we completed and syndicated, while we have received no material fee income in the 2016 period. Special transactions are by their nature non-recurring and we do not expect non-recurring fee income to drive total operating income.

B. Fair Value Changes

The fair value movements from our warehoused house price exposures are down by £1m (£1.8m vs. £0.8) due to the Halifax house price index not increasing as much over the 2016 period (+0.3%) vs the 2015 period (2.2%). However, it should be remembered that fair value movements over short periods can give rise to material volatility in earnings that are not necessarily indicative of a trend. For example, in the month of April 2016, a gain of £3.4m was made by Castle Trust on an index gain of 3.2%. A further gain of 0.59% in May 2016 was also experienced by both the business and the house price exposure purchased by J.C. Flowers. Co. Given the sale of £200m of notional value of house price exposure, Castle Trust will experience significantly less earnings volatility for a given percentage change in the index from May 2016 onwards.

C. Interest Income and Interest Expense (Net Interest Income)

Interest income in the 2016 period increased by £3.9m compared to the 2015 period. This was due to an increase in both the average balance of loans by £129m (from £83m to £212m) and the average interest return on the book which rose from 4.0% to 5.5%.

Interest expense increased more than interest income between periods, increasing by £4m. This is not a trend that we expect to continue. The increased interest expense is the result of Castle Trust increasing its average funding between the periods by £203m (from £61m to £264m). However, we did also significantly cut the average interest rate on our new liabilities, for example, the one year bond was reduced in rate from 3.00% in March 2015 to 2.25% in March 2016 (then 2.00% in April 2016 and 1.80% in May 2016) while also reducing our customer acquisition costs (as measured over the life of a customer). The ability to scale up the funding side of the business in a cost efficient manner is increasingly being proven as we raised over £40m in April 2016 alone. This capacity to raise attractively priced funding will be core to Castle Trust's growth in the future.

D. Total operating expenses

Total operating expenses increased by £1.4m in the 2016 period compared with the 2015 period, largely due to increased employee costs following a significant increase in the number of staff that occurred in the six months ending 30 June 2015. The full run rate impact has been with business for some time while the business has continued to scale without a noticeable further increase in the size of the work force since that time.

Credit

We run a conservative approach to credit losses in our organic lending business. Whilst to date we have not incurred any actual credit losses in our lending operation, we have accounted for potential impairments on the loan book and we price the inevitable emergence of some degree of actual losses into our return requirements on all our loans.

Value creation looking forward

While continuing to grow our existing mortgage offering, which has already demonstrated its potential to deliver attractive risk-adjusted returns in a large market, we have also begun the process of establishing or acquiring new business lines that operate in underserved niches with demonstrable barriers to entry. The business is well positioned to execute swiftly on opportunities as they arise to accelerate our growth. We launched our residential development finance ("RDF") offering in March 2016. We have already completed our first transactions and have built a solid pipeline of originations. We expect this area will start to make noticeable contributions to our net interest income growth this financial year.

As of 30 April 2016, we have an annual net interest income run rate of around £7.2m to which we are adding nearly £1m each month. This noticeable increase in net interest income growth has developed as we open up the spread between our funding costs and lending revenue and scale up our organic lending growth. In our chosen niches we operate a powerful and repeatable model that drives our value creating ability and our positive earnings trajectory.

Conclusion

The financial results for the six month period ending 31 March 2016 do not reflect the trajectory of the business given the significant one off nature of the items reported. The substantial change that was delivered in this period allows us to look forward to delivering increasing value to customers and distributors and driving a robust financial future for the business.

We are grateful most of all to our customers for their business and trust, to our distribution partners for their enthusiasm for our products, to our staff for all their hard work and to our shareholders for their support and encouragement.

A handwritten signature in black ink that reads "Sean Oldfield".

Sean Oldfield
Founder and Chief Executive Officer
Castle Trust Capital plc

Interim management report

The directors present the interim management report and unaudited condensed consolidated interim financial statements for Castle Trust Capital plc (“CTC”), registered number 07454474, and its subsidiaries (“the Group” or “Castle Trust”) for the six months ended 31 March 2016. The information on page 1 forms part of this report.

Business overview

Castle Trust is a specialist financial services firm founded in 2011. Our business model is built around designing, distributing and administering unique propositions that customers value highly in the investment and mortgage markets based on a deep understanding of our target customer segments and their needs.

Group business performance review

Castle Trust continues to progressively evolve its products and operating model in response to customer, market, regulatory and operational requirements. Our ability to respond with agility, provide innovative solutions and a customer centric approach saw our gross new lending in the period grow by £63.2 million. Total gross lending since launch is £256.8 million. Furthermore, the average interest earned on new lending between October 2015 to March 2016 grew to 8.2% (March 2015 to September 2015: 5.9%).

Our funding programme also continues to perform well with customers having invested a further £91.7 million in the period. Encouragingly, our Fortress Bond (“FRB”) programme customers whose products have matured are typically re-investing 68% of their original investments into new FRBs. This ability to secure funding ensures that we can continue to grow our lending book in line with our strategic ambitions as well as providing the flexibility to optimise our funding rates. Average interest expense declined in the period to 2.8% (March 2015 to September 2015: 3.7%) therefore generating a net interest margin on new lending and funding of 5.4% (March 2015 to September 2015: 2.2%).

Castle Trust earned no fees in the period other than those related to mortgage loan origination which are included within the Effective Interest Rate (“EIR”) calculation.

Over the period the national House Price Index (“HPI”) used to determine the returns on certain HPI linked products remained almost flat at 0.32% (October 2014 to March 2015: 2.24%) though since recovered in April 2016 to 3.5% for the period covering October 2015 to April 2016 (October 2014 to April 2015: 2.99%).

The value of mortgages outstanding now stands at £267.6 million as at 31 March 2016 (30 September 2015: £205.8 million and 31 March 2015; £130.1 million). The total of funding liabilities outstanding also increased during the period to £313.0 million (30 September 2015: £231.9 million and 31 March 2015: £136.0 million). This strong performance reflects the growing franchise that Castle Trust is building and the successful translation of our strategic goals into a scalable and sustainable business model and operation.

In March 2016 the industry saw the implementation of the EU Mortgage Credit Directive. Castle Trust updated its product terms and conditions and operating procedures to be fully compliant with this important regulatory change.

The business continues to invest in its technology platforms and people within a cost conscious culture to ensure that it is well positioned for future planned growth. As at 31 March 2016 the Group employed 105 people (30 September 2015: 83).

Product range

In the period Castle Trust further augmented its range of mortgage products within the Flex range with two new products.

Flex to Refurb is a product specifically designed for landlords who want to undertake light refurbishment to their investment properties, and Flex to Buy which provides a pre-agreed facility – perfect for investors who want to move quickly when an opportunity arises, at an auction for example.

For a full description of all other mortgage and investment products offered by Castle Trust to date please refer to the Annual Report for the year ended 30 September 2015.

Financial highlights and KPIs

The following table consists of the major line items in the Group statement of comprehensive income and from the Group statement of financial position as shown on pages 9 and 10 in the accompanying financial statements and notes as well as other relevant KPIs.

		2015	2016
Summary profit and loss account period ended 31 March	Interest income	£3.5m	£7.4m
	Interest expense	£(1.7)m	£(5.7)m
	Net interest income	£1.8m	£1.7m
	Net fees and commissions	£2.5m	-
	Net gain on assets / liabilities at fair value	£1.8m	£0.8m
	Total operating income	£6.1m	£2.5m
	Total operating expenses	£(5.7)m	£(7.1)m
	Profit / (loss) before taxation	£0.4m	£(4.6)m
	Profit / (loss) after taxation	£0.4m	£(3.9)m
Extracts from the consolidated statement of financial position at 31 March 2016 (comparative as at 30 September 2015)	Loans and advances	£205.8m	£267.6m
	Cash, investments and cash equivalents ¹	£55.7m	£64.0m
	Total assets	£274.8m	£368.1m
	Funding liabilities	£231.9m	£313.0m
Key ratios:	Liquidity coverage ratio ²	138%	378%
	Net stable funding ratio ³	136%	138%
	Common equity tier 1 ratio ⁴	34.6%	22.0%

1. As per balance sheet 'Cash and cash equivalents' and 'Investments'

2. Liquid assets held divided by the amount of cash outflow in a stressed scenario over a 3 month period

3. Long-term and stable funding held divided by the balance of long-term assets

4. CET1 as a percentage of risk weighted assets

On 31 March 2016, Castle Trust entered into a Property Index Derivative Transaction with CTC Holdings (Cayman) Ltd. For further details of this transaction refer to note 15.2.

Future developments

Our overall view of the housing market fundamentals remains positive and we will continue to focus on the development of new products and business lines. For example we have now launched a new product stream aimed at the residential development market which will provide lending on a wide range of opportunities from single extensions and light refurbishment right the way up to new build developments. We have also launched a new 'Max mortgage' range which offers lenders the option to service interest while accessing Castle Trust's uniquely creative and flexible underwriting approach.

Group structure and arrangements

There have been no significant changes to the Group structure or arrangements during the period. For full details of Group structure and arrangements please refer to the Annual Report for the year ended 30 September 2015.

Risk management and key risk exposures

Castle Trust is in the business of taking considered risk in order to meet its strategic objectives. To achieve long term sustainable growth in earnings and shareholder value, Castle Trust seeks to optimise risk assumption and manage risk in a way which is aligned with a risk appetite defined by the Board from time to time. Risks must be managed effectively to meet the reasonable expectations of key stakeholders and to safeguard Castle Trust's reputation and capital. The Group measures and monitors risk on a regular basis and formally reviews its risk position at the Risk Committee every quarter. The Group is subject to house price risk, credit risk, market, interest rate and liquidity risks as well as non-financial risks, key being in relation to third party service providers and suppliers.

There has been no significant change to the principal risks and uncertainties faced by the Group since 30 September 2015 except for the provision of third party services related to mortgage operation which has been brought in house. Risks are further described in note 18.

Directors

Details of directors who served during the period are provided on page 1.

Regulatory environment

CTC and Castle Trust Capital Management Limited ("CTCM") are authorised and regulated by the Financial Conduct Authority ("FCA") and were granted regulatory permissions to carry out regulated activities on 5 September 2012. CTC and CTCM received interim permission from the FCA to provide consumer credit products from 1 April 2014 when responsibility for consumer credit regulation passed from the Office of Fair Trading to the FCA. On 28 January 2016 CTC was granted variation of permissions to be able to conduct regulated mortgage business with effect from 21 March 2016. CTCM no longer has interim permission to undertake consumer credit business.

Political donations

Castle Trust made no political donations in the year (2015: £nil).

Hedge accounting

The increase in fixed income assets and liabilities for the Group results in an exposure to interest rate changes. Refer to the note 7 for further details of the Group's hedging arrangements.

Change to the presentation of the statement of cash flows

The statement of cash flows as at 31 March 2016 and 2015 has been presented using a direct method basis in accordance with IAS 7 Statement of Cash Flows. Management believe that this change in presentation will provide more detailed and useful information to the reader of the accounts. This is a change from the presentation at 31 March 2015 which was prepared using an indirect method basis. The statement of cash flows as at 31 March 2015 has been restated in line with this new presentation.

Changes in accounting policies

During the year ended 30 September 2015, the Group changed its accounting policies with respect to interest income and cash and cash equivalents as described in note 25. These changes resulted in restatement of prior year comparatives.

Results and dividends

The results of the Group for the period are set out in the group consolidated statement of comprehensive income on page 9. The Group has made a total comprehensive loss in the six months period to 31 March 2016 of £3,912,620 (31 March 2015: profit of £442,714). The directors do not recommend the payment of a dividend (2015: £nil).

By order of the Board

A handwritten signature in black ink, appearing to read "Mark Banham".

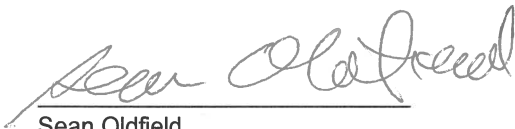
Mr Mark Banham
Company Secretary
27 May 2016

Statement of directors' responsibilities

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the condensed set of consolidated financial statements includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, 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; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

A handwritten signature in cursive script, appearing to read "Sean Oldfield".

Sean Oldfield
Founder and Chief Executive Officer
27 May 2016

Unaudited condensed consolidated interim statement of comprehensive income

For the six months ended 31 March 2016

	Notes	31 March 2016 £'000	Restated 31 March 2015 £'000
Interest and similar income		7,405	3,479
Interest and similar expense		(5,743)	(1,725)
Net interest income		1,662	1,754
Fees and commission income		34	3,924
Fees and commission expense		(9)	(1,382)
Net fee and commission income		25	2,542
Net trading income		1,687	4,296
Net income from derivatives at fair value through profit or loss		(118)	-
Net gain on financial assets designated at fair value through profit or loss		997	2,008
Net loss on financial liabilities at fair value through profit or loss		(45)	(191)
Total operating income		2,521	6,113
Personnel expenses		(3,897)	(2,621)
Depreciation of property and equipment		(57)	(32)
Amortisation of intangible assets		(90)	(12)
Other operating expenses		(3,046)	(3,005)
Total operating expenses		(7,090)	(5,670)
Profit / (loss) before tax		(4,569)	443
Corporation tax	3	656	-
Total comprehensive profit / (loss)		(3,913)	443
Profit / (loss) for the year attributed to:			
Non-controlling interests		(3)	(10)
Equity holders of the parent		(3,910)	453
Total comprehensive profit / (loss)		(3,913)	443

For details of restatement of prior year comparatives refer to note 25.

The results for all years presented comprise continuing operations.

Notes on pages 13 to 36 are an integral part of these financial statements.

Unaudited condensed consolidated interim statement of financial position

As at 31 March 2016

Assets	Notes	31 March 2016	30 September 2015
		£'000	£'000
Intangible assets	5	613	336
Property and equipment	4	213	254
Deferred tax asset	3	6,319	5,663
Other receivables	6	16,994	2,063
Loans to customers			
At amortised cost	9	176,324	112,885
Designated at fair value through profit or loss	10	85,611	87,682
Fair value adjustment for portfolio hedged risk		936	539
Derivative financial instruments			
House price option	8	5,694	5,193
Investments	11	17,738	6,280
Trade and other receivables	12	11,109	4,210
Prepayments		289	353
Cash and cash equivalents	13	46,266	49,389
Total assets		368,106	274,847
Equity			
Share capital	14	6,478	6,478
Share premium		45,540	45,540
Retained earnings		(16,466)	(12,556)
Non-controlling interests		154	157
Total equity		35,706	39,619
Liabilities			
Financial liabilities at fair value through profit or loss	15	26,192	10,837
Derivatives held for risk management	7	1,232	194
Financial liabilities at amortised cost	16	301,763	221,080
Trade and other payables	20	3,213	3,117
Total liabilities		332,400	235,228
Total equity and liabilities		368,106	274,847

The financial statements were approved by the Board of Directors and authorised for issue on 27 May 2016 and were signed on its behalf by:



Sean Oldfield
 Founder and Chief Executive Officer
 27 May 2016

Unaudited condensed consolidated interim statement of changes in equity

For the six months ended 31 March 2016

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

For the six months ended 31 March 2015

	Share capital	Share premium	Retained earnings	Total	Non- controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 October 2014	6,478	45,540	(18,411)	33,607	161	33,768
Total comprehensive profit for the period	-	-	453	453	(10)	443
At 31 March 2015	6,478	45,540	(17,958)	34,060	151	34,211

Notes on pages 13 to 36 are an integral part of these financial statements.

Unaudited condensed consolidated interim statement of cash flows

For the six months ended 31 March 2016

		Six months ended 31 March 2016	Six months ended 31 March 2015 Restated
	Notes	£'000	£'000
Cash flow from operating activities			
Bank interest received		67	47
Bank charges paid		(27)	(28)
Fees and commission paid		(1,000)	(1,504)
Fees and commission received		1,226	1,705
Payments to suppliers		(7,725)	(6,666)
Payments to employees		(3,599)	(2,531)
Mortgages issued		(67,684)	(88,905)
Mortgages redeemed		13,912	1,557
Mortgage interest received		613	542
Net cash from operating activities		(64,217)	(95,783)
Cash flow from investing activities			
Proceeds from sale of / (payments to purchase) short-term investments	11	(11,458)	3,722
Purchase of property, plant and equipment	4	(16)	(137)
Purchase of intangible assets	5	(367)	(277)
Net cash from investing activities		(11,841)	3,308
Cash flow from financing activities			
Proceeds from issue of financial liabilities at amortised cost		81,545	87,280
Proceeds from issue of financial liabilities at fair value through profit or loss		331	152
Distributions paid on Income Housa investments		(36)	(22)
Distributions for Fortress Bond maturities and interest		(8,905)	-
Net cash from financing activities		72,935	87,410
Net decrease in cash and cash equivalents		(3,123)	(5,065)
Cash and cash equivalents at beginning of the period		49,389	33,467
Cash and cash equivalents at end of the period		46,266	28,402

For details of restatement of prior year comparatives refer to note 25.

Notes on pages 13 to 36 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 2016 were authorised for issue in accordance with a resolution of directors on 27 May 2016.

2. Accounting policies

2.1 Basis of preparation

The Group's unaudited condensed consolidated interim financial statements for the six months ending 31 March 2016 have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted for use in the European Union. The Group has applied the same accounting policies and methods of computation as at 30 September 2015.

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

These interim financial statements should be read in conjunction with the audited financial statements for the year ended 30 September 2015, which were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU.

Statutory accounts

The unaudited condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial statements for the year ended 30 September 2015 were approved by the Board of Directors on 21 January 2016 and filed with the Registrar of the Companies on 5 February 2016. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498 of the Companies Act 2006.

Change to the presentation of the statement of cash flows

The statement of cash flows as at 31 March 2016 and 2015 has been presented using a direct method basis in accordance with IAS 7 Statement of Cash Flows. Management believe that this change in presentation will provide more detailed and useful information to the reader of the accounts. This is a change from the presentation at 31 March 2015 which was prepared using an indirect method basis. The statement of cash flows as at 31 March 2015 has been restated in line with this new presentation.

Changes in accounting policies

During the year to 30 September 2015, the Group changed its accounting policies with respect to interest income and cash and cash equivalents as described in note 25. These changes resulted in restatement of prior period comparatives.

Basis of consolidation

The unaudited condensed consolidated interim financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2016. 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. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Significant accounting judgements, estimates and assumptions

The preparation of the Group's unaudited condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

The Group based its assumptions and estimates on parameters available when the unaudited condensed interim consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment losses on loans to customers

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

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

The impairment loss on loans to customers is disclosed in more detail in note 9.

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 that are designed so that their activities are not governed by way of voting rights.

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

The Group consolidates the SEs that it controls. The Group's involvement with consolidated SEs is detailed in note 24.

Going concern

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

Fair value measurement of financial assets and liabilities

The Group measures financial instruments such as mortgage assets at fair value through profit or loss, House Price Options, Interest Rate Swaps, House and derivative liabilities at fair value at each balance sheet date.

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 (including the Halifax House Price Index ("HPI")) but some judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as discount rates and early redemption assumptions.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or amortised cost are disclosed in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions notes 7-10 and 15-17;
- Derivatives held for risk management note 7;
- House price options note 8;
- Loans to customers at amortised cost note 9;
- Financial assets designated at fair value through profit or loss note 10;
- Financial liabilities at fair value through profit or loss note 15;
- Financial liabilities at amortised cost note 16;
- Fair value hierarchy and sensitivities note 17.

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.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Deferred tax assets

The status, measurements and treatment of deferred tax assets recognised in the consolidated financial statements are disclosed in note 3. The decision to recognise the assets is based on the Group's estimation of profits arising in the short to medium term against which the brought forward losses might be relieved. The status, measurement and treatment of these assets are monitored on an on-going basis.

2.2 Significant accounting policies

The accounting policies and methods of computation and presentation applied by the Group in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those set out in the Group's Annual Report for the year ended 30 September 2015 except for a new accounting policy in respect of derivative liabilities which is set out below.

Derivative liabilities

Derivative financial liabilities include call options that derive their value mainly from underlying house price indices. Call option instruments represent commitments to purchase a designated security or exposure at a specified future date and price. Call option agreements are OTC contracts in which two parties agree on the terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending on what index level in fact prevails at a future point in time.

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums received for derivatives are recorded as a liability on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts held by Castle Trust are individually negotiated between contracting parties. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Derivative transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements which are designed to be legally enforceable in the event of default.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 15.2.

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 2015 are not material to the Group. The Group has not adopted any new or amended accounting pronouncements which have impacted the interim financial statements.

Standards issued but not yet effective

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

- IFRS 9, Financial Instruments (effective 1 January 2018)

IFRS 9 sets out significantly different classification, recognition, measurement of financial instruments, expected credit losses and hedge accounting. It is expected to have significant impact on operations. The Group is assessing the process changes required to comply with IFRS 9 and the associated impact on its financial statements.

- IFRS 15, Revenue from Contracts with Customers (effective 1 January 2018)

IFRS 15 is not expected to have a material impact on the financial statements.

(i) Segmental reporting

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

3. Corporation tax

Current taxation

	31 March 2016 £'000	31 March 2015 £'000
Current tax		
Current CTC income tax	-	-
Current CTCM income tax	-	-
Deferred tax credit	(656)	-
Total tax	(656)	-
Reconciliation of total group tax charge		
Accounting (loss) / profit before tax	(4,569)	443
UK corporation tax at 20% (2015: 21%)	(914)	93
Effect of change in tax rates on the net deferred tax asset	249	-
Losses for which a deferred tax asset was not previously recognised	9	(93)
Current tax credit	(656)	-

Deferred tax

	Period ended 31 March 2016 £'000	Year ended 30 September 2015 £'000
Balance at start of the period / year	5,663	-
Recognised during the period / year	656	5,663
Balance at the end of the period / year	6,319	5,663

A net 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 2016, the Group had total trading losses of £31,683,118 (30 September 2015: £26,897,510) and decelerated capital allowances of £1,155,036 (30 September 2015: £1,096,462) in respect of which a deferred tax asset of £6,318,939 has been recognised (30 September 2015: £5,662,723). In the Budget on 8 July 2015, the Chancellor announced reductions in the UK corporation tax rate to 19 per cent with effect from 1 April 2017 and to 18 per cent with effect from 1 April 2020. These changes were substantively enacted on 26 October 2015. Deferred tax as at 31 March 2016 has been provided for at the revised substantively enacted rates that will apply when deferred tax assets are realised. The impact of this change decreased the deferred tax asset recognised as at 31 March 2016 by £248,692, with a corresponding reduction to the tax charge recognised in the income statement.

4. Property and equipment

	Office and computer equipment
Cost	£'000
At 1 October 2014	151
Additions in year	251
At 30 September 2015	402
Additions in the period	16
At 31 March 2016	418
Depreciation and impairment	
At 1 October 2014	70
Depreciation charge for the year	78
At 30 September 2015	148
Depreciation charge for the period	57
At 31 March 2016	205
Net book value	
At 30 September 2015	254
At 31 March 2016	213

5. Intangible assets

	Mortgage operations, reporting and valuation software
Cost	£'000
At 1 October 2014	-
Additions in year - internally developed	357
At 30 September 2015	357
Additions in the period - internally developed	367
At 31 March 2016	724
Accumulated amortisation and impairment	
At 1 October 2014	-
Amortisation charge for the year	21
At 30 September 2015	21
Amortisation charge for the period	90
At 31 March 2016	111
Net book value	
At 30 September 2015	336
At 30 March 2016	613

Intangible assets comprise the allocated time of software development staff to various pieces of software which in total provide the system on which mortgage transactions are recorded for operational purposes. The bespoke nature of the loans offered by the Group require a non-standard software solution. Therefore the Group has adopted an internal IT development model to provide this, rather than attempting to alter an off the shelf solution or outsourcing to external parties.

6. Other receivables

	31 March 2016	30 September 2015
	£'000	£'000
Other deposits	1,713	1,783
Amounts due from related parties	15,281	280
	16,994	2,063

Amounts due from related parties include £15,000,000 premium receivable from CTC Holdings (Cayman) Ltd in settlement for a Property Index Derivative Transaction purchased from CTC on 31 March 2016. For further details refer to note 15.2.

The fair value of other receivables approximates to cost as presented in the statement of financial position and these related notes.

7. Derivatives held for risk management

Derivative financial instruments are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates, exchange rates or stock market indices. These types of instruments tend to have a smaller or no initial net investment relative to financial assets / liabilities offering the same risk / return as cash flows and generally settled at a future date.

Types of derivatives for fair value hedges

The Group uses interest rate swaps with varying durations to hedge its exposure to interest rate risk.

Castle Trust has applied fair value hedge accounting from 31 July 2015 on a portfolio basis. The hedging relationship is between a portfolio of assets or liabilities and a portfolio of derivatives. Castle Trust analyses cash flows from these portfolios into repricing time periods based on the expected maturity profile. A hedged item is then designated as a portion of the cash flows within this profile that Castle Trust wishes to hedge. Castle Trust designates the hedging instrument as the portfolio of derivatives. A quantitative approach is applied on a periodic basis to measure the effectiveness of the hedge. Providing the hedge is proved highly effective, Castle Trust recognises the change in fair value of each hedged item in the income statement, with the cumulative movement in the hedged item being shown in the statement of financial position.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks are managed using on balance sheet instruments.

Category	Description	Risks hedged	Swap impact
Loans and receivables	Fixed rate interest mortgage lending	Sensitivity to increases in interest rates	Pay fixed interest
Liabilities at amortised cost	Fortress Bonds (fixed rate bonds)	Sensitivity to falls in interest rates	Receive fixed interest

Hedge accounting

In certain circumstances the Group has utilised the hedging rules set out in IAS 39, Financial Instruments: Recognition and Measurement, to designate derivatives as accounting hedges to reduce accounting volatility where hedge effectiveness is achieved.

A fair value hedge is a hedge of the exposure in changes in fair value of a recognised asset, liability or unrecognised firm commitment that is attributable to a particular risk that could have an impact on the statement of comprehensive income. As required by IAS 39, documentation is produced for each main class of fair value hedge.

	Contract or underlying principal amount	Positive market value	Negative market value	Total
	£'000	£'000	£'000	£'000
As at 31 March 2016				
Derivatives held for risk management				
Interest rate swaps (not in hedging relationships)	50,000	-	(419)	(419)
Interest rate swaps (fair value hedges)	45,000	-	(813)	(813)
	95,000	-	(1,232)	(1,232)

As at 30 September 2015	Contract or underlying principal amount	Positive market value	Negative market value	Total
	£'000	£'000	£'000	£'000
Derivatives held for risk management				
Interest rate swaps (fair value hedges)	61,000	-	(194)	(194)
	61,000	-	(194)	(194)

The collateral of £1,250,000 put in place to secure the arrangement is included on the balance sheet at fair value within Investments. It is held in a ring fenced account for the sole purpose of securing HSBC's risk of Castle Trust's default in relation to the market value movement in the swaps.

Interest rate swaps are valued using a valuation technique with market-observable inputs. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves. Interest rate swap payments relating to both interest and principal are settled on a net basis.

For fair value hierarchy classifications and sensitivities disclosure refer to note 17.

8. House price option

Castle Trust changed the accounting treatment of IPS mortgage contracts issued since 1 October 2014. This resulted in a different treatment of IPS mortgage contracts to those issued in the year to 30 September 2014. Part of the value of the IPS mortgage is linked to the HPI, the cash flows of which are considered to be unrelated to the host contract, being the fixed interest repayment element of the hybrid contract. The host contract is recorded at amortised cost and is set out in note 9.

8.1 Fair value of house price option

The table below shows the fair values of financial assets together with their notional amounts. These assets are measured at fair value as their performance is evaluated on the basis of the movement of the HPI. The fair value of house price option is classified as Level 3 in fair value hierarchy. The notional amount represents the fair value of house price options at inception. The modelling assumptions underlying the fair value of house price linked derivatives are covered in note 10.2.

	31 March 2016		30 September 2015	
	Notional amount	Fair value	Notional amount	Fair value
	£'000	£'000	£'000	£'000
IPS mortgage house price option	3,420	5,694	3,220	5,193

Movements in the period

	IPS mortgage house price option
	£'000
Opening balance at 1 October 2014	-
Completions in the year	3,220
Net gain on house price derivatives at fair value through profit or loss	1,973
Closing balance at 30 September 2015	5,193
Completions in the period	200
Net gain on house price derivatives at fair value through profit or loss	301
Closing balance at 31 March 2016	5,694

For fair value hierarchy classifications and sensitivities disclosure refer to note 17.

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

9. Loans to customers at amortised cost

Loans to customers at amortised cost comprise IPS mortgages issued since 1 October 2014 and all FZ mortgages in issue.

	31 March 2016		30 September 2015	
	Notional amount £'000	Amortised cost £'000	Notional amount £'000	Amortised cost £'000
Index Profit Share mortgages	80,415	84,359	72,593	74,541
Flexible Zero Mortgages	88,845	92,211	37,006	38,535
Impairment provision	-	(246)	-	(191)
	169,260	176,324	109,599	112,885

For fair values, fair value hierarchy classifications and sensitivities disclosure refer to note 17.

Fair value modelling techniques are described in note 10. Notional amounts above represent the amounts loaned at issuance. There were no transfers into Level 3 assets other than completions of £63,800,326 in the period, and no transfers out other than redemptions of £4,139,066.

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

	31 March 2016		30 September 2015	
	Notional amount £'000	Fair value £'000	Notional amount £'000	Fair value £'000
Partnership Mortgages	9,096	11,587	10,736	13,361
Buy To Let Equity Loans	51,961	63,480	53,031	62,323
Index Profit Share mortgages	9,252	10,544	10,912	11,998
	70,309	85,611	74,679	87,682

See the interim management report for information on mortgage products provided by Castle Trust.

10.1 Fair value of financial assets designated at fair value through profit or loss

The table above contains the fair values of mortgages designated at fair value through profit or loss together with their notional amounts. These assets are measured at fair value as their performance is evaluated on the basis of the movement of the HPI. The notional amount, being the gross mortgage advance, i.e. the total amount advanced to the customer gross of any solicitor's fees, is the basis upon which changes in the value of the assets are measured. The notional amounts indicate the volume of transactions outstanding at the end of the period and are not indicative of either the market risk or the credit risk. Fair values of house price options and fair value hedges are shown in notes 8 and 7 respectively.

10.2 Fair value modelling

Castle Trust has developed a model to value its mortgage assets and house price options. The model uses stochastic techniques to calculate the net present value of simulated future cash flows, and is run on a monthly basis for internal management information and board reporting purposes by a specialist modelling team. The simulated cash flows are based on assumptions about the range of possible events and inputs concerning the terms of the mortgages and investments.

The fair value measurement of the mortgage assets and house price options is performed by a specialist team within Castle Trust on a monthly basis within a control framework. Model assumptions are reviewed at a board level. Key inputs are described below.

Fair value measurement

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

- Castle Trust loan to value: this is the size of Castle Trust's loan relative to the value of the property. It varied from 0.7% to 72.5% (30 September 2015: 3.3% to 73%).
- Senior loan to value: this is the size of primary mortgage relative to the value of the property. It varied from 0%, where Castle Trust was a first charge lender, to 82% (30 September 2015: 82%).
- Movement in house prices: the percentage movement in the house price from origination to the indexed value is between -4.7% and 36.8% (30 September 2015: -1.2% and 34.0%).

- Elapsed term: this is the amount of time that has elapsed from the date of completion of each mortgage to the end of the year. As at 31 March 2016, this value varied between 0 to 29 months (30 September 2015: 0 to 23 months).
- Expected future movement in the HPI: this is the assumed annual rate that the HPI is expected to grow at in the future and was 4.5% (30 September 2015: 4.5%) per annum. This is defined on a continuously compounded basis.
- Volatility of house prices: this ranges from 3.4% to 48% (30 September 2015: 3.4% to 48%). In addition to this there is an allowance for index volatility as well as volatility above the index.
- Product terms: these are terms that are specific to the mortgage products, such as Mortgage Term, Early Repayment Charge and Minimum Repayment Amount. The product terms are defined in the terms and conditions of each mortgage. The mortgage terms were between 1 and 30 years (30 September 2015: 1 and 30 years).
- Expected repayment rates: this ranges from 0% to 12% per annum (30 September 2015: 0% to 12% per annum) depending on the elapsed time since the mortgage was drawn. In addition there are adjustments for seasonality and market conditions.
- Discount rates: the discount rates were calculated to be consistent with the assumptions about future house price growth. This calculation produced discount rates as per the below table for the various mortgage products:

	2016 Min %	2016 Max %
Partnership Mortgages	8.4%	13.6%
Buy To Let Equity Loans: fixed income component	4.3%	11.0%
Buy To Let Equity Loans: house price derivative component	20.3%	27.0%
Index Profit Share mortgages: fixed income component	4.3%	11.0%
Index Profit Share mortgages: house price derivative component	74.3%	81.0%
	2015 Min %	2015 Max %
Partnership Mortgages	8.4%	13.6%
Buy To Let Equity Loans: fixed income component	4.2%	11.0%
Buy To Let Equity Loans: house price derivative component	20.2%	27.0%
Index Profit Share mortgages: fixed income component	4.2%	11.0%
Index Profit Share mortgages: house price derivative component	74.2%	81.0%

For fair value hierarchy classifications and sensitivities disclosure refer to note 17.

Mortgage assets are measured at fair value on a recurring basis and their valuation is categorised at Level 3. The following table shows a reconciliation from the opening balances to the closing balances, including the total gains for the year that are recognised in the statement of comprehensive income within 'Net gain on financial assets designated at fair value through profit or loss'. The amount of change in the fair value of financial assets that is attributable to changes in the credit risk during the year is a loss of £134,113 (30 September 2015: £486,257) and cumulatively is a loss of £620,370 (30 September 2015: £486,257). There were no transfers into Level 3 assets other than the completions in the year, and no transfers out other than redemptions.

Movements in the six months to 31 March 2016	Partnership Mortgages £'000	Buy To Let Equity Loans £'000	Index Profit Share mortgages £'000	Total £'000
Opening balance at 1 October 2015	13,361	62,323	11,998	87,682
Completions in the period	-	1,259	-	1,259
Redemptions in the period	(1,640)	(2,329)	(1,660)	(5,629)
Interest income component	-	1,109	193	1,302
Net gain on financial assets designated at fair value through profit or loss	(134)	1,118	13	997
Closing balance at 31 March 2016	11,587	63,480	10,544	85,611

Movements in the year to 30 September 2015	Partnership Mortgages £'000	Buy To Let Equity Loans £'000	Index Profit Share mortgages £'000	Total £'000
Opening balance at 1 October 2014	8,150	20,399	11,622	40,171
Completions in the year	5,567	35,351	-	40,918
Redemptions in the year	(2,319)	(1,487)	(405)	(4,211)
Interest income component	-	1,710	399	2,109
Net gain on financial assets designated at fair value through profit or loss	1,963	6,350	382	8,695
Closing balance at 30 September 2015	13,361	62,323	11,998	87,682

11. Investments

31 March 2016 30 September 2015

	£'000	£'000
UK Government debt securities	14,978	-
Amounts held on deposits	2,760	6,280
	17,738	6,280

Amounts held on deposits consist of a cash collateral with HSBC related to interest rate swaps of £1,510,000 (2015: £130,000) and a ring fenced collateral account with HSBC of £1,250,000 (30 September 2015: £1,250,000). As at the end of this period investment deposits with Aldermore Bank are £nil (30 September 2015: £4,900,000). The Group still holds deposits with Aldermore Bank which are included in note 13 as they now meet the definition of cash and cash equivalents. Interest is paid on release of the invested funds at the end of the contract. Deposits are valued at cost which approximates to fair value.

12. Trade and other receivables

31 March 2016 30 September 2015

	£'000	£'000
Investment debtors	8,628	1,799
Other debtors	2,481	2,411
	11,109	4,210

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

Investment debtors represent Fortress Bond (cash) receipts from customers into client monies accounts for which the monies as at 31 March had not been remitted through to the Company current bank account.

13. Cash and cash equivalents

31 March 2016 30 September 2015

	£'000	£'000
Cash at bank	18,277	20,756
Short-term deposits and other liquid assets	2,003	28,633
UK Government debt securities	25,986	-
	46,266	49,389

14. Share capital

	31 March 2016	30 September 2015
	£'000	£'000
Allotted and fully paid:		
64,780,001 (2015: 64,780,001) ordinary shares of £0.10 each	6,478	6,478

15. Financial liabilities at fair value through profit or loss

15.1 Fair value of Housa liabilities

The table below shows the fair values of Housa liabilities, financial liabilities at fair value through profit or loss, together with the notional amounts. These liabilities are measured at fair value as their performance is evaluated on the basis of the movement of the HPI as described in the prospectuses. The notional amount, being the actual cash received from the investor, is the basis upon which changes in the value of the liabilities are measured. The notional amounts indicate the volume of transactions outstanding at the end of the period and are indicative of neither the market risk nor the credit risk. The amount of change in the fair value of financial liability that is attributable to changes in the credit risk during the year and cumulatively is not material.

	31 March 2016	31 March 2016	30 September 2015	30 September 2015
	Notional amount	Fair value	Notional amount	Fair value
	£'000	£'000	£'000	£'000
Liability to Income Housa customers	1,793	2,086	1,793	2,088
Liability to Growth Housa customers	5,500	6,365	5,273	6,113
Liability to Foundation Housa customers	2,611	2,741	2,517	2,636
	9,904	11,192	9,583	10,837

15.1.1 Fair value modelling

Castle Trust has developed a model to value its Housa liabilities. The model uses stochastic techniques to calculate the net present value of simulated future cash flows. The model is run on a monthly basis for internal management information and board reporting purposes by a specialist modelling team.

The model incorporates various inputs including the movement in HPI from issuance to the latest published value of HPI as at 31 March 2016, the amount of time elapsed from issuance to 31 March 2016, the expected future movement in HPI, the amount of variation or volatility in this future movement and the product terms, as described in more detail below. The financial liabilities at fair value through profit or loss have been classified as Level 3, as the lowest level input identified is the discount rate which is derived from unobservable data.

Fair value measurement

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

- **Movement in HPI:** This is the percentage movement in HPI from the Initial Index Level of each share class to the latest published value of HPI as of the end of the year. As at 31 March 2016, the latest published value of HPI was 667.75 (30 September 2015: 665.6). The Initial Index Level varied from 519.3 for the October 2012 series to 656.3 for the October 2015 series. At 30 September 2015, the Initial Index Level varied from 519.3 for the October 2012 series to 665.6 for the September 2015 series.
- **Elapsed term:** This is the amount of time that has elapsed from the closing date of each share class to the end of the year. As at 31 March 2016, this value varied between 41 months for the October 2012 series of Housa to 5 months for the October 2015 series. As at 30 September 2015, this value varied between 35 months for the October 2012 series of Housas to 0 months for the September 2015 series.
- **Expected future movement in the HPI:** This is the assumed annual rate that the HPI is expected to grow at in the future and was 4.5% per annum (30 September 2015: 4.5%). This is defined on a continuously compounded basis.
- **Volatility of the movement in HPI:** This is the assumed annualised volatility of the future HPI returns and was 12.91% per annum (30 September 2015: 12.91%). This is defined consistently with market practice for financial option valuation approaches.

- Product terms: These are terms that are specific to each share class such as profit share, loss share, coupon rate and term. The product terms are defined in the terms and conditions of each Housa. In summary, the profit share was between 100% and 170% (2015: 100% and 170%); the loss share was between 0% and 100% (2015: 0% and 100%); the coupon rate was between 0% and 3% (2015: 0% and 3%) per annum and the term was 2, 3, 5 or 10 years.
- Discount rates: The discount rates were calculated to be consistent with the assumptions about future house price growth. This calculation produced discount rates between 5% and 8% (2015: 5% and 8%) per annum.

15.1.2 Income, Growth and Foundation Housas

For full details of these products refer to 2015 Annual report. No new Income Housas have been issued since 31 July 2014 and no new Growth or Foundation Housas have been issued since October 2015. The existing books will remain until run-off.

15.1.3 Fair value hierarchy

For fair value hierarchy classifications and sensitivities disclosure refer to note 17.

Housa liabilities are measured at fair value on a recurring 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. There were no transfers into Level 3 assets other than the completions in the period, and no transfers out other than redemptions.

	Income Housa £'000	Growth Housa £'000	Foundation Housa £'000	Total £'001
Opening balance at 1 October 2015	2,088	6,113	2,636	10,837
Creations in the period	-	237	94	331
Redemptions in the period	-	(21)	-	(21)
Net loss on financial liabilities at fair value through profit or loss	(2)	35	12	45
Closing balance at 31 March 2016	2,086	6,364	2,742	11,192

	Income Housa £'000	Growth Housa £'000	Foundation Housa £'000	Total £'000
Opening balance at 1 October 2014	1,888	4,697	2,037	8,622
Creations in the period	-	1,002	542	1,544
Redemptions in the period	-	(56)	-	(56)
Net loss on financial liabilities at fair value through profit or loss	200	470	57	727
Closing balance at 30 September 2015	2,088	6,113	2,636	10,837

15.2 Fair value of derivative liabilities

The table below shows the fair values of derivative liabilities together with the notional amounts. These liabilities are measured at fair value as their performance is evaluated on the basis of the movement of the HPI. The notional amounts indicate the principal against which the derivative payoff is calculated.

	31 March 2016 Nominal £'000	31 March 2016 Fair value £'000	30 September 2015 Nominal £'000	30 September 2015 Fair value £'000
HPI index contract - OTC options	200,000	15,000	-	-
Total derivative liabilities	200,000	15,000	-	-

Derivative financial liabilities include over-the-counter call options sold to CTC Holdings (Cayman) Ltd, the Company's ultimate parent entity. These options and their terms are summarised in the table below:

Trade date	Maturity or expiry date	Term	Currency	Notional amount	Premium	Fair value
31-Mar-2016	30-Mar-2019	3 years	GBP	100,000,000	6,600,000	6,600,000
31-Mar-2016	30-Mar-2021	5 years	GBP	50,000,000	4,000,000	4,000,000
31-Mar-2016	30-Mar-2023	7 years	GBP	50,000,000	4,400,000	4,400,000
				200,000,000	15,000,000	15,000,000

Derivatives are recognised in the statement of financial position at their fair value which represents their cost. Their cost equals premiums received or receivable for derivatives at the date of transaction, representing their fair value at that date.

15.2.1 Fair value modelling

Castle Trust has developed a model to value its derivative liabilities. The model uses stochastic techniques to calculate the net present value of simulated future cash flows. The model is run on a monthly basis for internal management information and board reporting purposes by a specialist modelling team.

The model incorporates various inputs including the movement in HPI from settlement to the latest published value of HPI as at 31 March 2016, the amount of time elapsed from issuance to 31 March 2016, the expected future movement in HPI, the amount of variation or volatility in this future movement and the product terms, as described in more detail below. The financial liabilities at fair value through profit or loss have been classified as Level 3, as the lowest level input identified is the discount rate which is derived from unobservable data.

Fair value measurement

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

- **Movement in HPI:** This is the percentage movement in HPI from the Initial Index Level of option to the latest published value of HPI as of the end of the period. As at 31 March 2016, there has been no change in the index.
- **Elapsed term:** This is the amount of time that has elapsed from the trade date of each option to the end of the period. No time has elapsed as at 31 March 2016.
- **Expected future movement in the HPI:** This is the assumed annual rate that the HPI is expected to grow at in the future and was 4.5% per annum. This is defined on a continuously compounded basis.
- **Volatility of the movement in HPI:** This is the assumed annualised volatility of the future HPI returns and was 12.91% per annum. This is defined consistently with market practice for financial option valuation approaches.
- **Product terms:** These are terms that are specific to each option such as strike price and term. In summary, the strike was between 107.5% and 117.5% and the terms are between 3 and 7 years.
- **Discount rates:** The discount rates were calculated to be consistent with the assumptions about future house price growth. This calculation produced discount rates between 17% and 26% per annum.

15.2.2 Fair value hierarchy

For fair value hierarchy classifications and sensitivities disclosure refer to note 17.

Derivative liabilities are measured at fair value on a recurring basis. There were no transfers into Level 3 assets other than the issues in the period.

16. Financial liabilities at amortised cost

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

	31 March 2016	30 September 2015
	£'000	£'000
Nominal value of Fortress Bonds sold	303,526	223,653
Transaction costs	(10,723)	(5,945)
Interest on an EIR basis	8,960	3,372
Financial liabilities at amortised cost	301,763	221,080

For fair value, fair value hierarchy classifications and sensitivities disclosure refer to note 17.

Fair values of the bonds are determined according to the published annual equivalent rates ("AERs"), adjusted for the time value of money and credit spread risk, using a discounted cash flow model.

17. Fair value hierarchy and sensitivities

17.1 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. Fair values are generally determined at prices quoted in active markets (Level 1). However, where such information is not available, the Group applies valuation techniques to measure such instruments. These valuation techniques make use of market-observable data for all significant inputs where possible (Level 2), but, in some cases it may be necessary to estimate other than market-observable data within a valuation model for significant inputs (Level 3).

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

As at 31 March 2016

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Loans to customers				
At amortised cost	-	-	188,965	188,965
Designated at fair value through profit or loss	-	-	85,611	85,611
Derivative financial instruments				
House price option	-	-	5,694	5,694
Fair value adjustment for portfolio hedged risk	-	936	-	936
Total	-	936	280,270	281,206
Liabilities				
Financial liabilities designated fair value through profit or loss	-	-	26,192	26,192
Derivatives held for risk management	-	1,232	-	1,232
Financial liabilities at amortised cost	-	-	312,352	312,352
Total	-	1,232	338,544	339,776

As at 30 September 2015

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Loans to customers				
At amortised cost	-	-	114,433	114,433
Designated at fair value through profit or loss	-	-	87,682	87,682
Derivative financial instruments				
House price option	-	-	5,193	5,193
Fair value adjustment for portfolio hedged risk	-	539	-	539
Total	-	539	207,308	207,847
Liabilities				
Financial liabilities designated at fair value through profit or loss	-	-	10,837	10,837
Derivatives held for risk management	-	194	-	194
Financial liabilities at amortised cost	-	-	230,143	230,143
Total	-	194	240,980	241,174

17.2 Sensitivity of fair value movements

Castle Trust's model for calculating the fair value of its mortgage assets, Housa liabilities and derivative liabilities includes unobservable inputs. Changing one of these inputs, whilst holding the others constant, would lead to higher or lower fair values. There is a strong interrelationship between the discount rates and the other inputs described below. This interrelationship arises because the discount rates are derived from the only piece of market information available to the Group, the price at which the customer is willing to transact. This is considered to be the most reliable method of calculating the exit price because it is the price at which a third party would be indifferent to purchasing the asset from Castle Trust or originating a new asset themselves. The most significant unobservable inputs are considered below:

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

Credit premium discount rates: an important unobservable component in the discount rate calculation for IPS and BTLEL loans is the credit premium discount rate, which expresses the extra return required by a willing buyer for taking up additional risk. Castle Trust's model for calculating the fair value for Partnership mortgages does not require the credit premium discount rate as an input.

Increasing the parameter will reduce the fair value of the fixed income component of the mortgage. This would be materially offset by an increase of the fair value of the house price derivative component of the mortgage through changes in the derived discount rate. The choice of the credit premium discount rate influences the split between the fixed income and house price derivative fair value components.

The sensitivity of Castle Trust's mortgages fair value to changes in credit premium discount rate has been assessed by using a 1% shift in the credit premium discount rate curve whilst holding the other inputs constant (including the derived discount rate). The credit premium discount rate curve has been used for recalculating the fair value of the fixed income component and fair values of the embedded HPI option for all IPS and BTLEL loans irrespective of the accounting treatment as at 31 March 2016.

Mortgage portfolio	Fair value / fair value impact	Fixed income component	House price derivative	Fixed income component plus house price derivative
		£'000	£'000	£'000
Index Profit Share mortgages	Fair value	96,355	6,821	103,177
Buy to Let Equity Loans	Fair value	44,207	19,273	63,480
Index Profit Share mortgages	Increase credit premium by 1%	(2,689)	(94)	(2,783)
Buy to Let Equity Loans	Increase credit premium by 1%	(1,982)	(736)	(2,718)
Index Profit Share mortgages	Decrease credit premium by 1%	2,516	83	2,599
Buy to Let Equity Loans	Decrease credit premium by 1%	2,065	756	2,822

Some of the IPS mortgages in the table above are carried at amortised cost, see note 9.

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

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

The only significant input that materially changes the fair value of the mortgage assets, Housa liabilities and derivative liabilities is the published HPI value, analysed below.

At 31 March 2016

	Increase HPI by 10%	Decrease HPI by 10%
	£'000	£'000
Designated at fair value through profit or loss		
Impact on net assets - Partnership Mortgages	1,533	(1,460)
Impact on net assets - Buy To Let Equity Loans	7,869	(8,040)
Impact on net assets - Index Profit Share mortgages	4,286	(3,413)
Impact on net assets: derivative liabilities	(6,947)	5,784
Impact on net assets: Housa liabilities	(759)	737

At 30 September 2015

	Increase HPI by 10%	Decrease HPI by 10%
	£'000	£'000
Designated at fair value through profit or loss		
Impact on net assets - Partnership Mortgages	1,750	(1,676)
Impact on net assets - Buy To Let Equity Loans	7,423	(7,634)
Impact on net assets - Index Profit Share mortgages	3,642	(3,082)
Impact on net assets: derivative liabilities	-	-
Impact on net assets: Housa liabilities	(706)	686

18. Risk management

The main risks to which Castle Trust is exposed as at 31 March 2016 are the value of UK residential property and credit risk. These risks are sought by the business when a reasonable risk adjusted return can be earned for accepting these risks. Castle Trust is also exposed to interest rates and liquidity risks as these risks are inherent in the business. The Chief Risk Officer monitors and reports to the directors the performance of the Group.

18.1 House price risk

House price risk, including index tracking error risk, is inherent in the Castle Trust business model. Castle Trust actively seeks exposure to these risks through its lending business to hold and to enable sale of the exposure to investors. Castle Trust maintains sufficient capital resources to remain solvent under severe market conditions. House price risk exists where a change in the price of all houses in the UK can result in gains or losses on the combined equity loans and investment products portfolio. Index tracking error risk exists where the over or under performance of house prices in certain segments can result in gains or losses on the combined equity loans and investment products portfolio. The Group's maximum exposure to house price risk from a 10% fall in the HPI is £6.39m (30 September 2015: £12.39m).

18.2 Credit risk

Retail credit risk is inherent in the Castle Trust mortgage products. This risk is managed in the loan origination and servicing processes. The Group has modelled the scenarios which might lead to a change in these risks, and these are measured and monitored on a quarterly basis by the Risk Committee. The Group's maximum exposure to credit risk in relation to its mortgage lending as at 31 March 2016 could be considered to be the entire mortgage balance of £267,875,426 before impairment provision (30 September 2015: £205,951,366).

The Group holds charge over the total collateral of £1,105,736,686 which represents the value of properties at inception of each mortgage. Note that the above collateral is subject to traditional first charge by other mortgage lenders in cases where Castle Trust is a second charge mortgage provider.

The following table shows combined first and second charge loan to value analysis for all loans by band held at the end of the year:

As at 31 March 2016

LTV band %	2016 £'000	2016 %
21 - 50	58,169	22%
51 - 70	88,900	33%
71 - 80	87,870	33%
81 - 85	32,570	12%
86+	366	0%
Carrying value before impairment provision	267,875	100%

As at 30 September 2015

LTV band %	2015 £'000	2015 %
21 - 50	51,857	25%
51 - 70	53,394	26%
71 - 80	68,091	33%
81 - 85	32,256	16%
86+	353	0%
Carrying value before impairment provision	205,951	100%

The Group is also exposed to credit risk in terms of its exposure to the house price option. The Group's maximum exposure to credit risk in relation to the house price option as at 31 March 2016 could be considered to be the entire house price option balance of £5,694,279 (30 September 2015: £5,193,073). The house price option balance is included in the loan to value analysis table above.

The Group is also exposed to credit risk in terms of its exposure to fair value hedges. The Group's maximum exposure to credit risk in relation to fair value hedges as at 31 March 2016 is £1,232,000 (30 September 2015: £193,924).

The Group is also exposed to credit risk in terms of its holdings in fixed deposit funds with Lloyds Bank of £1,001,621 (30 September 2015: £4,900,000), Aldermore Bank of £1,001,271 (30 September 2015: £4,900,000) and a fixed term deposit with Handelsbanken of £1,001,000 (30 September 2015: £nil). Moody's credit rating for Lloyds Bank plc is A1. Aldermore Bank is not rated but the Group has performed its own credit analysis and considers the counterparty to be creditworthy for short term deposits. The Group has considered its exposure with respect to HSBC and the funds that it manages in terms of their current accounts and liquidity funds, where the maximum exposure is £1,815 (30 September 2015: £23,733,419). Moody's credit rating for HSBC Bank plc and Handelsbanken is Aa2. As the liquidity funds comprise a well-diversified set of underlying investments, they are not considered to pose a significant credit risk. HSBC Global Sterling Liquidity Fund is rated Aaa by Moody and AAA by S&P. The current accounts of £16,523,196 (30 September 2015: £20,755,526) retain an element of credit risk, which was considered when Castle Trust assessed its exposure to credit risk as part of its Internal Capital Adequacy Assessment Process ("ICAAP").

The Group manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system.

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	Standard grade	Sub-standard grade			
As at 31 March 2016	£'000	£'000	£'000	£'000	£'000
Financial assets					
Derivative financial instruments					
House price option	5,694	-	-	-	5,694
Loans to customers					
At amortised cost	176,078	-	-	246	176,324
Designated at fair value through profit or loss	85,611	-	-	-	85,611
Investments	17,738	-	-	-	17,738
Cash and cash equivalents	46,266	-	-	-	46,266
	331,387	-	-	246	331,633

	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	Total
As at 30 September 2015	£'000	£'000	£'000	£'000	£'000
Financial assets					
Derivative financial instruments					
House price option	5,193	-	-	-	5,193
Loans to customers					
At amortised cost	112,694	-	-	191	112,885
Designated at fair value through profit or loss	87,682	-	-	-	87,682
Investments	6,280	-	-	-	6,280
Cash and cash equivalents	49,389	-	-	-	49,389
	261,238	-	-	191	261,429

18.3 Liquidity risk

Liquidity risk is inherent within the Castle Trust business model. However, active management of the duration profile of the assets and liabilities significantly reduces the Group's exposure to liquidity risk. In addition, a liquidity buffer is maintained to ensure adequate liquidity is available to service redemption obligations. Triggers which define risk tolerance have been determined by the Risk Committee, which has been delegated authority from the main Board. These risk limits can only be changed with Board approval, and are reviewed on a quarterly basis. The analysis set out in note 19 Maturity profile shows the undiscounted cash equivalent values for all financial assets and liabilities, rather than historic costs, fair values and amortised costs. This provides an overview of the liquidity position of the Group as at 31 March 2016 and 30 September 2015.

18.4 Market risk

Market risk is the risk that the fair value of future cash flows from financial assets and liabilities will fluctuate as a result of changes in market variables such as interest rates.

18.4.1 Interest rate risk

This is the risk that changes in interest rates will affect future flows or fair values of financial assets and liabilities. It arises where there is a term mismatch between assets and liabilities. This risk has increased in the year mainly due to the origination of longer dated assets (mortgages) and shorter dated funding (fixed rate bonds). As at 31 March 2016, the most recent issuance of these bonds had interest rates of between 2.0% and 3.5% for terms of 1, 2, 3 and 5 year (September 2015: rates between 2.25% and 3.5% for the 1, 2, 3 and 5 year bonds). The exposure on the Fortress Bonds is mitigated by the minimum returns payable on all mortgages other than the small proportion of Partnership Mortgages provided in conjunction with the purchase of the property which contain contingent downside participation. To protect against moving interest rates Castle Trust manages the residual interest rate risk through a portfolio of interest rate swaps. Castle Trust incorporates prepayment risk into its interest rate risk management strategy based on the fact that the mortgage portfolio consists of prepayable mortgages. The sensitivity to interest rates is measured as part of financial risk analysis and assessed as part of its ICAAP. The Group's exposure to interest rate risk at 31 March 2016, measured as the impact of a 1% parallel shift in interest rates, was £254,728 (30 September 2015: £225,396).

18.5 Concentration risk

The Group considers concentration risk in terms of material exposure to single counterparties and with respect to the geographical location of the properties on which mortgage charges are made.

Counterparty limits apply to treasury assets to limit exposure to any single counterparty, including the Group's bankers, HSBC, which has a higher limit to cover operational banking requirements. Castle Trust's holding in the HSBC sterling liquidity funds does not represent counterparty risk to HSBC but to a diversified pool of high quality, highly liquid assets. Mortgage assets have a maximum loan exposure which limits concentration risk. The maximum single counterparty exposure is to HSBC.

19. Maturity profile of all financial assets and liabilities

Investments, trade and other receivables, cash and cash equivalents, trade and other payables are all carried at historic cost for maturity analysis purposes.

Interest rate swap payments relating to both interest and principal are settled on a net basis.

Housa liabilities are valued at 'Indicative price' for maturity analysis purposes, which is an undiscounted cash equivalent price that represents a close equivalent of the actual cash value today.

Financial liabilities at amortised cost and amounts due under the Borrower Loan Agreement maturities are actual cash flows and have the same maturity profile.

Castle Trust has developed models to value its mortgage assets, house price options and derivative liabilities. The models use stochastic techniques to simulate future cash flows. The simulated cash flows are based on assumptions about the range of possible events and inputs concerning the terms of relevant assets or liabilities.

Financial assets at fair value (mortgages) are discounted for up to 30 years, therefore the undiscounted cash values as at 31 March 2016 are significantly higher than the fair value. The timing of the cash flows also reflects Castle Trust's expectations in terms of early repayments based on expected customer behaviour, alongside contractual maturity dates.

The tables below indicate the maturity profile of the Group's financial assets and liabilities as at 31 March 2016:

As at 31 March 2016	Within 1 year	1 - 3 years	3 - 5 years	5-10 years	Over 10 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Other receivables	-	-	-	16,994	-	16,994
Derivative financial instruments						
House price option	1,187	8,508	18,766	666	-	29,127
Loans to customers						
At amortised cost	27,871	109,028	72,627	981	-	210,507
Designated at fair value through profit or loss	10,360	27,522	29,636	81,711	9,559	158,788
Investments	17,738	-	-	-	-	17,738
Trade and other receivables	11,109	-	-	-	-	11,109
Cash and cash equivalents	46,266	-	-	-	-	46,266
	114,531	145,058	121,029	100,352	9,559	490,529
Financial liabilities						
Financial liabilities through profit or loss - Income Housa	436	1,407	386	382	-	2,611
Financial liabilities through profit or loss - Growth Housa	816	3,447	2,441	2,416	-	9,120
Financial liabilities through profit or loss - Foundation Housa	-	735	2,629	331	-	3,695
Derivatives held for risk management	210	433	233	365	-	1,241
Derivative liabilities	-	15,690	12,388	17,487	-	45,565
Financial liabilities at amortised cost	126,348	116,094	83,937	4,597	-	330,976
Trade and other payables	3,213	-	-	-	-	3,213
	131,023	137,806	102,014	25,578	-	396,421

	Within 1 year	1 - 3 years	3 - 5 years	5-10 years	Over 10 years	Total
As at 30 September 2015	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Other receivables	-	-	-	5,663	-	5,663
Derivative financial instruments						
House price option	1,043	8,852	20,970	727	-	31,592
Loans to customers						
At amortised cost	8,824	64,320	62,665	1,011	-	136,820
Designated at fair value through profit or loss	10,308	26,482	35,234	86,084	12,590	170,698
Investments	6,280	-	-	-	-	6,280
Trade and other receivables	4,210	-	-	-	-	4,210
Cash and cash equivalents	49,389	-	-	-	-	49,389
	80,054	99,654	118,869	93,485	12,590	404,652
Financial liabilities						
Financial liabilities through profit or loss - Income						
Housa	97	1,055	865	260	-	2,277
Financial liabilities through profit or loss - Growth						
Financial liabilities through profit or loss - Foundation	512	1,658	3,027	1,338	-	6,535
Derivatives held for risk management	104	238	(128)	-	-	214
Financial liabilities at amortised cost	78,752	96,763	68,675	1,771	-	245,961
Trade and other payables	3,117	-	-	-	-	3,117
	82,750	99,714	75,022	3,445	-	260,931

20. Trade and other payables

	31 March 2016	30 September 2015
	£'000	£'000
Trade creditors	310	1,467
Accruals and deferred income	2,884	1,430
Interest due and payable	-	196
Employee benefits	-	24
Other payables	19	-
	3,213	3,117

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

21. Commitments

The Group has future aggregate minimum lease payments under non-cancellable operating leases that fall due as follows:

	Rental charges	
	31 March 2016	30 September 2015
	£'000	£'000
Within one year	414	368
Between one and five years	1,449	1,656
Over five years	-	45
	1,863	2,069

The Group has a number of ongoing contracts for the provision of services as follows:

	31 March 2016	30 September 2015
	£'000	£'000
Administration costs	582	622
Other	691	536
	1,273	1,158

22. 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.

23. Related party transactions

There were no changes to the nature of the related party transactions during the period to 31 March 2016 that would materially affect the position or performance of the Group other than the sale of call option to CTC Holdings (Cayman) Ltd, the ultimate parent company of CTC as further described in note 15.2. Details of the transactions for the year ended 30 September 2015 can be found in the 2015 Annual Report.

24. Capital management

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

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

Castle Trust Capital plc and Castle Trust Capital Management Limited were granted Financial Services Authority ('FSA') permission to carry out regulated investment activities on 5 September 2012. On 1 April 2013, the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA') replaced the FSA as Financial Service regulators. Castle Trust Capital plc and Castle Trust Capital Management Limited have been under FCA regulation from that date.

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

As at 31 March 2016, the Group's total equity was £35,706,179 (30 September 2015: £39,619,194).

The issued share capital and share premium comprised of £64.8m initial investment by J C Flowers. In 2012 £12.8m of share premium was cancelled and transferred into distributable reserves within retained earnings.

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

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

*The holding of CTCN is held indirectly via CTCM.

24.1 Interests in structured entities

Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Group has power over such entities in which it has an interest, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity.

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

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

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

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

Castle Trust enters into inter-company swap transactions each month with the PC. In addition, Castle Trust receives and manages the funds received from Housa investors using these to fund mortgages, up to a maximum of 80% of the balance of funds received. Shareholder funding is also used to provide mortgage funding.

In addition, through CTCM, the Group provides marketing and investment management services to the PC, thereby providing the majority of its operational functionality. The terms of the Investment Management agreement do not include a restricted mandate; therefore the Group is able to substantially control the activities that most significantly affect returns of the PC. Finally, all ongoing expenses of PCC and PC are paid and will continue to be paid by CTCM.

24.2 Non-controlling interests

The shareholder's reserves of the PC constitute the balance of non-controlling interests within Group equity. This represents the position that although the entity is consolidated within the Group by virtue of control, the Group does in fact have no share in the interest of the shareholder's equity of the PC. The movement on this balance is shown on the face of the Group income statement, and the final balance as at 31 March 2016 is shown on the face of the Group statement of financial position.

Non-controlling interests shareholders equity of Castle Trust Growth Housa PC

31 March 2016 30 September 2015

	£'000	£'000
Opening balances	157	161
Total comprehensive profit for the year attributable to equity holders of the PC	(3)	(4)
	154	157

24.3 Significant restrictions

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

25. Restatement of prior year comparatives

During the year to 30 September 2015, the Group changed its accounting policies with respect to the interest income and cash and cash equivalents as described below.

Interest income

The prior year comparatives have been restated to reclassify the interest income components embedded within mortgage assets held at fair value through profit or loss within the interest and similar income line to provide a more accurate presentation of the quality of this income. This resulted in an increase of £892,154 in interest and similar income and a corresponding decrease in net gains on financial assets designated at fair value through profit or loss. This restatement excludes Partnership mortgages as this product differs from the others 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.

Cash and cash equivalents

The prior year cash flow comparatives have been restated to reclassify holdings in certain fixed term cash deposits and money market funds from investments to cash and cash equivalents as these holdings satisfy IFRS criteria for cash equivalents. Management believe that this will provide a more relevant and accurate view of the Group's liquid assets. The impact of reclassification was to increase the cash and cash equivalents held at 31 March 2015 by £20,153,380 and decrease investments by the same amount.

26. Events after the reporting date

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