Castle Trust Holdings Limited

Strategic report, directors' report and consolidated financial statements for the year ended 30 September 2020

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For the year ended 30 September 2020

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Corporate information

Registered No: 12161224

Directors

Mr Andrew Spencer Doman (appointed 6 November 2019)

Mr Jonathan James Cox (appointed 16 August 2019; resigned 30 September 2020)

The Rt Hon The Lord Deben (appointed 6 November 2019; resigned 31 March 2020)

Mr Patrick Nigel Christopher Gale (appointed 6 November 2019; resigned 31 March 2020)

Mr Timothy John Hanford (appointed 16 August 2019)

Mr Richard Alexander McGregor Ramsay (appointed 6 November 2019; resigned 31 March 2020)

Ms Marian Macdonald Martin (appointed 6 November 2019)

Ms Melba Margaret Montague (appointed 1 April 2020)

Mr Richard Alan Pym (appointed 7 March 2020)

Mr Eric Edward Anstee (appointed 1 February 2020)

Mr Tughan Alioglu (appointed 1 October 2020)

Secretary
Mr Andrew Macdonald

Auditors
Ernst & Young LLP
25 Churchill Place
London
E14 5EY
United Kingdom

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

Registered office
10 Norwich Street
London
EC4A 1BD

Principal place of business
Tower 42
25 Old Broad Street
London
EC2N 1HQ

Chairman's report

I was delighted to be appointed Chairman of Castle Trust Bank in March 2020 and to join a business that has delivered innovation for its customers and which has ambitious plans for growth. Given our recent track record of executing change, there was no doubt in my mind that we would adapt to the simultaneous challenges of the pandemic and transitioning to becoming a bank.

Our response to the pandemic

The spread of the coronavirus has had a profound effect not only on the health of our nation but also the livelihoods of our customers.

Castle Trust Bank plays an important role in the UK economy by:

- working with over 1,500 retailers and 160,000 customers to provide finance that enables both businesses to thrive and people to access valued goods and services;
- helping to alleviate the UK's housing shortfall by financing the building of new homes;
- providing homeowners and landlords with specialist financing solutions to match their specific requirements; and
- providing a secure home for the savings of nearly 20,000 customers.

It is during unprecedented times that you really find out if the values of a business are just words or genuine cornerstones of its culture that guide how it acts. Even before the Financial Conduct Authority published its helpful coronavirus guidance, we began offering affected customers a range of forbearance facilities suited to their individual circumstances including payment holidays, maturity extensions, and the waiving of interest and fees where appropriate. Our staff undertook a huge customer contact exercise whilst they were themselves subject to personal dislocations. It is clear that our customers appreciated their efforts and I would like to thank my colleagues for their work on behalf of our customers.

Becoming a bank

The acceleration of the coronavirus in the UK in March 2020 coincided with the final stage of our plan to convert from an investment firm into a bank. In March, the PRA and FCA granted us authorisation with restrictions enabling us to demonstrate the strength of our new digital savings platform by raising bank deposits for the first time. We kept all our customers up to date with our plans and asked them to vote on converting their investments into savings products and the vote was an overwhelming 98% in favour. Castle Trust Bank went on to become a fully authorised bank in June 2020. This triggered the legal conversion of all investments into savings products, so our customers now enjoy increased FSCS protection on their savings in line with other banks and building societies.

Now that our transition to a bank is complete our focus turns to accelerating our digital transformation agenda. Castle Trust Bank already has a market-leading mobile app for our savings customers, which utilises facial and fingerprint recognition technology. We have ambitious plans for Omni including the introduction of products that flex in line with the customer need and fine tuning the customer journey to make it more seamless. Our Property business has a broker portal that enables frictionless submission and management of cases and, now we are a bank, we have greater access to national lending panels and are able to demonstrate its capabilities to more brokers.

Business Performance

There are a number of so-called "new banks" in the UK banking market and whilst Castle Trust is the "newest" we are almost unique in being profitable. In what was an immensely challenging year it is gratifying that we were able to declare a profit before tax of £0.8m after accounting for the costs of converting to a bank and the extra costs of the pandemic. In terms of outlook that provides a solid platform for the future performance of the firm.

The Board

The Board is responsible for the long-term sustainability of Castle Trust Bank, for protecting our values and culture, and for governance. As part of our Board succession planning and corporate governance best practice, a number of directors completed their service and retired this year as new directors joined.

I would like to thank Jonathan Cox, Richard Ramsay and Patrick Gale for their stewardship in guiding the business into a position to enable it to apply for a banking licence. The Rt Hon The Lord Deben also stood down as a director and has continued to contribute to the Board during the year as an independent adviser. Whilst our previous chairman Andrew Doman stood down as chairman upon my appointment, I am delighted that he has remained on the Board as a director and continues to make a great contribution.

We welcomed Marian Martin, an experienced risk director, to the Board last year and in November 2019 she took over as chair of the Risk Committee and Eric Anstee, an experienced finance director and audit chair, joined the Board in February 2020 as Senior Independent Director and chair of the Audit Committee. Melba Montague joined the Board as an independent non-executive director in April. Melba is currently European Banking and Financial Markets Leader at IBM and will play a key role in shaping our digital transformation agenda. J. C. Flowers (JCF) is the main shareholder in Castle Trust and when Jonathan Cox stood down as one of their nominated directors, he was replaced by Tughan Alioglu who joins Tim Hanford of JCF who remains a director. It has been a year of transition on the Board which has been executed smoothly and I appreciate the professionalism shown by directors in supporting the changes. I am confident that the Board contains the skills to successfully guide the business in delivering our strategic objectives as a bank.

The Executive Team

On behalf of my non-executive Board colleagues, I would like to thank our Chief Executive Officer, Martin Bischoff, and his executive team for the way that they have delivered the banking licence in the face of an unprecedented set of challenges. I have been impressed by how they have continued to lead and embed the business's values and kept the customer at the heart of everything Castle Trust Bank does. With a proven track record for delivering change and ambitious growth plans drawing on our digital technology, the future is bright for both our customers and our business.

Richard Pym

Chairman

Chief Executive Officer's Report

The financial year ending September 2020 was a pivotal year for Castle Trust as we achieved our ambition to become a bank. This was the result of many months of careful preparation including submitting our Regulatory Business Plan to the PRA and FCA and demonstrating the capabilities of our new savings platform. Converting all our investment accounts into savings accounts was another key step on our journey to become a bank. I wrote to our customers regularly, keeping them up to date with our progress and chaired three customer meetings in May outlining our plans in more detail. Customers were then asked to vote on the conversion. More than 10,000 customers voted in favour of the proposals and they were approved by an overwhelming majority. The PRA and FCA went on to grant our full banking licence on 15 June 2020. The business was then rebranded from Castle Trust to Castle Trust Bank, reflecting our new banking credentials.

By becoming a bank we now have a platform to offer a greater range of services to both our savers and our borrowers. I'm very proud of the dedication shown by our colleagues as they focused on both delivering the banking licence and serving our customers against a backdrop of challenging external circumstances including the emergence of the pandemic and its effect on the economy. Through all this, we still delivered a profit before tax of £0.8m and remained well capitalised with a Tier 1 Capital Ratio of more than 16%. Now that our banking licence is secure, my focus remains on making sure that Castle Trust Bank is the place to work, the place to do business with and the place to invest.

The place to work

Delivering for our customers and achieving our business priorities is dependent on our people. Our ambition is to be 'The Place to Work', providing interesting and challenging opportunities, career progression and a dynamic culture for our colleagues. Our people strategy supports this through a range of pillars: attracting the right talent, retaining colleagues through development, engagement, reward and wellbeing, and having brilliant basics in place. All of this is underpinned by our values that were developed by our colleagues and have guided us for more than two years.

Castle Trust Bank has 200 colleagues who typically work from our London and Basingstoke offices. Through our rigorous business continuity and resilience preparations all colleagues were able to work safely and securely from home for periods of the year in line with the Government's coronavirus guidance. We also made sure that both our offices were Covid-secure so colleagues were able to return to work safely. Our vibrant colleague culture organically adapted throughout the year to support wellbeing as colleague-initiated forums arose to create virtual coffee catch ups and opportunities to meet each other's pets or take part in quizzes. The highlight of the year was our annual conference which was held virtually for the first time. It culminated in a colleague from our Omni business being recognised as our Most Valuable Player for the way he role modelled our five values throughout the year. Our annual employee survey was completed in the summer and continues to go from strength to strength with employee engagement rising 2% year on year and employee enablement increasing 7%.

The place to do business with

This year Castle Trust Bank delivered some key enhancements to its proposition and made it even easier for customers to do business with us through the latest digital technologies. In June we launched our Savings proposition and customers were able to access our upgraded Self Service Portal for the first time. In the first three months after the portal was launched, more than 3,000 customers signed up to use it. Our market leading mobile app was launched in September making it even easier for customers to manage their money whether that is logging in securely just by looking at their phone or opening new savings accounts within the app.

Our exceptional Point of Sale business, Omni, went from strength to strength. Omni works with both retailers and their customers to help people finance the goods and services they need. We regularly seek feedback from both groups, which is summarised by Net Promoter Scores. Given banks are typically around +10, we are very proud of our +35 from our retailers and the incredible +70 from our customers. Our strategy remains focused on helping more retailers and customers use our powerful digital origination and self-service tools whilst broadening our proposition to help more retailers and customers.

Our specialist property lending business had a strong year. Following a reduction in activity in spring as the UK entered its first lockdown, the business rebounded strongly as measures eased and the announcement of the stamp duty cut reinvigorated the market. We continued to support our buy-to-let and residential borrowers in accessing new lending throughout the year. Following customer demand, we introduced our innovative TermTen product, which amortises over ten years and provides customers with flexibility to fix their rate and refinance at key junctures. I remain very optimistic about the growth potential in our property business given our new status as a bank has resulted in a step change in the number of lending clubs we are able to access.

The place to invest

I would like to thank our principal shareholder, J. C. Flowers, for their long-term support, which has enabled Castle Trust Bank to focus on its customers and its business. Our capital position remains robust with a Tier 1 Capital Ratio of more than 16%.

We delivered a strong financial performance for year ending September 2020 resulting in a profit before tax of £0.8m. This was achieved, in part, due to the high quality of our underlying assets and our ability to quickly adjust and optimise credit controls in line with the evolving economic conditions. Our loan book remains conservatively impaired with an average impairment coverage ratio of 14.4% for the unsecured Omni loans and 1.5% for secured property lending.

The economic outlook over the next few years is full of uncertainty and risk. We may see further periods of significant contractions and rebounds as the UK and the world combats the pandemic. Our customers' ability to save, borrow and repay will be affected both by economic stimulus packages and any tax rises that may be needed to pay for rising Government debt. In addition, I expect regulators will work in parallel to make sure consumers continue to get fair outcomes and banks and the banking system remains in good health. The speed of change is likely to be faster and more profound than at any time in recent history and Castle Trust Bank must be and I believe is ready to adjust with it.

This year has demonstrated yet again the ability for our Board, Executive and colleagues to set and deliver strategic goals. I would like to thank all our colleagues who helped us to become a bank and quickly adapted how they worked in line with the latest Government coronavirus guidance. As a bank and with the latest digital technologies already embedded in our operating model, we are in a prime position to offer our customers an exceptional service and grow our business over the coming years whatever economic conditions prevail.

Martin Bischoff

Chief Executive Officer

Strategic report

The directors present their strategic report of the consolidated financial statements of Castle Trust Holdings Limited (the "Group", "Castle Trust Bank" or the "Bank") incorporating the individual financial statements for Castle Trust Holdings Limited (the "Company") for the year ended 30 September 2020. Consolidation of the Castle Trust Group accounts previously took place at the Castle Trust Capital plc ("CTC") level. However, the controlling interest of the share capital of CTC was transferred to the Company on 15 October 2019, resulting in the Company becoming the consolidating entity for the Group.

Throughout these financial statements, "Castle Trust Bank" is used to as a term that captures all operational activity of the Group. This is principally the property lending and deposit taking activities of CTC and the point of sale consumer lending activities of Omni Capital Retail Finance Limited ("Omni").

Business Model and Strategy

Castle Trust Bank is a speciality finance provider in the UK and was granted a full banking licence on 15 June 2020. The Bank competes in business segments that are experiencing sector specific growth and have the ability to deliver attractive shareholder returns relative to the risks that they represent. Castle Trust Bank considers its competitive advantage is its ability to deliver products that are valuable for customers but not offered by the traditional banking industry. This is supplemented by knowledge of the distribution networks in which the Bank operates, the strength of Castle Trust Bank's underwriting and superior market insight. This has enabled the Bank to deliver competitive pricing relative to its peers.

Castle Trust Bank principally provides mortgage finance (which includes residential development finance) and point of sale consumer finance. In previous years Castle Trust Bank has also provided wholesale loans; however, this is no longer an active business segment. These business activities are currently funded by customer deposits (previously the issuance of Fortress Bonds and Housas) from retail investors.

Core to Castle Trust Bank's strategy is their Customers, People, Shareholders and Financials. Objectives for each of these is detailed below:

Customers	• To deliver long-term sustainable value to its customers • To offer competitive returns from its savings products
People	• To provide a motivating and inspiring workplace for its staff • To establish a risk aware workplace culture • To hire and retain the right talent
Shareholders	• To deliver sustainable shareholder value by prudently managing the level and mix of its capital
Financials	• To grow modestly and operate with financial prudence

In previous years, the Group originated a number of products where the returns were linked to movements in house prices. As part of the banking licence application, in order to simplify and de-risk Castle Trust, the fair value element of these legacy loans was sold to a related third party on 30 September 2019.

Property

Property serves customers who are predominately introduced through intermediaries offering fixed rate mortgages or fixed rate development loans.

In Mortgage Finance, the product range encompasses both first and second charge lending secured against a range of residential property including specialist assets such as houses in multiple occupation, buy-to-let portfolios, holiday lets and apartment blocks. Target customers include portfolio investors and high net worth individuals. Castle Trust Bank has a flexible and innovative approach to structuring including the ability of interest to be rolled up on some or all of the loan. This focus enables Castle Trust Bank to deliver attractive and sustainable risk adjusted returns in excess of those which are available in the mainstream mortgage market.

For Residential Development, Castle Trust Bank serves property developers by offering senior financing to experienced professionals, who want to enhance their returns through the efficient use of their equity capital. A broad range of schemes are considered including site acquisition, refurbishment, conversions under permitted development rights and new build houses/apartments.

Point of sale consumer lending

This division provides point of sale finance allowing small to medium-sized retailers to offer finance to their customers in store or online with credit decisions provided within seconds through Omni Capital Retail Finance Limited ("Omni").

For retailers, the speed and low cost of settlements combined with our experienced account management team enable Omni to provide flexible pricing which can further increase sales and support their growth.

For consumers, Omni providers clear and fixed monthly payments using a convenient online platform where credit decisions can be made in minutes. For interest free products, consumers are offered a simple way to spread large expenses at no extra cost.

The combination of Omni's platform with the Group's low cost of funding and capability in credit analytics is expected to allow significant growth in Omni's loan book and accelerate the Group's profitability.

Savings

The Investment business became the Savings division in the current year and following the conversion of Castle Trust to a bank and now offers a wider selection of products and an enhanced online experience to customers.

Savings serves customers who are seeking a stable and attractive return over a medium to long term period offering Term Deposit accounts (1-3 years) and Easy Access Savings accounts. Retail customers are protected by the Financial Services Compensation Scheme ("FSCS") up to a maximum of £85,000 per eligible investor.

Castle Trust Bank's ability to secure funding at a competitive cost enables Castle Trust Bank to continue to grow its lending activities in line with the strategic objectives.

Business review

Overview

Following the Covid-19 outbreak in early 2020, the business environment for Castle Trust was, along with all businesses in the UK, significantly impacted by the ever changing economic landscape. Operationally, the first lockdown presented unique challenges with the entire workforce working remotely for several weeks at a time when the new forbearance measures required to support customers were being established. This fully tested both the resilience of Castle Trust's systems, processes and staff and it is testament to all of these that the business worked effectively during this difficult period.

Further testament to the operational resilience of the business was that the principle objective of Castle Trust was achieved during the first lockdown, with a full banking licence granted in June 2020. Castle Trust became Castle Trust Bank.

From a financial perspective, the pandemic saw a short term pause in the housing market along with significantly decreased consumer loan lending activity for a period of many months. This curtailed balance sheet and revenue growth opportunities, however despite these commercial pressures, Castle Trust was able to deliver a solid financial performance in the year with a pre tax profit of £0.8m (2019: £1.1m).

Group evolution

The function and role of the Group and its subsidiary entities has changed significantly over the last two years as the business embarked on the journey to become a bank. A key part of the process was a group simplification exercise where the activities of several subsidy entities were either wound down or transferred to other subsidiaries, principally CTC.

The first stage of the simplification took place in the prior year with the sale of the house price derivative component of the HPI mortgage book and several house price option contracts to a related entity outside of the Group on 30 September 2019. Once completed, this left a de-risked conventional mortgage book shown at amortised cost in the Company, with minimal exposure to the related house price index component of the HPI mortgage product.

The second stage of the group simplification also took place in the prior year, with the treasury activity for the Group transferring to the CTC from another subsidiary Castle Trust Treasury Limited (“CTT”). From this point, CTC became the principle funding entity for the Group’s lending activities, in particular the consumer loan business and wholesale loan activities in Omni Capital Retail Finance Limited (“Omni”).

As a result of the first and second stages being completed, two subsidiary entities, CTT and Castle Trust Finance Limited (“CTF”) ceased trading activities and were dissolved on 6 October 2020.

The final stage of the group simplification was intrinsically linked to banking licence approval, as the Group launched bank deposits to replace the legacy Fortress Bonds and Housa investment products. Prior to being authorised by the regulators, the Group undertook a legal process to convert customers holdings in Fortress Bonds and Housas issued into new fixed term and structured deposit accounts. in the Company.

This stage was completed successfully in June 2020. As a result, several subsidiary entities including Castle Trust Capital Management Limited (“CTCM”), Castle Trust Direct plc (“CTD”), Castle Trust Income House plc (“CTIH”) and Castle Trust Growth Housa PC (“CTGH”) had no ongoing trading activity. CTIH and CTGH were dissolved in September 2020. CTCM and CTD are in the process of being wound up.

Banking Licence

Castle Trust Bank has been in dialogue with the UK regulators about becoming a fully licenced bank for over three years. In March 2020, a key milestone was reached with Castle Trust Capital plc being granted Authorised with Restrictions (“AWR") status. This enabled the business to commence the legal process to convert the Fortress Bond and Housa customer balances to Fixed Term and Structured Deposits. AWR also allowed the Group to stand up and prove the effectiveness of the new deposit system being developed.

Following a successful application at the relevant Courts, on 3 June 2020, by Schemes of arrangement, it was approved for Fortress Bond and Housa customers to transfer their investments into new banking deposit products. The structure of the new deposit products matched the existing rate of return and maturity profile of customers’ Fortress Bond and Housa investments.

Following the successful Schemes of arrangement, CTC was awarded its banking licence on 15 June 2020. On the 22 June 2020, all Fortress Bond and Housa Customers successfully transferred their investments into deposit accounts.

Covid-19 customer support

Castle Trust Bank has provided specific forbearance to support customers during the pandemic following regulatory guidance. This has typically been in the form of payment holidays for a period of 1-6 months or for mortgages maturing, some customers were offered an extension to their mortgage settlement.

By the end of September 2020, the property business granted payment holidays for 48 mortgage customers with loan balances totalling £58.4m. For consumer loans, 3,014 customers had been granted payment holidays with balances totalling £5.2m.

With government support packages in place throughout the pandemic and with customers in different stages of their forbearance at the end of September 2020, careful consideration was applied by the Group in assessing the underlying credit risk of the impacted customers.

To assist firms with their financial and prudential reporting, the PRA laid out a four-point framework for consideration when making a credit staging assessment for customers who have been granted Covid-19 forbearance. Further details can be found in Note 23.

Credit & Remediation

Over the last 2 years, Castle Trust Bank has focused on improving the quality of lending, moderating its risk appetite and growth aspirations across all lending classes. With a challenging external environment because of the Covid-19 pandemic, careful underwriting decisions have been adopted which, on the one hand may reduce balance sheet growth opportunities, but also improve credit performance. This can be seen by the reduction in the cost of risk of 53 basis points year on year, as lower levels of provisions against large mortgage cases have been recognised along with improved arrears performance of the consumer lending book. This has been partially offset by increased provisions arising from Covid-19 related risks. See note 23.1 for more details.

The Development Finance portfolio work out has largely been completed and as a result this product line is under assessment with a possible re-launch for new business in 2021.

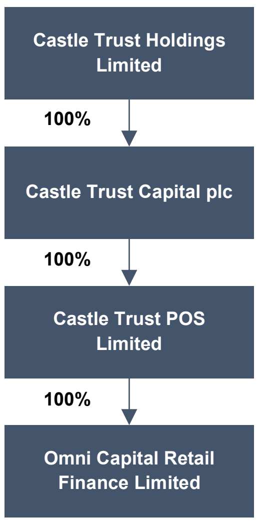
Having designated our historic wholesale funding positions as non-core we have now largely exited these exposures and expect to exit the remainder shortly.

Group simplification

Following the success of the Schemes of arrangement, which allowed the Fortress Bonds and Housas to be transferred into savings products, Castle Trust Capital Management Limited ("CTCM"), Castle Trust Direct plc ("CTD"), Castle Trust Income House plc ("CTIH") and Castle Trust Growth Housa PC ("CTGH") are no longer active. CTIH and CTGH were dissolved on 22 September 2020. CTCM and CTD are currently in the process of being wound up.

Applications for the dissolution of Castle Trust Finance Limited ("CTF") and Castle Trust Treasury Limited's ("CTT") business were submitted to Companies House in the year with both companies dissolved on 6 October 2020.

Castle Trust Capital plc is the new authorised banking entity in the Group. Once the Group simplification is complete, the Group will have a new simplified structure as detailed below:



Colleagues

Castle Trust Bank's people are what make the business work, creating great, bespoke solutions for its customers and developing their business for the future.

The business has a strong management team in position and working well together, bringing experience from a range of small banks, high street banks and building societies, regulators and specialist lenders.

In addition, Castle Trust Bank has welcomed some new members to the Board with Richard Pym appointed Chairman during the year. Eric Anstee and Melba Montague were appointed directors during the year.

Castle Trust Bank continues to embed its set of values based on a bottom up approach using colleague generated feedback. The values agreed are customers first, forward thinking, professional pride, achieve together and open & transparent. These values have been integrated into all employee appraisals.

Employees are asked to complete an annual engagement survey to aid and inform management of what is working well and where the business needs to do more to improve empowerment and engagement from staff. In the current year over 90% of all staff participated in the survey with overall scores improving year on year.

Outlook and Future Developments

As we hope 2021 brings relief from the pandemic, the future for Castle Trust Bank and its customers remains positive. Castle Trust Bank now offers its savings customers a broader range of products and an upgraded online experience. This is expected to increase the Group's ability to raise funding at a competitive cost. The core borrowers the business serves will remain unchanged and Castle Trust Bank continues to support them to achieve their financial goals where others are unable or unwilling to.

Despite the challenges facing the UK economy and financial services sector following the Covid-19 pandemic, Castle Trust Bank remains well capitalised with significant levels of surplus liquidity. This robust balance sheet will enable the Bank to pursue its growth plans and to also be in a strong position to engage in strategic opportunities were they to arise in the market.

Key Financial Performance Indicators

The following Key Performance Indicators ("KPIs") are used by management to track how the business is performing.

Key performance indicator	**At 30 September 2020**	At 30 September 2019 (Restated)	Variance
Loan book balances (£'000s)			
Property finance	450,584	486,681	(36,097)
Point of sale consumer lending	115,604	104,430	11,174
Wholesale lending	11,654	24,699	(13,045)
Total	**577,842**	**615,810**	**(37,968)**
Savings/Investment balances (£'000s)	649,535	711,128	(61,593)
Liquid assets (£'000s)	153,778	140,349	13,429
Liquidity Coverage Ratio	481%	N/A	
CET1 Capital Ratio	17.5%	15.9%	1.6%
Impairment coverage ratio	4.5%	4.4%	0.1%
Cost of Risk (Basis Points)	117	170	(53)
Net interest income (£'000s)	34,183	36,282	(2,099)
Profit before tax (£'000s)	819	1,055	(236)

The property finance loan book represents the value of assets loaned to mortgage and residential development finance customers net of related impairments. The decrease in the loan balance in the year is due principally to the low new business volumes triggered by the Covid-19 pandemic trading conditions where the property market became illiquid for several months. The pipeline of new business remains strong and with the UK property market beginning to build momentum into 2021, the expectation is for the property division to grow its loan balances once more.

The point of sale consumer lending loan book represents the value of consumer loans less any related impairments. The year on year growth is due to strong new loan origination volumes in the months leading up to the first Covid-19 lockdown with strong performance from the Home Improvement and Healthcare sectors. Following the March lockdown origination volumes decreased due to a tightening of the credit criteria and several retailers not being able to trade. In late summer once the economy began to open up again, originations began to increase once more and post year end, originations continue to grow.

Wholesale lending balances have decreased in the year in line with expectations as Castle Trust Bank continues to wind down its existing Wholesale lending relationship.

Savings/Investment balances relate principally to Fixed Deposits held by customers (previously Fortress Bonds). The decrease in this balance has been driven by the closure of new customer accounts from May 2020 as the business prepared to become a bank. Once the banking licence was approved, the Bank found itself with surplus cash to its funding requirements due to lower loan balances (principally Property). Therefore, new deposit accounts were not made operational by the end of the financial year. Customers with maturing accounts were however able to reinvest in new term deposit products. Post year end, existing customers were able to invest into new accounts in November 2020 and new savings customers are expected to be welcomed by Castle Trust Bank in the spring of 2021.

Liquid assets is a measure of readily available liquid funds that Castle Trust Bank can utilise to meet customer and business needs. The increase of £13.4m in the year reflects the capital injection received by the Bank offset by a decrease in the funding requirements due to lower property loan balances. Whilst high levels of surplus cash ensure strong levels of liquidity, it does provide a drag to profitability with higher interest expense charges. Castle Trust Bank will continue to manage this balance closely to ensure optimal profitability whilst operating withing conservative liquidity limits.

The liquidity coverage ratio is key regulatory metric which requires banks to hold enough high-quality liquid assets (HQLA) that can be sold during a 30-day stress scenario. No prior year comparison is available due to the Group only becoming a bank in the current year, however the year end position of 481% compares favourably with the regulators target guidance of 100%.

The CET1 Capital ratio is a key metric used throughout the industry to measure the capital adequacy of a business. It shows the ratio between the calculated risk weighted assets and tier 1 capital. The 1.6% improvement in the year is principally due to the share capital injection the Group received from its shareholder prior to being granted its banking licence.

The impairment coverage ratio details the impairment provision as a percentage of the total loan book and is an indicator of changes to the credit profile of the loan portfolio. This has increased marginally year on year by 0.1%, as improved underlying credit performance has been offset by additional provisioning required as a result of the Covid-19 pandemic. The movement on staging coverage ratios is distorted somewhat in the year as several large stage 3 specifically assessed property cases, which were heavily provided for in the prior year, were either refinanced, repossessed or written off in the current year. This resulted in a release of the related brought forward impairment provision. If we exclude the stage 3 property loans that have been derecognised or repaid in the year, the stage 3 property coverage ratio movement changes from a fall of 6.9% to an increase of 2.4% as additional impairment has been taken due to the deterioration in the macro-economic outlook. Further details can be found in note 23.1

Cost of Risk is calculated by looking at the cost of loan impairment per the income statement as a proportion of average loan assets. The fall in the year follows a continual drive to improve the credit quality of the loan book in both Property and consumer lending with significantly lower impairment charges booked in the current year. In Property, most of the specific case provisions for residential development cases were taken in the prior year and tighter underwriting criteria were adopted for new consumer loans in Omni. This movement would have been more favourable but has been offset by significantly increased provisioning required because of the Covid-19 pandemic and the macroeconomic forecast impact on expected credit losses.

Net interest income demonstrates the return generated on the loan book less the associated cost of funding paid to investment customers and is a key indicator in assessing underlying profitability. The fall in the year follows the overall decline in the lending book as Wholesale leading decreased as planned but property balances did not experience the growth expected following the challenges in the market caused the Covid-19 pandemic. This was partially offset by lower funding costs, with lower Fortress Bond and deposit balances and a favourable pricing mix reducing the overall interest expense for the Group.

Profit before tax is a measure of underlying profitability excluding exceptional items. Year on year this has remain at similar levels with individual material line items offsetting each other as follows:

- Net interest income decrease of £2.1m as detailed above.
- Gain of fair value instruments decrease of £4.5m as the Group sold the House Price Derivative component of the HPI mortgage book to a related party on 30 September 2019.
- Lower administrative expenses of £2.9m due to reduced professional fees relating to the banking licence application, lower contractor costs and continued disciplined cost management policies and synergies adopted by management.
- Reduction in impairment charges of £3.3m as detailed in the Cost of Risk movement above.

Section 172(1) Statement

The Board of directors of Castle Trust Bank consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 30 September 2020.

Purpose statement

Consistent with the Bank's ethos the purpose statement for Castle Trust Bank is:

> The place to work, the place to do business with and the place to invest.

Stakeholders

The Bank has maintained regular dialogue with all its key stakeholders throughout the year. The table below sets out the Bank's key stakeholders and the main method by which the Board and Management engage.

Stakeholder	Description	Engagement
Shareholders	The Bank has one shareholder holding the majority of the Bank's ordinary share capital.	The shareholder is represented on the Board and Board subcommittees by Non-Executive Directors and is therefore fully involved in the decision making of the company.
Customers	The Bank has around 20,000 deposit customers and over 160,000 lending customers.	The Bank undertakes regular customer feedback surveys. The results of these inform product and business line strategies. Customer journeys and customer interactions are regularly reviewed and quality assured. This helps inform staff training plans and improve the experience of our customers.
Employees	The average number of people employed by the Bank during the year was approximately 200.	The Bank undertakes an annual Employee Opinion Survey. Employee engagement is high and the results are positive. The survey is a key input for the staff engagement strategy. In addition to the fortnightly CEO Blog, staff are engaged through regular 'meet the CEO' sessions and monthly all staff 'Townhalls'. The Bank is also a signatory of the Women in Finance Charter.
Suppliers	Businesses and individuals who provide the Bank with services and goods.	Management regularly meet the Bank's key suppliers particularly those providing important business services and information technology systems.

Stakeholder	Description	Engagement
Regulators	The Bank is regulated by the PRA and FCA.	The Bank's management has regular meetings with its Supervisory teams to discuss its strategy, plan and performance.
Communities	The geographic locations in which the Bank has offices, employees and customers.	The Bank is a member of a number of Trade Bodies and Industry Groups in the regions in which we operate. The Bank also supports its Charity Champions in working with community charities. More than £10,000 was donated to charities this year.

Key Decisions

In terms of key decisions undertaken by the Board in the year, the following have been identified which will have the greatest impact on the stakeholders described above:

- Banking Authorisation
- Approval of the Business Plan

Banking Authorisation

In June 2020, prior to becoming a fully authorised bank, the Board held one final session to review and ensure all the necessary infrastructure was in place to meet all the requirements of being a bank when the full banking license was granted.

This decision was made after confirmation of the following:

- Approval from the relevant Courts that the Schemes of arrangement converting the Fortress Bonds and Housa to Deposits could proceed
- Caste Trust's Internal Audit function confirmed that the new deposits systems was operational and able to support the converted customer accounts following approval of the Schemes of arrangement

The decision to become a bank impacted several of our key stakeholders, the impact of which was carefully considered by the Board prior to granting approval.

Stakeholder	Impact
Regulators	Castle Trust Bank worked closely with both the PRA and FCA on the journey to becoming a bank. By becoming a bank, Castle Trust Bank has higher levels of capital and be subject to more rigorous reporting and oversight. This would reduce any systemic risk to customers and the wider financial services industry.
Customers	In becoming a Bank, Savings customers benefit from continued FSCS deposit protection and improved online product functionally. Lending customers see benefits as Castle Trust Bank can expand its product range offering additional targeted solutions.
Shareholders	The Shareholders have invested heavily in Castle Trust Bank and have fully supported its journey to become a Bank. It is through this route that the long-term sustainable growth of Castle Trust Bank is best achieved and thus generates the desired investment returns.
Employees	Becoming a Bank enables the growth of the business and provides staff opportunities to further develop their skills and careers. This is expected to improve overall engagement and empowerment of employees to the benefit of customers and other key stakeholders.

Approval of the Business plan

In September 2020, the Board approved the Business Strategy and Medium-Term Plan. This set out product growth targets in key business lines, with related capital, resourcing and investment requirements defined. The plan is set to grow the business on a sustainable level and formed the baseline of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

The business plan outcomes will have impacted some of our key stakeholders. This was considered by the Board in detail before deciding to approve the business plan.

Stakeholder	Impact
Customers	The plan targets growth in all key business line through the provision of competitively priced and innovative products that Castle Trust Bank believes will meet customers diverse needs.
Employees	The business plan provides growth and opportunities to the Bank's staff with detailed resourcing requirements embedded to ensure that business growth is aligned with the growth of a high functioning and motivated workforce.
Regulators	The ICAAP and ILAAP documents provide comfort to the regulator that the business plan and strategy ensure that Castle Trust Bank will continue to meet its stringent capital and liquidity requirements over a 4-year time horizon. This provides protection to customers and the wider financial services market.
Shareholders	The strategy and plan provide the shareholder with a clear direction of how Castle Trust Bank will grow in a sustainable manner and therefore meet its investment objectives

Strategic Report Approval

By order of the Board

Mr Andrew Macdonald
Company Secretary
29 January 2021

Risk Management and Governance

Risk Management Report

Purpose of Risk Management

The purpose of Castle Trust Bank's Risk Management Framework is to give stakeholders confidence that risk is understood, monitored and controlled, the level of risk that Castle Trust Bank takes is aligned to its objectives, including operational, conduct and financial risk. This ensures that the risks are commensurate to the returns and financial resources of the institution and that treating customers fairly is embedded into its culture and operational processes. This means that:

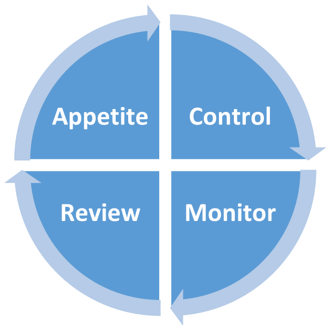
- In the normal course of business, Castle Trust Bank's operations, customer outcomes and financial metrics are stable and in line with objectives; and

- Under stress, Castle Trust Bank can continue to operate, to fulfil its obligations to customers and to meet its financial requirements.

The Risk Management Framework is owned by the CRO and overseen by the Board Risk Committee. The following sections of the report explain how the Risk Management Framework is applied in Castle Trust Bank.

Risk Management Process Lifecycle

Castle Trust Bank's Risk Management Framework works alongside a comprehensive suite of risk-specific policies, manuals and procedures to specify the Risk Management Processes the bank is required to follow in respect of each risk. The framework groups the Risk Management Processes into four phases which together form the Risk Management Process Lifecycle.



Lifecycle Phase	Intended outcome	Description
Appetite	To identify Castle Trust Bank's objectives and set appetite having regard for the resilient and sustainable areas of customer need for which an attractive service can be provided and from which an appropriate risk adjusted return can be generated.	A combination of annual, regular and ad hoc processes which ensure that Castle Trust Bank has clear objectives and has the resources and processes in place to meet its objectives. Setting of risk appetite is part of the Plan phase. Examples include • Setting of operational resilience standards • New product approval • Regular risk appetite and limit calibration reviews • Annual corporate plan, ICAAP and ILAAP
Control	To operate robust controls that ensure that the objectives, including risk appetite, are met.	Regular processes which are designed to control risk and deliver Castle Trust Bank's objectives. Examples include: • Business continuity and disaster recovery scenario test exercises • Affordability and credit checks • Vulnerable customer procedures • Quality assurance • Board limits

Monitor	To provide management with clear measures as to execution of the objectives, the risk incurred and the effectiveness of controls.	Regular information and governance processes that ensure each risk has appropriate monitoring information and that there is a regular forum which has responsibility for reviewing that information. Castle Trust Bank provides regular reporting against operational, customer and prudential objectives.
Review	To undertake periodic stock takes to ensure that the Risk Management Framework is delivering the objectives and risk appetite as intended.	A combination of annual, regular and ad hoc processes which ensure that Castle Trust Bank is meeting the objectives it has set during its Planning processes. • Risk based Compliance Monitoring or Internal Audit Reviews • Annual product reviews • Annual CRO reports

Culture, Lines of Defence and Responsibilities

Responsibility for risk management lies with every colleague of Castle Trust Bank. All colleagues are expected to manage the risks of their own area in accordance with the Risk Management Framework and to escalate issues and emerging risks appropriately.

Primary ownership for risk management sits with the 1st line business areas that manage their own specific risks and controls. The 2nd line is responsible for providing independent challenge, specialist advice, risk monitoring and ensuring the Risk Management Framework is operating effectively. The 3rd line provides independent assurance that the Risk Management Framework is working as intended.

Line of defence	Owner	Oversight	Functional areas	Responsibilities aligned to Risk Management Process Lifecycle
1st	CEO	Board	Business units, HR, Technology and Finance	• Plan – to identify objectives and risk appetite • Control – to operate controls prescribed in the Risk Management Framework • Monitor – to identify and escalate emerging risks
2nd	CRO	Risk and Audit Committees[1]	Risk and Compliance	• Plan – to manage the risk appetite • Control – to provide independent advice and challenge in respect of key decisions / judgements and specialist risk areas • Monitor – to track performance, risk and control effectiveness • Review – to provide periodic stocktakes as to effectiveness of Risk Management Framework
3rd	Head of Internal Audit	Audit Committee	Internal Audit	• Review – to provide assurance as to the effectiveness of the Risk Management Framework

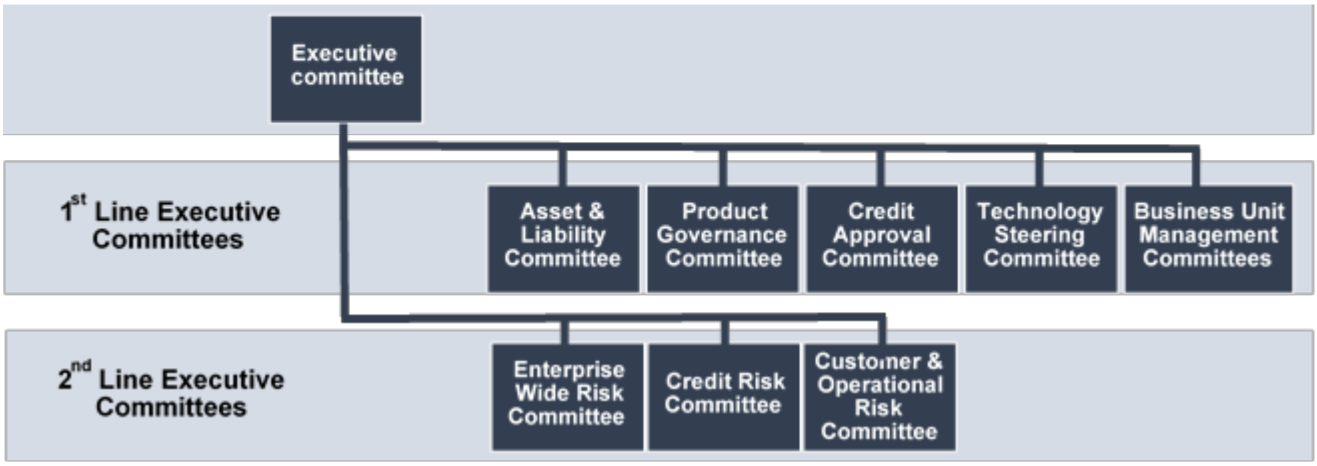
1. Audit Committee has oversight of Compliance Monitoring; otherwise Risk Committee has oversight

The Board Risk Committee is responsible for agreeing Risk Appetite and providing oversight of the application of the Risk Management Framework.

Governance

Castle Trust Bank has a comprehensive suite of governance arrangements to ensure that each risk is effectively managed and has appropriate oversight.

In order to ensure that there is independent challenge, all Executive Committees require the CRO or Head of Compliance to attend in order to be quorate and the Credit Risk Committee and the Customer and Operational Risk Committee are chaired by the CRO and Head of Compliance respectively.



Below the Executive Committees there is a hierarchy of sub-committees and working groups managing specific risks.

Risk Groups

Castle Trust Bank allocates every individual risk to a Risk Group.

Each Risk Group has an owner, an Executive Committee member responsible for its oversight and a tailored suite of processes aligned to the Risk Management Process Lifecyle described above. The appetite and exposure to each Risk is monitored at the executive risk committees and also at the Enterprise Wide Risk Committee where the risks are considered in aggregate.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Strategic	The risk that Castle Trust Bank is unable to achieve its long-term objectives due to changes in its key markets or in the economic or regulatory context.	CEO	ExCo

Exposure Description (as at the 30 Sept 2020)	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank plans to continue controlled growth in its chosen markets. Changes to its chosen markets or economic and regulatory contexts may mean it is unable to meet its objectives.	Castle Trust Bank undertakes a detailed planning process at least annually and more frequently when required by changes to the external environment. Supporting the plan, there are detailed assessments of the adequacy of capital and liquidity and of recovery options available in case of stress as well as 2nd line challenge and review. The plan is then monitored for performance and risk levels with key risk indicators triggering management review and recovery options when necessary.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Property Credit Risk	The risk of credit losses arising from the inability of a customers to meet their obligations or of Castle Trust Bank to liquidate collateral in a timely and effective manner.	MD Property	PCRC

Exposure Description (as at the 30 Sept 2020)	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank has £452m of exposure to mortgages and residential development of which £48m are classified as non-performing. (See also Note 12).	Limits and Policies covering origination and portfolio are set by the Board Risk Committee. Origination is controlled by a risk-based mandate. Origination characteristics and performance are monitored monthly. Annual and ad-hoc reviews are undertaken by the 2nd line and 3rd line.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Omni Credit Risk	The risk of credit losses arising from the inability of customers to meet their obligations	MD Omni	OCRC

Exposure Description (as at the 30 Sept 2020)	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank has £135m of exposure to Omni lending of which £18m are classified as non-performing. (See also Note 12) In the course of its business, Castle Trust Bank also incurs varying and transitory levels of exposure to intermediaries under the provisions of Section 75 of the Consumer Credit Act.	Limits and Policies covering origination and portfolio are set by the Board Risk Committee. Origination is predominantly controlled by an automated decision set; intermediaries are controlled though a hierarchy of approval and review committees. Origination characteristics and Performance and monitored daily, weekly and monthly as appropriate. Annual and ad-hoc reviews are undertaken by the 2nd line and 3rd line.

Risk Group	Description	Owner	Executive Committee responsible for oversight
Market & Funding Risk	The risk of losses occurring due to market movements, or the inability of a counterparty to meet its obligations. Also the risk that Castle Trust Bank is unable to meet its obligations due to a shortfall of Capital or Liquidity.	CFO	ALCo

Exposure Description (as at the 30 Sept 2020)	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank has £37m of exposure to non-governmental counterparties. (See also Note 8) Castle Trust Bank has £516m of contractual liabilities falling due over the next year (see Note 24). It is also exposed to interest rate risk and Castle Trust Bank is subject to individual Capital and Liquidity arrangements.	Limits and Policies covering origination and portfolio are set by the Board Risk Committee. Exposures to market movements and customer behaviour against limits and risk indicators are monitored daily with the ability to mitigate through market transactions.

Risk Group	Description	Owners	Executive Committee responsible for oversight
Group Operational Risk	The risk of losses occurring because of operational failings in Group operations and infrastructure.	Various	EWRC

Exposure Description (as at the 30 Sept 2020)	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank operates a wide range of internal processes to support its business; the primary risks relate to people, data and cyber, financial processes (including the operation of complex financial models) and operational resilience which are also variously subject to regulatory requirements.	This Risk Group consists of a broad range of individual risks, each meriting its own bespoke processes to control that risk.

Risk Group	Description	Owners	Executive Committee responsible for oversight
Conduct and Operational Risk	The risk of customers not being treated fairly (TCF) or losses occurring because of operational or conduct failings in Castle Trust Bank's dealings with customers or processes.	MD Property MD Omni MD Savings	CORC

Exposure Description (as at the 30 Sept 2020)	Overview of Risk Management Framework as specifically applied to the Risk Group
Castle Trust Bank supports approximately 1,270 customer accounts in its Property business unit through a variety of automated and manual operational process which are also variously subject to regulatory requirements. Castle Trust Bank supports approximately 19,000 customers in its Savings business unit through a variety of automated and manual operational process which are also variously subject to regulatory requirements. Castle Trust Bank supports approximately 19,000 customers in its Savings business unit through a variety of automated and manual operational process which are also variously subject to regulatory requirements.	All Products are subject to a structured approval process controlled by PGC and are then reviewed on annual basis. A wide variety of controls are deployed including quality assurance, customer satisfaction surveys and complaints root cause analysis. Key risk indicators designed to identify unsuitability of the product or poor customer outcomes are monitored at least monthly. Regular, annual and ad-hoc reviews are undertaken by the 2nd line and 3rd line.

Emerging Risks

As well as the Risk Groups noted above, the following emerging risks have been noted for enhanced monitoring and the Risk Management Framework continues to evolve to manage these risks.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Climate Change Risk	The risk that Castle Trust Bank incurs losses or is otherwise unable to meet its objectives due to climate change and associated regulatory or other Government intervention.	CRO	EWRC

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is primarily exposed to climate change risk through its credit risk exposure. A significant change in the UK climate may result in property collateral being down valued due to changes in environmental risk or prevailing mortgage and	Castle Trust Bank has set origination policy restrictions in respect of property collateral with specific exposure to climate change.

insurance markets. It is also exposed to general regulatory change in this area.	Castle Trust Bank continues to monitor policy evolution to identify risks to its existing property collateral value or liquidity and to the viability of its Omni intermediaries.

Emerging Risk	**Description**	**Owner**	**Executive Committee responsible for oversight**
Covid-19 Pandemic Risk	The risk that Castle Trust Bank is unable to operate effectively due to Covid-19 and associated Government intervention. And the risk that Castle Trust Bank suffers losses due to social distancing restrictions.	CEO	ExCo

Exposure	**Key developments to the Risk Management Framework in respect of Emerging Risks**
Castle Trust Bank's operations, those of its suppliers and intermediaries, the UK's legal system as well as the activities of Castle Trust Bank's customers are exposed to disruption and delays arising from Covid-19 related restrictions. Castle Trust Bank is also exposed to regulatory change in this area; in particular to requirements for payment deferral, delays to legal proceedings and similar.	Castle Trust Bank has deployed technology enabling the workforce to be location independent. Castle Trust has implemented various customer support programs in accordance with requirements and, for customers of unregulated products, has broadly replicated the statutory programs on its own initiative. Castle Trust Bank has reviewed its credit risk appetite and adjusted its origination approach in respect of certain segments likely to adversely impact by Social Distancing requirements.

Emerging Risk	**Description**	**Owner**	**Executive Committee responsible for oversight**
Brexit Risk	The risk that Castle Trust Bank is unable to operate effectively or incurs losses due to Brexit.	CRO	ExCo

Exposure	**Key developments to the Risk Management Framework in respect of Emerging Risks**
Castle Trust Bank is primarily exposed to Brexit risk as a function of its credit risk exposure. A period of significant disruption to trade and unemployment or reduced demand for residential rental property may increase credit losses. It is also exposed to general regulatory change in this area.	Castle Trust Bank continues to monitor the impact of Brexit on its business.

Emerging Risk	**Description**	**Owner**	**Executive Committee responsible for oversight**
Economic Risk	The risk that Castle Trust Bank incurs losses or is otherwise unable to meet its objectives due to unforeseen changes in the levels of economic activity.	CRO	ExCo

Exposure	**Key developments to the Risk Management Framework in respect of Emerging Risks**
Castle Trust Bank is primarily exposed to economic risk as a function of its credit risk exposure. It has a limited exposure to interest rate risk. A material change in the levels or nature of economic activity may increase credit losses and / or reduce credit opportunities.	In light of the adverse prevailing economic forecasts, Castle Trust Bank has reviewed its corporate plan more regularly than typical and has adopted a plan predicated upon an adverse economic scenario. Castle Trust Bank has reviewed its credit risk appetite and adjusted its origination approach in respect of certain segments likely to adversely impact by an adverse economic scenario.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Competitor Risk	The risk that Castle Trust Bank is unable to meet its objectives because of competitor action and in particular the underpricing of cost of risk.	MDs of Business Units	ExCo

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is exposed to competition in all areas it operates in. It is exposed to future pricing and product feature competition in its originations of assets and liabilities.	Castle Trust Bank continues to monitor the impact of competitor risk appetite and pricing on its objectives and risks.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Regulatory and Legal Risk	The risk that Castle Trust Bank is unable to meet its objectives, because of the costs or restrictions associated with regulatory requirements.	CRO	EWRC

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is subject to several different regulatory type regimes including Bank of England, PRA, FCA, HMRC and ICO which variously have the power to institute change requirements, levy fines or require specific remediation activity.	Castle Trust Bank continues to work closely with its regulators, adopting an open and co-operative approach at all times. During the year Castle Trust Bank became a bank which represented a material simplification and streamlining of its regulatory and legal structure.

Emerging Risk	Description	Owner	Executive Committee responsible for oversight
Cyber Risk	The risk that Castle Trust Bank is unable to operate, incurs losses or breaches customer confidentiality due to the misuse or misappropriation of data it holds.	CTO	TechSteerCo

Exposure	Key developments to the Risk Management Framework in respect of Emerging Risks
Castle Trust Bank is exposed to cyber risk through its holding of personal data in respect of its customers and colleagues.	The technology team continually monitors exiting customer data and systems for indicators of an external breach. Specialised IT Security software is utilised across all systems and is continually updated. Operational software operates on a cycle of upgrades to ensure that the latest IT security controls are embedded.

Corporate Governance Report

Purpose

Castle Trust Bank's corporate governance is designed to give stakeholders confidence that the bank's objectives have been subject to thorough challenge and review and that performance against objectives is continually monitored, resulting in regular review and evolution of strategy.

Castle Trust Bank's strategy includes the following specific objectives:

Area	Objective	Outcome
Customers	Castle Trust Bank identifies and meets its customer needs and provides a high quality service	The place to do business with
Commercial	Castle Trust Bank has a suite of attractive products with appropriate pricing, and effective distribution	
Technology	Castle Trust Bank has the right technology to deliver its objectives in a secure, resilient, cost efficient and customer friendly manner	
People	Castle Trust Bank's Board, senior management team and wider workforce have the skills, experience and motivation to deliver its objectives	The place to work
Financial Sustainability	Castle Trust Bank has the right financial resources to achieve its objectives, including capital and liquidity resources and generation of sustainable, attractive returns from its activities	The place to invest
Risk	Castle Trust Bank controls and monitors the risks that it takes in order to meet its objectives, including customer, conduct, operational and financial risks, and ensure that the risks are commensurate to the returns and financial resources of the institution	

The Board

The Board of directors has the ultimate responsibility for all aspects of Castle Trust Bank. It has instituted four sub-committees which are explained in the next section. The Board holds formal meetings ten times per year and these are variously supplemented by ad hoc workshops, site visits, strategy reviews and private meetings of the Non-Executive Directors.

The most important decisions are reserved to the Board, with advice from sub-committees where appropriate. The Board delegates more routine decisions to the Executive Directors who in turn delegate decisions to individuals (as determined by specific mandates) or to committees (as determined by the relevant policy). Executive decisions are taken within the framework of a comprehensive range of Board approved policies and an annual plan setting Group and subsidiary budgets, and product and organisational strategies.

At least annually, and more frequently if required, the Board agrees a corporate plan which sets out the specific objectives of the business and forecasts the financial position based upon that plan and taking into account the prevailing economic outlook. The forecasts must demonstrate that Castle Trust Bank is able to meet its risk appetite.

The Board overseas the effectiveness of the corporate plan delivery through a combination of regular qualitative and quantitative reports summarised into key performance and risk indicators covering all of the key areas in the business, as well as periodic deep dives.

The Board has access to all Executives and any information it requires. The Executives responsible for the 2nd and 3rd lines of defence (see Risk Management Report) have direct access to the Board Chair and the Chairs of Risk and Audit.

Independent Directors

Castle Trust Bank is not subject to the UK Corporate Governance Code; however, it still places a significant value on the independence of its directors and it has deemed the following directors to be independent.

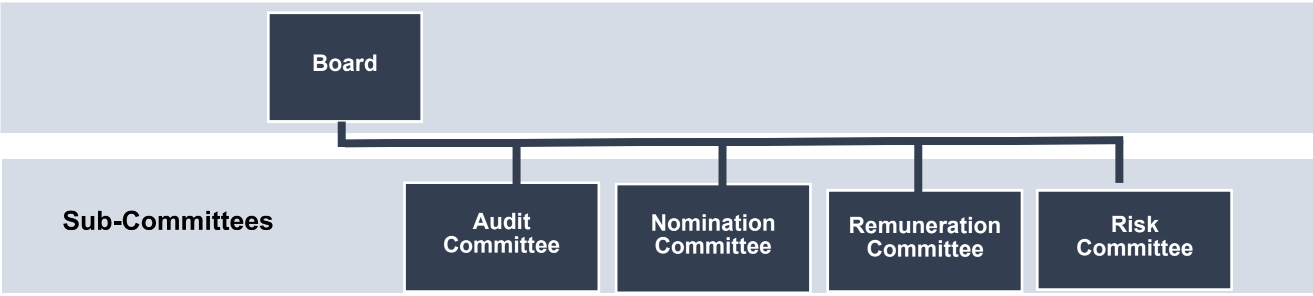
Richard Pym (Chairman)
Eric Anstee (Senior Independent Director)
Marian Martin
Andrew Doman
Melba Montague

The Chair of the Board, the Risk Committee and the Audit Committee are deemed to be independent.

The Senior Independent Director is responsible for ensuring that the collective views of the Independent Directors are reflected at the Board; the Chair is effective; and the Board meetings, information and training meets the needs of the Independent Directors and allows them to exercise appropriate influence.

Board Sub-Committees

The Board operates four standing sub-committees, which enable additional focus to be given to areas of complexity or detail, making recommendations to management and to the Board as appropriate.



Sub-committee	Chair	Other Members
Audit	Eric Anstee	Marian Martin, Melba Montague, Tim Hanford
Nomination	Richard Pym	Andrew Doman, Tim Hanford
Remuneration	Andrew Doman	Richard Pym, Tim Hanford
Risk	Marian Martin	Richard Pym, Eric Anstee, Andrew Doman, Tim Hanford

Each sub-committee has its own Terms of Reference setting out its objectives.

Board and Sub-Committee Overviews 2020

Sub-committee	Overview of Financial Year 2020
Board	The Board started the financial year reviewing the customer satisfaction surveys from across the business. During the course of the year it provided oversight and challenge in respect of the change programme to become a bank, including the implementation of SMCR and reviews of IT security. In the period March to May it reviewed, with support from independent third parties and Internal Audit, the readiness of the business to become a bank, confirming readiness to the regulators in early June. At the same time, the Board oversaw the business's preparation to manage through Covid-19 social distancing requirements. The Board finished the year by approving a new corporate plan, incorporating a conservative economic outlook.
Audit	The Audit Committee started the financial year reviewing and recommending to the Board the Financial Statements. During the course of the year it provided challenge and oversight of the Compliance Monitoring and Internal Audit Programme. After a comprehensive selection process, it recommended to the Board that Deloitte should be selected as Auditor for the year commencing October 2020. The Audit Committee provided challenge and oversight of the process to incorporate customers with payment deferrals and adverse economic forecasts into Castle Trust Bank's impairment modelling. The Audit Committee considered revenue recognition using EIR, reviewed intangible assets and the accounting policies for deposits on conversion to a bank.
Nomination	During the year all approvals and resignations of directors were approved and / or ratified by the Nomination Committee.
Remuneration	During the year the Remuneration Committee oversaw the implementation and administration of the revised LTIP Scheme, conducted a Gender Pay Gap Analysis and oversaw the implementation of the SMCR regime as well as undertaking its usual role in the oversight of appraisals, pay rises and bonuses.
Risk	The Risk Committee started the year with reviews of new intermediaries in the Omni business unit, recommending various controls and metrics to be monitored. During the year the Risk Committee considered project risk, noting the learnings from the November 2019 TSB IT Independent Report and recommending additional controls to Castle Trust Bank's own change programme. During the period March to June, additional out-of-cycle Risk Committees were held to provide oversight to the credit risk strategy adopted in light of Covid-19 social distancing and the impact on the Capital and Liquidity forecasts. The Risk Committee ended the year reviewing the key stress testing assumptions and risk appetite for Capital and Liquidity in support of the ILAAP and ICAAP.

Attendance

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Richard Pym	7/7		2/2	2/2	6/6
Eric Anstee	8/8	4/4			7/7
Marian Martin	11/11	5/6			10/10
Andrew Doman	11/11		3/3	3/3	9/10
Melba Montague	6/6	2/3			
Tim Hanford	11/11	5/6	3/3	2/3	9/10
Martin Bischoff	11/11				
Paul Lloyd-Jones	11/11				
Richard Ramsay	5/5	2/3			4/4
Patrick Gale	5/5	3/3			4/4
The Rt Hon The Lord Deben	4/5		1/1	1/1	
Jonathan Cox	8/11				

Directors' report

The directors present their report of the consolidated financial statements of Castle Trust Holdings Limited (the "Group", "Castle Trust Bank" or the "Bank") incorporating the individual financial statements for Castle Trust Holdings Limited (the "Company") for the year ended 30 September 2020. Consolidation of the Castle Trust Group accounts previously took place at the Castle Trust Capital plc ("CTC") level. However, the controlling interest of the share capital of CTC was transferred to the Company on 15 October 2019, resulting in the Company becoming the consolidating entity for the Group.

Throughout these financial statements, "Castle Trust Bank" is used to as a term that captures all operational activity of the Group. This is principally the property lending and deposit taking activities of CTC and the point of sale consumer lending activities of Omni Capital Retail Finance Limited ("Omni").

Directors

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

Regulatory environment

CTC, CTCM and Omni (with respect to consumer credit only) are authorised and regulated by the FCA and/or the PRA.

Results and dividends

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 32. The Group has made a total comprehensive profit in the current financial year of £0.8 million (30 September 2019 (restated): profit of £1.1 million). The directors do not recommend the payment of a dividend (2019: £nil).

A prior year adjustment has been identified, resulting in the restatement of certain balances in the prior period. Details can be found in note 28.

Please refer to note 25 for details of allotted shares in the year.

Financial risk management and exposure to risk

The Group measures and monitors risk on a regular basis and formally reviews its risk position at the Risk Committee every quarter. The main financial risk to which the Group is exposed to as at 30 September 2020 is credit risk as set out in the Risk Management Report. The Group is also exposed to other market risks (primarily interest rate risk and house price risk) and liquidity risk as these risks are inherent in the business. Each of these risks are regularly measured and monitored, and appropriately managed. Refer to the strategic report on page 6 and note 23 for full details.

The Risk Function is responsible for the management of risk and is independent of the business areas responsible for managing these risks and has direct access to the Risk Committee responsible for setting and oversight of risk strategy and policies. The Risk Committee (which has met 10 times during the financial year) has delegated various decision making and monitoring responsibilities to the following executive committees: the monthly Credit Risk Committee, the monthly Non-Financial risk committee, and the Credit Approval committee.

Principle Risks and uncertainties

The principal risks of the business have been defined as Risk Groups in the Risk Management report on page 18 which details the oversight and mitigation the company has undertaken.

Principal uncertainties are defined as Emerging Risks in the Risk Management Report on page 20.

Going concern assessment

The consolidated financial statements of the Group have been prepared on a going concern basis. In assessing whether the going concern assumption remains appropriate for the Group, the directors have focussed on the liquidity and funding position for the next 12 months.

Following the £20m capital injection from the Group's parent and the granting of the banking licence, the Group met its key strategic objectives for the financial year and remains on track to deliver its longer-term sustainable growth strategy.

The Group is strongly capitalised with total equity of £79.2 million, total assets of £742.1 million and liquid assets of £153.8 million. The maturity profile of contractual cash inflows and outflows assuming no new lending and funding and no roll-over of bonds show a net positive inflow of cash for the 12 months subsequent to year end (Note 24).

The Group undertakes an annual Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) which assess the group capital and liquidity position over a 4 year time horizon. Stress scenarios are applied to a base case financial plan, the outcomes of which determine the level of capital and liquidity required to be maintained by the Group incorporating additional conservative buffer levels set by the Board.

The ability of the Group to attract new savings customers is continuously assessed, together with sensitivity analysis on potential changes in the interest rate offered on new fixed term deposits which may occur as a result of changes in the macro economic environment and alternative rates available in the market. The Group is further diversifying its sources of funding with access to the Bank of England's Sterling Monetary Framework (SMF) and the offering of its deposit products through financial intermediaries expected in early 2021.

Covid-19 has heightened the inherent uncertainty in the Group's assessment of going concern. Following periods of lockdown and tiered restrictions throughout the UK, the severe impact on economic activity has required the directors to apply particular attention to the liquidity and capital needs of the Bank during in this unpredictable environment. Whilst the recent announcements of forthcoming vaccine roll outs provide hope of recovery, the economic outlook remains uncertain. The base case financial plan applied to the ICAAP and ILAAP has been constructed with full consideration of the current Covid-19 economic environment guided by independent external economic forecasts.

The stress scenarios applied assume a severe downturn against these forecasts. For capital purposes the following assumptions were applied:

- Significant increase in unemployment and a reduction in house prices greater than base case forecast levels which in turn increase credit losses and impairments.
- Large one-off losses on the development finance portfolio.
- Significant deposit system failure results in lower customer retention and originations.
- One off idiosyncratic cost event which drives down profitability.

For liquidity stress scenarios, the following was considered:

- No new deposits raised for a 60 and 90 day period.
- Material reduction in the reinvestment rate and an increase in ISA early withdrawals.
- Significant haircuts applied to contractual repayments from property and consumer finance balances.

To each of these stress scenarios, management actions were considered to assess the Group's response. These actions included:

- Tightening of risk appetite in response to worsening credit environment.
- Flexible pricing on deposit products to respond to liquidity needs.
- Tighter cost control in line with reduced revenue to maintain profitability.

The results of the stress testing indicated that the Group remained within both its capital and liquidity limits as prescribed by regulatory requirements and additional buffer levels set by the Board.

Furthermore, a reverse stress scenario was performed that considers similar risk drivers in more severe but less plausible scenarios, which if unmitigated would render the business model unviable. The Directors consider the possibility of this outcome to be remote and have identified mitigation that would be adopted in such circumstances.

The directors have also considered the following as part of the going concern assessment:

- Risk management policies and how the Group is placed to oversee business risks.
- The overall regulatory risk of the business including the risks associated with the current business model, potential exposure to conduct risk and the impact of changes in the regulatory landscape.

The directors are satisfied that the Group has the resources to continue in business for the foreseeable future and meet its liabilities as they fall due in the next 12 months. 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.

Events since the balance sheet date

CTC was awarded a banking licence on 15 June 2020. The nature of funding for the Group's investment and savings activities changed (from Fortress Bonds to deposits), and consequently the business of certain subsidiaries will be discontinued as part of a wider rationalisation of entities within the Group. Castle Trust Treasury Limited and Castle Trust Finance Limited were dissolved on 6 October 2020. In addition, the activities of Castle Trust Capital Management Limited ("CTCM"), Castle Trust Nominees Limited ("CTCN"), Castle Trust Direct plc ("CTD"), have been wound down and will also be liquidated in 2021.

In the event that business activities of other subsidiaries in the Group are discontinued, the directors anticipate that any wind down would take place in an orderly manner to ensure the Company can meet liabilities as they fall due on the basis that the key assets in entities that may be discontinued comprise receivables due from other Group entities.

An application to Companies House to change the name of the Castle Trust Capital plc to Castle Trust Bank plc is underway following regulatory approval.

As outlined in the strategic report, the ongoing Covid-19 outbreak continues to progress and is being monitored and assessed on an ongoing basis by the Directors. The Directors' have assessed the potential impacts of Covid-19 on the operational, liquidity, and credit risk of the business, and in its cashflow forecasts in determining the Group's ability to continue as a going concern for the 12-month period from the date of signing the report.

Capital management

CTC and Castle Trust Capital Management Limited ("CTCM") are regulated by the Financial Conduct Authority ("FCA") and Prudential Regulatory Authority ("PRA") and are subject to the requirements of the Capital Requirements Regulation which governs capital levels. Regulatory capital requirements are monitored as part of the overall management of capital, with Key Risk Indicators assigned and monitored for regulatory capital ratios. Omni is also subject to FCA regulation over its consumer credit activities.

Capital management disclosures, to the extent they are not included in the financial statements, will be published in a Supplementary Regulatory Capital and Remuneration Disclosure on Castle Trust Bank's website (www.castletrust.co.uk).

Future Developments

Despite the challenges facing the UK economy and financial services sector following the Covid-19 pandemic, Castle Trust Bank remains well capitalised with significant levels of surplus liquidity. This robust balance sheet will enable Bank to pursue its growth plan and to be in a strong position to engage in strategic opportunities were they to arise in the market.

Streamlined Energy and Carbon Report Regulations (SECR) disclosure

The SECR disclosure presents the Group's carbon footprint, together with an appropriate intensity metric and total energy use of electricity and gas. All emissions are Scope 2.

	2020
Gross Internal Floor Area (m^2)	1,416
Scope 2 emissions and indirect energy use (kWh) - Energy use of purchased electricity	99,881
Emissions and energy use totals	
Absolute emissions (kg CO_2e)	23,286
Total energy use (kWh)	99,881
Intensity measures	
Emissions per m^2 gross internal area ($kgCO_2e/m^2$/year)	16.45
Energy use per m^2 gross internal area (kWh/m^2/year)	70.54

During the year initiatives to reduce the Group's carbon footprint were undertaken including a review of energy consumption, reduction in paper usage and implementation of proposals from the Group's "Green Team", a committee of employees responsible for **ensuring sustainable business practices are implemented and promoted**.

Government Grants

The Company has taken advantage of the Government furlough scheme during the year following the reduction in economic activity because of the Covid-19 pandemic.

Directors' indemnity and directors' & officers' liability insurance

the Group maintains a directors' and officers' liability insurance policy. In accordance with the Group's Articles of Association, the Board may also indemnify a director from the assets of the Group against any costs or liability incurred as a result of their office, to the extent permitted by law. Neither the insurance policy nor any indemnities that may be provided by the Group provide cover for fraudulent or dishonest actions by the directors.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Appointment of Auditors

After undertaking a competitive tender process, the Board have selected Deloitte to provide the Group with audit services for the financial period commencing 1 October 2020. Following the signing of these financial statements, it is expected that EY will resign as auditor and be replaced by Deloitte subject to final approval by the Board.

By order of the Board

Mr Andrew Macdonald,
Company Secretary,
29 January 2021

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report, and the consolidated financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law.

Under Company law, the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

In preparing the consolidated financial statements the directors are required to:

- present fairly these financial positions, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements of IFRS as adopted by the EU is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state whether the Group's financial statements have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The strategic report and the directors' report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

The directors are responsible for ensuring that the Group keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group, in accordance with the Companies Act 2006. The directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Castle Trust Holdings Limited

Opinion

We have audited the financial statements of Castle Trust Holdings Limited ('the parent company') and its subsidiaries (the "group") for the year ended 30 September 2020 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the consolidated and company statement of cash flows and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 30 September 2020 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 30 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Rhys Taylor (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 January 2021

Notes:

1. The maintenance and integrity of the Castle Trust Holdings Limited's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income

For the year ended 30 September 2020

	Notes	Group 2020 £'000	Group 2019 (Restated) £'000
Interest and similar income calculated using EIR	3	**53,413**	56,821
Other interest and similar income	3	**923**	5,370
Interest and similar expense	4	**(20,153)**	(25,909)
Net interest income		**34,183**	36,282
Fees and commission income		**786**	321
Fees and commission expense		**(575)**	(668)
Realised / unrealised gain on financial instruments at fair value through profit or loss	5	**615**	5,063
Total operating income		**35,009**	40,998
Administrative expenses	6	**(24,709)**	(27,673)
Impairment losses	12	**(7,210)**	(10,514)
Depreciation and amortisation	14, 16	**(2,271)**	(1,756)
Total operating expenses		**(34,190)**	(39,943)
Profit before tax		**819**	1,055
Corporation tax	7	**(21)**	-
Total profit		**798**	1,055
Other comprehensive income			
Items not reclassified to profit or loss in subsequent periods			
Fair value of own credit risk changes of financial liabilities at FVPL		**(4)**	41
Total other comprehensive (expense) / income for the period		**(4)**	41
(Loss) / profit for the period attributed to:			
Non-controlling interests	15	**8**	(24)
Equity holders of the parent		**790**	1,079
Total profit		**798**	1,055
Total comprehensive (expense) / income for the period attributed to:			
Non-controlling interests		**8**	(24)
Equity holders of the parent		**786**	1,120
Total comprehensive income		**794**	1,096

The results for all years presented comprise continuing operations.

Notes on pages 36 to 87 are an integral part of these financial statements.

Consolidated and Company statement of financial position

Registered number: 12161224

As at 30 September 2020

	Notes	Group 2020 £'000	Group (Restated) 2019 £'000	Company 2020 £'000
Assets				
Cash and cash equivalents	8	**36,861**	140,349	-
Loans and advances to credit institutions	9	-	14,926	-
Debt instruments	10	**116,918**	-	-
Trade and other receivables	11	**1,032**	1,875	-
Loans to customers				
At amortised cost	12	**572,336**	610,482	-
Designated at fair value through profit or loss	13	**5,506**	5,328	-
Prepayments		**2,063**	972	-
Property and equipment and right-of-use assets	14	**1,939**	454	-
Investment in subsidiaries	15	-	-	**81,497**
Intangible assets	16	**5,454**	3,768	-
Total assets		**742,109**	778,154	**81,497**
Liabilities				
Trade and other payables	17	**11,500**	4,983	-
Provisions for liabilities	19	**394**	374	-
Amounts due to customers				
At amortised cost	20	**649,535**	711,128	-
At fair value through profit or loss	21	**1,444**	3,436	-
Total liabilities		**662,873**	719,921	-
Equity				
Share capital	25	**81,497**	13,212	**81,497**
Share premium		-	106,147	-
Capital contribution		**155**	-	-
Other reserve	25	**57,916**	-	-
Own credit revaluation reserves		**37**	41	-
Retained earnings		**(60,369)**	(61,159)	-
Issued capital and reserves attributable to owners of the parent		**79,236**	58,241	
Non-controlling interests	15	-	(8)	-
Total equity		**79,236**	58,233	**81,497**
Total equity and liabilities		**742,109**	778,154	**81,497**

Notes on pages 37 to 87 are an integral part of these financial statements.

There was no movement in the Company's statement of comprehensive income for the current year.

The financial statements were approved by the Board of Directors and authorised for issue on 21 January 2021 and were signed on its behalf by:

Eric Anstee
Director
29 January 2021

Consolidated statement of changes in equity

For the year ended 30 September 2020

	Note	Share capital £'000	Share Premium £'000	Other reserve £'000	Own credit revaluation reserves £'000	Capital Contribution £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1 October 2019		13,212	106,147	-	41	-	(61,159)	58,241	(8)	58,233
Group Reserves reorganisation										
Cancellation of reserves in old group		(13,212)	(106,147)					(119,359)		(119,359)
Recognition of reserves in new group		61,443		57,916				119,359		119,359
Total comprehensive profit / (loss) for the year		-	-	-	-	-	790	790	8	798
Issue of share capital	25	20,054	-	-	-	-	-	20,054	-	20,054
Capital contribution from parent						155		155		155
Net change in fair value of debt instruments at FVOCI								-		-
Fair value of own credit risk changes of financial liabilities at FVPL		-	-	-	(4)	-	-	(4)	-	(4)
At 30 September 2020		**81,497**	**0**	**57,916**	**37**	**155**	**(60,369)**	**79,236**	**-**	**79,236**

For the year ended 30 September 2019

	Note	Share capital £'000	Share premium £'000	Other Reserve £'000	Own credit revaluation reserves £'000	Retained earnings (Restated) £'000	Total (Restated) £'000	Non-controlling interest £'000	Total equity (Restated) £'000
At 1 October 2018		12,992	104,166	-	-	(52,342)	64,816	16	64,832
IFRS 9 transition adjustment		-	-	-	-	(9,896)	(9,896)	-	(9,896)
Restated at 1 October 2018		12,992	104,166	-	-	(62,238)	54,920	16	54,936
Total comprehensive profit (restated) for the year		-	-	-	-	1,079	1,079	(24)	1,055
Issue of share capital	25	220	1,981	-	-	-	2,201	-	2,201
Fair value of own credit risk changes of financial liabilities at FVPL		-	-	-	41	-	41	-	41
At 30 September 2019		13,212	106,147	-	41	(61,159)	58,241	(8)	58,233

Company statement of changes in equity

For the year ended 30 September 2020

	Note	Share capital £'000	Retained earnings £'000	Other Reserve £'000	Total £'000
At 1 October 2019		-	-	-	-
Issue of share capital	25	81,497	-	0	81,497
Excess of consideration for investment in subsidiary over fair value				5,301	5,301
Impairment of investment in subsidiary				(5,301)	(5,301)
At 30 September 2020		**81,497**	**-**	**0**	**81,497**

Notes on pages 37 to 87 are an integral part of these financial statements.

Consolidated and Company statement of cash flows

For the year ended 30 September 2020

	Group 2020 £ '000	Group 2019 £ '000
Cash flows from operating activities		
Bank interest received	**1,216**	788
Bank charges and interest paid	**(913)**	(776)
Fees and commission paid	**(804)**	(1,773)
Fees and commission received	**579**	2,143
Payments to suppliers	**(13,505)**	(18,538)
Payments to employees	**(12,981)**	(13,184)
Mortgages issued	**(65,728)**	(133,728)
Mortgages principal redeemed	**110,630**	157,400
Mortgage profit share received	**3,632**	2,786
Mortgage interest received	**24,637**	29,272
Consumer loans issued	**(125,648)**	(106,529)
Consumer loans principal redeemed	**121,716**	121,154
Consumer loan interest received	**6,818**	8,676
Wholesale loans issued	**-**	(6,378)
Wholesale loans principal redeemed	**12,632**	14,804
Wholesale loan interest received	**1,463**	5,717
Interest paid for amounts due to customers at amortised cost	**(18,532)**	(19,842)
Proceeds from issue of amounts due to customers at amortised cost	**76,622**	123,697
Payments of principal for amounts due to customers at amortised cost	**(137,548)**	(127,679)
Payments of profit share for amounts due to customers at fair value through profit or loss	**(449)**	-
Payments of principal for redemptions of amounts due to customers at fair value through profit or	**(1,370)**	(23,738)
Net cash (outflow) / inflow in operating activities	**(17,533)**	14,272
Cash flow from investing activities		
Investment in subsidiaries	**-**	-
Receipt from group companies	**31**	-
Purchase of intangible assets	**(3,432)**	-
Proceeds from sale of wholesale loans	**-**	14,844
Proceeds from maturities of / (payments to purchase) fixed deposits	**15,318**	(15,050)
Proceeds from sale of house price options		16,600
Purchase of debt instruments	**(116,918)**	-
Purchase of property, plant and equipment	**(116)**	(269)
Net cash (outflow)/ inflow from investing activities	**(105,117)**	16,125
Cash flow from financing activities		
Proceeds from issue of share capital	**20,054**	2,201
Proceeds from issue of debt securities	**-**	10,000
Principal repayment of debt securities issued - (senior loan)	**-**	(20,000)
Interest paid on debt securities - (senior loan)	**(536)**	(763)
Lease payments	**(356)**	-
Net cash inflow / (outflow) from financing activities	**19,162**	(8,562)
Net (decrease) / increase in cash and cash equivalents	**(103,488)**	21,835
Cash and cash equivalents at beginning of the period	**140,349**	118,514
Cash and cash equivalents at end of the period	**36,861**	140,349

The amount of undrawn borrowing facilities that may be available in the future for operating activities and settling capital commitments is £nil (2019: £75.0 million). The facilities available as a result of the securitisation the Group completed in 2019 were cancelled in the current year.

The Company did not have a bank account in the year and consequently no cash flow statement for the Company is presented.

Notes on pages 37 to 87 are an integral part of these financial statements.

1. Corporate information

Castle Trust Holdings Limited was incorporated on 16 August 2019 to act as a new holding company for the CTC group. It is domiciled in the UK. This is the first financial statements to be issued by the Company following an extended initial accounting period. There were no transactions in the holding company for the period from incorporation to 30 September 2019. The consolidated financial statements for the year ended 30 September 2020 were authorised for issue in accordance with a resolution of directors on 21 January 2021.

2. Accounting policies

2.1 Basis of preparation

The Group's statutory consolidated financial statements for the year ended 30 September 2020 and the Company's statutory financial statements for the period ended 30 September 2020 have been prepared under IFRS as adopted by the EU. The Group has consistently applied the same accounting policies as at 30 September 2020 as in the prior year except in relation to the Group and Company's first time adoption of IFRS 16 Leases ("IFRS 16") from 1 October 2019.

The consolidated financial statements comprise the financial statements of the Group and the subsidiaries that it controls as at 30 September 2020. Consolidation has historically taken place at CTC level. However the intention of the formation of the Company (CTH) was to rationalise the group structure and provide a new top-level consolidation company. The acquisition of the CTC Group by the Company was in the nature of a capital re-organisation as opposed to a business combination under IFRS 3. Because there is no specific guidance on how to account for business combinations under common control, management has used judgement to develop an accounting policy that provides relevant and reliable information in accordance with IAS 8. Given the permanent nature of the combination and the fact that common control is retained it is considered most appropriate that these consolidated accounts be prepared under the predecessor value method using existing values for assets and liabilities.

- Acquired assets and liabilities are recorded at carrying value and not fair value;
- No goodwill is recorded;
- The difference between the acquirer's cost of investment and the acquiree's equity is presented as a separate reserve within equity on consolidation
- Comparative periods are restated as if the business combination had taken place at the beginning of the earliest comparative period presented.
- Profit and loss includes results of the combining entities for the full year regardless of when the combination takes place

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

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its own statement of comprehensive income.

2.2 Going Concern

The consolidated financial statements of the Group have been prepared on a going concern basis. In assessing whether the going concern assumption remains appropriate for the Group, the directors have focussed on the liquidity and funding position for the next 12 months.

Following the £20m capital injection from the Group's parent and the granting of the banking licence, the Group met its key strategic objectives for the financial year and remains on track to deliver its longer-term sustainable growth strategy.

The Group is strongly capitalised with total equity of £79.2 million, total assets of £742.1 million and liquid assets of £153.8 million. The maturity profile of contractual cash inflows and outflows assuming no new lending and funding and no roll-over of bonds show a net positive inflow of cash for the 12 months subsequent to year end (Note 24).

The Group undertakes an annual Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) which assess the group capital and liquidity position over a 4 year time horizon. Stress scenarios are applied to a base case financial plan, the outcomes of which determine the level of capital and liquidity required to be maintained by the Group incorporating additional conservative buffer levels set by the Board.

The ability of the Group to attract new savings customers is continuously assessed, together with sensitivity analysis on potential changes in the interest rate offered on new fixed term deposits which may occur as a result of changes in the macro economic environment and alternative rates available in the market. The Group is further diversifying its sources of funding with access to the Bank of England's Sterling Monetary Framework (SMF) and the offering of its deposit products through financial intermediaries expected in early 2021.

Covid-19 has heightened the inherent uncertainty in the Group's assessment of going concern. Following periods of lockdown and tiered restrictions throughout the UK, the severe impact on economic activity has required the directors to apply particular attention to the liquidity and capital needs of the bank during in this unpredictable environment. Whilst the recent announcements of forthcoming vaccine roll outs provide hope of recovery, the economic outlook remains uncertain. The base case financial plan applied to the ICAAP and ILAAP has been constructed with full consideration of the current Covid-19 economic environment guided by independent external economic forecasts.

The stress scenarios applied assume a severe downturn against these forecasts. For capital purposes the following assumptions were applied:

- Significant increase in unemployment and a reduction in house prices greater than base case forecast levels which in turn increase credit losses and impairments.
- Large one-off losses on the development finance portfolio.
- Significant deposit system failure results in lower customer retention and originations.
- One off idiosyncratic cost event which drives down profitability.

For liquidity stress scenarios, the following was considered:

- No new deposits raised for a 60 and 90 day period.
- Material reduction in the reinvestment rate and an increase in ISA early withdrawals.
- Significant haircuts applied to contractual repayments from property and consumer finance balances.

To each of these stress scenarios, management actions were considered to assess the Group's response. These actions included:

- Tightening of risk appetite in response to worsening credit environment.
- Flexible pricing on deposit products to respond to liquidity needs.
- Tighter cost control in line with reduced revenue to maintain profitability.

The results of the stress testing indicated that the Group remained within both its capital and liquidity limits as prescribed by regulatory requirements and additional buffer levels set by the Board.

Furthermore, a reverse stress scenario was performed that considers similar risk drivers in more severe but less plausible scenarios, which if unmitigated would render the business model unviable. The Directors consider the possibility of this outcome to be remote and have identified mitigation that would be adopted in such circumstances.

The directors have also considered the following as part of the going concern assessment:

- Risk management policies and how the Group is placed to manage business risks.
- The overall regulatory risk of the business including the risks associated with the current business model, potential exposure to conduct risk and the impact of changes in the regulatory landscape.

The directors are satisfied that the Group has the resources to continue in business for the foreseeable future and meet its liabilities as they fall due in the next 12 months. 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.

2.3 Basis of consolidation

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 arrangements 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.

2.4 Significant accounting judgements, estimates and assumptions

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

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

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

(i) Impairment losses on loans to customers

Internal models are used to determine Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD") and forecast economic scenarios.

Judgement is required to determine the appropriateness of estimates underpinning the models when determining Expected Credit Losses ("ECL"s) as explained below:

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

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

- Determining the appropriate segmentation of the Group's portfolio so that the appropriate model is used and the assumptions used in that model have been derived from historic data that is representative of the current portfolio in the current economic climate.

- Identifying which stage a loan is in (for example by determining what constitutes a significant deterioration in credit quality) and the criteria for movement between the stages. Please also see note 24 for further details surrounding methodology.

Where there is little prospect of a recovery being made for a Stage 3 financial asset, the impairment provision is utilised and the carrying value of the loan is then directly reduced. The impairment loss on loans to customers is disclosed in more detail in note 12.

(ii) Fair value measurement of financial assets and liabilities

The Group measures certain financial instruments at fair value through profit or loss. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or;
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from some observable market data but some judgement is required to establish fair values. The judgements include considerations such as liquidity, discount rates and early redemption assumptions.

There is one mortgage designated at fair value retained in the Group as at 30 September 2020 (2019: two mortgages). As the strike date of the embedded House Price Option has passed for this loan, its fair value is no longer sensitive to any changes in inputs into the model and its fair value has been estimated as the amount recoverable. It has been moved out of Level 2 and reclassified as Level 3 in the year due to a reduction in observable inputs and increased uncertainty in the macroeconomic environment.

Structured deposit liabilities /Housas at fair value are measured using various inputs, principally the movement in the house price index ("HPI") and a house price risk premium. They are classified as level 3 in the fair value hierarchy.

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

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

Fair value related disclosures for financial instruments that are measured at fair value or amortised cost are disclosed in note 22.

(iii) Effective Interest Rate (EIR) method

The EIR methodology recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of relevant financial instruments and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments. A conditional prepayment rate (CPR), being a loan prepayment rate equivalent to the proportion of a loan's principal that is assumed to be paid off ahead of time in each period, is estimated. The calculation of this estimate is based on a number of factors, such as historical prepayment rates for previous loans similar to ones and future economic outlooks.

(iv) Deferred tax assets

The status, measurements and treatment of deferred tax assets recognised in the consolidated financial statements are disclosed in note 7. The decision to recognise the assets is based on the Group's estimation of profits arising in the short to medium term against which the brought forward losses might be relieved. The status, measurement and treatment of these assets are monitored at each reporting date. No deferred tax asset has been recognised in the current year due to the Group only recently trading at a moderate level of profitability and with the continued short to medium term economic uncertainty caused by the Covid-19 pandemic.

(v) 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 Holdings Limited.

Structured entities are entities whereby consolidation is not solely determined by voting rights and share ownership. The Group determines whether it is a parent by assessing whether it controls the SEs. The Group considers all relevant facts and circumstances when assessing whether it controls the SEs. The Group controls the SEs when it is exposed, or has rights, to variable returns from its involvement with the SEs and has the ability to affect those returns through its power over the SEs.

The Group consolidates the SEs that it controls. The Group's involvement with consolidated SEs is detailed in note 15.

(vi) Intangible assets

The cost of internally generated assets is capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost.

2.5 Significant accounting policies

2.5.1 Interest and similar income

2.5.1.1 Interest and similar income calculated using EIR

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

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

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

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

2.5.1.2 Other interest and similar income

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

2.5.2 Financial assets and liabilities

2.5.2.1 Initial recognition

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

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

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

2.5.2.2 Subsequent measurement of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either amortised cost, fair value through profit or loss ("FVPL") or fair value through Other Comprehensive Income ("FVOCI").

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

Debt instruments, loans and advances to credit institutions, loans to customers and trade and other receivables

The Group only measures financial instruments at amortised cost if both of the following conditions are met:

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

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

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

Business model assessment

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

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

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

The SPPI test

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

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

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

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

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

Financial assets and liabilities at fair value through profit or loss

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

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

Amounts due to customers at fair value through profit and loss

- These comprised liabilities to redeemable preference ("Foundation Housas" and "Growth Housas") shareholders and loan note ("Income Housas") holders. During the year, the Housas were modified by Schemes of Arrangement and became structured deposits, remaining in this classification.

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

- PMs were only available to owner occupiers with a term of c15 years and more. The repayment amount incorporated a profit/loss share based on any change in the value of the individual's mortgaged property.
- BTLELs were available to buy-to-let investors only with a term of up to 10 years. The repayment amount incorporated a profit share based on any change in the value of the individual's mortgaged property.
- IPS mortgages were available to buy-to-let investors and owner occupiers (who are exempt from the Consumer Credit Act ("CCA") (via the high net worth / business exemption tests)) with a term of typically 5 years. The original amount of the loan is repayable at redemption plus a deferred interest component (typically 5% pa where applicable) plus typically one times the increase in value of the national Halifax House Price Index ("HHPI"), if the property has increased in value, or the minimum repayment amount (typically 3.5% pa), whichever is greater.
- In the current year, the terms and conditions of one of these two loans were amended so that it became substantially remodified. It was thus derecognised from "Designated at fair value" and re-recognised as "At amortised cost." There is consequently one loan left designated at fair value at the year end. As at 30 September 2020, there remains one (2019 : two) IPS mortgage designated at fair value through profit or loss and no other assets at fair value through profit or loss.

Financial liabilities at amortised cost

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

- Trade and other payables
- Amounts due to customers

These comprise fixed rate customer deposits and, formerly, fixed rate Fortress Bonds liabilities.

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

2.5.2.3 Derecognition

Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. Please see note 12. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or Credit Impaired ("POCI").

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

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

Derecognition other than for substantial modification

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

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

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

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

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

Derecognition of financial liabilities

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

2.5.3 Impairment of financial assets

The Group records the allowance for expected credit losses for all financial assets, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under IFRS 9.

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss “12mECL”. The Group’s policies for determining if there has been a significant increase in credit risk are set out in Note 23.1.

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

In relation to the Group’s wholesale loan relationship, a specific assessment is applied to the total counterparty balance which considers the secured collateral levels, the counterparty guarantee and overall covenant compliance.

The Group has established a policy to perform an assessment, half-yearly, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 23.1.2). The Group records an allowance for the LTECLs.

Further details on staging can be found in note 23.1.4.

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

The calculation of ECLs

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

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

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

value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at the EIR of the loan.

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

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

Forward looking information

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

- GDP growth;
- Unemployment rates;
- Central Bank base rates; and
- House price index.

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

Collateral valuation

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

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

Write-offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

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

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 6-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

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

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

Details of forborne assets are disclosed in Note 23.

2.5.4 Cash and cash equivalents

Cash and cash equivalents comprise cash and highly liquid financial assets with original maturities of less than three months from the date of acquisition subject to an insignificant risk of changes in their fair value.

2.5.5 Client monies

The Group holds client monies on behalf of investors prior to the underlying investments being recorded in their name or when amounts are due and payable to investors. The Group does not obtain the rewards, nor is exposed to the risks of ownership. Client monies are not included in the balance sheet of the Group or Company on that basis. The amount of client monies held as at 30 September 2020 was £4,859k (2019: £6,743k).

2.5.6 Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to a cash generating unit. Each unit to which the goodwill is allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

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

2.5.7 Property and equipment and right-of-use assets

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

- Computer equipment: 3 years
- Office equipment: 3 years
- Right of use assets Over the term of the lease

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the statement of comprehensive income in the year the asset is derecognised.

Right-of-use assets are presented as described in note 2.5.11.

2.5.8 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

In some instances, the Group develops its own operational systems, primarily a suite of systems that allow the Group to operate, record and value its products. These systems are developed in separate releases. The cost of each release can be measured reliably and the future economic benefits can be assessed as certain to flow to the Group.

In some instances, a number of technical releases are required before the system can be said to achieve the requirements of IAS 38 Intangible Assets, in which case, the related expenses are capitalised as research and development costs as long as the technical and operational feasibility of the asset has been established. Once the resultant system(s) meets the definition as such under IAS 38, the assets are transferred into the computer software category of intangible assets.

The value that will be derived from acquired computer software is assessed and recognised as an intangible asset where the asset is expected to enhance the Group's future income.

The Group assesses at the end of each reporting period whether there is any indication that an intangible asset may be impaired via external and internal sources of information. Refer to note 2.5.13 for further details.

Intangible assets are initially measured at cost. After initial measurement, intangible assets are carried at cost less accumulated amortisation and impairment losses. The estimated useful lives are as follows:

- Internally generated software: 5 years
- Acquired software: 3 years

Each asset, or related group of assets, is assessed as to its expected useful life and the expected pattern of benefits to the Group over that period. Each asset is amortised on a systematic (straight line) basis and the amortisation share is recorded in depreciation and amortisation. Research and development costs are not amortised until the resultant system has met the criteria of a computer system and has been transferred into that category.

2.5.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. A contingent liability is disclosed where this is not probable but more likely than remote.

2.5.10 Leases (policy applicable before 1 October 2019)

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

2.5.11 Leases (policy applicable as of 1 October 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group does not act as a lessor.

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less and accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less and lease incentives received. Right-of-use assets are depreciated in a straight-line basis over the lease term.

The right-of-use assets are presented within Note 14 Property and equipment and right-of-use assets and are subject to impairment in line with the Group's policy as described in note 2.5.13 Impairment of non-financial assets.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

There were no concessions, payment holidays or breaches of lease contract as a result of the Covid-19 pandemic.

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

2.5.12 Taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

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

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

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

See note 7 for further description of the current status of deferred tax assets.

2.5.13 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

Both internal and external sources of information have been used to assess impairment. As a result of the continued uncertainty as to recoverable amounts in the light of the pandemic, the Group continues to monitor the impairment of non-financial assets closely.

2.5.14 Impairment of other financial assets

IFRS 9 allows a simplified approach to assess impairment of other financial assets. The simplified approach allows lifetime expected losses on other financial assets to be recognised without the need to identify significant increases in credit risk. The Group has adopted this simplified approach in its assessment of impairment of other financial assets by determining the appropriate grouping of receivables by product type and rating, determining the period over which historical loss rates are appropriate and then determining the historical loss rates based on the forward looking macro-economic factors identified for the Group. The Group also determined the appropriate PD estimate for other financial assets by reference to publicly available credit ratings, the Loss Given Default by comparison with other similar exposures without eligible collateral and the Exposure at Default by using the outstanding balance at the reporting date.

2.5.15 Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in staff costs, together with a corresponding increase in equity (retained earnings), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of shares that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The Covid-19 pandemic has had no material impact on the probability of satisfying non-market performance vesting conditions over the vesting period under share-based payment arrangements.

2.5.16 Government Grants

The Group has taken advantage of the Government furlough scheme during the year.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Direct cash assistance or subsidies wis measured at fair value. Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with

There are no unfulfilled conditions and other contingencies that have been recognised.

Grants related to income are presented as a deduction in reporting the related expense. The total value of government grants is not material in current year and therefore has not been separately disclosed in the financial statements.

2.6 New and amended standards and interpretations

In these financial statements, the Group has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Note 2.7 below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Group's consolidated financial statements.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2019, unless otherwise stated. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2.7 Implementation of IFRS 16

The Group implemented IFRS 16 on 1 October 2019.

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 October 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. the Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The new standard requires the lessees to recognise right-of-use assets and lease liabilities for most leases over 12 months long. Lessor accounting has largely remained unchanged.

The Group has operating leases for office space. The Group opted to use the modified retrospective approach where the cumulative effect of initially applying IFRS 16 was recognized as an adjustment to equity at the date of initial application. Where no adjustment was required, e.g. for small assets, no adjustment was made.

When applying the modified retrospective approach, a lessee does not restate comparative figures. Instead, a lessee recognises the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

As the Group used the modified retrospective method with the Right of Use asset set to the Lease Liability the net overall effect on the total equity at 1 October 2019, under the current leases, was nil at transition. However, gross assets and liabilities were impacted equally both being grossed up by £1,093k. There was no impact on the tax treatment of leases at the date of initial application. There was a capital impact due to the increase in risk weighted assets.

Based on the above, as at 1 October 2019:

- Right-of-use assets of £1,093k were recognised and presented in the statement of financial position within "Property, plant and right-of-use assets".
- Additional lease liabilities of £1,093k (included in "Other liabilities") were recognised.
- The adoption of IFRS 16 had no impact on the Bank's retained earnings and no material impact on its CET1 ratio.

The lease liabilities as at 1 October 2019 can be reconciled to the operating lease commitments as of 30 September 2019, as follows:

Operating lease commitments as at 30 September 2019	**£1,170k**
Weighted average incremental borrowing rate as at 1 October 2019	**4.1%**
Discounted operating lease commitments as at 1 October 2019	**£1,093k**
Lease liabilities as at 1 October 2019	**£1,093k**
Total future contractual cash payments as at 1 October 2019	**£1,846k**

2.8 Standards issued but not yet effective

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

There are other standards and amendments that will apply in future periods but which will also not have an impact on the Group.

3 Interest and similar income

The following table summarises the components of interest and similar income:

	Group 2020 £'000	Group 2019 £'000
Interest and similar income calculated using EIR		
On financial assets at amortised cost		
Loans to customers		
- Property Loans	**37,270**	35,677
- Wholesale Loans	**1,648**	5,879
- Consumer Loans	**14,495**	15,265
	53,413	56,821
Other interest and similar income		
Loans and advances to credit institutions	**923**	779
On financial assets at fair value through profit or loss		
Net interest income on derivatives held for risk management	**-**	422
Loans to customers - Property Loans	**-**	4,169
	923	5,370
Total interest and similar income	**54,336**	62,191

4 Interest and similar expense

The following table summarises the components of interest and similar expense:

	Group 2020 £'000	Group 2019 £'000
Interest on Fortress Bonds on an EIR basis	**15,540**	24,421
Interest on Customer Deposits	**4,249**	-
Interest expense on financial liabilities at fair value through profit or loss: Housas	**6**	18
Interest expense on leases	**80**	-
Other interest expense	**278**	1,470
Total interest and similar expense	**20,153**	25,909

5 Realised and unrealised gain / (loss) on financial instruments at fair value through profit or loss

The following tables summarise the components of realised and unrealised gains and losses:

5.1 Realised gains / (losses)

	Group 2020 £'000	Group 2019 £'000
Net realised gain on financial assets designated at fair value through profit or loss	-	2,879
Net realised (loss) on financial liabilities designated at fair value through profit or loss	(678)	(275)
Net realised gains on derivatives at fair value through profit or loss	-	3,051
Net realised (loss) / gain on financial instruments at fair value through profit or loss	(678)	5,655

5.2 Unrealised gains / (losses)

	Group 2020 £'000	Group 2019 £'000
Net unrealised gain on financial assets designated at fair value through profit or loss	891	-
Net gain / (loss) on financial liabilities designated at fair value through profit or loss	402	(187)
Net unrealised (loss) / gain on derivatives at fair value through profit or loss	-	(405)
Net unrealised gain / (loss) on financial instruments at fair value through profit or loss	1,293	(592)
Total realised/ unrealised gain on financial instruments at fair value through profit or loss	615	5,063

6 Administrative expenses

The following tables summarise the components of staff and other administrative expense:

Staff expenses	Group 2020 £'000	Group 2019 £'000
Wages and salaries	12,194	10,423
Social security costs	1,327	1,251
Company contributions to defined contribution pension plan	365	311
Termination costs	-	113
Other personnel costs	718	889
Total staff expenses	14,604	12,987

Other operating expenses	2020 £'000	2019 £'000
Advertising and marketing	251	173
Professional fees	3,851	6,731
Rental charges paid under operating leases	-	494
Non-recoverable VAT expense	1,829	2,372
Bank charges and similar expense	250	330
Other operating expenses	3,924	4,586
Total operating expenses	10,105	14,686
Total administrative expenses	24,709	27,673

The Group operates a defined contribution pension plan for eligible employees and contributes 4.5% of an employee's salary.

Administrative expenses decreased in the year primarily due to reduced professional fees in relation to the banking licence application and lower external contractor costs.

Included within professional fees are the costs of contractors of £1,091k (2019: £3,952k).

Included within professional fees are the following expenses related to services provided by the Group's auditors:

	2020 £'000	2019 £'000
Audit of the Company's statutory financial statements	80	-
Non-audit services:		
Audit related assurance services	-	-
Total company auditors' remuneration	80	-
Subsidiaries		
Audit of the Group subsidiaries' statutory financial statements	690	1,021
Non-audit services:		
Audit related assurance services of Group subsidiaries	100	100
Total Subsidiary auditors' remuneration	870	1,121
Total Group auditors' remuneration	870	1,121

6.1 Employee numbers

The following table summarises the monthly average number of people employed by the Group during the year.

	2020 Number	2019 Number
Monthly average number of people employed in:		
Legal, compliance and risk	18	15
Sales and marketing	33	34
Operations	158	165
Monthly average number of people employed during the year	209	214

6.2 Key management compensation

The Company considers that directors and members of the executive committee of the Company meet the definition of key management. The following table presents key management excluding directors as director's compensation is set out separately below. The following table summarises key management personnel's compensation apportioned to the Company.

Company	2020 £'000	2019 £'000
Compensation of key management personnel:		
Short-term employee benefits	161	-
Post-employment benefits	9	-
	170	-

The total aggregate key management compensation for all legal entities in the Group is as follows:

	2020 £'000	2019 £'000
Compensation of key management personnel:		
Short-term employee benefits	1,337	574
Post-employment benefits	73	10
	1,409	584

6.3 Directors' remuneration

The directors of the Company are also directors of other group undertakings. The directors received their total remuneration from the Group, as disclosed below, and have estimated an apportionment of this to each entity in the Group. The following table summarises the directors' remuneration allocated to the Company.

Company	2020 £'000	2019 £'000
Aggregate remuneration in respect of qualifying services	106	-
Highest paid director's remuneration	22	-
Company contributions to defined contribution pension plan	-	-

The total aggregate director remuneration for all legal entities in the Group is as follows:

Group	2020 £'000	2019 £'000
Aggregate remuneration in respect of qualifying services	1,575	1,195
Highest paid director's remuneration	707	669
Company contributions to defined contribution pension plan	-	-

Included within directors' remuneration are amounts of £nil (2019: £nil) as compensation for loss of office.

7 Corporation tax

The following tables set out the components of income tax and the reconciliation of the total tax charge to the tax charge that would apply if all profits had been charged at the Company's corporate tax rate for the current and prior year.

Total tax

	Group 2020 £'000	Group 2019 (Restated) £'000
Current tax	21	-
Deferred tax (credit) / charge	-	-
Total tax	21	-
Accounting profit / (loss) before tax	819	1,055
UK corporation tax at 19% (2019: 19%)	156	200
Income not taxable	(26)	
Deferred tax not recognised	(109)	(200)
Total tax (credit) / charge	21	-

The following table shows the deferred tax recorded in the consolidated statement of financial position and changes recorded in corporation tax expense:

Deferred tax

	Group 2020 £'000	Group 2019 £'000
As at 1 October	-	-
Recognised in profit and loss during the year	-	-
Deferred tax asset arising from acquistion of subsidiary	-	-
At 30 September	-	-

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

Group

As at 30 September 2020, the Group had total trading losses of £46,080k (2019: £45,508k), short term timing differences of £6,642k (2019: £7,363k) and decelerated capital allowances of £426k (2019: £595k). The group has not recognised deferred tax (2019: £ nil). No deferred tax liability has been recognised due to the Group only recently trading at a moderate level of profitability and with the continued short to medium term economic uncertainty caused by the Covid-19 pandemic.

A net deferred tax liability has arisen at consolidation totalling £2,175k (2019: £294k asset) due to consolidation adjustments. The deferred tax liability has been offset against the unrecognised deferred tax asset arising from losses resulting in a net deferred tax balance on consolidation of £nil (2019: £nil).

Company

As at 30 September 2020, the Company had total trading losses of £nil short term timing differences of £nil and decelerated capital allowances of £nil in respect of which no deferred tax asset has been recognised.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget, it was announced that the UK corporation tax rate will remain at the current level of 19% and not reduce to 17% from 1 April 2020. This was substantively enacted on 17 March 2020.

Deferred tax is calculated using the rate expected to apply when the relevant timing differences are forecast to unwind.

8 Cash and cash equivalents

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

	Group 2020 £'000	Group 2019 £'000
Cash at bank	**36,861**	29,974
Treasury Bills	**-**	110,375
Total cash and cash equivalents	**36,861**	140,349

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

The facility with Citibank that arose from the securitisation of some consumer loans was terminated in August 2020. As a result, Group cash and cash equivalents at 30 September 2020 no longer include balances (2019: £1,612k) held by the special purpose vehicle, Castle Trust Belfry Limited.

9 Loans and advances to credit institutions

The following table sets out the components of loans and advances to credit institutions.

Group	**2020 £'000**	2019 £'000
Amounts held on medium-term deposits	**-**	14,926
Total loans and advances to credit institutions	**-**	14,926

Loans and advances to credit institutions comprised deposits with Aldermore Bank in 2019 of £14,926k with maturity from inception greater than 3 months. Interest was paid on release of the invested funds at the end of the contract. Loans and advances to credit institutions were valued at amortised cost which approximates to fair value.

10 Debt instruments

Group	**2020 £'000**	2019 £'000
Treasury Bills and Gilts	**106,911**	
Certificates of deposit	**10,007**	-
Total debt instruments	**116,918**	-

Investment securities comprise Treasury Bills, Gilts and Certificates of Deposit held at amortised cost.

11 Trade and other receivables

The following table sets out carrying amount of trade and other receivables:

Group	**2020 £'000**	2019 £'000
Trade and other receivables	**3,546**	4,767
Impairment	**(2,514)**	(2,892)
Total trade and other receivables	**1,032**	1,875

Trade and other receivables Gross	Other trade and other receivables £'000	Retailer debtors £'000	Total £'000
Gross carrying amount as at 1 Oct 2019	1,489	3,278	4,767
New assets originated or purchased	-	705	705
Recoveries	-	-	-
Amounts written off	-	(1,335)	(1,335)
Net Movement	(591)	-	(591)
Total gross carrying amount at 30 September 2020	898	2,648	3,546

Trade and other receivables ECL	Other trade and other receivables £'000	Retailer debtors £'000	Total £'000
At 1 Oct 2019	-	2,892	2,892
New assets originated or purchased	-	967	967
Amounts written off	-	(1,345)	(1,345)
Total gross carrying amount at 30 September 2020	-	2,514	2,514

The fair value of trade and other receivables approximates to the carrying value as presented in the statement of financial position 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.

12 Loans to customers at amortised cost

Loans to customers at amortised cost comprise property loans (Serviced & Interest Roll Up mortgages, RDF loans) and the fixed income component of all house price linked loans), wholesale loans and consumer loans.

During the year, one loan that was designated at fair value in the prior year was substantially modified as its terms and conditions were changed; it was thus derecognised and re-recognised as a loan at amortised cost.

In the prior year, in order to remove house price risk from the Group relating to mortgages held at fair value, the beneficial ownership in all the House Price Options ("HPO's"), excepting those belonging to 2 mortgages, had been sold to an entity controlled by J.C.Flowers ("CTC Holdings (Cayman) Limited") on 30 September 2019, and the contractual rights to receive the cash flows of those HPO's were transferred at the same date. The remaining fixed income components of these mortgages, which are still held within the Group, were deemed to have been substantially modified and hence were derecognised and then re-recognised as "Loans to customers at amortised cost" in that year.

On the same date, CTF sold back its interest in the fixed interest and principal strips of the IPS and BTL loans to CTC at fair value of £86 million on the transfer date. Additionally, the Partnership Mortgages held in CTC were deemed to have been substantially modified by the sale of their embedded HPO to the entity controlled by J.C. Flowers, as described previously, and hence were derecognised and then re-recognised as "Loans at amortised cost" at a value of £5.7 million.

The following table sets out the carrying value of loans to customers by product type.

Group	Amortised Cost 30 September 2020 £'000	Gross 30 September 2020 £'000	ECL 30 September 2020 £'000
Consumer loans	115,604	135,164	(19,560)
Wholesale lending	11,654	11,654	-
Property loans	445,078	452,251	(7,173)
Total loans to customers at amortised cost	572,336	599,069	(26,733)

	Amortised Cost 1 October 2019 (Restated) £'000	Gross 1 October 2019 £'000	ECL 1 October 2019 (Restated) £'000
Consumer loans	104,430	122,830	(18,400)
Wholesale lending	24,699	24,699	-
Property loans	481,353	490,797	(9,444)
Total loans to customers at amortised cost	610,482	638,326	(27,844)

Movement in impairment provision in year	£'000
Consumer loans	1,160
Wholesale lending	-
Property loans	(2,271)
Total movement in impairment provisions	(1,111)
Write-offs in year	8,321
Total impairment losses on loans to customers	7,210

A prior year adjustment of £551k has arisen due to an error in the mathematical formulas used to drive the macroeconomic models as part of the ECL calculations used on the adoption of IFRS for Omni. The error created a longer timing lag than appropriate and resulted in understated probability of default parameters. The models have been extensively reviewed and no further issues were identified. Please refer to Note 28.

At 30 September 2020, Group loans to customers at amortised cost includes £nil (2019 £11.4 million) of loans which have been used in secured funding arrangements. In the prior year, a securitisation arrangement with Citibank resulted in the beneficial interest of certain consumer loans being transferred to Castle Trust Belfry ("CTB") which was a Special Purpose Vehicle. All the assets pledged were retained within the statement of financial position as the Group retained substantially all the risks and rewards relating to the loans.

For fair values, fair value hierarchy classifications, sensitivities and modelling techniques refer to note 22.

Reconciliation of gross loan and ECL movements in the year

The following tables set out a reconciliation, from the start to the end of the year, of the movement in gross loan balance in the statement of financial position for loans and advances at amortised cost.

	Stage 1		Stage 2		Stage 3		Total	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL
Total	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross carrying amount as at 1 Oct 2019	499,636	(6,542)	86,989	(2,835)	51,701	(18,467)	638,326	(27,844)
Transfers in staging to adjust opening balances	2,955	2,181	56	89	(3,011)	(2,270)	-	-
New assets originated or purchased	188,423	(3,341)					188,423	(3,341)
Drawdowns			2,446	(50)	277	(123)	2,723	(173)
Assets derecognised or repaid	(212,209)	1,921	(39,231)	956	(23,192)	9,307	(274,632)	12,184
Transfers to Stage 1	22,416	(292)	(15,829)	268	(6,587)	(18)	-	(42)
Transfers to Stage 2	(31,294)	978	32,223	(1,104)	(929)	126	-	-
Transfers to Stage 3	(15,971)	2,666	(19,335)	1,849	35,306	(4,515)	-	-
Amortisation of interest	28,890	-	3,413	-	11,926	-	44,229	-
Provisions for commitments	-	74	-	-	-		-	74
Unwind of discount	-	(118)	-	(134)	-	(1,839)	-	(2,091)
Impact on period end ECL of exposures transferred between stages during the period	-	(2,378)	-	(620)	-	(2,502)	-	(5,500)
Total gross carrying amount at 30 September 2020	482,846	(4,851)	50,732	(1,581)	65,491	(20,301)	599,069	(26,733)

	Stage 1		Stage 2		Stage 3		Total	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL
Consumer loans	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross carrying amount as at 1 Oct 2019	**97,204**	**(3,829)**	**6,623**	**(1,454)**	**19,003**	**(13,117)**	**122,830**	**(18,400)**
Transfers in staging to adjust opening balances	**2,182**	**1,710**	**(31)**	**-**	**(2,151)**	**(1,710)**	**-**	**-**
New assets originated or purchased	**120,352**	**(2,872)**	**-**	**-**	**-**	**-**	**120,352**	**(2,872)**
Assets derecognised or repaid	**(109,120)**	**1,204**	**(3,339)**	**530**	**(5,806)**	**5,045**	**(118,265)**	**6,779**
Transfers to Stage 1	**924**	**(34)**	**(878)**	**31**	**(46)**	**3**	**-**	**-**
Transfers to Stage 2	**(6,226)**	**923**	**6,319**	**(949)**	**(93)**	**26**	**-**	**-**
Transfers to Stage 3	**(3,214)**	**2,648**	**(1,677)**	**1,430**	**4,891**	**(4,078)**	**-**	**-**
Amortisation of interest	**7,557**	**-**	**628**	**-**	**2,062**	**-**	**10,247**	**-**
Provisions for commitments	**-**	**-**	**-**	**-**			**-**	**-**
Unwind of discount	**-**	**(135)**	**-**	**(139)**	**-**	**(1,823)**	**-**	**(2,097)**
Impact on period end ECL of exposures transferred between stages during the period	**-**	**(2,174)**	**-**	**(659)**	**-**	**(137)**	**-**	**(2,970)**
Total gross carrying amount at 30 September 2020	**109,659**	**(2,559)**	**7,645**	**(1,210)**	**17,860**	**(15,791)**	**135,164**	**(19,560)**

	Stage 1		Stage 2		Stage 3		Total	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL
Wholesale loans	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross carrying amount as at 1 Oct 2019	**24,699**	**-**	**-**	**-**	**-**	**-**	**24,699**	**-**
New assets originated or purchased	**-**	**-**	**-**	**-**	**-**	**-**		**-**
Assets derecognised or repaid	**(14,509)**						**(14,509)**	**-**
Amortisation of interest	**1,464**	**-**	**-**	**-**	**-**	**-**	**1,464**	**-**
Net commitments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total gross carrying amount at 30 September 2020	**11,654**	**-**	**-**	**-**	**-**	**-**	**11,654**	**-**

	Stage 1		Stage 2		Stage 3		Total	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL
Property loans	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross carrying amount as at 1 Oct 2019	**377,733**	**(2,713)**	**80,366**	**(1,381)**	**32,698**	**(5,350)**	**490,797**	**(9,444)**
Transfers in staging to adjust opening balances	**773**	**471**	**87**	**89**	**(860)**	**(560)**	**-**	**-**
New assets originated or purchased	**68,071**	**(469)**					**68,071**	**(469)**
Drawdowns			**2,446**	**(50)**	**277**	**(123)**	**2,723**	**(173)**
Assets derecognised or repaid	**(88,580)**	**717**	**(35,892)**	**426**	**(17,386)**	**4,262**	**(141,858)**	**5,405**
Transfers to Stage 1	**21,492**	**(258)**	**(14,951)**	**237**	**(6,541)**	**(21)**	**-**	**(42)**
Transfers to Stage 2	**(25,068)**	**55**	**25,904**	**(155)**	**(836)**	**100**	**-**	**-**
Transfers to Stage 3	**(12,757)**	**18**	**(17,658)**	**419**	**30,415**	**(437)**	**-**	**-**
Amortisation of interest	**19,869**	**-**	**2,785**	**-**	**9,864**	**-**	**32,518**	**-**
Provision for commitments	**-**	**74**	**-**	**-**	**-**	**-**	**-**	**74**
Unwind of discount	**-**	**17**	**-**	**5**	**-**	**(16)**	**-**	**6**
Impact on period end ECL of exposures transferred between stages during the period	**-**	**(204)**	**-**	**39**	**-**	**(2,365)**	**-**	**(2,530)**
Total gross carrying amount at 30 September 2020	**361,533**	**(2,292)**	**43,087**	**(371)**	**47,631**	**(4,510)**	**452,251**	**(7,173)**

Reconciliation of impairment movements in prior year

Group

	Stage 1		Stage 2		Stage 3		IAS 39		Total	
	Gross	ECL (Restated)	Gross	ECL (Restated)	Gross	ECL	Gross	ECL	Gross	ECL (Restated)
Total	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2018	-		-		-		649,146	(19,404)	649,146	(19,404)
IFRS 9 transitional adjustment	520,579	(4,753)	32,945	(2,963)	44,073	(19,746)	(649,146)	19,404	(51,549)	(8,058)
Gross carrying amount as at 1 Oct 2018	520,579	(4,753)	32,945	(2,963)	44,073	(19,746)	-	-	597,597	(27,462)
New assets originated or purchased	252,054	(2,250)	577	(7)	482	(111)	-	-	253,113	(2,368)
Assets derecognised or repaid	(301,346)	4,910	(18,518)	1,272	(17,573)	7,584	-	-	(337,437)	13,766
Transfers to Stage 1	1,192	(196)	(1,157)	164	(35)	32	-	-	-	-
Transfers to Stage 2	(63,994)	686	68,714	(755)	(4,720)	69	-	-	-	-
Transfers to Stage 3	(17,376)	388	(5,953)	1,166	23,329	(1,554)	-	-	-	-
Amortisation of interest	28,391	-	7,817	-	3,166	-	-	-	39,374	-
Provisions for commitments	-	358	-	-	-	-	-	-	-	358
Unwind of discount	-	(447)	-	(264)	-	(1,788)	-	-	-	(2,499)
Impact on period end ECL of exposures transferred between stages during the period	-	(5,238)	-	(1,448)	-	(2,953)	-	-	-	(9,639)
Modification and rerecognition from designated at fair value after sale of HPO	80,136	-	2,564	-	2,979	-	-	-	85,679	-
Total gross carrying amount at 30 September 2019	499,636	(6,542)	86,989	(2,835)	51,701	(18,467)	-		638,326	(27,844)

	Stage 1		Stage 2		Stage 3		IAS 39		Total	
	Gross	ECL (Restated)	Gross	ECL (Restated)	Gross	ECL	Gross	ECL	Gross	ECL (Restated)
Consumer loans	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2018							137,599	(12,677)	137,599	(12,677)
IFRS 9 transitional adjustment	114,852	(2,306)	7,674	(2,305)	15,073	(15,526)	(137,599)	12,677	-	(7,460)
Gross carrying amount as at 1 Oct 2018	114,852	(2,306)	7,674	(2,305)	15,073	(15,526)	-	-	137,599	(20,137)
New assets originated or purchased	98,356	(1,933)	-	-	-	-	-	-	98,356	(1,933)
Assets derecognised or repaid (excluding write offs)	(117,445)	3,500	(3,612)	820	(6,021)	5,335	-	-	(127,078)	9,655
Transfers to Stage 1	677	(190)	(642)	158	(35)	32	-	-	-	-
Transfers to Stage 2	(5,399)	244	5,480	(313)	(81)	69	-	-	-	-
Transfers to Stage 3	(4,974)	299	(3,102)	1,111	8,076	(1,410)	-	-	-	-
Amortisation of interest	11,137	-	825	-	1,991	-	-	-	13,953	-
Provisions for commitments	-	284	-		-	-	-	-	-	284
Unwind of discount	-	(446)	-	(266)	-	(1,785)	-	-	-	(2,497)
Impact on period end ECL of exposures transferred between stages during the period	-	(3,281)	-	(659)	-	168	-	-	-	(3,772)
Amounts written off	-		-		-				-	
Total gross carrying amount at 30 September 2019	97,204	(3,829)	6,623	(1,454)	19,003	(13,117)	-		122,830	(18,400)

	Stage 1		Stage 2		Stage 3		IAS 39		Total	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL
Wholesale loans	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2018							52,675	(980)	52,675	(980)
IFRS 9 transitional adjustment	50,887	(585)	952	(271)	836	(713)	(52,675)	980	-	(589)
Gross carrying amount as at 1 Oct 2018	50,887	(585)	952	(271)	836	(713)	-	-	52,675	(1,569)
New assets originated or purchased	63	(1)	-	-	-	-	-	-	63	(1)
Assets derecognised or repaid	(26,251)	586	(952)	271	(836)	713	-	-	(28,039)	1,570
Transfers to Stage 1	-		-		-				-	
Transfers to Stage 2	-		-		-				-	
Transfers to Stage 3	-		-		-				-	
Amortisation of interest	-	-	-	-	-	-	-	-	-	-
Net commitments										
Total gross carrying amount at 30 September 2019	24,699	-	-	-	-	-	-	-	24,699	-

	Stage 1		Stage 2		Stage 3		IAS 39		Total	
	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL	Gross	ECL
Property loans	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2018							458,872	(5,747)	458,872	(5,747)
IFRS 9 transitional adjustment	354,840	(1,862)	24,319	(387)	28,164	(3,507)	(458,872)	5,747	(51,549)	(9)
Gross carrying amount as at 1 Oct 2018	354,840	(1,862)	24,319	(387)	28,164	(3,507)		-	407,323	(5,756)
New assets originated or purchased	153,635	(316)	577	(7)	482	(111)			154,694	(434)
Assets derecognised or repaid	(157,650)	824	(13,954)	181	(10,716)	1,536			(182,320)	2,541
Transfers to Stage 1	515	(6)	(515)	6	-	-			-	-
Transfers to Stage 2	(58,595)	442	63,234	(442)	(4,639)	-			-	-
Transfers to Stage 3	(12,402)	89	(2,851)	55	15,253	(144)			-	-
Interest accrual	17,254	-	6,992		1,175				25,421	-
Provision for commitments	-	74	-		-				-	74
Unwind of discount	-	(1)	-	2	-	(3)			-	(2)
Impact on period end ECL of exposures transferred between stages during the period	-	(1,957)	-	(789)	-	(3,121)	-	-	-	(5,867)
Modification and rerecognition from designated at fair value after sale of HPO	80,136	-	2,564	-	2,979				85,679	-
Total gross carrying amount at 30 September 2019	377,733	(2,713)	80,366	(1,381)	32,698	(5,350)			490,797	(9,444)

The prior year comparatives have been restated to recognise an additional £551k ECL provision in respect of an updated modelling parameter. Further detail is provided in note 28.

Interest income recognised during the year on Stage 3 impaired loans was £3,009k (2019: impaired loans £1,131k)

13 Financial assets designated at fair value through profit or loss

Mortgages designated at fair value through profit or loss together are measured at fair value because they are managed and their performance is evaluated on a fair value basis. Mortgage assets are measured at fair value on a recurring basis and their valuation is categorised at Level 3. For fair value hierarchy classifications, modelling and sensitivities disclosures refer to note 22.

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

In the prior year, the embedded house price derivatives of all the mortgages designated at fair value through profit or loss were sold to CTC Holding (Cayman) Limited except for two mortgages which were not sold. The remaining financial instruments, having been substantially modified, were thus derecognised. New financial instruments, being the remaining fixed income host contracts, were recognised as loans at amortised cost. Of the two mortgages which were not sold, one was substantially modified during the current year, derecognised and re-recognised as a loan at amortised cost, leaving only one mortgage still recognised at fair value through profit or loss as at 30 September 2020. This one mortgage was transferred from level 2 to level 3 in the fair value hierarchy in the year due to a reduction in observable inputs and increased uncertainty in the macroeconomic environment.

Group

Movements in the period to 30 September 2020		**Index Profit Share mortgages £'000**	**Total £'000**
At 1 October 2019		**5,328**	**5,328**
Derecognition of substantially modified loan		**(564)**	**(564)**
Net gain / (loss) on financial assets designated at fair value through profit or loss		**742**	**742**
Closing balance at 30 September 2020	**-**	**5,506**	**5,506**

Movements in the year to 30 September 2019	Partnership Mortgages £'000	Buy To Let Equity Loans £'000	Index Profit Share mortgages £'000	Total £'000
Opening balance at 30 September 2018	9,733	54,002	6,045	69,780
IFRS transitional adjustment	-	-	59,351	59,351
At 1 October 2018	9,733	54,002	65,396	129,131
Redemptions in the year	(846)	(4,019)	(9,272)	(14,137)
Sale of House Price Option	(3,767)	(16,889)	(8,262)	(28,918)
Derecognition of Fixed Income Component	(5,719)	(37,530)	(42,702)	(85,951)
Interest income component	-	1,256	1,584	2,840
Net gain on financial assets designated at fair value through profit or loss	599	3,180	(1,416)	2,363
Closing balance at 30 September 2019	-	-	5,328	5,328

The total unrealised gains as at year end was £742k (2019 £2,363k).

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14 Property and equipment and right-of-use assets

The following table sets out components of property and equipment and a reconciliation of the cost and net book value during the year:

	Office and computer equipment	Leasehold improvements	Right of Use Assets	Total
Cost	**£'000**	**£'000**		**£'000**
At 1 October 2018	711	707		1,418
Additions in year	345	3		348
Disposals in year				-
At 30 September 2019	1,056	710		1,766
Additions due to recognition of IFRS 16 assets	**-**	**-**	**1,093**	**1,093**
Additions in period	**98**	**18**	**923**	**1,039**
Disposals in period	**(364)**	**-**	**-**	**(364)**
At 30 September 2020	**790**	**728**	**2,016**	**3,534**

	Office and computer equipment	Leasehold improvements	Right of Use Assets	Total
Depreciation and impairment				
At 1 October 2018	506	423	-	929
Depreciation charge for the year	159	224	-	383
Depreciation charge on disposed assets	-	-	-	-
At 30 September 2019	665	647		1,312
Depreciation charge for the period	**171**	**63**	**371**	**605**
Depreciation on disposed assets	**(322)**	**-**	**-**	**(322)**
At 30 September 2020	**514**	**710**	**371**	**1,595**
Net book value				
At 30 September 2019	391	63	-	454
At 30 September 2020	**276**	**18**	**1,645**	**1,939**

Right of use assets relate to leases capitalised in line with IFRS 16. The relating liability is detailed in note 17.

15 Investment in subsidiaries

The following table sets out the carrying value of subsidiaries.

Cost	**£'000**
At incorporation	-
Investment in subsidary	61,444
Capital injection	20,053
At 30 September 2020	**81,497**
Impairment	
At incorporation	-
At 30 September 2020	**-**
Net book value	
At incorporation	-
At 30 September 2020	**81,497**

There were no indicators of impairment for the investment in subsidiary as at 30 September 2020.

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 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%	Provision of marketing, investment and administration management services	UK
Castle Trust Income Housa plc***	Ordinary shares	100%	Disslोved	Jersey
Castle Trust Direct plc	Ordinary shares	100%	Dormant	UK
Castle Trust Capital Nominees Limited*	Ordinary shares	100%	Dormant	UK
Castle Trust Finance Limited	Ordinary shares	100%	Dissolved 6th October 2020	UK
Castle Trust Services Limited (formerly Castle Trust Treasury Limited)	Ordinary shares	100%	Dissolved 6th October 2020	UK
Castle Trust POS Limited	Ordinary shares	100%	Holding company	UK
Castle Trust Treasury Limited	Ordinary shares	100%	Dissolved 6th October 2020	UK
Omni Capital Retail Finance Limited**	Ordinary shares	100%	Point of sale consumer finance provider	UK
Omni Money Limited	Ordinary shares	100%	Dissolved	UK
Omni Capital Consumer Finance Limited	Ordinary shares	100%	Dissolved	UK
Castle Trust PCC		0%	Dissolved	Jersey
Castle Trust Growth Housa PC		0%	Dissolved	Jersey
Castle Trust Belfry Limited		0%	Dormant SPV. In liquidation.	UK

The holding of CTCM, CTF, CTT, CTPOS and CTD is held indirectly via CTC.

*The holding of CTCN is held indirectly via CTCM.

**The holding of Omni is held indirectly via CTPOS.

***The registered office for all these companies is 10 Norwich Street, London, EC4A 1BD with the exception of Castle Trust Income Housa plc whose registered office is PO Box 1075, JTC House, 28 Esplanade Street, St Helier, Jersey, JE2 3QA and Castle Trust Belfry Limited whose registered office is 11th Floor 200 Aldersgate Street, London, United Kingdom, EC1A 4HD.

15.1 Interests in structured entities

The entire ordinary share capital in Castle Trust Belfry ("CTB") is owned by Maples FS UK Group Services Limited.

The Group is required to consolidate CTB as the purpose and design of the entity was to allow Omni to continue providing point of sale consumer loans whilst securing lower funding costs by securitising the assets. This funding relationship ended in August 2020 and CTB is currently in the process of being liquidated.

CTB acted as a vehicle to facilitate this securitisation and hence all decisions about relevant activities of CTB were made by Omni. Omni had power over CTB because it remained the servicer of the loans, had rights to appoint key management personnel and established budgets. Additionally, Omni was exposed to variable returns principally in relation to the 25% junior tranche it held and retained its ability to use its power to affect the amount of its returns, subject to prescribed criteria in the Term Sheet and borrower restrictions within the Senior Facility Agreement which were considered to be protective rights.

In the prior year, the Group had interests in consolidated structured entities as described below.

The entire ordinary share capital in the Castle Trust PCC ("the PCC") and its Protected Cell, Castle Trust Growth Housa PC, ("the PC") were owned by JTC Trustees Limited as trustee of Housing Foundation Charitable Trust. Following the conversion of Housa balance to structured deposits in June 2020, the PCC and the PC were dissolved on 22 September 2020.

The Group was required to consolidate the PCC and PC as the purpose and design of the entities to act as special purpose entities results in returns received by the Group. The Group had the ability to direct those activities and therefore exhibited control over the operational activities of these entities.

The Group had 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 would be borne by the Group and not the PC.

The Group entered into inter-company swap transactions each month with the PC. The substance and legal form of this transaction was to transfer the PC's liability to its investors to the balance sheet of the Company. In addition, the Group received and managed 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 was also used to provide mortgage funding.

In addition, through CTCM, the Group provided marketing and investment management services to the PC, thereby providing the majority of its operational functionality

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

15.2 Non-controlling interests

The shareholder's reserves of the PC and CTB constituted the balance of non-controlling interests within Group equity. This represents the position that although the entities were consolidated within the Group by virtue of control, the Group did in fact have no share in the interest of the shareholder's equity of the PC or CTB. The movement on this balance is shown on the face of the Group statement of comprehensive income, and the final balance as at 30 September 2020 is shown on the face of the Group statement of financial position.

Non-controlling interests: shareholders equity of Castle Trust Growth Housa PC and Castle Trust Belfry Limited	**2020**	2019
	£'000	£'000
Opening balance	**(8)**	16
Total comprehensive loss for the year attributable to equity holders of the PC	**8**	(24)
Total comprehensive profit for the year attributable to equity holders of Castle Trust Belfry	**0**	-
Closing balance	**-**	(8)

15.3 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.

16 Intangible assets

The following table sets out the net book value of intangible assets recorded in the consolidated statement of financial position by category of intangible asset. Software includes mortgage operations, valuation, consumer loans administration and customer deposit systems.

Cost	**Internally developed software £'000**
At 1 October 2018	4,557
Adiditions in the year	2,484
Written off in the year	-
At 30 September 2019	7,041
Additions in the year	3,432
Written off in the year	(161)
At 30 September 2020	**10,312**
Accumulated amortisation and impairment	
At 1 October 2018	1,900
Amortisation charge for the year	1,373
Amortisation on written off assets	-
At 30 September 2019	3,273
Amortisation charge for the year	1,666
Amortisation on written off assets	(81)
At 30 September 2020	**4,858**
Net book value	
At 30 September 2019	3,768
At 30 September 2020	**5,454**

The remaining amortisation period of internally developed software for consumer loans is 3.2 years and internally developed software used for investment operations is 2 years.

17 Trade and other payables

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

	Group 2020 £'000	Group ,2019 £'000
Trade creditors	**6,172**	2,519
Accruals and deferred income	**3,652**	2,464
Lease liabilities	**1,676**	-
Total trade and other payables	**11,500**	4,983

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 **the Group** operates, with the majority of trade liabilities being extinguished within 30 days of the recognition of the liability.

Lease liabilities relate to the occupation of premises in London and Basingstoke. The maturity profile this lease liabilities is detailed in note 24.

18 Debt securities in issue

As at 30 September 2020, the securitisation arrangement with CTB has been terminated and there are no junior loan notes outstanding. In the prior year the loan notes were secured on certain portfolios of consumer loans. The terms of the notes issued were up to 5 years and interest was paid based on the applicable margin and is paid monthly in arrears. As the junior notes were subscribed to by a Group company they were eliminated on consolidation.

19 Provisions for liabilities

The following table sets out the components of provisions for liabilities. The restructuring provision is in relation to the Group restructuring whereby the Group has closed its Watford office and relocated to the Group's offices in Basingstoke and London.

	2020 Claims under Consumer Credit Act 1974	**2020 Total**	2019 Restructuring provision	2019 Claims under Consumer Credit Act 1974	2019 Total
	£'000	**£'000**	£'000	£'000	£'000
At 1 October	**374**	**374**	63	302	365
Charge during the year	**394**	**394**	-	374	374
Utilised	**(374)**	**(374)**	(63)	(302)	(365)
At 30 September	**394**	**394**	-	374	374

Omni is exposed to risk under s.75 of the Consumer Credit Act (CCA) in relation to misrepresentations or breaches of contract by suppliers of goods and services to customers where the purchase of those goods and services is financed by Omni. Omni has recourse to the supplier in the event of such a liability and as such a provision is held to cover the cases where the supplier is distressed and unlikely to be able to compensate customers. The provision is validated using claim volumes, management's estimate of claims upheld and the loss given each claim.

20 Amounts due to customers at amortised cost

On 22 June 2020, by Schemes of arrangement, Fortress Bond holders transferred their investment into new banking deposit products, the structure of which (the interest rate and maturity profile) matched their existing investment holding. For each series of Fortress Bonds where there was a record maintained by CTCN as holding a beneficial interest, CTC opened a corresponding fixed rate account in the name of the scheme creditor. These fixed rate accounts are valued at amortised cost, as were the originating Fortress Bonds. New fixed term deposits are presently only being issued to existing savers, with new customers expected to be welcomed in early 2021.

Having considered the qualitative and quantitative factors relating to the Fortress Bonds and Term deposits, it was concluded that the conversion was not a substantial modification at Group level principally because the underlying cash flows, structure and counterparties remained the same. Consequently the Group Financial Liabilities at Amortised Cost relating to the Fortress Bonds were not derecognised and re-recognised at fair value at the time of the exchange but instead continued to be recognised at amortised cost, with their associated transaction cost, and are amortised over the lifetime of the original bonds.

The Group's amounts due to customers at amortised cost in respect of Customer Deposits and Fortress Bonds are valued at amortised cost, less transaction costs incurred in issuing the original bonds or raising the liabilities.

	2020	2019
	£'000	£'000
Amounts owed to customers excluding unamortised transaction costs	**651,494**	714,313
Brought forward unamortised transaction costs	**(3,185)**	(7,249)
Additional transaction costs in the period	**(1,045)**	(334)
Amortisation of transaction costs in the period	**2,271**	4,398
Total amounts due to customers at amortised cost	**649,535**	711,128

Fortress bonds were fixed rate bonds of between 1 and 5 year's term that are issued to the public and listed on the Irish Stock Exchange. Interest was paid based on the applicable Annual Equivalent Rate ("AER") prevailing at the date of issuance which range from 1% to 4%. Depending on the Fortress Bond subscribed for, interest was either paid quarterly or at maturity with the principal amount of the Fortress Bond. These terms have been consistently applied to customers when converting Fortress bond balances to fixed term deposit accounts. Refer to note 24 for details on the maturity profile of the deposit accounts.

For fair value, fair value hierarchy classifications and sensitivities disclosure refer to note 22.

The hierarchy position is considered to be Level 3, as the lowest level input, being the discount rate, is unobservable.

21 Amounts due to customers at fair value through profit or loss

Group financial liabilities at fair value through profit or loss include structured deposits that are designated at fair value through profit or loss.

On 22 June 2020, by Schemes of arrangement, Housa customers with investments issued by subsidiary companies transferred their investment into new banking structured deposit products in the Company, the structure of which (return and maturity profile) matched their existing investment holding. For each series of Housas, CTC opened a corresponding structured deposit. These structured deposits replaced and exactly matched the previous intercompany swaps the Company held with PC and CTIH. These structured deposits, consistent with the Housas, are valued at fair value as the performance continues to be evaluated on a fair value basis.

	2020	2019
	£'000	£'000
Structured deposits / Housa liabilities	**1,444**	3,436
Total amounts due to customers at fair value through profit or loss	**1,444**	3,436

The existing book is in run-off. However there were three main variants of the Housa issued which converted into structured deposits, as explained below.

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

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

Structured deposits/Housas are measured at fair value (on a recurring basis) because they are managed and their performance is evaluated on a fair value basis. The following table shows a reconciliation from the opening balances to the closing balances, including the losses for the period that are recognised in the statement of comprehensive income.

	Housas	**Structured Deposits**
	£'000	**£'000**
Opening balance at 1 October 2019	**3,436**	**-**
Redemptions in the period	**(1,610)**	**-**
Net (gain) / loss on financial liabilities at fair value through profit or loss	**50**	**-**
Conversion to structured deposits	**(1,876)**	**1,876**
Redemptions in the period	**-**	**(460)**
Net (gain) / loss on financial liabilities at fair value through profit or loss	**-**	**28**
Closing balance at 30 September 2020	**-**	**1,444**

	Income Housa	Growth Housa	Foundation Housa	Total
	£'000	£'000	£'000	£'000
Opening balance at 1 October 2018	1,259	5,240	3,151	9,650
Redemptions in the period	(1,030)	(2,933)	(2,438)	(6,401)
Net loss on financial liabilities at fair value through profit or loss	1	133	53	187
Closing balance at 30 September 2019	230	2,440	766	3,436

The total unrealised gains/losses as at year end was £402k (2019 £187k). For fair value hierarchy classifications and sensitivities disclosure refer to note 22. There were no transfers into Level 3 assets other than the completions in the period, and no transfers out other than redemptions.

The change in fair value attributable to change in credit risk for financial liabilities designated at fair value through profit or loss is a profit of £37k (2019: profit of £41k). The difference between fair value and the amount contractually due at maturity is cumulatively £421k (2019: £893k).

The changes in fair value attributable to changes in credit risk for financial liabilities designated at fair value through profit or loss have been calculated by determining the changes in credit spread implicit in the fair value of financial instruments issued by entities with similar credit characteristics.

For fair value hierarchy classifications, modelling and sensitivities disclosure refer to note 22.

22 Fair value modelling, sensitivities and fair value hierarchy

22.1 Fair value modelling & sensitivities

The Group has developed a model to value its financial assets, liabilities and derivatives at fair value. The model uses stochastic techniques to calculate the net present value of expected future cash flows. The cash flows are based on assumptions about the range of possible future events and information concerning the terms of the financial instruments. It is run on a monthly basis for internal management information and Board reporting purposes. It is run by a specialist team within the Group within a control framework. Model assumptions are reviewed by the Board.

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

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Group can access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

There is significant correlation between model parameters where movements in a parameter would likely result in opposing movement in other parameters creating offsetting valuation impacts.

The fair value sensitivity to changes in the model inputs have been assessed using reasonable upward and downwards shifts to the model inputs while keeping all remaining inputs constant. The following tables set out the relevant sensitivities.

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

Mortgage fair value measurement

The model was applied to mortgage product lending. As disclosed in note 13, there is one mortgage designated at fair value retained in the group as at 30 September 2020 (2019 : 2 mortgages). As the strike date of the embedded House Price Option has passed for this loan, its fair value is no longer sensitive to any changes in inputs into the model and its fair value has been estimated as the amount recoverable. It has been moved out of Level 2 and reclassified as Level 3 due to a reduction in observable inputs and increased uncertainty in the macroeconomic environment.

Amounts due to customers at fair value measurement

The model, as applied to structured deposits (formerly Housa liabilities), incorporates various inputs, of which the most significant are as follows:

Input	Description	Range September 2020 Min	Range September 2020 Max	Range September 2019 Min	Range September 2019 Max	Sensitivity Range	Sensitivity September 2020 Min £'000	Sensitivity September 2020 Max £'000	Sensitivity September 2019 Min £'000	Sensitivity September 2019 Max £'000
Movement in HPI	Percentage movement since origination to indexed value	**16.0%**	**49.3%**	15.0%	48.0%	+-10%	**(138)**	**136**	(328)	320
Expected house price growth	Assumed annual rate of future HPI growth	**2.6%**	**2.6%**	2.6%	2.6%					
Volatility of the movement in HPI	Assumed annualised volatility of the future HPI returns	**11.2%**	**11.2%**	11.3%	11.3%					
Discount rates :	Derived to be consistent with future house price growth.									
	Risk free discount rates	**0.6%**	**0.8%**	0.6%	0.8%					
	Credit premium discount rate	**1.9%**	**2.2%**	1.5%	3.4%					
	House price risk premium	**8.0%**	**37.2%**	10.3%	42.3%	+-10%	**(55)**	**78**	(164)	238

The assumption for house price growth is currently 2.6% which has been based on external forecasts and market consensus of the expected growth in house prices. This is a long-term average growth rate and as such a short term drop in house price growth rates as a result of Covid-19 and Brexit will have a lesser impact on this long term average. However, it is expected that uncertainty will be higher in the near term as a result of Covid-19 or Brexit factors. These uncertainties are offset by string current house price growth and mortgage interest rates at historically low levels. A sudden drop in house prices of up to 10% is considered a reasonably possible impact due to Covid-19 and this is reflected in the note under the sensitivity for movement in HPI.

22.2 Fair values and fair value hierarchy analysis

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

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

For amounts due to customers for deposits a range of fair value is determined using the latest issuance rate and both an external and internal funding rate. The carrying value of the deposits sits within the range of calculated fair values and so is used as an approximation of fair value. The hierarchy position is considered to be Level 3, as the lowest level input that is significant to the valuation, being the discount rate, is unobservable.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

As at 30 September 2020

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value £'000
Debt instruments	116,913	-	-	116,913	116,918
Loans to customers					
At amortised cost	-	-	585,591	585,591	572,336
Designated at fair value through profit or loss	-	-	5,506	5,506	5,506
Total	116,913	-	591,097	708,010	694,760
Liabilities					
Amounts due to customers					
At amortised cost	-	-	649,535	649,535	649,535
At fair value through profit or loss	-	-	1,444	1,444	1,444
Total	-	-	650,979	650,979	650,979

As at 30 September 2019

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Carrying value (Restated) £'000
Loans to customers					
At amortised cost	-	-	630,266	630,266	610,482
Designated at fair value through profit or loss	-	5,328	-	5,328	5,328
Total	-	5,328	630,266	635,594	615,810
Liabilities					
Amounts due to customers					
At amortised cost	-	-	714,957	714,957	711,128
At fair value through profit or loss	-	-	3,436	3,436	3,436
Total	-	-	718,393	718,393	714,564

The prior year comparatives have been restated to recognise an additional £551k ECL provision in respect of an updated modelling parameter. Further detail is provided in notes 12 and 28.

The loans to customers at fair value through profit or loss was moved from level 2 to level 3 in the current year due to a reduction in observable inputs and increased uncertainty in the macroeconomic environment. This was the only transfer in or out of Level 3 in the year.

23 Risk management

The Group's activities expose it to various types of financial risk that are associated with the financial instruments and markets in which it participates. The main risk to which the Group is exposed is credit risk. The Group is also exposed to liquidity risk and market risk as these risks are inherent in the business. The Board is responsible for setting the risk appetite for each of these risks. The Group measures its exposure to the risks on a regular basis and reviews the exposure every quarter. The Group assesses all these risks and its capital adequacy as part of its Internal Capital Adequacy Assessment Process ("ICAAP") which is conducted on an annual basis. The section below provides further details on financial risks only.

23.1 Credit risk

23.1.1 Overview

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

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

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

As at 30 September 2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	ECL £'000	Total £'000
Financial assets					
Cash and cash equivalents	36,861	-	-	-	36,861
Debt instruments	116,918				116,918
Trade and other receivables	3,546	-	-	(2,514)	1,032
Loans to customers					
At amortised cost					
- Consumer loans	109,659	7,645	17,860	(19,560)	115,604
- Wholesale loans	11,654	-	-	-	11,654
- Property loans	361,533	43,087	47,631	(7,173)	445,078
Designated at fair value through profit or loss	-	-	-	-	5,506
	640,171	50,732	65,491	(29,247)	732,653

As at 30 September 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	ECL (Restated) £'000	Total (Restated) £'000
Financial assets					
Cash and cash equivalents	140,349	-	-	-	140,349
Trade and other receivables	4,766	-	-	(2,892)	1,874
Loans to customers					
At amortised cost					
- Consumer loans	97,204	6,623	19,003	(18,400)	104,430
- Wholesale loans	24,699	-	-	-	24,699
- Property loans	377,733	80,366	32,698	(9,444)	481,353
Designated at fair value through profit or loss	-	-	-	-	5,328
	644,751	86,989	51,701	(30,736)	758,033

The prior year comparatives have been restated to recognise an additional £551k ECL provision in respect of an updated modelling parameter. Further detail is provided in notes 12 and 28.

The impairment provisioning applied to the loan book provides an indicator of the overall credit quality of the loan portfolio. Movements in the coverage ratio (impairment provision value as a percentage of the gross loan value) can be used to understand how the credit position of the loans has evolved. The table below compares the coverage ratios by stage at the year-end date with the prior year.

30 September 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Consumer Loans	2.33%	15.83%	88.42%	14.47%
Wholesale	0.00%	0.00%	0.00%	0.00%
Property	0.63%	0.86%	9.47%	1.59%
Total	**1.00%**	**3.12%**	**31.00%**	**4.46%**

30 September 2019	Stage 1	Stage 2	Stage 3	Total
Consumer Loans	3.94%	21.95%	69.03%	14.98%
Wholesale	0.00%	0.00%	0.00%	0.00%
Property	0.72%	1.72%	16.36%	1.92%
Total	1.31%	3.26%	35.72%	4.36%

In the consumer loan portfolio, stage 1 and 2 coverage ratios have improved as improved underlying arrears performance has reduced the probability of default across the portfolio. This reflects the strategic decision to tighten the underwriting criteria and exit from higher risk retailers and sectors. The improvement would have been greater were it not for the impact of adverse macroeconomic parameters following the latest forecasts and the impact of Covid-19. The increase in stage 3 coverage ratios is due to continued aging of the default population with debt sales difficult to execute in the year due to the Covid-19 pandemic. This has left a large residual aged portfolio which has been prescribed a low recovery rate.

The Wholesale loan has been individually assessed with an ECL of nil due to the high levels of collateral secured against the loan balance, the counterparty has provided a £10m guarantee and all the covenants of the facility continue to be met.

In property, we have seen improvements in arrears along with cure rates for defaulted accounts, enabling the reduction in stage 1 and 2 coverage ratios. This impact has been partially offset by increased provisioning because of the adverse macroeconomic environment relating to Covid-19. The more significant fall in stage 2 however is principally due to higher marked loans in the prior year moving into stage 3 which has significantly reduced the average coverage ratio by loan.

The significant fall in stage 3 in Property is due to several large cases heavily provided for in the prior year being either refinanced, repossessed or written off in the current year. New stage 3 cases have not carried similar levels of impairment, reducing the overall coverage ratio for the default population. If we exclude the stage 3 loans that have been derecognised or repaid in the year, then the stage 3 coverage ratio has increased by 2.4% year on year as additional impairment has been taken due to the deterioration in the macro-economic outlook.

23.1.2 Credit concentration

Credit concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group manages its exposure to credit concentration risk by monitoring the level of concentration on each of its portfolios through several dimensions and in some cases limiting the exposure.

The Group's exposure to credit risk arising from cash and cash equivalents and loans and advances to credit institutions is managed by the treasury function. Moody's credit rating for HSBC Bank is Aa2 and the HSBC Global Sterling Liquidity Fund is rated Aaa by Moody and AAA by S&P. These exposures are not considered to result in significant credit risk.

.At 30 September 2020 the Group was exposed to credit risk in terms of its holdings in certificates of deposit. The Group performed its own credit analysis and considered the counterparty to be creditworthy

Credit risk associated with Serviced and Interest Roll Up mortgages, RDF loans and other loans designated at fair value through profit or loss is mitigated by the collateral that the Group holds a charge over. This totalled £1.46 billion (2019: £1.7 billion), which represents the indexed value of properties at the reporting dates. In the majority of cases the Group's charge over this collateral is subordinated by another lender's charge. The following table shows the loan balance by combined first and second charge loan to value analysis for all loans by band held at the end of the period:

LTV band %	2020 £'000	2020 %	2019 £'000	2019 %
0 - 21	7,129	2%	9,398	2%
21 - 50	62,713	14%	89,894	18%
51 - 70	249,822	55%	258,126	53%
71 - 85	124,739	27%	115,185	23%
86 - 90	8,034	2%	1,389	0%
91+	5,321	1%	22,134	4%
Carrying value before impairment provision	457,758	100%	496,126	100%
Wholesale and Consumer Loans	146,818		147,529	
Total Lending before impairment provision	604,576		643,655	

The LTV used in the table above for RDF is based on the Gross Development Value (the estimated value at completion). Total exposure to Development finance is £62m (2019: £83m) with an average LTV of 69% (2019: 65%).

The breakdown of LTV by region is shown in the following tables:

London LTV band %	2020 £'000	2020 %	2019 £'000	2019 %
0 - 21	5,031	2%	2,234	1%
21 - 50	30,515	13%	40,502	18%
51 - 70	146,277	64%	120,267	53%
71 - 85	46,039	20%	46,757	21%
86 - 90	626	0%	514	0%
91+	2,483	1%	15,081	7%
Carrying value before impairment provision	230,971	100%	225,355	100%

South	2020	2020	2019	2019
LTV band %	**£'000**	**%**	£'000	%
0 - 21	**1,463**	**1%**	4,602	3%
21 - 50	**24,693**	**21%**	33,674	21%
51 - 70	**57,863**	**49%**	92,391	58%
71 - 85	**27,359**	**23%**	28,461	18%
86 - 90	**7,324**	**6%**	107	0%
91+	**249**	**0%**	270	0%
Carrying value before impairment provision	**118,951**	**100%**	159,505	100%

Rest of U.K.	2020	2020	2019	2019
LTV band %	**£'000**	**%**	£'000	%
0 - 21	**636**	**1%**	2,561	2%
21 - 50	**7,505**	**7%**	15,718	14%
51 - 70	**45,680**	**42%**	45,468	41%
71 - 85	**51,341**	**48%**	39,967	36%
86 - 90	**84**	**0%**	768	1%
91+	**2,589**	**2%**	6,782	6%
Carrying value before impairment provision	**107,835**	**100%**	111,264	100%

The Group assesses the underlying credit risk of customers for both the property and consumer loan portfolios, determining high, standard, and sub-standard risk grades based on underlying loan characteristics. The table below shows this credit assessment and the related impairment staging for loans at amortised cost:

Total	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Performing				
High grade	112,199	12,619	-	124,818
Standard grade	331,129	70,198	-	401,327
Sub-standard grade	56,308	4,172	-	60,480
Non-performing				
Individually impaired	-	-	51,701	51,701
Total gross carrying amount at 30 September 2019	499,636	86,989	51,701	638,326

For property loans, the Group has utilised the current Loan To Value (LTV) of exposures as the rating criteria for the property portfolio.

The following criteria was applied.
- High grade exposures have an LTV of less than 50%;
- Standard grade exposures have an LTV between 50% and 80%; and
- Substandard grade exposures have an LTV in excess of 80%.

For consumer loans, the Group has utilised the Gauge (2019: Delphi) Credit Score of the borrower as the rating criteria for the Omni portfolio. The Delphi score is measured at origination.

The following criteria was applied.
- High grade exposures have a Gauge Score in excess of 625 (2019: Delphi of 1100)
- Standard grade exposures have a Gauge Score between 550 and 625 (2019: Delphi between 800 and 1100)
- Substandard grade exposures have a Gauge Score less than 550 (2019 Delphi of 800).

For wholesale loans, the Group has assessed the exposure as Standard quality.

Within Property, the Group limits its maximum exposure to individual obligors and certain product types (1st line mortgages versus 2nd line mortgages for example). Geographical concentration and other concentration risks are also monitored by the Group Credit Risk Committee.

Consumer loan concentration risk focusses principally on individual retailers with specific limits in place set by the Board or Group Credit Risk Committee. The Group's exposure to specific industry sectors is also closely monitored.

Mortgage assets have a maximum loan exposure which limits concentration risk. The maximum single counterparty exposure is to HSBC.

23.1.3 Impact of Covid-19 pandemic on credit risk

Following the Covid-19 outbreak in early 2020, the Group have provided specific forbearance to support customers in line with regulatory guidelines. This has typically been in the form of payment holidays for a period of 1-6 months.

By the end of September 2020, the property business granted payment holidays for 48 mortgage customers with loan balances totalling £58.4m. For consumer loans, 3,014 customers had been granted payment holidays with balances totalling £4.1m at the year end date.

With government support packages in place throughout the pandemic and with customers in different stages of their forbearance at the end of September 2020, careful consideration was applied by the Group in assessing the underlying credit risk of the impacted customers.

To assist firms with their financial and prudential reporting, the PRA laid out a four-point framework for consideration when making a credit staging assessment for customers who have been granted Covid-19 forbearance:

- Consideration of economic conditions, e.g., the temporary nature of cash flow difficulties, such as a borrower having a temporary income reduction due to the UK furlough scheme, or the overall expected timeline of economic recovery.
- Use of historical information that firms already hold about borrowers, which can be used to gather counterparty-level indicators of SICR and impairment, such as payment history or credit bureau payment scores.
- Information gathered from customers using payment deferrals that can be used in conjunction with other collated data (e.g., employment status or industry sector of the borrower).
- Application of expert judgment, which includes, where individual information is not available, a segmentation approach for groups of borrowers

Applying this guidance, the Group categorised customers with the following staging criteria.

- A customer who resumes full payments following the conclusion of the payment plan and there are no indicators of increased credit risk will remain as a stage 1 loan. A customer who has yet to reach the end of their payment plan where information is available which does not indicate a significant increase in credit risk will remain as a stage 1 loan.
- A customer who has yet to reach the end of their payment plan where information is available which indicates a significant increase in credit risk will be classified as a stage 2 loan. A customer who has indicated that they

expect to continue to face future payment difficulties but where no economic concessions are granted (e.g. interest waiver) will be classified as stage 2.

- A customer who has indicated that they expect to continue to face future payment difficulties and where economic concessions are granted (e.g. interest waiver) will be classified as stage 3. A customer who has not contacted The Group following the end of forbearance and has not met their contractual payments will be classified as stage 3.

In determining the coverage ratio to apply to a customer balance in calculating a revised ECL, The Group used the most suitable rate based on the coverage ratios from the existing IFRS 9 models.

As at 30 September 2020, the status of customers who had been offered Covid-19 forbearance was as follows:

	Property		Consumer Loans	
Loan status as at 30 September 2020	**No. of loans**	**Balance (£m)**	**No. of loans**	**Balance (£m)**
Resumed full payment	31	50.4	2,271	2.7
Resumed partial payment	-	-	128	0.2
In arrears following end of payment holiday	-	-	265	0.5
Initial payment holiday yet to expire	3	0.7	197	0.4
2nd payment holiday granted	14	7.3	153	0.3
	48	58.4	3,014	4.1

	Property		Consumer Loans	
Staging as at 30 September 2020	**No. of loans**	**Balance (£m)**	**No. of loans**	**Balance (£m)**
Stage 1	37	52.3	2,091	3.1
Stage 2	8	5.4	281	0.5
Stage 3	1	0.7	265	0.5
Repaid in full	2	-	377	-
	48	58.4	3,014	4.1

Outside of payment holidays, additional support has been made available to property customers who may have been granted maturity extensions to provide additional time to either sell or refinance their loans. Customers who fell into subsequent financial difficulty following the extension period have been assessed using the existing The Group Forbearance policy as described in 23.1.5.

23.1.4 Staging overview

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

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

Analysis of Stage 2 loans	30-60 days past due	60-90 days past due	Forborne	Missed payment in past / Arrears on other borrowing	Total
	£'000	£'000	£'000	£'000	£'001
Consumer Loans	1,152	573	3,237	2,683	7,645
Property Loans	595	5,498	31,012	5,982	43,087
Total	1,747	6,071	34,249	8,665	50,732

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

IFRS 9 includes a rebuttable presumption that if an account is more than 30 days past due it has experienced a significant increase in credit risk. The Group considers more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted this presumption.

For customers who have been offered Covid-19 payment holidays, the SICR criteria as described in 23.1.3 has been applied.

For mortgages and residential development finance, other credit related criteria are considered in assessing whether a significant increase in credit risk has occurred. This includes changes to a customer's credit profile through reference to external credit agencies, significant changes to the current product terms offered to the customer, payment holidays and extension of term.

Within consumer loans, customers who have no outstanding arrears but who have fallen more than 30 days in arrears within the last 12 months, continue to be classified as having a significantly increased credit risk and will remain within stage 2. With an expected increase in future defaults following the significant future rise in expected unemployment due to the Covid-19 pandemic, all loans originated with a Gauge credit score of 560 or less have been classified as having a significantly increased credit risk.

A borrower will move back into stage 1 where the SICR definition is no longer satisfied and no payments have been in arrears for a period of 12 consecutive months.

Definition of default (movement to stage 3)

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

The rebuttable assumption is that more than 90 days past due (for property - on either primary or secondary mortgage) is an indicator of default. The Group has not rebutted this assumption and therefore deems that more than 90 days past due is an indicator of default. This acts as an appropriate back stop measure.

For customers who have been offered Covid-19 payment holidays, the stage 3 criteria as described in 23.1.3 has been applied.

For mortgages and residential development finance, additional criteria are considered in the assessment as to whether a loan meets the definition of default. This includes increased likeness of repossession, defaulted arrangements on other properties the customer may hold, significant fall in the valuation of a property, reduced or frozen interest charges and other criteria assessed by management which indicate an increased likelihood of default.

For consumer loans, any loan where a fraud allegation has been raised is immediately classified as stage 3.

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

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

	Total	ECL	<30 days	30-60 days	61-90 days	91-120 days	>120 days
As at 30 September 2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets							
Cash and cash equivalents	36,861	-	36,861	-	-	-	-
Debt instruments	116,918		116,918				
Loans and advances to credit institutions	-	-	-	-	-	-	-
Trade and other receivables	1,032	(2,514)	3,546	-	-	-	-
Loans to customers							
At amortised cost							
- Consumer loans	115,604	(19,560)	115,264	1,451	729	505	17,215
- Wholesale loans	11,654		11,654	-	-	-	-
- Property loans	445,078	(7,173)	377,701	595	17,470	41,738	14,747
Designated at fair value through profit or loss	5,506	-	-	-	-	-	5,506
	732,653	(29,247)	661,944	2,046	18,199	42,243	37,468

As at 30 September 2019	Total	ECL (Restated)	<30 days	30-60 days	61-90 days	91-120 days	>120 days
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets							
Cash and cash equivalents	140,349	-	140,349	-	-	-	-
Loans and advances to credit institutions	14,926	-	14,926	-	-	-	-
Trade and other receivables	1,875	(2,892)	4,767	-	-	-	-
Loans to customers							
At amortised cost							
- Consumer loans	104,430	(18,400)	104,153	932	737	641	16,367
- Wholesale loans	24,699	-	24,699	-	-	-	-
- Other secured loans	481,338	(9,459)	448,897	-	4,807	11,709	25,384
Designated at fair value through profit or loss	5,328	-	-	-	-	-	5,328
	772,945	(30,751)	737,791	932	5,544	12,350	47,079

The prior year comparatives have been restated to recognise an additional £551k ECL provision in respect of an updated modelling parameter. Further detail is provided in notes 12 and 28.

23.1.5 Forbearance (non Covid-19)

Outside of Covid-19 forbearance measures, the Group sometimes makes other concessions to borrowers with respect to the original terms of mortgages as a response to a borrower's financial difficulties. All forborne loans will be classified as either stage 2 or stage 3.

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

Forbearance provided by the Group is considered to be an indicator of impairment. Forbearance provided by other lenders to the Group's borrowers is not automatically considered to be an indicator of impairment of The Group's mortgage but is considered on a case by case basis if further information is available.

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

Once the terms have been amended on a consumer loan, any impairment is measured using a collectively modelled provision. The specific provision is modelled on a collective basis as each loan advanced by the Group is individually not significant.

The forbearance classification on both property and consumer loans is discontinued when all the following conditions are met:

- the contract is considered as performing, including if it has been reclassified from the non-performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as nonperforming.
- a minimum 2-year probation period has passed from the date the forborne exposure was considered as performing.
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period.
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

The following tables show the loans in forbearance (non Covid-19) at the year end.

	Stage 1		Stage 2		Stage 3		ECL	Total	Forborne %
	Performing	Forborne	Not forborne	Forborne	Not forborne	Forborne			
As at 30 September 2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Financial assets									
Loans to customers									
At amortised cost									
- Consumer loans	109,659	-	6,882	763	14,228	3,632	(19,560)	115,604	3.25%
- Wholesale loans	11,654	-	-	-	-	-	-	11,654	0.00%
- Property loans	361,533	-	31,161	11,926	46,766	865	(7,173)	445,078	2.83%
Designated at fair value through profit or loss	-	-	-	-	5,506	-	-	5,506	
	482,846	-	38,043	12,689	66,500	4,497	(26,733)	577,842	

	Stage 1		Stage 2		Stage 3		ECL (Restated)	Total	Forborne %
	Performing	Forborne	Not forborne	Forborne	Not forborne	Forborne			
As at 30 September 2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Financial assets									
Loans to customers									
At amortised cost									
- Consumer loans	97,219	-	5,829	794	15,957	3,031	(18,400)	104,429	3.11%
- Wholesale loans	24,699	-	-	-	-	-	-	24,699	0.00%
- Property loans	377,733	-	64,730	15,636	29,932	2,766	(9,444)	481,353	3.75%
Designated at fair value through profit or loss	-	-	-	-	5,328	-	-	5,328	
	499,651	-	70,559	16,430	45,889	5,797	(27,844)	615,809	

The prior year comparatives have been restated to recognise an additional £551k ECL provision in respect of an updated modelling parameter. Further detail is provided in notes 12 and 28.

23.1.6 Modelling assumptions and approach

The modelling assumptions and approach are defined by the accounting policy as shown in note 2.4.3. The models are recalibrated on a quarterly basis with all input parameters assessed and the latest macroeconomic assumptions applied.

The results of the quarterly parametrisation, significant modelling changes and post model adjustments and overlays are scrutinised first by a second line review and then through internal governance committees. The final outcome is then reviewed by the Audit Committee prior to any updates being adopted.

23.1.7 Forward looking macroeconomic scenarios

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

The Group uses a bespoke macroeconomic model to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. At present, the most significant macroeconomic factors for property loans relate to the house price index (‘HPI’) and GDP growth rates. For Consumer Loans the GBP rate along with the unemployment rate are the key drivers.

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

The Group currently does not have an in-house economics function and therefore sources economic forecasts from an appropriately qualified third party. The Group will consider a minimum of three probability weighted scenarios, including base, upside and downside scenarios. The base scenario is aligned to the latest macro-economic forecasts with the upside and downside scenarios driven by shifts to GDP growth rates which drives movements in the other macroeconomic parameters.

The models are then weighted to the base, upside and downside scenarios based on the severity of the modelled outcomes and underlying parameters. A benchmarking assessment is undertaken considering the economic parameters and related scenario weightings to provide additional support to the final weightings applied.

As a result of the large movements in macroeconomic parameters caused by the Covid-19 pandemic, the longer term modelled outcomes of the upside and downside scenarios was considered unrealistic. Therefore, the key parameters for the outer years were adjusted to align with the base case over time. This approach is consistent with the wider industry practice. The Group will constantly monitor the ongoing appropriateness of its approach referencing industry best practice.

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

Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECL's is set out in Note 2.4.3. To ensure completeness and accuracy, the Group obtains the data used from third party sources and the Credit Risk group verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected credit loss and the assumptions used for the Group's base case estimate, ECLs based on the base case, plus the use of multiple economic scenarios as at 1 October 2019 and 30 September 2020.

The tables show the value of the key forward looking economic variables/ assumptions used in each of the economic scenarios for the ECL calculations.

As at 30 September 2020

Key Drivers	ECL Scenario	Assigned Probabilities %	2020 %	2021 %	2022 %	2023 %	2024 %	Subsequent years %
GDP growth %								
	Upside	20%	-6.2%	11.8%	8.7%	5.6%	2.5%	2.5%
	Base Case	60%	-8.1%	5.0%	2.1%	1.8%	1.7%	1.9%
	Downside	20%	-25.1%	-8.2%	-5.1%	-2.1%	1.0%	1.0%
Unemployment rates %								
	Upside	20%	4.8%	4.2%	3.9%	4.0%	3.9%	4.1%
	Base Case	60%	6.3%	6.7%	4.6%	4.0%	3.9%	4.1%
	Downside	20%	6.3%	10.0%	9.7%	6.9%	5.3%	4.4%
Central Bank base rates %								
	Upside	20%	0.2%	0.3%	0.3%	0.3%	0.3%	0.2%
	Base Case	60%	0.0%	-0.1%	-0.1%	-0.1%	0.0%	0.1%
	Downside	20%	-0.4%	-0.5%	-0.5%	-0.5%	-0.5%	0.0%
House Price Index								
	Upside	20%	1.1%	8.7%	7.3%	4.7%	3.5%	2.8%
	Base Case	60%	1.1%	1.5%	3.5%	3.5%	3.5%	2.6%
	Downside	20%	1.1%	-15.3%	-10.3%	-7.1%	-1.1%	2.1%

As at 30 September 2019

Key Drivers	ECL Scenario	Assigned Probabilities %	2020 %	2021 %	2022 %	2023 %	2024 %	Subsequent years %
GDP growth %								
	Upside	20%	3.68%	3.63%	3.54%	3.51%	3.40%	2.97%
	Base Case	60%	1.66%	1.99%	2.11%	2.11%	2.08%	1.95%
	Downside	20%	-0.24%	-0.27%	-0.30%	-0.30%	-0.30%	0.47%
Unemployment rates %								
	Upside	20%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Base Case	60%	4.10%	3.90%	3.80%	3.80%	3.86%	4.07%
	Downside	20%	7.54%	7.98%	8.00%	8.00%	8.00%	8.00%
Central Bank base rates %								
	Upside	20%	1.71%	1.83%	1.97%	2.08%	2.25%	2.76%
	Base Case	60%	1.64%	1.78%	1.92%	2.04%	2.21%	2.72%
	Downside	20%	1.58%	1.71%	1.84%	1.96%	2.13%	2.67%
House Price Index %								
	Upside	20%	7.87%	7.89%	7.43%	7.36%	7.08%	6.70%
	Base Case	60%	3.45%	4.29%	4.29%	4.29%	4.19%	4.47%
	Downside	20%	-0.64%	-0.58%	-0.90%	-0.90%	-0.94%	1.26%

The following table shows the ECL impact of 100% weighting to base/upside/downside in comparison to the weighted ECL reported.

	Property ECL Impact £'000	Consumer Loans ECL Impact £'000	Total ECL Impact £'000
100% Base	163	17	180
100% Down	(957)	(759)	(1,716)
100% Up	468	709	1,177

23.1.8 Post-model adjustments and overlays

The Group reviews the modelled impairment outcomes through a detailed governance process. In some instances, adjustments to the model are applied where it is felt the modelled outcome does not to represent the underlying credit risk appropriately. In the current economic environment, with continued uncertainty around the outcome of the Covid-19 pandemic, this has resulted in additional adjustments and overlays assumptions being applied to account for the expected lagged impact of Covid-19 on key judgements.

The key post-model adjustments and overlays applied by management are detailed below:

	Modelled impact	Post model adjustments and overlays
Covid-19 Forbearance	Customer arrears profile and staging did not capture the unique circumstances	Staging assessment made as described in 23.1.5 with customer ECL's adjusted to reflect revised staging
Mortgage cure rates	Calculated cure rates for defaulted mortgage customers improved in latest parameter update exercise.	Given the continued uncertainty in the economy and property sector due to Covid-19, it was decided to not take the benefit form the improved cure rate form data points already experienced at this stage and to continue to monitor as the impact of the pandemic becomes clearer.
Mortgage repossession price haircut	Parameter data showed a lower price haircut and time to sell for repossessed properties reducing the loss given default applied to stage 1 and 2 loans.	It was felt that the full impact of Covid-19 was not being reflected in the latest data and therefore a more conservative set of assumptions were applied for price haircuts and time to sell to capture the additional lag expected..
Mortgage time to sell	Time to sell for loss given default calculations driven by historic parameter calculations.	Customers have been experiencing delays in selling properties due to the Covid-19 pandemic and the specific government measures which have led to delays in the courts and repossession cases. The time to sell parameter was increased by 3 months for all loans maturing up to December 2020 to capture the impact of these delays.
Consumer loan default recoveries	Loss given default calculation based on historic parameter calculations.	An additional conservative view was taken on all loans which had been in default for 2 years or more. The expected loss was adjusted to reflect a conservative debt sale price.

Consumer loan staging assessment for low credit scores on origination.	Modelled outcome for customers are stage 1 as no arrears currently experienced.	Whilst arrears performance remains the key indicator of credit risk, the expected increase in unemployment due to the Covid-19 pandemic has led to a reassessment of customers currently within stage 1. As a result, customers with a Gauge credit score of 560 or less on origination have been assessed as showing a SICR and have been reclassified to stage 2. Further details can be found in 23.1.3

The net impact of the adjustments and overlays detailed above is an additional ECL of £784,000 as at 30 September 2020.

In the prior year , the Group applied an overlay to capture an additional scenario which is aligned to capital planning stress assumptions using the Bank of England ACS stress scenario. The Group applied a 10% weighting to this scenario within the ECL calculations which resulted in an additional ECL of £130,000.

23.2 Liquidity risk

Liquidity risk is the risk that a firm is unable to meet its liabilities as they fall due, without incurring unacceptably large losses. In general, the risk arises from mismatches between the maturity profile of assets and liabilities and the ability of the firm to liquidate its holding in certain assets.

The Group is exposed to liquidity risk due to nature of its business actives. The exposure is monitored regularly and formally reviewed by the Board on an annual basis. The Group regularly conducts stress testing assessments of the balance sheet to measure its exposure. The exposure is controlled by active management of the amount, type and maturity profile of its assets and liabilities. In addition, the Group maintains a liquidity buffer to ensure it has adequate liquidity to meet its liabilities as they fall due.

The Covid-19 pandemic poses unique challenges for the banking sector and wider economy. The liquidity stress scenarios that are applied as part of the annual ILAAP assessment and ongoing liquidity monitoring captured downside scenarios in relation to potential Covid-19 economic outcomes. This includes a material reduction in the ability to source funding through deposits and reductions in loan repayments caused by economic hardship to customers. The Group is able to maintain liquidity over and above Board prescribed limits through all periods assessed in these scenarios.

Please refer to note 24 for details of the maturity profile of assets and liabilities.

23.3 Market risk

Market risk is the risk that the fair value of future cash flows from financial instruments will fluctuate as a result of changes in market variables. Interest rate risk is a type of market risk where variability arises from interest rates. Similarly, house price risk is a type of market risk where the variability arises from changes in house prices.

The Group is exposed to market risk in the form of interest rate risk and house price risk. This exposure is monitored regularly and formally reviewed by the Board, as part of its ICAAP, on an annual basis. The Group is exposed to interest rate risk due to the mismatch between the fixed interest rates it receives on its loans to customers and the fixed interest rate it pays to customers. The Group manages its exposure to interest rate risk using interest rate swaps. The Group's exposure to interest rate risk at the reporting date, measured as the impact of a 1% parallel shift in interest rates, was (£284k) (2019: £441k). Similarly, the Group is exposed to house price risk due to the nature of its house price linked mortgage contracts and its Housas.

Following the sale of the house price derivatives relating to PM, BTL and IPS mortgages the Group's exposure to house price risk is immaterial. The Group's exposure to house price risk as at the reporting date, measured as a 10% fall in house prices, was estimated to be £(138k) (2019: £(328k)). The Group manages its exposure to interest rate risk using swaps to convert the interest rates on its financial instruments, such as mortgages and Fortress Bonds, from fixed to LIBOR-linked floating rates.

24. 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. As they are all short term items that will crystallise within one month or less, this is a close if not exact cash equivalent value.

Interest rate swap payments relating to interest are settled on a net basis and are hence presented net in the table below.

Financial assets at fair value (mortgages) are discounted for up to 30 years, therefore the undiscounted cash values as at 30 September 2020 are significantly higher than the fair value. The timing of the cash flows also reflects the Group's expectations in terms of early repayments based on expected customer behaviour, alongside contractual maturity dates.

The analysis is based on the remaining period to the contractual maturity date based on undiscounted cashflows. The tables below indicate the maturity profile of the Group and Company's financial assets and liabilities as at 30 September 2020.

Group **As at 30 September 2020**	**Within 1 year** **£'000**	**1 - 3 years** **£'000**	**3 - 5 years** **£'000**	**5-10 years** **£'000**	**Over 10 years** **£'000**	**Total** **£'000**
Financial assets						
Cash and cash equivalents	**36,861**	**-**	**-**	**-**	**-**	**36,861**
Debt instruments	**116,918**					**116,918**
Trade and other receivables	**1,032**	**-**	**-**	**-**	**-**	**1,032**
Loans to customers						
At amortised cost	**385,942**	**169,131**	**55,219**	**10,268**	**5,357**	**625,917**
Designated at fair value through profit or loss	**5,506**	**-**	**-**	**-**	**-**	**5,506**
	546,259	**169,131**	**55,219**	**10,268**	**5,357**	**786,234**
Financial liabilities						
Trade and other payables	**11,500**	**-**	**-**	**-**	**-**	**11,500**
Lease liabilities	**352**	**857**	**636**			**1,845**
Amounts due to customers						
At amortised cost	**504,455**	**147,750**	**227**	**21**	**-**	**652,453**
At fair value through profit or loss	**325**	**489**	**977**	**75**	**-**	**1,866**
	516,632	**149,096**	**1,840**	**96**	**-**	**667,664**
Loan commitments	**27,178**	**-**	**-**	**-**	**-**	**27,178**

Group As at 30 September 2019	Within 1 year £'000	1 - 3 years £'000	3 - 5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
Financial assets						
Cash and cash equivalents	140,349	-	-	-	-	140,349
Loans and advances to credit institutions	14,926	-	-	-	-	14,926
Trade and other receivables	1,203	-	-	-	-	1,203
Loans to customers	-					-
At amortised cost	347,603	205,535	48,167	24,261	2,829	628,395
Designated at fair value through profit or loss	5,328	-	-	-	-	5,328
	509,409	205,535	48,167	24,261	2,829	790,202
Financial liabilities						
Trade and other payables	4,983	-	-	-	-	5,148
Amounts due to customers						
At amortised cost	398,734	317,606	20,921	-	-	737,261
At fair value through profit or loss	1,136	661	2,256	276	-	4,329
	405,018	318,267	23,177	276	-	746,738
Loan commitments	62,212	-	-	-		62,212

25. Share capital

The following table sets out the movement in share capital of Castle Trust Holdings Limited during the year.

	2020 £'000	2019 £'000
Issued and fully paid:		
At incorporation	-	-
Issued to acquire Castle Trust Holdings (Jersey) Limited's 's holding of CTC	61,443	-
Issued in Feb & March 2020	20,054	-
At end of year 81,496,774,170 (2019: 1) ordinary shares of £0.10 each	81,497	-

The Company was incorporated with 1 ordinary share of £1 on 16 August 2019 issued to CTC Holdings (Cayman) Limited. The ordinary share was converted to a class A1 ordinary share on 15 October 2019.

On 15 October 2019 a further 60,630,896 class A1 ordinary shares of £1 each were issued to CTC Holdings (Cayman) Limited and 811,751 non-voting class A2 ordinary shares of £1 each were issued to CTC Manager Nominee Limited.

The Company then acquired Castle Trust Holdings (Jersey) Limited's investment in Castle Trust Capital plc ("CTC") for £61,442,720 (£61,136,962 fair value plus capitalised legal costs) on October 15th 2019 by the issue of the Class A Share Capital to CTC Cayman in a share for share exchange.

On 29 October 2019 72,450 non-voting class B ordinary shares of £0.001 each were issued to CTC Manager Nominee Limited.

On 27 February 2020 the class A1 and A2 ordinary shares were subdivided so that the 60,630,897 class A1 ordinary shares of £1 each became 60,630,897,000 class A1 ordinary shares of £0.001 each and the 811,751 non-voting class A2 ordinary shares of £1 each became 811,751,000 non-voting class A2 shares of £0.001 each. The class A1, A2 and B ordinary shares were then all redesignated as a single class of ordinary shares of £0.001 each.

On 28 February 2020, a further 19,800,000,000 ordinary shares of £0.001 were issued to CTC Holdings (Cayman) Limited. On 4 March 2020, a further 254,053,720 ordinary shares of £0.001 were issued to CTC Holdings (Cayman) Limited.

The presentation of share capital in the statement of changes in equity shows only the issuance on 28 February 2020 as an addition, as it was the only issuance in the predecessor CTC group. The brought forward balance of share capital and merger reserve totals the total of the share capital and share premium in the predecessor group.

The other reserve of £57,916k arose on the reconstruction of the group and is the difference between the nominal value and the fair value of the shares issued in exchange for the shares of the Group's previous parent.

26. Reconciliation of financing liabilities

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Group	At 1 Oct 2019 £'000	Cash flows £'000	Interest accretion £'000	Other non-cash movements £'000	Fair value changes £'000	At 30 September 2020 £'000
Amounts due to customers for Fortress bonds / Deposits	711,128	-	-	(711,128)	-	-
Financial liabilities at fair value through profit or loss	3,436	-	-	(3,436)	-	-
Debt securities	-	(536)	-	-	-	-
Lease Liabilities	1,093	(356)	32	907	-	1,676
	715,657	(892)	32	(713,657)	-	1,676

	At 1 Oct 2018 £'000	Cash flows £'000	Interest accretion £'000	Fair value changes £'000	At 30 Sept 2019 £'000
Debt securities in issue	9,642	(10,763)	1,121	-	-
Amounts due to customers for Fortress bonds	727,770	(47,560)	30,918	-	711,128
Financial liabilities at fair value through profit or loss	24,989	(23,738)	-	2,185	3,436
	762,401	(82,061)	32,039	2,185	714,564

27. Commitments

In 2019, the Group had future aggregate minimum lease payments under non-cancellable operating leases that fell due as follows:

	2019 £'000
Within one year	364
Between one and five years	806
	1,170

28. Prior year adjustment

A prior year adjustment of £551k has arisen due to an error in the mathematical formulas used to drive the macroeconomic models as part of the ECL calculations used on the adoption of IFRS for Omni. The error created a longer timing lag than appropriate and resulted in understated probability of default parameters. This did not have an impact on the transitional adjustment to IFRS9 as at 1 October 2018 with the error arising upon updating the transitional models for the first year of full reporting under IFRS9 in the prior year. The models have been extensively reviewed and no further issues were identified.

The error affected the following balances:

Group	**2019 Previously reported £'000**	**Adjustment £'000**	**2019 Restated £'000**
Statement of financial position			
Loans at amortised cost	**611,033**	**(551)**	**610,482**
Retained earnings	**(60,608)**	**(551)**	**(61,159)**
Statement of comprehensive income			
Impairment losses	**(9,963)**	**(551)**	**(10,514)**

Restatement of Group Reserves

For the year ended 30 September 2019	Share capital	Share premium	Own credit revaluation reserves	Retained earnings	Total	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Previously reported at 30 September 2019	13,212	106,147	41	(60,608)	58,792	(8)	58,784
Prior year adjustment	-	-	-	(551)	(551)	-	(551)
Restated at 30 September 2019	13,212	106,147	41	(61,159)	58,241	(8)	58,233

29. Ultimate controlling party

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

30. Long Term Incentive Scheme

the Group operates a management incentive scheme. Members of management can be awarded B Ordinary shares of the Group's holding company, Castle Trust Holdings (Caymans) Limited. The B shares vest at the grant date, which is the date that the award is communicated to the employee. The following table summarises the number of shares, brought forward, granted in the period, forfeited, cancelled/redeemed and carried forward. B shares were redeemed at nil value.

	Granted in the year	Forfeited, cancelled	Redeemed	Carried forward
Other Employees	70,495	(350)	0	70,145
Total	**70,495**	**(350)**	**0**	**70,145**

The directors of the Company do not have any interest in the Long Term Incentive Plan.

The fair value of all B shares granted in the period was £155k. Based on the current valuation of the Group there would be no payment due in respect of the shares on an exit event. As such an independent valuation was commissioned which calculated the fair value based on a Black Scholes model using the current value of the Group and the volatility of comparative banks to calculate the option value of the shares.

There was a charge to the profit and loss account of £155k in relation to share based payments

31. Related party transactions

Key management personnel

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group considers the members of the Board of Directors and the Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures. Please refer to note 6 for details of transactions with them.

There were no other related party transactions between the Company and other related parties.

32. Capital management

The primary objectives of the Group's capital management policy are to ensure that the Group complies with externally imposed capital requirements and maintains an appropriate capital position, relative to its risk, in order to support its business.

Castle Trust Capital plc and Castle Trust Capital Management Limited are subject to FCA and PRA regulation and are additionally subject to the requirements of the Capital Requirements Regulation which governs capital levels. Regulatory capital requirements of 8% of Risk-Weighted Assets (RWAs) are monitored as part of the overall management of capital, with Key Risk Indicators assigned and monitored for regulatory capital ratios. the Group targets a capital ratio of no less than 13.8% as a regulatory minimum. During the current and prior period the Group complied with all external regulatory capital requirements.

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

Regulatory capital consists of CET1 capital, which comprises share capital, share premium, retained earnings.

As at 30 September 2020, the Group's total equity was £79.2m (2019 (restated): £58.2m).

33. Contingent liabilities

The Group operates in a legal and regulated environment that exposes it to litigation and regulatory risks. As a result the Group receives complaints, is subject to threatened or actual legal proceedings and manages regulatory enquiries and investigations, and is in continual dialogue with the Regulator, Financial Ombudsman and HMRC to ensure the compliance of our products. Where it is concluded that it is more likely than not that a payment will be made a provision is raised based on management's best estimate of the amount payable. All material matters, if any, are subject to periodic review to determine if they can be reasonably estimated. The Company does not expect the ultimate resolution of any matters to have a materially adverse impact on its financial statements except where already provided. Individual FOS fees and remediation costs where they are probable are provided for within other creditors.

34. Events after the reporting date

The expected credit losses as disclosed in notes 12 and 23 use forward looking macroeconomic parameters from an external forecast at the balance sheet report date. Subsequent to the year end, an updated forecast was produced in December 2020. Applying the updated forecast did not result in a material movement in the ECL.

As outlined in the strategic report the ongoing coronavirus outbreak continues to progress and is being monitored and assessed on an ongoing basis by the directors. The directors' have assessed the potential impacts of Covid-19 on the operational, liquidity, and credit risk of the business, and in its cashflow forecasts in determining the Group's ability to continue as a going concern for the 12-month period from the date of signing the report.

As at the date of signing the financial statements no impact has been identified which would be deemed an adjusting or non-adjusting event, however it has been considered by the directors in their assessment of risk and the Group's ability to continue as going concern. There are no other adjusting or non-adjusting events after the reporting date.

Castle Trust Treasury Limited and Castle Trust Finance Limited were dissolved on 6 October 2020. In addition, the activities of Castle Trust Capital Management Limited ("CTCM"), Castle Trust Nominees Limited ("CTCN"), Castle Trust Direct plc ("CTD"), Castle Trust Income Housa plc ("CTIH") and CT Growth Housa PC ("PC") have been wound down and were dissolved in September 2020.