

**Castle Trust Capital plc
(formerly Castle Trust Capital Limited)**

**Directors' report and non-statutory consolidated financial
statements**

For the periods ended 30 September 2011 and 30 September 2012

Castle Trust Capital plc

Non-statutory Consolidated Financial Statements

For the periods ended 30 September 2011 and 30 September 2012

Contents	Page
Corporate Information	1
Directors' report	2 - 4
Statement of Directors' responsibilities	5
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash flows	9
Notes to the Consolidated Financial Statements	10 - 28

Castle Trust Capital plc

Corporate Information

Registered No: 07454474

Directors

Sir Callum McCarthy

Mr Sean Oldfield

Mr Keith William Abercromby

Mr Timothy John Hanford

Dr David Raymond Morgan

Mr Patrick Nigel Christopher Gale

Dame Deirdre Mary Hutton

The Rt Hon the Lord Deben

Mr Richard Alexander McGregor Ramsay

Secretary

Mr Mark Banham (appointed 24 November 2011)

Ms Bibi Rahima Ally (resigned 23 November 2011)

Auditors

Ernst & Young LLP

1 More London Place

London

SE1 2AF

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

United Kingdom

Castle Trust Capital plc

Directors' Report

The directors present the non-statutory Consolidated Financial Statements for Castle Trust Capital plc ("the Group" or "Castle Trust") for the year ended 30 September 2012.

Special purpose accounts

These non-statutory consolidated financial statements have been prepared to support the annual base prospectus application of Castle Trust PCC and Castle Trust Income HouSA plc, under the historic financial reporting requirements of the UKLA Prospectus rules, Annex 20.1. They do not constitute statutory accounts and do not replace the UK GAAP accounts as previously issued.

Business overview

The Group is comprised of four operating entities (Castle Trust, Castle Trust Capital Management Limited, Castle Trust PCC and Castle Trust Income HouSA plc) and one nominee company (Castle Trust Capital Nominees Limited). In addition, Castle Trust PCC ("the PCC") is a special purpose entity which is not owned by the group but consolidated by virtue of control. Of these entities, only Castle Trust Capital plc and Castle Trust Capital Management Limited were active during the period of these accounts.

Castle Trust will issue partnership mortgages and provide administrative support to, and management of, the Partnership Mortgage business. A Partnership Mortgage is a mortgage for 20% of the value of a property, advanced alongside a mortgage from a traditional lender. Partnership Mortgages will be issued to customers for the purchase or re-mortgage of their primary residence. There are no monthly payments on the Partnership Mortgage. At the end of the mortgage term, which will differ on a case by case basis, or on the sale of the property, Castle Trust will receive its principal back:

- plus 40% of the increase in property value, if the property has increased in value; or
- less 20% of the decrease in property value, if the property has decreased in value in relation to Partnership Mortgages used to purchase a home; that is to say the homebuyer would repay less than the amount borrowed. For homeowners who take a Partnership Mortgage to re-mortgage an existing home, or who sell their property within 12 months, the repayment would not be reduced as a result of any decrease in property value.

Castle Trust Capital Management Limited provides Sales and Marketing and Investment Management Services to Castle Trust Income HouSA plc and to Castle Trust PCC and its Protected Cell. The latter entities will list and offer, respectively, fixed term loan notes and redeemable preference shares on the Channel Islands Stock Exchange on a monthly basis, with maturities of 3, 5 or 10 years. The cash invested in these entities will provide funding to the Group for investment, balance sheet management and Partnership Mortgage lending purposes.

In the current financial year, a number of significant developments have taken place:

- a further injection of £5.1m share capital on 14 October 2011 to support the business through the development phase prior to launch;
- a transfer of £12.8m from share premium to retained profits in accordance with the Companies Act 2006. At the half year, this was shown as a distributable reserve. There were no restrictions on the ability to distribute this reserve at the half year, there continue to be no restrictions in this element of retained profits and as such this was amalgamated with retained earnings in the current financial year;
- the conversion of Castle Trust Capital Limited to Castle Trust Capital plc was made by Board approval on 14 October 2011 and incorporated on 24 November 2011; and
- on 4 September 2012, a further £50.6m injection of share capital was made to support the business in its operations and provide a prudent buffer above its regulatory capital requirements.

Castle Trust Capital plc

Directors' Report (continued)

Following the receipt of the necessary regulatory authorisations, the Group commenced trading 1 October 2012 as a provider of mortgages ("Partnership Mortgages") and house price linked investments ("Housas"). The Group offers a fixed term investment ('Housa') giving customers the opportunity to share in the returns of UK house prices (as measured by the Halifax House Price Index ("HHPI")). Castle Trust is licensed by the Office of Fair Trading to issue Partnership Mortgages and was granted Financial Services Authority ("FSA") permission to carry out regulated investment activities on 5 September 2012.

Operating Structure

Castle Trust will subscribe for the redeemable preference shares in the PCC or loan notes in Castle Trust Income HouSA plc and immediately sell them to the investors for payment. Castle Trust, simultaneously, will write a swap agreement for the subscription amounts between either Castle Trust PCC or Castle Trust Income HouSA plc that lends such monies from the HouSA to Castle Trust. The subscription amounts due from Castle Trust to either the PCC or Castle Trust Income HouSA plc will therefore be offset against the advance due under the derivative swap agreement. The swap transactions will be eliminated in the consolidated financial statements.

The Group has established an experienced Board of Directors and management team and has implemented a robust legal, regulatory and operational framework for its business. Costs were carefully managed during the year.

Castle Trust has a buy back arrangement over all redeemable preference share or loan notes held by investors under which, as part of selling the redeemable preference shares or loan notes to an investor, it has agreed to purchase redeemable preference share or loan notes held by that Investor on the Maturity Date if they have not been redeemed. At the redemption date, the preference share or loan note redemption by Castle Trust PCC or Castle Trust Income HouSA plc will be funded by the payment due from Castle Trust under the derivative swap which will also be extinguished at this point.

Policy and practice on payment of creditors

Creditors are paid on or before the due date of the invoice or as otherwise agreed in a contract. The average number of days in which a creditor is paid is 29 days.

Political and charitable donations

Castle Trust made no political or charitable donations in the year (2011: nil).

Future developments

Castle Trust opened for business on 1 October 2012. Castle Trust offers a fixed term investment ('Housa') giving customers the opportunity to share in the returns of UK house prices (as measured by the Halifax House Price Index). In addition it offers a new form of mortgage ('Partnership Mortgage') that gives the customer flexibility in how to buy or re-mortgage their home.

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 risks to which Castle Trust is exposed as at 30 September 2012 are Market, Currency, Interest rate and Liquidity risk. None of these risks are sought, but these risks are inherent in Castle Trust's business model, and as such are regularly measured and monitored, and appropriately managed. Risks are described in full in Note 17.

Castle Trust Capital plc

Directors' Report (Continued)

Going concern assessment

The financial statements of Castle Trust Capital plc have been prepared on the going concern basis. In assessing whether the going concern assumption remains appropriate for the Group, the directors have considered:

- business activities, future developments and the financial position of the Group.
- risk management policies and how the Group is placed to manage business risks.
- the fact that there is no material uncertainty that the Group is not a going concern.
- risks to the Group's going concern arising from support it has committed to other group members.

The Group remains adequately capitalised to continue operations prior to launch.

Directors' Indemnity and Directors' & Officers' Liability Insurance

Castle Trust maintains a Directors' and Officers' Liability Insurance policy. In accordance with Castle Trust's Articles of Association, the Board may also indemnify a director from the assets of Castle Trust 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 Castle Trust 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 he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Results and dividends

The results of the Group for the period are set out in the Consolidated Statement of Comprehensive Income on page 6. The Group has made a total comprehensive loss in the current financial year amounting to £6,602,784 (30 September 2011: £7,203,513). The directors do not recommend the payment of a dividend (2011: nil).

By order of the Board



Mr Mark Banham
Company Secretary

26 September 2013

Castle Trust Capital plc

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the non-statutory consolidated financial statements in accordance with the UKLA Prospectus Rules ANNEX 20.1 and International Financial Reporting Standards as adopted by the European Union. Under the UKLA Prospectus Rules ANNEX 20.1 the directors are required to prepare non-statutory consolidated financial statements under IFRSs as adopted by the European Union which 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 period. In preparing the non-statutory consolidated financial statements the directors are required to:

- present fairly the financial position, 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 in IFRSs as adopted by the European Union 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 financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Castle Trust Capital plc

Consolidated Statement of Comprehensive Income

For the periods ended 30 September 2011
and 30 September 2012

	Note	30 September 2012 Year £	30 September 2011 10 Months £
Interest and similar income	4	40,649	8,422
Interest and similar expense	5	(3,591)	(1,150)
Net interest income		37,058	7,272
Personnel expenses	6	(3,435,222)	(2,323,500)
Depreciation of property and equipment	9	(20,293)	(11,683)
Other operating expenses	7	(3,174,775)	(4,875,602)
Total operating expenses		(6,630,290)	(7,210,785)
Loss before tax from continuing operations		(6,593,232)	(7,203,513)
Income tax expense	8	(9,552)	-
Total comprehensive loss for the year/period		(6,602,784)	(7,203,513)
Loss for the year/period attributed to:			
Equity holders of the parent		(6,602,784)	(7,203,513)
Total Comprehensive loss attributable to:			
Equity holders of the parent		(6,602,784)	(7,203,513)

The results for all periods presented comprise continuing operations.

Notes 1 to 21 are an integral part of these financial statements.

Castle Trust Capital plc

Consolidated Statement of Financial Position


Registered No: 07454474

As at 30 September 2012

		30 September 2012 Year	30 September 2011 10 months
		£	£
Assets			
Property and equipment	9	27,757	48,050
Other receivables	10	95,318	65,057
Non-current assets		123,075	113,107
Investments	11	45,904,466	3,008,421
Trade and other receivables	12	107,633	1,559
Prepayments		-	2,400
Cash and cash equivalents		6,097,580	438,253
Current assets		52,109,679	3,450,633
Total Assets		52,232,754	3,563,740
Equity			
Share Capital	13	6,478,000	912,000
Share Premium	13	45,540,000	8,208,001
Retained earnings		(1,044,296)	(7,203,513)
Total equity		50,973,704	1,916,488
Current tax liabilities		9,552	-
Trade and other payables	14	1,212,681	1,625,274
Employee benefits	15	36,817	21,978
Total Liabilities		1,259,050	1,647,252
Total Equity and liabilities		52,232,754	3,563,740

The financial statements were approved by the Board of Directors and authorised for issue on 26 September 2013 and were signed on its behalf by:


[Director Name]


[Director Name]

Notes 1 to 21 are an integral part of these financial statements.

Castle Trust Capital plc

Consolidated Statement of Changes in Equity

For the periods ended 30 September 2011 and 30 September 2012

	Share Capital	Share Premium	Retained earnings	Total
	£	£	£	£
At 1 October 2011	912,000	8,208,001	(7,203,513)	1,916,488
Total comprehensive loss for the year	-	-	(6,602,784)	(6,602,784)
Issue of ordinary shares	5,566,000	50,094,000	-	55,660,000
Transfer to retained earnings	-	(12,762,001)	12,762,001	-
At 30 September 2012	6,478,000	45,540,000	(1,044,296)	50,973,704

The share premium reduction was approved and authorised by the board of directors on 14 October 2011 in accordance with section 642 of the Companies Act 2006. The purpose of the reduction was to reduce retained losses so that the Group's net assets were not less than the aggregate of its called up share capital and un-distributable reserves in line with section 92 (1) (c) of the Companies Act 2006 to facilitate the re-registration of Castle Trust Capital Limited as Castle Trust Capital plc.

For the period ended 30 September 2011

	Share Capital	Share Premium	Retained earnings	Total
	£	£	£	£
At 29 November 2010	-	-	-	-
Total comprehensive loss for the period	-	-	(7,203,513)	(7,203,513)
Issue of ordinary shares	912,000	8,208,001	-	9,120,001
At 30 September 2011	912,000	8,208,001	(7,203,513)	1,916,488

Notes 1 to 21 are an integral part of these financial statements.

Castle Trust Capital plc

Consolidated Statement of Cash flows For the periods ended 30 September 2011 and 30 September 2012

	Notes	30 September 2012 Year £	30 September 2011 10 months £
Cash flows from operating activities			
Loss before tax from continuing operations		(6,593,232)	(7,203,513)
Adjustments to reconcile loss before tax to net cash flow:			
Depreciation of property and equipment	9	20,293	11,683
Interest income	4	(40,649)	(8,422)
Working capital adjustments:			
Increase in trade and other receivables		(133,935)	(69,016)
(Decrease)/Increase in trade and other payables		(389,687)	1,649,961
Increase in investments		(42,896,045)	(3,008,421)
Interest paid		(3,591)	(1,150)
Net cash used in operating activities		(50,036,846)	(8,628,878)
Cash flow from investing activities			
Interest received		36,173	6,863
Purchase of fixed assets	9	-	(59,733)
Net cash flow from/(used in) investing activities		36,173	(52,870)
Cash flow from financing activities			
Proceeds from the issue of share capital		55,660,000	9,120,001
Net cash flow from financing activities		55,660,000	9,120,001
Net increase in cash at bank and in hand		5,659,327	438,253
Cash at bank and in hand brought forward		438,253	-
Cash at bank and in hand carried forward		6,097,580	438,253

Notes 1 to 21 are an integral part of these financial statements.

Castle Trust Capital plc

Notes to the non-statutory Consolidated Financial Statements For the periods ended 30 September 2011 and 30 September 2012

1. Corporate information

Castle Trust Capital plc is incorporated and domiciled in the UK. These special purpose non-statutory consolidated financial statements for the period ended 30 September 2012 were authorised for issue to support the prospectuses of Castle Trust PCC and Castle Trust Income HouSA plc in accordance with a resolution of the directors on 26 September 2013.

From 1 October 2012, Castle Trust and its subsidiaries ("the Group") will offer a fixed term investment ('Housa') giving customers the opportunity to share in the returns of UK house prices (as measured by the Halifax House Price Index). In addition the Group offers a new form of mortgage ('Partnership Mortgage') that gives the customer flexibility in how to buy or re-mortgage their home.

The Group had no income during the period except for interest earned on cash deposits and liquidity funds. The main expenses of the Group arise in the provision of sales and marketing, operations, and investment management services.

2. Accounting Policies

2.1 Basis of preparation

These special purpose non-statutory consolidated financial statements have been specially prepared to support the annual base prospectus applications of Castle Trust PCC and Castle Trust Income HouSA plc, under the historical financial reporting requirements of the UKLA Prospectus rules ANNEX 20.1.

The Group's statutory consolidated financial statements for the financial year ended 30 September 2012 were prepared under UK GAAP. These non-statutory consolidated financial statements for the year ended 30 September 2012 have been prepared in accordance with IFRS as adopted by the EU and, because they represent the Group's first IFRS financial statements, IFRS 1 "First-time Adoption of IFRS" has been applied. Accordingly, the date of transition to IFRS is 29 November 2010, being the date of Castle Trust Capital plc's (formerly Castle Trust Capital Limited) incorporation. The Group's statutory consolidated financial statements for the year ending 30 September 2013 will also be prepared under IFRS, although they will not be the Group's first IFRS financial statements.

An explanation of how the presentation under IFRS has affected the reported financial position, financial performance and cash flows of Castle Trust is provided in note 3. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous UK Generally Accepted Accounting Principles (GAAP) to those reported for those periods and at the date of transition under IFRS.

The statutory consolidated financial statements dealing with the financial year ended 30 September 2012 have been delivered to the registrar. An unqualified auditor's report was made on the consolidated statutory financial statements for that financial year. These IFRS financial statements do not constitute Statutory Accounts and do not replace the UK GAAP accounts as previously delivered to the registrar.

These non-statutory consolidated financial statements have been prepared on a historical cost basis. The non-statutory consolidated financial statements are presented in sterling and all values are rounded to the nearest pound (£) except where otherwise indicated.

The period ended 30 September 2011 covers the 10 months from the date of incorporation of Castle Trust Capital Plc (29 November 2010) to 30 September 2011. As a result, the amounts presented are not directly comparable with those for the year ended 30 September 2012. Castle Trust Capital Limited was then incorporated as Castle Trust Capital plc on 24 November 2011.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued)

For the periods ended 30 September 2011 and 30 September 2012

2. Accounting Policies (continued)

2.2 Basis of consolidation

These special purpose non-statutory consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 September 2012.

Subsidiaries are consolidated from either the date of acquisition, being the date on which the Group obtains control, or from the date at which the Group is deemed to have gained control. Subsidiaries continue to be consolidated until the date when control ceases.

The financial statements of the subsidiaries used in the preparation of these non-statutory consolidated financial statements are prepared for the same reporting period as the parent company, using consistent accounting policies, except for Castle Trust PCC, whose financial reference date is 31 October. Accounts for Castle Trust PCC are drawn up specifically for the Group accounts to cover the Group accounting period.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's non-statutory 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 disclosure 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.

The policies presented in this section comprise the IFRS accounting policies adopted for the Group that apply as at the date of authorisation of these non-statutory consolidated financial statements, of which some did not apply as at 30 September 2012.

2.3.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the non-statutory consolidated financial statements:

(i) Consolidation of special purpose entities

The Group's Ultimate Controlling Party sponsors the formation of special purpose entities (SPEs), which may or may not be directly or indirectly-owned subsidiaries of Castle Trust Capital plc. The Group consolidates the SPEs that it controls. In determining whether the Group controls an SPE, judgement is exercised to establish the following:

- whether the activities of the SPE are being conducted on behalf of the Group to obtain benefits from the SPE's operation;
- whether the Group has the decision-making powers to control or to obtain control of the SPE or its assets;
- whether the Group has rights to obtain the majority of the benefits of the SPE's activities; and
- whether the Group retains the majority of the risks related to the SPE or its assets in order to obtain benefits from its activities.

The Group's involvement with consolidated SPEs is detailed in note 20.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued)

For the periods ended 30 September 2011 and 30 September 2012

2. Accounting Policies (continued)

2.3.2 Estimates and assumptions

The key assumptions concerning the future and 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, are described below. The Group based its assumptions and estimates on parameters available when the non-statutory 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.

(i) Going concern

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

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from some observable market data (including the Halifax House Price Index ('HHPI')) but some judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as discount rates and early redemption assumptions.

(iii) Deferred tax assets

The status, measurement and treatment of deferred tax assets is disclosed in note 8 however these assets are not recognised in the non-statutory consolidated financial statements. The decision to not 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. As profits against which to offset losses are not expected to arise in the next twelve months, no asset has been recognised. The status, measurement and treatment of these potential assets are monitored on an on-going basis.

2.4 Summary of significant accounting policies

2.4.1 Financial Instruments – Classification

Financial assets and liabilities included in the Statement of Financial Position include investments, trade and other receivables and trade and other payables. The particular accounting policies adopted for these financial instruments are disclosed in the individual policy statements associated with each item below.

(i) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss relate to mortgages that will be originated by the group. These financial assets have no coupon and an explicit risk and reward sharing on the realised value of the underlying property. These financial assets are recognised initially at fair value and no Day 1 profit is recognised.

(ii) Financial assets at amortised cost

The Group classifies its investments in short term deposits and liquidity funds as loans and receivables. Trade debtors and other receivables are classified as loans and receivables.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

2. Accounting Policies (continued)

(iii) Financial liabilities at fair value through profit or loss

The Group will designate its liabilities to Redeemable Preference ('Growth Housas') shareholders and its Loan Note ('Income Housas') holders upon initial recognition as financial liabilities held at net gain/loss on financial liabilities at fair value through profit and loss.

(iv) Financial liabilities at amortised cost

Trade creditors, amounts due to staff or payable in relation to staff are recorded at amortised cost. In most instances, this equates to historic cost, as these liabilities are extinguished in a short time frame.

2.4.2 Financial instruments – initial recognition

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

2.4.3 Subsequent measurement

Subsequent to initial measurement, the Group re-measures financial instruments at fair value through profit or loss at fair value. Changes in the fair value are recognised in the Statement of Comprehensive Income. Interest and dividend income earned from such instruments are recorded separately. Other financial assets and financial liabilities are subsequently measured at amortised cost.

(i) Financial assets at fair value through profit of loss

Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in net gains/losses on financial assets at fair value through profit and loss in the income statement.

Valuation of the mortgage portfolio will be based on the the modelled value of the dwellings underlying the individual mortgages in the portfolio. The Halifax house Price index (HHPI) will provide the initial model input (adjusted for actual experience) and the index for each dwelling will be adjusted for expected individual asset volatility (adjusted for actual experience) to provide the valuation. This valuation will be verified by testing the estimated asset value distribution using an Automated Valuation Model "AVM" sample valuation and these will be verified on a random audit basis using surveyor valuations

A gain or loss will only be recognised to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. One such factor will be the change in the spot price of the underlying property. This would have the effect of recognising profit and losses over the expected life of the underlying portfolio.

(ii) Financial assets at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. The losses arising from impairment are recognised in the income statement in other operating expenses.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

2. Accounting Policies (continued)

(iii) Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in net gains/losses on financial liabilities at fair value through profit and loss in the income statement.

The fair value of financial liabilities at fair value through profit and loss will be determined by using appropriate.

2.4.4 De-recognition of financial assets and financial liabilities

(i) Financial assets

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 asset have expired

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

and 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability.

(ii) Financial liabilities

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

2.4.5 Impairment of financial assets

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

2.4.6 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise current account balances that are available on demand.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

2. Accounting Policies (continued)

2.4.7 Property and equipment

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

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition 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 income statement in the year the asset is derecognised.

2.4.8 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 income statement net of any reimbursement.

2.4.9 Taxes

(i) 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.

(ii) 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 or 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 the 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 difference 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.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

2. Accounting Policies (continued)

(ii) Deferred tax (continued)

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 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 relate to the same taxable entity and the same taxation authority.

See Note 8 for further description of the current status of deferred tax assets.

2.4.10 Dividends payable on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the period that are approved after the reporting date are disclosed as an event after the reporting date.

2.4.11 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.

2.4.12 Segmental Reporting

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

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

2.5 Standards issued but not yet effective

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

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2015, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. Adoption of the standard will not have a material impact on the current financial position or performance of the Group.

IFRS 13 – Fair Value measurement

The standard becomes effective for annual periods beginning on or after 1 January 2014. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. Adoption of the standard does not have a material impact on the current financial position or performance of the Group.

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2014. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

There are currently no Group entities that are not already considered under the control of Castle Trust Capital plc, therefore implementation of IFRS 10 will not have a material impact on the current financial position of the group.

IFRS 12 – Disclosure of Involvement with Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2014. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis.

Even if the Group concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Group to reach a different conclusion regarding consolidation.

The Group will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. However, the standard will not have

Castle Trust Capital plc

any impact on the financial position or performance of the Group.

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

3. First-time adoption of IFRS

These non-statutory consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU. These are Castle Trust's first non-statutory consolidated financial statements under International Financial Reporting Standards (IFRS) and IFRS 1 "First-time Adoption of IFRS" has been applied.

This note details the principal adjustments made by the Group in restating its UK GAAP financial statements, including the statement of financial position as at 29 November 2010 (the date of transition), the consolidated financial statements for the period ended 30 September 2011 and the consolidated financial statements for the year ended 30 September 2012.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has not utilised any exemptions, the majority of which were not applicable.

Group reconciliation of equity from UK GAAP to IFRS

Local GAAP re-measurements

The date of transition to IFRS is 29 November 2010. This was the date of Castle Trust Capital Plc's incorporation. The balances at this date were all zero opening balances; therefore there are no assets, liabilities or transactions that change when IFRS is applied at this date.

As at 30 September 2011

	Issued Capital £	Share Premium £	Retained earnings £	Total £
At 30 September 2011 under UK GAAP	912,000	8,208,001	(7,181,535)	1,938,466
IAS 19 Holiday Pay Accrual	-	-	(21,978)	(21,978)
At 30 September 2011 under IFRS	912,000	8,208,001	(7,203,513)	1,916,488

As at 30 September 2012

	Issued Capital £	Share Premium £	Retained earnings £	Total £
At 30 September 2012 under UK GAAP	6,478,000	45,540,000	(1,007,479)	51,010,521
IAS 19 Holiday Pay Accrual	-	-	(36,817)	(36,817)
At 30 September 2012 under IFRS	6,478,000	45,540,000	(1,044,296)	50,973,704

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued)

For the periods ended 30 September 2011 and 30 September 2012

3. First Time adoption of IFRS continued

Group Reconciliation of total Comprehensive Income

	30 September 2012 Year £	30 September 2011 10 months £
Loss for the period as previously stated under UK GAAP	(6,587,945)	(7,181,535)
IAS 19 Holiday Pay Accrual	(14,839)	(21,978)
Loss for the year/period under IFRS	(6,602,784)	(7,203,513)

Statement of cash flows

The transition from UK GAAP to IFRS has not had a material impact on the statement of cash flows.

4. Interest and similar income	30 September 2012 Year £	30 September 2011 10 months £
Interest earned in the UK on: Investments	<u>40,649</u>	<u>8,422</u>
5. Interest and similar expense	30 September 2012 Year £	30 September 2011 10 months £
Bank charges	3,591	1,018
Current account	-	132
	<u>3,591</u>	<u>1,150</u>
6. Personnel expenses	30 September 2012 Year £	30 September 2011 10 months £
Wages and salaries	2,716,299	1,391,451
Social security costs	349,712	235,130
Company contributions to defined contribution pension plan	198,761	43,049
Holiday accrual	14,839	21,978
	<u>155,611</u>	<u>631,892</u>
Other personnel costs	<u>3,435,222</u>	<u>2,323,500</u>
Monthly average number of people employed during the year (No.) of which:		
Finance, legal and administration	20	11
Operations	6	3
	14	8

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued)

For the periods ended 30 September 2011 and 30 September 2012

(a) Directors remuneration:

	30 September 2012 Year	30 September 2011 10 months
Aggregate remuneration in respect of qualifying services (£)	683,954	477,109
Number of directors accruing benefits under defined contribution pension schemes in respect of qualifying services (No.)	1	1
Company contributions paid to defined contribution pension schemes in respect of qualifying services (£)	32,999	16,500
The highest paid director received a salary of (£)	300,000	301,646

7. Other operating expenses

	30 September 2012 Year £	30 September 2011 10 months £
Advertising and marketing	1,029,517	694,434
Administration costs	688,511	1,905,926
Professional fees	1,220,075	2,009,964
Rental charges paid under operating leases	407,926	228,401
Regulatory fees	-	-
Recoverable VAT	(211,589)	-
Other operating expenses	40,335	36,877
	<u>3,174,775</u>	<u>4,875,602</u>

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

Auditors' Remuneration

	30 September 2012 Year £	30 September 2011 10 months £
Audit services	30,000	30,000
Non audit services:		
Taxation compliance services	13,080	-
Audit related assurance services	9,000	-
Other assurance services	90,600	109,560
	<u>112,680</u>	<u>109,560</u>
Total auditors' remuneration	<u>142,680</u>	<u>139,560</u>

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued)

For the periods ended 30 September 2011 and 30 September 2012

8. Income tax

The components of income tax expense for the periods ended:	30 September 2012	30 September 2011
	Year	10 months
	£	£
Current tax		
Current income tax	9,552	-
Reconciliation of total tax charge		
Accounting loss before tax	(6,593,232)	(7,203,513)
At prevailing UK statutory income tax rate of 25% (2011: 27%)	(1,648,308)	(1,944,948)
Expenditure for which a deferred tax asset is not recognised	1,657,861	1,944,948
Income tax expense reported in the consolidated statement of comprehensive income	9,552	-

The effective tax rate is calculated as the average rate for the period under review. The fiscal year in the UK runs from 6th April to 5th April, therefore Castle Trust is subject to an average tax rate calculated over the two six month periods of its statutory accounting year.

As at 30 September 2012, the Group had total pre-trading expenses of £11,732,734 in respect of which a deferred tax asset of £2,933,184 has not been recognised due to uncertainty surrounding the availability of taxable profits against which these could be offset.

The Government has announced its intention to reduce the UK corporation tax rate to 23% from 1 April 2013 and 21% from 1 April 2014. The 23% rate was enacted after the balance sheet date and the 21% rate is yet to be enacted. The Finance Act 2013 was substantially enacted on 17 July 2013; it includes further provisions reducing the Corporation Tax rate to 20% from April 2015. The value not recognised would have been £2,346,547 had the 20% rate applied.

9. Property and equipment

	30 September 2012	30 September 2011
	£	£
Office and computer equipment		
Cost		
At 1 October 2011 and 29 November 2010	59,733	-
Additions	-	59,733
At 30 September	59,733	59,733
Depreciation and Impairment		
At 1 October 2011 and 29 November 2010	11,683	-
Depreciation charge for the year/period	20,293	11,683
At 30 September	31,976	11,683
Net book value		
At 1 October 2011 and 29 November 2010	48,050	-
At 30 September	27,757	48,050

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

10. Other receivables

	31 September 2012	31 September 2011
	£	£
Deposit on property rental	64,300	64,300
Amounts due from related parties	31,018	757
	<u>95,318</u>	<u>65,057</u>

The fair value of other receivables approximates to cost as presented in the Statement of Financial Position and these related notes. They are subject to devaluation over time due to the impact of inflation and when the impact of inflation results in a material difference, revised fair values will be disclosed.

11. Investments

	30 September 2012	30 September 2011
	£	£
Investments	<u>45,904,466</u>	<u>3,136,248</u>

Investments are in 'AAA' rated Sterling liquidity funds. Funds are priced daily and can be recalled at one day's notice. These are short term investments with one month duration. The fund can invest in certificates of deposit, commercial papers, medium term notes, variable rate notes, floating rate notes, bankers acceptances, government bonds, treasury bills, Eurobonds, asset backed securities and corporate bonds. Investments are included at cost, which approximates to fair value, since they are priced on a daily basis.

12. Trade and other receivables

	30 September 2012	30 September 2011
	£	£
Accrued income	2,298	1,559
VAT receivable	<u>105,335</u>	-
	<u>107,633</u>	<u>1,559</u>

The fair value of trade and other receivables approximates to cost as presented in the Statement of Financial Position and these related notes, as the receipt of the related cash is not more than three months from the date of the recognition of the asset and is not subject to external prices or index changes.

Accrued income consists of interest due and payable on the funds held in the HSBC liquidity fund, classified as Investments in the Statement of financial position.

The Group is in an overall VAT receipt position due to the significant start up costs occurred ahead of the start of operations in October 2012.

The Group has no sales as yet; therefore there are no trade debtors.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

13. Share Capital

	30 September 2012	30 September 2011
Issued capital		
Authorised, allotted, called up and fully paid		
Ordinary shares (Number)	<u>64,780,001</u>	<u>9,120,001</u>
Ordinary shares (£) at £0.10 par value per share	<u>6,478,000</u>	<u>912,000</u>

Movement in issued share capital for the year ended 30 September:

	Issued Capital £	Share Premium £	Total £
At 1 October 2011	912,000	8,208,001	9,120,001
Issue of share capital	5,566,000	50,094,000	55,660,000
Transfer to retained earnings	-	(12,762,001)	(12,762,001)
At 30 September 2012	<u>6,478,000</u>	<u>45,540,000</u>	<u>52,018,000</u>
At 29 November 2010	-	-	-
Issue of share capital	912,000	8,208,001	9,120,001
At 30 September 2011	<u>912,000</u>	<u>8,208,001</u>	<u>9,120,001</u>

The transfer to retained earnings reflects the cancellation of £12,762,001 Share Premium in the year.

14. Trade and other payables

	30 September 2012	30 September 2011
	£	£
Accounts payable and sundry creditors	299,868	181,574
Accruals and deferred income	912,813	1,443,700
	<u>1,212,681</u>	<u>1,625,274</u>

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

Castle Trust Capital plc and Castle Trust Capital Management Ltd maintain an actively managed capital base to cover risks inherent in the businesses and meet the capital requirements of the FSA. The adequacy of the companies' capital is monitored using, among other measures, the rules and ratios established by the FSA in supervising Castle Trust. On 1 April 2013, the FCA ("Financial Conduct Authority") and the PRA ("Prudential Regulation Authority") replaced the FSA as Financial Service regulators. Castle Trust Capital plc and Castle Trust Capital Management Limited have been under FCA regulation from that date.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

15. Employee benefits

	30 September 2012 £	30 September 2011 £
Holiday accrual	<u>36,817</u>	<u>21,978</u>

Employee benefits consist solely of the recognition of a holiday accrual, which represents the liability of the Group to its employees in terms of salary value of their unused holiday at the period close dates. This represents the only re-measurement difference between and adoption adjustment to the former UK GAAP and the newly adopted IFRS standards.

16. Capital management

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

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

Castle Trust Capital plc and Castle Trust Management Limited were granted Financial Services Authority ("FSA") permission to carry out regulated investment activities on 5 September 2012.

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

The first Capital Adequacy return relevant to this period of accounts was prepared as at and for the 25 days to 30 September 2012. Both entities met their 125,000 Euro capital requirement in the period.

The table below sets out the Tier 1 capital position, as reported to the FSA, of the entities at that date:

Regulatory capital	CTC 30 September 2012	CTCM 30 September 2012
Tier 1 capital	51,471	564
Risk weighted assets	45,904	-
Tier 1 capital ratio (%)	2,524	626

Note that neither entity has tier 2 capital and neither entity was FSA regulated in the year ended 30 September 2011, therefore there are no comparatives available for the prior period.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

17. Financial risk management

Castle Trust's activities expose it to various types of financial risk that are associated with financial instruments and markets in which it participates. Castle Trust's overall risk management objective is to minimise the potential adverse effects of these financial risks on its performance and maximise the correlation of Castle Trust's performance to the HHPI. The Investment Manager monitors and reports to the directors the performance of Castle Trust, at least quarterly.

17.1 Market risk

The Group will be exposed to market risk in the form of basis risk. The basis risk represents the risk that the portfolio of mortgages originated by the Group does not match those used in computing the HHPI and hence a mismatch may occur between the value of the mortgages to be recovered and the liabilities arising on redemption of the redeemable preference shares and loan notes. Basis risk can be split into "experienced basis risk" and "mark to market basis risk". From a profitability perspective, the mark to market basis risk is most relevant, but from a liquidity perspective, the relevant metric is experienced basis risk.

Mark to market basis risk is significantly lower than experienced basis risk as the asset valuation methodology is on a very similar basis to the liability valuation methodology. This experienced basis risk is expected to rapidly reduce in later years as the portfolio experiences more turnover. As the whole portfolio grows in size, it experiences proportionally lower basis risk, so basis risk is a continually reducing risk.

In order to actively manage the experienced basis risk down, assets are selected on the basis of geography, borrower type, and property age in order to most accurately reflect the movements in the HHPI. For further details please refer to Note 17.5

17.2 Credit Risk

Retail credit risk is inherent in the Castle Trust Partnership Mortgage product. This risk is managed in the loan origination and servicing processes. The Company 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. No Partnership Mortgages have yet been sold.

17.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Castle Trust's functional and operational currency is GBP and all contracts are in GBP, therefore, there is little to no currency risk exposure.

17.4 Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments such as the Housa investment deposits. Castle Trust manages interest rate risk by placing funds on deposit with a variety of credit institutions with varying durations.

17.5 Liquidity risk

Liquidity risk is the risk that Castle Trust will encounter difficulty in meeting obligations associated with its financial liabilities. Active management of the duration profile of the assets and liabilities significantly reduces the Company's exposure to liquidity risk. In addition, a minimum twenty per cent of the balance of funds received from the issuance of the redeemable preference shares and loan notes will be maintained once Partnership Mortgage lending begins, to maintain adequate liquidity to service redemption obligations.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

17.5 Liquidity risk continued

Triggers which define risk tolerance have been determined by the Risk Committee, which has been delegated authority from the main Board. These risk limits can only be changed with Board approval, and are reviewed on a quarterly basis.

The table below indicates the maturity profile of Castle Trust's financial assets and financial liabilities at the reporting date. The analysis is based on the remaining period to contractual maturity date as at the reporting date.

30 September 2012	On demand	Less than 3 months
	£	£
Financial assets		
Other investments	45,904,466	-
Trade and other receivables	-	107,633
Cash and cash equivalents	6,097,580	-
Total undiscounted financial assets	52,002,046	107,633

Other related party assets of £31,018 (2011 - £757) are due in more than one year.

30 September 2011

	On demand	Less than 3 months
	£	£
Other investments	3,008,421	-
Trade and other receivables	-	1,559
Cash and cash equivalents	438,253	-
Total undiscounted financial assets	3,446,674	1,559

18. Commitments	30 September 2012	30 September 2011
	£	£
The Group had annual commitments under non-cancellable operating leases related to Land and buildings as set out below:		
Within one year	432,000	482,250

19. Related party disclosures

During the period the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances with other related parties, are as follows:

Balances with and transactions with Castle Trust Holdings Jersey Limited

	2012	2011
	£	£
Transactions in the period/year to 30 September	30,261	757
Balances at 30 September	31,018	757

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

19. Related party disclosures continued

Balances with and transactions with Castle Trust Capital Management Limited:

	2012	2011
	£	£
Transactions in the period/year to 30 September	1,514,907	1,679,362
Balances as at 30 September	-	1,679,362

The nature of transactions entered into during the year was in relation to business establishment costs. The outstanding intercompany balance between Castle Trust Capital plc and Castle Trust Capital Management Limited of £3.2m was waived during the year. This has been treated as a capital contribution for accounting purposes and is eliminated on consolidation. All transactions are carried out on an arms-length basis and are repayable according to the terms of the agreements in place.

Ultimate Controlling Party

In the director's opinion, Castle Trust's immediate parent undertaking is Castle Trust Holdings (Jersey) Limited which is incorporated in the Channel Islands. Castle Trust's ultimate parent company is CTC Holdings (Cayman) Limited which is incorporated in the Cayman Islands.

20. Consolidated entities

Investments in subsidiaries

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

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

Consolidation of special purpose entities

The shares in the Castle Trust PCC ("the PCC") and its cell ("the PC") are held by an independent nominee company, whose shares are held in trust. Although Castle Trust Capital plc does not own, directly or indirectly, any of the share capital of the PCC or PC or their parent companies, it retains the majority of the residual risks and rewards related to the assets, liabilities and returns of the companies, and they have therefore been treated as subsidiaries for the purpose of consolidation of the consolidated financial statements. Note that as at 30 September 2012, these entities have yet to start trading.

Castle Trust Capital plc

Notes to the non-statutory consolidated financial statements (continued) For the periods ended 30 September 2011 and 30 September 2012

20. Consolidated entities continued

Castle Trust will enter into derivative swap transactions each month with the PC. The substance and legal form of this transaction is to transfer the PC's liability to its investors to the balance sheet of Castle Trust Capital plc. In addition, Castle Trust will receive and manage the funds received from Housa investors and will offer loans of these funds as Partnership Mortgages, up to a maximum of 80% of the balance of funds received.

In addition, the Group through Castle Trust Capital Management Limited provides Sales and Marketing, and Investment Management services to the PC, thereby providing the majority of its operational functionality. The terms of the Investment Management agreement do not include a restricted mandate; therefore the Group is able to substantially control the results of the PC.

21. Post balance sheet events

The business launched the Mortgage business on 1 October 2012 and the Investment business on 4 October 2012.