Charles Street Commercial Investments Limited

Annual Report and Financial Statements

For the year ended 31 March 2018

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Company Registration No. 01739793

Charles Street Commercial Investments Limited

Annual report and financial statements for the year ended 31 March 2018

Contents

Officers and professional advisers

Directors

HN Moser
GD Beckett
M Mulgrew

Secretary

GD Beckett

Registered office

Lake View
Lakeside
Cheadle
Cheshire
SK8 3GW

Bankers

The Royal Bank of Scotland PLC
Spinningfields
Manchester
M3 3AP

Directors' report

The directors present their annual report and the unaudited financial statements for the year ended 31 March 2018.

Business review

Business model and strategy

The principal activity of Charles Street Commercial Investments Limited ('the Company') continues to be that of financiers.

Results and dividends

As shown in the Company's statement of comprehensive income on page 5, profit after tax has increased to £7,373,978 (2017: £6,461,789).

The directors of the Company do not recommend the payment of a dividend.

Position

As shown in the statement of financial position on page 6, loans and advances to customers have increased by 53.2% to £70,429,681 (2017: £45,958,924) as new mortgages have originated through the company. Furthermore shareholder's funds have increased by 43.1% to £24,488,147 (2017: £17,114,169) due to the retained profit for the year.

Principal risks and uncertainties

Credit risk

Credit risk is the risk arising as result of default by customers or counterparties due to failure to honour obligations when they fall due.

The Company is exposed to changes in the economic position of its customers, which may adversely impact their ability to make loan repayments. The level of this risk is driven both by macroeconomic factors and by factors relating to specific customers such as a change in the borrower's circumstances.

Liquidity and funding risk

Liquidity risk is the risk that the Company is unable to meet its current and future financial obligations as they fall due, or can do so only at excessive cost.

Liquidity and funding risk is managed and mitigated by the regular monitoring and forecasting of cash inflows and outflows. The Company's liquidity and funding position was further strengthened on 30 October 2018, when the Company entered into a three year £25m revolving credit facility.

Market risk

Market risk is the risk arising from adverse movements in market values, including movements in interest rates.

The Company does not carry out proprietary trading or hold positions in assets or equity which are actively traded, nor does it engage in any treasury trading operations. It also has no foreign currency exposure. Therefore the main market risk potentially faced by the Company is interest-rate risk, the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates.

Approved by the Board of Directors
and signed on behalf of the Board

GD Beckett
Director
21 December 2018
Directors

The directors of the Company are set out on page 1.

Directors' report

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate arrangements are made to meet their needs. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Environment

As the Company operates in the financial services sector, its actions do not have a significant environmental impact. However, the Company does recognise the importance of the environment, and acts to minimise its impact on the environment wherever it can, including recycling and reducing energy consumption.

Statement of going concern

As set out in the statement of directors' responsibilities, the directors are required to prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors have assessed, in the light of current and anticipated economic conditions, the Company's ability to continue as a going concern. The directors confirm they are satisfied that the Company have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going-concern basis for preparing financial statements.

Auditor

The company qualified as a small company per the Companies Act 2006 (s382 (3)) in prior period therefore it is eligible for an audit exemption in the current reporting period. An exemption has been taken in relation to the requirement to have accounts audited in the current year.

Approved by the Board of Directors
and signed on behalf of the Board

GD Beckett
Director
21 December 2018

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Statement of comprehensive income
Year ended 31 March 2018
Unless otherwise indicated, all amounts are stated in £

Income statement		**2018**	**2017**
Interest receivable and similar income	4	10,675,874	9,529,750
Interest payable and similar charges	5	(1,147,988)	(886,063)
Net interest income		**9,527,886**	**8,643,687**
Fees and commission income	6	106,831	113,342
Fees and commission expense	7	(34,353)	(13,103)
Other Income	8	4,460	4,770
Operating income		**9,604,824**	**8,748,696**
Administrative expenses	9	(28,605)	(1,436)
Operating profit		**9,576,219**	**8,747,260**
Impairment losses	12	(242,974)	(500,791)
Profit before taxation		**9,333,245**	**8,246,469**
Income tax	11	(1,959,267)	(1,784,680)
Profit after taxation		**7,373,978**	**6,461,789**

The results for the current and preceding years relate entirely to continuing operations. There is no other comprehensive income in either year.

Statement of financial position

As at 31 March 2018

Unless otherwise indicated, all amounts are stated in £

	Note	2018	2017
Assets			
Cash and cash equivalents		5,092,170	7,832,405
Loans and advances to customers	12	70,429,681	45,958,924
Other assets	13	6,519	69,691
Investment property	14	60,000	60,000
Total assets		**75,588,370**	**53,921,020**
Liabilities			
Borrowings	15	44,968,080	32,485,174
Other liabilities	16	3,736,331	2,527,246
Current tax liabilities		2,395,812	1,794,431
Total liabilities		**51,100,223**	**36,806,851**
Equity			
Share capital	17	2	2
Revaluation reserve	18	48,000	48,000
Retained earnings		24,440,145	17,066,167
Total equity		**24,488,147**	**17,114,169**
Total equity and liabilities		**75,588,370**	**53,921,020**

For the year ending 31 March 2018, the Company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

These financial statements were approved and authorised for issue by the Board of Directors on 21 December 2018.

Company Registration No. 01739793

Signed on behalf of the Board of Directors

GD Beckett
Director

HN Moser
Director

Statement of changes in equity

Year ended 31 March 2018

Unless otherwise indicated, all amounts are stated in £

2018	Called-up share capital	Revaluation reserve	Retained earnings	Total
At beginning of year	2	48,000	17,066,167	17,114,169
Retained profit for the financial year	-	-	7,373,978	7,373,978
At end of year	**2**	**48,000**	**24,440,145**	**24,488,147**

2017	Called-up share capital	Revaluation reserve	Retained earnings	Total
At beginning of year	2	48,000	10,604,378	10,652,380
Retained profit for the financial year	-	-	6,461,789	6,461,789
At end of year	**2**	**48,000**	**17,066,167**	**17,114,169**

Notes to the financial statements

1. Reporting entity and general information

Charles Street Commercial Investments Limited is incorporated and domiciled in the UK. The Company is a private company, limited by shares, and registered in England (Company number: 01739793). The registered address of the Company is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW. The Company is primarily involved in financial services.

2. Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current year and the preceding year.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102) and the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of presentation of a cash flow statements.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Going concern

The directors have assessed, in the light of current and anticipated economic conditions, the Company's ability to continue as a going concern. The directors confirm they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going-concern basis for preparing financial statements.

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the expected life of the instrument. The effective interest rate is the rate that, at inception of the instrument, discounts its estimated future cash payments or receipts to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Company takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, transaction costs and other premiums or discounts that relate to the origination of the instrument.

Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

Fee and commission income and expense

Fees and commissions which are an integral part of the effective interest rate of a financial instrument are recognised as an adjustment to the contractual interest rate and recorded in interest income.

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accruals basis when the service has been provided.

Fee and commission expenses primarily consist of legal and valuation fees and credit search fees.

2. Significant accounting policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and liabilities on a net basis.

Financial assets & liabilities

Financial assets

The majority of the Company's financial assets are categorised as loans and receivables. Loans and receivables are predominantly mortgage loans and advances to customers with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell in the near term. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset have expired or where substantially all the risks and rewards of ownership have been transferred.

Financial liabilities

The Company's financial liabilities are designated as financial liabilities held at amortised cost and largely consist of borrowings and amounts owed to related parties. A financial liability is measured initially at a fair value less the transaction costs that are directly attributable to its issue. Interest and fees payable on the borrowings are recognised in the income statement over the term of the instruments using the effective interest rate method.

Financial liabilities are derecognised when their contractual obligations are discharged, cancelled or have expired.

Cash and cash equivalents

Cash comprises cash in hand, demand deposits and bank overdrafts. Cash equivalents comprise highly liquid investments which are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including short-term highly liquid debt securities.

2. Significant accounting policies (continued)

Impairment of financial assets

The Company regularly assesses whether there is evidence that financial assets are impaired. Financial assets are impaired and impairment losses incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the assets and prior to the reporting date and that have had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the original effective interest rate. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed. Impairment losses and any subsequent reversals are recognised in the income statement.

Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the asset group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. In addition, the Company uses its experienced judgement to correct model deficiencies and systemic risks where appropriate and supported by historical loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and improves reliability.

Where a loan is uncollectable, it is written off against the related allowance. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are taken through the income statement.

Investment properties

A valuation of investment property is made periodically at fair value by the directors. Changes in the fair value of investment property are recognised in the income statement.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in the income statement in the year in which the property is derecognised.

Rental income

Rental income is recognised in the statement of comprehensive income over the term of the lease.

Notes to the financial statements (continued)

3. Critical accounting estimates and judgements

In applying the accounting policies set out above, the Company makes significant estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

a) Loan impairment allowances

Allowances for loan impairment represent management's best estimate of the losses incurred in the loan portfolios at the reporting date. Charges to the allowances for loan impairment are reported in the income statement as impairment losses on loans and advances. Impairment allowances are made on all loans if there is objective evidence of impairment as a result of one or more subsequent events and its impact can be reliably estimated.

Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loan's original effective interest rate. Impairment losses determined on a portfolio basis are calculated using a formulaic approach which allocates a loss rate dependent on the arrears status of the loan. Loss rates are based on the discounted expected future cash flows, from historical experience and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral. All impairment losses are reviewed at least annually.

b) Revenue

Interest receivable

The effective interest rate method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The estimated future cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses. Models are reviewed at least annually to assess expected lives of groups of assets based upon actual repayment profiles.

Fees and commission

Fee and commission income is recognised depending on the nature of service provided:

- income which forms an integral part of the effective interest rate is recognised as an adjustment to the contractual interest rate and recorded in interest income;
- income earned from provision of services is recognised as the services are provided; and
- income earned on the execution of a significant act is recognised when the act is completed.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £

4. Interest receivable and similar income

	2018	2017
Interest on loans and advances to customers	**10,675,874**	**9,529,750**

Included within interest on loans and advances to customers is £nil (2017: £7,524) relating to impaired loans.

5. Interest payable and similar charges

	2018	2017
On borrowings	**1,147,988**	**886,063**

6. Fee and commission income

	2018	2017
Fee income on loans and advances to customers	106,706	121,691
Other fees receivable	125	(8,349)
	106,831	**113,342**

7. Fee and commission expense

	2018	2017
Legal, valuations and other fees	**34,353**	**13,103**

8. Other income

	2018	2017
Rental income	4,460	4,420
Other income	-	350
	4,460	**4,770**

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £

9. Administrative expenses

	Note	2018	2017
Staff costs	10	25,736	-
Other administrative costs		2,869	1,436
		28,605	**1,436**

10. Staff costs

The average monthly number of employees, including executive directors, was:

	2018	2017
Management and administration	**No.**	**No.**
Full time	-	-
Part time	4	-
	4	**-**

The aggregate remuneration of employees was as follows:

Staff remuneration	**2018**	**2017**
Wages and salaries	24,827	-
Employer's national insurance costs	909	-
	25,736	**-**

There were no director emoluments paid in the year (2017: £nil).

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £

11. Income tax

	2018	2017
Current tax		
Corporation tax	1,959,267	1,805,447
Adjustment in respect of previous years	-	(20,767)
	1,959,267	**1,784,680**

Corporation tax is calculated at 19.00% (2017: 20.00%) of the estimated taxable profit for the year.

The differences between the tax charge for the year and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2018	2017
Profit before tax	9,333,245	8,246,469
Tax on profit at standard UK corporation tax rate of 19.00%/20.00%	1,773,317	1,649,294
Effects of:		
Movement in short term timing differences	185,950	156,153
Adjustments to tax charge in respect of previous periods	-	(20,767)
Total tax charge for the period	**1,959,267**	**1,784,680**

12. Loans and advances to customers

	2018	2017
Gross loans and advances	76,336,549	52,021,145
Less: allowances for impairment on loans and advances	(5,906,868)	(6,062,221)
	70,429,681	**45,958,924**

Gross loans and advances are repayable:

	2018	2017
Due within one year	65,404,244	34,004,695
Due within 1-5 years	10,070,116	17,212,446
Due after five years	862,189	804,004
	76,336,549	**52,021,145**

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £

12. Loans and advances to customers (continued)

Allowance for impairment losses	2018	2017
At beginning of year	(6,062,221)	(5,483,880)
Release/(charge) to the income statement	155,353	(585,865)
Unwind of discount	-	7,524
At end of year	**(5,906,868)**	**(6,062,221)**

Impairment losses for year	2018	2017
Release/(charge) to the income statement	155,353	(585,865)
Amounts released from deferred income	92,550	85,074
Amounts written off	(490,877)	-
	(242,974)	**(500,791)**

13. Other assets

	2018	2017
Other debtors	**6,519**	**69,691**

14. Investment property

	2018	2017
Valuation at beginning and end of year	**60,000**	**60,000**

15. Borrowings

	2018	2017
Loan notes	**44,968,080**	**32,485,174**

The loan notes are provided by the Moser Trust, members of the Moser Family and other non-related parties. The amount of loan notes reported represents the Company's net liability.

16. Other liabilities

	2018	2017
Amounts owed to related parties	116,535	304
Accruals and deferred income	3,598,258	2,512,401
Trade creditors	433	433
Other creditors	21,105	14,108
	3,736,331	**2,527,246**

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £

17. Share capital

Authorised	2018	2017
1,000 ordinary shares of £1 each	**1,000**	**1,000**

Called-up, allotted and fully paid	2018	2017
2 ordinary shares of £1 each	**2**	**2**

18. Revaluation reserve

	2018	2017
Balance at beginning and end of year	**48,000**	**48,000**

19. Related party transactions

Relationships

The Company has the following related parties:

Entity	Nature of transactions
Blemain Finance Limited	The Company performs collection and arrears-management activities for Charles Street Commercial Investments loans. Blemain Finance Limited manages accounts payable on behalf of the Company.
Auction Finance Limited, Bridging Finance Limited, Together Commercial Finance Limited	Cash receipts due from the Company.
Moser Trust and members of the Moser family	Interest bearing loans.
Sterling Property Co. Limited	Property management fees.
Sunnywood Estates Limited	The Company provides a loan on a commercial basis secured on certain assets of this company. This loan is assessed for impairment in keeping with loans and advances to third-party customers.

Balances due to or from the above entities are interest-free and repayable on demand, unless otherwise stated.

Transactions

The Company had the following transactions with related parties during the year:

	2018		2017	
	Charge/ (credit) to income or equity	Paid/ (received)	Charge/ (credit) to income or equity	Paid/ (received)
Interest on related party loans	1,079,117	99,916	871,025	76,886
Accounts payable transactions, cash receipts and transfers	-	(185,922)	-	(629,193)
	1,079,117	**(86,006)**	**871,025**	**(552,307)**

20. Events after the reporting period

On 30 October 2018 the Company entered into a three year, £25m revolving credit facility provided by NatWest Bank PLC and a £12.5m term loan provided by Insight Investment.