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Cheshire Mortgage Corporation Limited Annual Report and Financial Statements

For the year ended 30 June 2016

Company Registration No. 02613335

CHESHIRE MORTGAGE CORPORTATION LIMITED
Annual report and financial statements for the year ended 30 June 2016

Contents

Officers and professional advisers

DIRECTORS

PS Ball	(Appointed 5 September 2016)
R Baxter*	(Appointed 22 March 2016)
GD Beckett	
DJ Bennet*	
MJJR Golby	(Appointed 22 March 2016)
MR Goldberg	
CM Kersley*	(Appointed 25 April 2016)
RM McTighe*	
HN Moser	
JM Shaoul*	
SP Baker	(Resigned 27 April 2016)
W Bowser*	(Resigned 23 March 2016)
GA Jennison	(Resigned 30 September 2015)
SJ O'Hare	(Resigned 23 March 2016)

* Non-Executives

SECRETARIES

GD Beckett	(Resigned 26 April 2016)
NA Dale	(Appointed 25 April 2016)

REGISTERED OFFICE

Lake View
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SK8 3GW

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
2 Hardman Street
Manchester
United Kingdom, M3 3HF

PRINCIPAL BANKERS

Barclays Bank
5 The North Colonnade
Canary Wharf
London
E14 4BB

HSBC Bank PLC
8 Canada Square
London
E14 5HQ

Lloyds Bank PLC
10 Gresham Street
London
EC2V 7AE

Natixis
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25 Dowgate Hill
London
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The Royal Bank of Scotland PLC
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LEGAL ADVISERS

Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
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E14 5JJ

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70 Great Bridgewater Street
Manchester
M1 5ES

Shearman and Sterling LLP
Broadgate West
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EC2A 2AP

Strategic report

The directors present their annual report and the audited financial statements for the year ended 30 June 2016.

Business review

Business model and strategy

The principal activity of Cheshire Mortgage Corporation Limited ('the Company') continues to be that of financiers. The Company is a wholly-owned subsidiary of Jerrold Holdings Limited which, with its subsidiaries, operates as the Together group of businesses. The Company offers mortgage loans to markets under-served by mainstream lenders. During the year, the Company has seen an increase in origination levels of first charge mortgages and from March 2016, commenced the origination of second charge mortgages which were previously originated through Blemain Finance Limited, a fellow subsidiary of Jerrold Holdings Limited.

The Company underwrites and services all its loans in house and all operations are located at its head office.

Results and dividends

As shown in the Company's statement of comprehensive income on page 10, profit after tax has increased slightly to £2.5m (2015: £2.4m).

The directors of the Company do not recommend the payment of a dividend (2015: £nil).

Position

As shown in note 10 to the financial statements, loan book values (classified as trade debtors) have increased significantly by 83% to £136.4m (2015: £74.5m) due to the increased origination levels of first and second charge mortgages, as noted above. At the same time, shareholder's funds have increased by 16% to £17.6m (2015: £15.2m). The gearing ratio (being the ratio of debt to equity) has increased to 6.69:1 (2015: 3.85:1) due to an increase in the securitisation facilities (net of debt issue costs) and an increase in the net amounts owed to Group undertakings during the financial year to fund the increased loan book. For the purposes of calculating the Company's gearing ratio the net amounts owed to Group undertakings are treated as 'debt'.

Liquidity

The Company is financed by its parent company, Jerrold Holdings Limited, and a securitisation facility provided by Charles Street Conduit Asset Backed Securitisation 1 Limited.

On 27 August 2015 the Group successfully refinanced its revolving credit facility (bank loans), securing funds of £18m, and on 11 January 2016 raised a further £11m thereby increasing the facility to £29m (2015: £25m). The facility will run until August 2017.

On 13 October 2016, the Group successfully issued £375m senior secured notes due in 2021, refinancing the £300m senior secured notes due in 2018.

Loan notes are provided through a revolving securitisation facility, Charles Street Conduit Asset Backed Securitisation 1 Limited (Charles Street ABS) established in 2007. The facility is secured on specific loan assets. On 7 March 2016, the Charles Street ABS facility ratings were re-confirmed as Aa2 by Moody's and AA by DBRS. The facility was further increased on 7 March 2016 from £675m to £1bn and the term extended to January 2021.

The raising of the additional debt amounts, detailed above, demonstrates the continued appetite and support for the Company and the Jerrold Holdings Group from its bankers and the capital markets.

The Board of Jerrold Holdings Limited has confirmed that it will continue to provide funding to the Company for the foreseeable future.

Business review (continued)

Liquidity (continued)

The ability of the Company to service its debts is measured using an interest cover ratio, being profit before tax and interest divided by interest payable. This has decreased to 1.83:1 (2015: 1.94:1). The Company closely monitors its liquidity position against its business plan on a regular basis taking into consideration the level of redemption activity, recurring income levels, planned expenditure and new business advance levels. Any material deviations are identified and appropriate action taken to ensure that sufficient liquidity headroom exists at all times.

Economic conditions

The Company and wider Group are impacted by business and economic conditions in the United Kingdom. To mitigate adverse economic conditions the Company underwrites each loan application in detail undertaking affordability, repayment and property valuation assessments. The Company lends conservatively against property valuations to protect its security position should property prices move adversely.

Economic conditions within the UK have improved since the financial crisis, with interest rates remaining stable and low, unemployment rates falling and property prices increasing. The vote to leave the EU in June 2016 created some economic uncertainty. It is too early to identify the implications of the Brexit vote as this will depend on the success of the forthcoming negotiations to determine the terms of the UK's future relationship with the EU.

Whilst uncertain and adverse economic conditions may present challenges, such conditions may also present opportunities for specialist lenders and reduce competition.

Regulatory and legal considerations

The Company's operations must also comply with the relevant UK and EU regulations including anti-money laundering regulations and the Data Protection Act 1998. The activities of the company are regulated by the Financial Conduct Authority, "FCA", including arranging regulated mortgage contracts and entering into and administering the same. The FCA has prescribed rules, principles and guidance (the "FCA Rules") with which we must comply. The Company has an experienced team of professionals and third-party advisers who provide oversight and support to ensure it continues to meet regulatory and legal standards.

Principal risk and uncertainties

Credit risk

Credit risk is the risk of suffering financial loss should borrowers default on their contractual obligations. 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 by both macro-economic factors, as well as by factors relating to specific customers, such as a change in the borrower's circumstances. Note 17 to the accounts provides detailed financial disclosures relating to credit risk.

Liquidity 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. The Company and the Group actively monitors and considers compliance with its funding covenants, including formal monthly reporting and by performing stress-test analysis as part of its budgeting and forecasting process.

Strategic report (continued)

Principal risk and uncertainties (continued)

Market risk

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. The Company has limited material market risk as its loan book consists primarily of variable rate mortgages. In addition, the Company has the ability to undertake hedging transactions in order to mitigate potential interest rate risk.

Conduct risk

Conduct risk is the risk of customer detriment arising from the Company's behaviors, products or interactions. The Company has no appetite for activities that may cause detriment to customers and requires all colleagues to behave and conduct business activities in accordance with the Company's values. Individual departments monitor conduct risk through quantitative and qualitative measures. The Conduct Excellence Committee monitors the effectiveness of this and reports on it to the Board.

Compliance risk

Compliance risk is the risk of failure to comply with existing regulation and the potential impacts of changes in regulation on the Company's markets and operations. The Company mitigates compliance risk through robust control frameworks and quality assurance reviews in operational areas supported by experienced risk and compliance departments.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company uses its operational systems and controls to mitigate these risks, including policies and procedures to manage specific risks. It has taken steps to ensure its IT infrastructure meets operational performance needs, is sufficiently resilient and has controls in place to mitigate cyber risk. A documented and tested business continuity plan is in place to enable the recovery of operations in the event of an incident. Financial crime-prevention controls are in place and are overseen by the risk department.

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

GD Beckett
Chief Financial Officer

20 October 2016

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. This is achieved through formal and informal meetings and internal publications. 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, in preparing the financial statements 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 of the Company have considered the Company's forecast funding and liquidity positions and applied reasonable sensitivities thereon in order to confirm that the preparation of the Company's financial statements on a going concern basis is appropriate.

The Company is reliant on its parent company, Jerrold Holdings Limited, for a significant proportion of its funding. The Board of Jerrold Holdings Limited has confirmed that it is a going concern and that it will provide funding to the Company for the foreseeable future.

On the basis that the Company has adequate funding as detailed above, together with its current performance and financial position, the directors have a reasonable expectation that the Company will have sufficient funding and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly, the directors of the Company have adopted the going concern basis in preparing financial statements.

Directors

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

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Directors' report (continued)

Audit information

In the case of each of the persons who are directors of the Company at the date when this report is approved:

- as far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any audit information and to establish that the Company's auditor is aware of that information.

This statement is given and should be interpreted in accordance with the provisions of S418 (2) of the Companies Act 2006.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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

GD Beckett
Chief Financial Officer

20 October 2016

Statement of directors' responsibilities

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 101 *"Reduced Disclosure Framework"*. 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 judgments 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 parent 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.

Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE MORTGAGE CORPORATION LIMITED

We have audited the financial statements of Cheshire Mortgage Corporation Limited for the year ended 30 June 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report (continued)

Matters on which we are required to report by exception

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

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

Peter Birch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom

20 October 2016

Statement of comprehensive income
Year ended 30 June 2016

Unless otherwise indicated, all amounts are stated in £'000.

	Note	2016	2015
Interest receivable and similar income	4	8,949	7,607
Interest payable and similar charges	5	(3,745)	(3,275)
NET INTEREST INCOME		5,204	4,332
Fees and commission income	6	60	91
Fees and commission expense	7	(270)	(110)
Other income		2	1
Administrative expenses	8	(1,623)	(1,292)
OPERATING PROFIT		3,373	3,022
Impairment (losses)/releases	10	(262)	59
PROFIT BEFORE TAXATION		3,111	3,081
Income tax	9	(624)	(642)
PROFIT AFTER TAXATION		2,487	2,439

Comparative information has been restated for the change in accounting standards described in note 2 and note 19.

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 30 June 2016

Unless otherwise indicated, all amounts are stated in £'000.

	Note	2016	2015
FIXED ASSETS			
Deferred tax asset	14	15	-
		15	-
CURRENT ASSETS			
Loans and advances to customers	10	136,360	74,542
Debtors	11	9,204	8,507
Cash and cash equivalents		-	2,307
		145,564	85,356
CREDITORS: amounts falling due within one year	12	(1,317)	(1,120)
NET CURRENT ASSETS		144,247	84,236
TOTAL ASSETS LESS CURRENT LIABILITIES		144,262	84,236
CREDITORS amounts falling due after more than one year	13	(126,621)	(69,082)
NET ASSETS		17,641	15,154
CAPITAL AND RESERVES			
Share capital	15	-	-
Retained earnings		17,641	15,154
TOTAL EQUITY		17,641	15,154

These financial statements were approved by the Board of Directors on 20 October 2016.

Company Registration No. 02613335

Signed on behalf of the Board of Directors

HN Moser

Director

GD Beckett

Director

Statement of changes in equity

Unless otherwise indicated, all amounts are stated in £'000.

2016

	Called up share capital	Retained earnings	Total
At beginning of the year	-	15,154	15,154
Retained profit for the financial year	-	2,487	2,487
At end of the year	-	17,641	17,641

2015

	Called up share capital	Retained earnings	Total
At beginning of the year	-	12,715	12,715
Retained profit for the financial year	-	2,439	2,439
At end of the year	-	15,154	15,154

Notes to the financial statements
Unless otherwise indicated, all amounts are stated in £'000.

1. **REPORTING ENTITY/GENERAL INFORMATION**

Cheshire Mortgage Corporation Limited is incorporated and domiciled in the UK. 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

The financial statements have been prepared for the first time in accordance with Financial Reporting Standard 101, *Reduced Disclosure Framework* (FRS 101). This applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) but provides certain exemptions from the disclosure requirements of IFRS.

The date of transition to FRS 101 and the date of the opening statement of financial position using IFRS recognition and measurement principles was 1 July 2014. All financial information since this date for the Company has been restated from UK GAAP to FRS 101, presented in note 19. The comparative figures reported for the year ended 30 June 2015 are non-statutory figures; the UK GAAP statutory figures have been submitted to the Registrar of Companies with an unqualified audit opinion.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the individual accounting policies.

The Company has taken advantage of the disclosure exemptions under FRS 101 in relation to presentation of comparative information in respect of certain assets, presentation of a statement of financial position on transition, presentation of a cashflow statement, standards not yet effective and related party transactions.

Going concern

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

Operating segments

The Company has no listed financial instruments in issue. It is therefore outside the scope of IFRS 8, *Operating Segments*, and accordingly does not disclose segment information in these financial statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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 consists largely of loan notes, held at amortised cost and amounts owed to Group undertakings, held at fair value. The amortised cost of the loan notes are measured at their initial 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 with respect to the loan notes are derecognised when their contractual obligations are discharged, cancelled or have expired.

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 of 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 historic 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 provision. 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.

Securitisation

Where the Company securitises its own financial assets, this is achieved via the sale of these assets to a special purpose entity (SPE), which in turn issues securities to investors.

Financial assets transferred to SPEs under securitisation agreements are not derecognised by the Company because it retains the risks and rewards of ownership.

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.

Fees and commissions expenses primarily consist of legal and valuations fees and credit search fees.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, which is reliably measurable and when it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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 provisions 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 income

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 £'000.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016	2015
Interest on loans and advances to customers	8,949	7,607
	8,949	7,607

Included within interest on loans and advances to customers is £243,000 (2015: £497,000) relating to impaired loans.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2016	2015
On borrowings	3,745	3,275
	3,745	3,275

Included within borrowings is interest payable on loan notes and amounts owed to group undertakings.

6. FEES AND COMMISSION INCOME

	2016	2015
Fee income on loans and advances to customers	57	86
Other fees receivable	3	5
	60	91

7. FEES AND COMMISSION EXPENSE

	2016	2015
Legal, valuations and other fees	204	83
Insurance commissions and charges	66	27
	270	110

8. ADMINISTRATIVE EXPENSES

	2016	2015
Other administrative costs	1,623	1,292
	1,623	1,292

Group overheads, including directors' emoluments, wages and salaries and office administration costs, are borne by a fellow subsidiary company of Jerrold Holdings Limited, Blemain Finance Limited.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2016	2015
Current tax		
Corporation tax	643	704
	643	704
Deferred tax		
Current year	(21)	-
Origination and reversal of timing differences	-	(65)
Effect of tax rates	2	3
Total deferred tax	(19)	(62)
Total tax on profit	624	642

The differences between the Company 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:

	2016	2015
Profit before tax	3,111	3,081
Tax on profit at standard UK corporation tax rate of 20.00%/20.75%	622	639
Effects of:		
Effect of changes in tax rate	2	3
Tax charge for year	624	642

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

10. LOANS AND ADVANCES TO CUSTOMERS

	2016	2015
Aggregate gross loans and advances	137,651	75,785
Less: allowances for impairment on loans and advances	(1,291)	(1,243)
	136,360	74,542
Aggregate gross loans and advances include:		
Due within one year	11,035	3,235
Due within 2-5 years	6,791	7,035
Due after 5 years	119,825	65,515
	137,651	75,785
Allowance for impairment losses		
At beginning of the year	(1,243)	(1,799)
(Charges)/releases to the income statement	(340)	59
Discount Unwind	243	497
Write offs net of recoveries	49	-
At end of the year	(1,291)	(1,243)
Impairment losses for year		
(Charges)/releases to the income statement	(340)	59
Amounts released from deferred income	21	-
Recoveries of amounts previously written off	57	-
	(262)	59

11. DEBTORS

	2016	2015
Amounts owed by group undertakings	9,197	8,499
Prepayments and accrued income	7	8
	9,204	8,507

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

12. CREDITORS: DUE WITHIN ONE YEAR

	2016	2015
Bank loans and overdrafts	581	-
Trade creditors	39	4
Other creditors	34	49
Other taxation and social security	1	-
Current tax liability	321	704
Accruals and deferred income	341	359
Deferred tax liability	-	4
	1,317	1,120

13. CREDITORS: DUE AFTER ONE YEAR

	2016	2015
Amounts owed to group undertakings	51,663	31,435
Loan notes	76,266	38,201
Debt issue costs	(1,308)	(554)
	126,621	69,082

The loan notes are provided through a revolving securitisation vehicle, Charles Street Conduit Asset Backed Securitisation 1 Limited (Charles Street ABS) established in 2007 and secured on specific loan assets of the Company.

All creditor balances noted above are repayable between two and five years.

14. DEFERRED TAX

	2016	2015
Deferred taxation asset/(liability)		
At beginning of year	(4)	(66)
Charge to income statement	19	62
At end of year	15	(4)

The deferred tax asset consisted of the following:

Short-term timing differences	15	(4)
	15	(4)

15. SHARE CAPITAL

All amounts are stated in pounds

	2016	2015
Authorised		
100 ordinary shares of £1 each	100	100
	100	100
Called up, allotted and fully paid		
2 ordinary shares of £1 each	2	2
	2	2

Unless otherwise indicated, all amounts are stated in £'000.

16. FINANCIAL INSTRUMENTS AND FAIR VALUES

All the Company's financial assets and liabilities are held at amortised cost. The table below summarises the carrying value, excluding deferred income and the fair value of financial assets as at the year end:

	2016		2015	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Loans and advances to customers	136,360	141,549	74,542	76,911
Amounts owed group undertakings	9,197	9,197	8,499	8,499
Cash and cash equivalents	-	-	2,307	2,307
	145,557	150,746	85,348	87,717
Financial liabilities				
Loan notes	76,266	75,923	38,201	40,598
Amounts owed to group undertakings	51,663	51,663	31,435	31,435
Trade creditors	39	39	4	4
Other creditors	34	34	49	49
Other taxation and social security	1	1	-	-
Cash and cash equivalents	581	581	-	-
	128,584	128,241	69,689	72,086

The carrying value is reasonable approximation of fair value for all financial instruments other than for loans and advances to customers and for the loan notes. For loans and advances to customers and for the loan notes, fair value is calculated based upon the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of financial assets is adjusted for future losses if considered material.

The loan notes are provided through a securitisation vehicle and are secured on specific loan assets of the Company.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

16. FINANCIAL INSTRUMENTS AND FAIR VALUES (continued)

The following tables analyse the fair values of loans and advances and of the loan notes into different levels according to the degree to which the fair values are based on observable inputs:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Measurements derived from observable data, such as market prices or rates;
Level 3: Measurements rely on significant inputs not based on observable market data

	Level 1	Level 2	Level 3	Total
2016				
Financial assets				
Loans and advances to customers	-	-	141,549	141,549
Financial liabilities				
Loan notes	-	75,923	-	75,923
2015				
Financial assets				
Loans and advances to customers	-	-	76,911	76,911
Financial liabilities				
Loan notes	-	40,598	-	40,598

Loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using the rate for new originations of mortgages with similar characteristics. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from mortgage assets.

Forecast principal repayments are based on redemption at maturity with overlay for historical behavioural experience to take account of expected prepayment. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour.

The borrowings are made up principally of the loan notes, which are provided through a securitisation vehicle. They are secured on specific loan assets.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

17. CREDIT RISK

Credit risk is the risk of suffering financial loss should borrowers default on their contractual obligations to the Company.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk after allowance for impairment is as follows:

	2016	2015
Gross loans and advances	137,651	75,785
Allowance for impairment	(1,291)	(1,243)
Loans and advances to customers	136,360	74,542
Amounts owed by group undertakings	9,197	8,499
	145,557	83,041

The Company's material credit risk relates to its loans and advances to customers. The above table represents the maximum credit risk exposure of the Company at the year end without taking account of any underlying security.

Impaired and past-due loans

The Company's credit risk is managed based on gross customer balances which reconcile to gross loans and advances recognised in the annual accounts as follows:

	2016	2015
Gross loans and advances	137,651	75,785
Accounting adjustments	608	(1,074)
Gross customer balances	**138,259**	**74,711**

Reported loans and advances differ from customer balances mainly due to various accounting adjustments necessary to comply with IFRS, as loans and advances must be accounted for using an effective interest rate.

The Company's gross customer balances are analysed in the following categories:

Neither past due nor impaired	Loans which are not in arrears and which do not meet the impaired asset definition
Past due but not impaired	Loans which are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset because the present value of the expected recoverable amount exceeds the carrying amount
Impaired assets	Loans which are in arrears or where there is objective evidence of impairment, and where the carrying value of the amount exceeds the present value of the expected amount recoverable

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

17. CREDIT RISK (continued)

Gross customer balances are analysed as follows:

	2016	2015
Performing		
Not past due	106,352	40,909
Past due less than 2 months	18,764	16,563
	125,116	**57,472**
Non performing but not impaired		
Past due 2 - 3 months	3,395	3,724
Past due over 3 months	8,248	11,936
	11,643	**15,660**
Impaired	1,500	1,579
Gross customer balances	**138,259**	**74,711**

Management considers that contractual arrears of two months or more constitute a trigger for a potential loss event. On identification of a loss event a provision for impairment is considered based on the probability of default of the loan and the expected loss given default. The above amounts are analysed in accordance with the basis used for internal management reporting. This basis does not make adjustment for forced-sale discounts on realisation of security, nor for the discounting of future cash flows. Additional allowance is made for both of these factors in stating impairment under IFRS.

Collateral held

A key measure the business uses in assessing credit risk is the ratio of the loan amount to the value of the underlying security (LTV). Prior valuations are indexed using established regional house price indices to estimate the current security value. The table below shows gross customer balances by indexed LTV banding:

	2016	2015
60% or less	102,757	58,929
60-85%	34,132	13,214
85-100%	478	1,197
More than 100%	892	1,371
Gross customer balances	**138,259**	**74,711**

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

19. FRS 101 RECONCILATIONS (continued)

(ii) Reconciliation of profit or loss on transition to FRS 101

The profit for the year ended 30 June 2015 reconciles to that under FRS 101 as follows:

		2015
As previously reported under UK GAAP		2,689
Measurement of financial instruments at amortised cost using EIR method	(98)	
Calculation of impairment provisions in accordance with IAS 39	(214)	
	(312)	
Tax effect on the above	62	
Total adjustments to profit or loss		(250)
Total profit under FRS 101		2,439

(iii) The transition to FRS 101 has resulted in the following changes in accounting policies:

a) Interest income was previously recognised in the income statement using the contractual rate of the loan to the extent that it was considered recoverable. Under FRS 101 interest income is now recognised using the EIR method on the unimpaired carrying value.

b) In accordance with IAS 39, all the Group's financial assets are classified as loans and receivables.

c) The Company's policy for providing for loan losses has changed. The most significant change is that impairment allowances on financial assets are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted using the asset's EIR.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

17. CREDIT RISK (continued)

Concentration of credit risk

The Company's lending portfolio is geographically diversified across the UK as shown below:

	2016	2015
East Anglia	3,962	2,544
East Midlands	7,225	4,035
Ireland	570	592
London regions	32,467	15,891
North East	3,563	2,880
North West	13,733	8,465
Scotland	10,085	6,170
South East	29,496	11,274
South West	9,269	5,728
Wales	6,533	4,522
West Midlands	10,218	6,309
Yorks & Humber	11,138	6,301
Gross customer balances	**138,259**	**74,711**

The Company's lending portfolio falls into the following concentrations by loan size:

	2016	2015
Up to £50,000	38,014	24,538
£50,000 - 100,000	49,650	27,892
£100,000 - 250,000	34,351	15,213
£250,000 - 500,000	9,775	5,085
£500,000 - 1,000,000	2,423	1,983
£1,000,000 - 2,500,000	4,046	-
Gross customer balances	**138,259**	**74,711**

Forbearance

The Company offers a range of approaches to assist customers experiencing financial distress. The Company considers an account as forborne at the time a customer in financial difficulty is granted a concession. The offer of forbearance is considered separately for each customer dependent on their individual circumstances. Forbearance can be temporary or permanent in nature depending on the circumstances of the customer and the concession agreed. Examples of concessions agreed include reduced payment arrangements, extension of the mortgage term, or a change in the repayment profile. Impairment is recognized based upon the contractual arrears position rather than changes in customers' preferred payment dates or to reflect agreed payment arrangements.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £'000.

18. ULTIMATE PARENT COMPANY

The Company is a subsidiary undertaking of Jerrold Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

The largest and smallest group of which Cheshire Mortgage Corporation Limited is a member, and for which group financial statements are drawn up, is that headed by Jerrold Holdings Limited, whose principal place of business is at Lake View, Lakeside, Cheadle, Cheshire, United Kingdom, SK8 3GW.

HN Moser, a director of Jerrold Holdings Limited, and members of his close family, control the Company as a result of controlling directly or indirectly 70% of the voting rights of Jerrold Holdings Limited.

19. FRS 101 RECONCILATIONS

The Company previously prepared its primary financial statements under UK GAAP, which differs in certain significant respects from the IFRS measurement and recognition basis under FRS 101.

The reconciliations below show the adjustments made on transition from UK GAAP to FRS 101 for the Company.

(i) Reconciliation of statement of changes in equity on transition to FRS 101

The statement of changes in equity for the year ended 30 June 2014 and 2015 reconciles to that under FRS 101 as follows:

	2015	**2014**
Total equity as previously reported under UK GAAP	15,140	12,451
Measurement of financial instruments at amortised cost using EIR method	1,059	1,157
Calculation of impairment provisions in accordance with IAS 39	(1,041)	(827)
	18	330
Tax effect on the above	(4)	(66)
Total adjustments to retained earnings	14	264
Total equity under FRS 101	15,154	12,715