

BLUESTONE CONSOLIDATED HOLDINGS LIMITED
ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
COMPANY NUMBER: 00753310



BLUESTONE CONSOLIDATED HOLDINGS LIMITED
ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

CONTENTS	Page(s)
Strategic Report	1 - 2
Directors' Report	3 - 4
Statement of Directors' responsibilities	5
Independent Auditors' Report	6 - 7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10 - 11
Statement of Cash Flows	12
Notes to the Financial Statements	13 - 41

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

STRATEGIC REPORT

The Directors present their strategic report on the Group for the year ended 30 June 2017.

Review of the business

Bluestone originates, manages and funds loan portfolios in its core markets of Australia, Ireland and the UK, supported by its Philippines based call centre. Generally, operating conditions have continued to improve in these markets, although term funding markets have remained somewhat subdued, in particular term funding markets where credit spreads have tightened over the year.

The Group has achieved a number of important milestones during the year.

- Securitisation of €60m of Irish auto and light commercial vehicle loans in the Topaz program via a private placement of listed notes.
- Issuance of A\$450m of Australian Residential Mortgage Backed Securities (RMBS) in the Sapphire program
- Sale of a UK portfolio of non conforming mortgages generating a positive contribution to profit before tax of £2.1m
- Entered into a forward flow agreement for its UK Mortgages operations with a challenger bank to allow upto £100m of loans to be originated and sold

The Group recorded a profit after tax of £5.2m (2016: £3.5m profit). The increase is due to the sale of a UK portfolio of non-conforming mortgages referred to above and growth in the Australian and Irish lending platforms, both of which are benefiting from investments made in prior years and are now contributing profits to the Group's results. Both businesses substantially increased lending volumes and as described above have issued in their respective RMBS and asset backed securities (ABS) capital markets. The Group grew its gross asset balance to €687.2m as a result of the increased levels of origination. In addition there has been further investment in the UK operations.

Management and Directors use a number of key performance indicators to manage the business. As a lending business the main focus is on quality and size of the lending book.

KPI	30 June 2017	30 June 2016
Net Interest Income Margin %	4.57%	5.89%
Portfolio Size	€617.8m	€388.9m
Bad Debt Expense (% of average book)	0.13%	0.17%

Net Interest Income Margin has decreased due to a greater proportion of the Group's loan book being originated in Australia, where margins are lower.

The principal areas of uncertainty, with potentially material impact on the Financial Statements, where the Directors have expressed judgement concern the following:

- A bad debt provision is recorded in the Income Statement to take account of credit risk on originated and acquired mortgages. This is calculated in two stages. Specific provisions are based on the Group's Special Servicing team's estimate of losses for current properties in possession. Portfolio provisions use historical data to calculate a probability of foreclosure given a loan's seasoning and arrears status and apply those probabilities to the outstanding balance of the current portfolio.

The Group holds some of its mortgage assets at fair value. In the absence of an observable market, the value is calculated based on a number of assumptions including an interest rate swap curve plus a credit spread which are judgements determined by the Directors.

The Group recognises some of its assets and liabilities using an effective interest rate method. The forecast expected cashflows associated with these assets and liabilities are spread across the life of the asset/liability to ascertain an effective interest rate, being the rate which exactly discounts the cash flows back to the stated balance of the asset or liability.

The Group's activities expose it to a variety of financial risks including market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as cross currency swaps and interest rate swaps to hedge certain risk exposures. Derivatives are used exclusively for hedging purposes and not for trading or other speculative purposes. The Group uses different methods to measure different types of risks to which it is exposed. These methods include ageing analysis for credit risk and maturity analysis for liquidity risk. For further detail see the Financial Risk Management section of the Directors' Report.

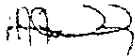
Warehouse facilities are typically short term funding facilities with maturities up to 24 months, before being refinanced in the term markets. All of the Group's facilities expire in excess of 4 months from the balance sheet date. The Directors are satisfied that either these facilities will be extended on commensurate terms, or any sale of the mortgages would be sufficient to repay the facilities at maturity, and will not affect the Group's ability to continue as a going concern.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

STRATEGIC REPORT (continued)

The Group is committed to maintaining a robust and effective corporate governance framework. The Board has established a number of sub-committees to operate both at a Group level and for individual business units. The committee structure also takes into account the various regulatory requirements in all of the jurisdictions in which the Group operates. In addition, all of the business units hold formal board meetings each month. Members of each of the sub-committees and directors of subsidiary boards are selected from the executive management teams to ensure an appropriate level of skills and experience is present at each meeting. In addition, where relevant, non executive directors are appointed to supplement executive managements skills and experience and provide independence. The key committees at a Group level are the Audit, Risk & Compliance Committee and the Appointments & Remuneration Committee.

On behalf of the board



A J Jeffery
Executive Chairman
Date: 20 December 2017

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Bluestone Consolidated Holdings Limited and the entities it controlled at the end of and during the financial year ended 30 June 2017.

Directors

The names of the Directors of the Company who served during the financial year and up to the date of signing the financial statements are:

Mr A. Jeffery	Mr Y. Souillard
Mr P. McGuinness	Mr A. Weinel
Mr A. Cameron	
Mr A. Cumming	
Ms P. Knoud	

Principal Activities

The principal activities of the Group during the financial year were the operation of its capital and asset management businesses in Europe and Australasia.

Future Developments

The Group has positioned itself to pursue future loan origination, servicing and portfolio acquisition programs in UK, Australia, New Zealand and Ireland.

Going Concern

The Group's lending operations are funded by a variety of sources, comprising notes issued by managed trusts and warehouse loan facilities.

The notes issued by managed trusts are repayable by reference to receipts from mortgage loans and only have recourse to the assets in the relevant special purpose entity, and therefore there is no impact on the going concern position of the Group should the notes fall due.

The warehouse loan facilities are largely secured against the assets of the relevant warehouse with limited recourse to the other entities in the Group.

Although the warehouse loan facilities totalling £417,402,947 (of which £128,225,572 was utilised as at the balance sheet date) have maturity dates within 12 months of the date of approving the financial statements, during the past 3 years, regular extensions have been obtained from the facility providers on terms consistent with each previous extension and the directors expect further extensions to be available at the end of the current loan period. Whilst there is no absolute certainty that the warehouse loan facilities will be renewed, given there is limited recourse to the other entities in the Group there is no impact on the going concern position of the Group should the warehouse loan facilities not be renewed.

The Directors have considered the future cash flow forecasts for the remainder of the Group's operations, excluding the cash flows ring-fenced within the managed trusts and warehouses, and have determined that there is sufficient cash available to continue its operations for a period of at least 12 months from the date of approval of the financial statements.

Directors and Officers Liability Insurance

The Company has arranged Directors' and Officers' liability insurance which covers all the Directors and Officers of the Company and its controlled entities against certain liabilities they may incur in carrying out their duties for the consolidated entity.

Employees

Details of the average number of employees during the year are shown in note 24. The average number of employees in the year to 30 June 2017 was 270 a rise of 17 (6.72%) on the previous year.

The Group is committed to employment policies based on equal opportunities for all employees. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

DIRECTORS' REPORT

The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. The Group encourages the involvement of employees by means of whole office meetings where employees have the opportunity to hear from regional management on the Group's developments and ask questions. These can also be submitted anonymously beforehand should employees prefer.

The Group has an employee share scheme, further details of which are in note 24.

Dividends

During the year, the Company paid dividends of £2,093,119 (2016: £2,398,770).

Financial Risk Management

- (a) The activities of the Group centre on four key regions with significant revenue and/or expenditure in Great British Pounds (GBP), Euro (EUR), Philippine Peso (PHP) and Australian Dollars (AUD). The majority of the FX exposure is as a result of investments in consolidated foreign subsidiaries with FX variances going to reserves. The Group enters into annual FX hedging agreements to hedge against GBP exchange rate moves in EUR and AUD.
- (b) The Group's main interest rate risk arises from mortgage and vehicle loans, cash deposits and interest bearing liabilities. To the extent the loans are issued at variable rates and expose the Group to interest rate risk, the risk is naturally hedged by variable rate borrowing. Mortgages written at fixed interest rates are fully hedged with interest rate swaps to match the borrowings used to fund the mortgages.
- (c) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has no significant concentrations of mortgage or vehicle loan customer credit risk. Mortgage and vehicle loans consist of a large number of customers spread across UK, Australasia and Ireland. The Group has procedures in place to ensure that sales of mortgage products are made to customers within the Group's credit and security policy criteria. The Group retains the registered mortgages over property and vehicles until the loans are repaid. The Group is entitled to take possession of and enforce the security in the event that the customer defaults under the terms of their loan. The Group has also acquired assets in Ireland and the UK. These loans are predominantly credit impaired and were acquired at a significant discount to face. The Group continues to monitor the loan performance and any variation in value is recognised in the Income Statement.
- (d) Prudent liquidity risk management implies maintaining sufficient cash together with the availability of funding through an adequate amount of committed credit facilities. The Group's finance department also monitors forecast and actual cash flows to ensure that sufficient cash resources and/or financing facilities are in place to ensure the Group can meet its liabilities as and when they fall due.

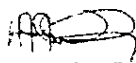
Provision of Information to Auditors

Each director of the Company at the date the Directors' report is signed confirms that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) the director has taken all of the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed in accordance with a resolution of the Directors made on 20 December 2017

On behalf of the board



A.J. Jeffery
Executive Chairman



P.T. McGuinness
Director

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

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 prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and the Company and of the profit or loss of the Group for that period. 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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group 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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed in accordance with a resolution of the Directors made on 20 December 2017

On behalf of the board



A. Jeffery
Executive Chairman



P. T. McGuinness
Director

Independent auditors' report to the members of Bluestone Consolidated Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Bluestone Consolidated Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 30 June 2017 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and company statements of financial position as at 30 June 2017; the group statement of comprehensive income, the group and company statements of cash flows, and the group and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Christopher Maw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
20 December 2017

BLUESTONE CONSOLIDATED HOLDINGS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Note	Group	
		2017	2016
		£	£
Interest income	3	43,968,441	32,006,093
Interest expense and similar charges	3	(22,882,615)	(13,397,242)
Net Interest income		<u>21,085,826</u>	<u>18,608,851</u>
Net fee and commission income	3	5,626,129	6,024,740
Other income	3	<u>3,724,174</u>	<u>273,822</u>
		9,350,303	6,298,562
Total income net of interest and other expense		<u>30,436,129</u>	<u>24,907,413</u>
Expenses:			
Marketing		(750,388)	(494,516)
Depreciation	3	(1,083,133)	(823,159)
Employee costs	3	(14,306,830)	(12,423,583)
Professional fees		(2,698,562)	(2,084,855)
General office costs		(2,015,550)	(1,899,007)
Occupancy costs		(1,368,178)	(1,382,534)
Bad debt expense		(596,140)	(531,119)
Travel and Entertainment		(765,714)	(559,865)
Other expenses from ordinary activities		(89,344)	(416,344)
Total operating expenses		<u>(23,673,839)</u>	<u>(20,614,982)</u>
Profit before income tax		<u>6,762,290</u>	<u>4,292,431</u>
Income tax expense	4	<u>(1,552,326)</u>	<u>(748,473)</u>
Profit for the Year		<u>5,209,964</u>	<u>3,543,958</u>
Profit for the year attributable to:			
- Non controlling interest		(8,039)	(1,772)
- Owners of the parent		<u>5,218,003</u>	<u>3,545,730</u>
		<u>5,209,964</u>	<u>3,543,958</u>
 Profit for the Year		 5,209,964	 3,543,958
Other comprehensive income/(expense)			
Items that may be reclassified to profit and loss			
Movement on FX hedges		403,221	(1,370,932)
Exchange differences on translation of foreign operations	20	<u>257,677</u>	<u>3,601,186</u>
		660,898	2,230,254
Total comprehensive income for the year		<u>5,870,862</u>	<u>5,774,212</u>
Comprehensive income for the year attributable to:			
- Non controlling interest		(8,039)	(1,772)
- Owners of the parent		<u>5,878,901</u>	<u>5,775,984</u>
		<u>5,870,862</u>	<u>5,774,212</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION

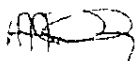
AS AT 30 JUNE 2017

	Note	Group		Company	
		2017	2016	2017	2016
		£	£	£	£
ASSETS					
Cash and cash equivalents	5	52,156,074	37,045,401	82,206	1,374
Receivables	6	8,089,029	5,296,395	16,799	486,135
Derivative financial assets	7	89,349	138,566	-	-
Loans held at amortised cost	8	577,902,092	345,378,755	-	-
Financial assets at fair value through profit or loss	9	39,849,184	42,590,941	-	-
Other investments	10	-	-	50,721,911	38,799,811
Intangible assets	11	2,181,825	2,033,345	-	-
Property, plant and equipment	12	1,946,492	2,380,281	-	-
Deferred tax assets	13	4,905,980	4,056,263	106,308	106,308
Total assets		687,120,625	438,919,947	50,927,224	39,393,628
LIABILITIES					
Payables	14	(24,561,054)	(19,047,126)	(11,377,439)	(37,849)
Interest bearing liabilities	15	(613,602,297)	(375,096,403)	-	-
Current tax liabilities	16	(2,259,806)	(316,269)	-	-
Derivative financial liabilities	7	(3,166,404)	(4,974,003)	-	-
Provisions	18	(377,766)	(266,542)	-	-
Total liabilities		(643,967,327)	(399,700,343)	(11,377,439)	(37,849)
NET ASSETS		43,153,298	39,219,604	39,549,785	39,355,779
EQUITY					
Contributed equity	19	11,680,191	11,679,759	11,680,191	11,679,759
Reserves	20	(23,897,622)	(24,714,039)	(10,555,379)	(10,710,898)
Retained earnings		54,415,036	51,290,152	38,424,973	38,386,918
Non controlling interest		955,693	963,732	-	-
Total equity		43,153,298	39,219,604	39,549,785	39,355,779

The balance sheets above should be read in conjunction with the accompanying notes.

Bluestone Consolidated Holdings Limited recorded a profit for the year ended 30th June 2017 of £2,131,174.

The financial statements on pages 8 to 41 were authorised for issue by the board of Directors on 20 December 2017 and were signed on its behalf



A J Jeffery
Executive Chairman
Date: 20 December 2017
Company number 08753310

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

GROUP

	Note	Contributed Equity £	Reserves £	Retained earnings £	Non Controlling Interest £	Total Equity £
Balance at 30 June 2015		11,573,870	(27,106,348)	50,149,081	965,504	35,682,107
Profit for the year		-	-	3,545,730	(1,772)	3,543,958
Other comprehensive expense for the year		-	2,230,254	-	-	2,230,254
Total comprehensive income for the year		-	2,230,254	3,545,730	(1,772)	5,774,212
Transactions with owners in their capacity as owners						
Issue of ordinary C class shares		2,103	-	(2,103)	-	-
Issue of ordinary D class shares		3,786	-	(3,786)	-	-
Employee share scheme reserve		-	162,055	-	-	162,055
Dividends paid		-	-	(2,398,770)	-	(2,398,770)
		5,889	162,055	(2,404,659)	-	(2,236,715)
Balance at 30 June 2016		11,579,759	(24,714,039)	51,290,152	963,732	39,219,604
Profit for the year		-	-	5,218,003	(8,039)	5,209,964
Other comprehensive income for the year	20	-	660,898	-	-	660,898
Total comprehensive income for the year		-	660,898	5,218,003	(8,039)	5,870,862
Transactions with owners in their capacity as owners						
Issue of ordinary C class shares	19	703	-	-	-	703
Adjustment in respect of ordinary D class shares	19	(271)	-	-	-	(271)
Employee share scheme reserve	24	-	155,519	-	-	155,519
Dividends paid	25	-	-	(2,093,119)	-	(2,093,119)
		432	155,519	(2,093,119)	-	(1,937,168)
Balance at 30 June 2017		11,680,191	(23,897,622)	54,415,036	955,693	43,153,298

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED
STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

COMPANY

	Note	Contributed Equity £	Reserves £	Retained earnings £	Total Equity £
Balance at 1 July 2015		<u>11,673,870</u>	<u>(10,872,953)</u>	<u>39,761,653</u>	<u>40,562,570</u>
Profit for the year		-	-	1,029,924	1,029,924
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>1,029,924</u>	<u>1,029,924</u>
Transactions with owners in their capacity as owners					
Issue of ordinary C class shares		2,103	-	-	2,103
Issue of ordinary D class shares		3,786	-	-	3,786
Employee share scheme reserve		-	162,055	-	162,055
Dividends paid		-	-	(2,404,659)	(2,404,659)
		<u>5,889</u>	<u>162,055</u>	<u>(2,404,659)</u>	<u>(2,236,715)</u>
Balance at 30 June 2016		<u>11,679,758</u>	<u>(10,710,898)</u>	<u>38,386,918</u>	<u>39,355,779</u>
Profit for the year		-	-	2,131,174	2,131,174
Total comprehensive expense for the year		<u>-</u>	<u>-</u>	<u>2,131,174</u>	<u>2,131,174</u>
Transactions with owners in their capacity as owners					
Issue of ordinary C class shares	19	703	-	-	703
Adjustment in respect of ordinary D class shares	19	(271)	-	-	(271)
Employee share scheme reserve	24	-	155,519	-	155,519
Dividends paid	25	-	-	(2,093,119)	(2,093,119)
		<u>432</u>	<u>155,519</u>	<u>(2,093,119)</u>	<u>(1,937,168)</u>
Balance at 30 June 2017		<u>11,680,191</u>	<u>(10,555,379)</u>	<u>38,424,973</u>	<u>39,549,785</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Note	Group		Company	
		2017	2016	2017	2016
		£	£	£	£
Cash flows from operating activities					
Receipts from customers		12,986,202	8,404,853	-	33,475
Payments to suppliers and employees		(19,842,179)	(17,627,601)	(2,039,310)	(1,713,755)
Interest and similar income received		40,823,941	34,502,761	2,416,974	-
Interest and other finance costs paid		(24,668,203)	(12,945,944)	(323,226)	(353,137)
Mortgage and other loan repayments		181,653,235	147,300,284	-	-
Funding payments		(231,856,006)	(136,288,369)	-	-
Income tax paid/received		(458,505)	(1,352,455)	-	-
Net cash flows generated from operating activities		(41,361,515)	21,993,529	54,438	(2,033,417)
Cash flows from investing activities					
Payments for property, plant and equipment		(649,345)	(752,209)	-	(6,504)
Purchase of loans at amortised cost		-	(13,378,311)	-	-
Sale of Mortgage Assets		57,212,946	-	-	-
Loans advanced		-	-	2,119,513	1,294,820
Net cash (used in)/generated from investing activities		56,563,601	(14,130,520)	2,119,513	1,288,316
Cash flows from financing activities					
Repayment of borrowings		278,486	(99,553)	-	-
Dividends paid	25	(2,093,119)	(2,398,770)	(2,093,119)	(2,404,659)
Net cash used in financing activities		1,814,633	(2,498,323)	(2,093,119)	(2,404,659)
Net increase/(decrease) in cash and cash equivalents		13,387,453	5,364,686	80,832	(3,149,760)
Effects of exchange rate changes on cash		1,723,220	3,623,357	-	-
Cash and cash equivalents at the beginning of the financial year		37,045,401	28,057,358	1,374	3,151,134
Cash and cash equivalents at the end of the financial year		52,156,074	37,045,401	82,206	1,374

The statement of cash flows above should be read in conjunction with the accompanying notes

Cash and cash equivalents at 30 June 2017 include £39,328,745 (2016: £31,268,064) that is not available for use by the Bluestone Group, as it is quarantined within special purpose entities in accordance with legal documents governing the vehicles - see also note 5

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

Bluestone Consolidated Holdings Limited (the Company) and its subsidiaries (the Group) originate, acquire and manage portfolios of loans.

The Company is a private limited company which is domiciled and incorporated in the UK. The address of the registered office is

Newnham Mill
Newnham Road
Cambridge
CB3 9EY

Directors:

Mr A. Jeffery
Mr P. McGuinness
Mr A. Cameron
Mr A. Cumming
Ms P. Khroud

Mr V. Souillard
Mr A. Weinel

1. Summary of accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years of presentation unless otherwise stated. The financial statements are for the consolidated entity consisting of Bluestone Consolidated Holdings Limited and its subsidiaries.

(a) Basis of Preparation

The consolidated financial statements of Bluestone Consolidated Holdings Limited have been prepared in accordance with International Financial Accounting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) pronouncements as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2016 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Early adoption of standards

The Group has not elected to apply any standards or pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

New accounting standards

At the date of authorisation of these financial statements, the following Standards were in issue but not yet effective:

		Effective for accounting periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

The Standards above have not been applied in preparing these financial statements and the Directors are currently assessing the impact that these will have on the financial statements of the Group.

Going Concern

The Group's lending operations are funded by a variety of sources, comprising notes issued by managed trusts and warehouse loan facilities.

The notes issued by managed trusts are repayable by reference to receipts from mortgage loans and only have recourse to the assets in the relevant special purpose entity, and therefore there is no impact on the going concern position of the Group should the notes fail due.

The warehouse loan facilities are largely secured against the assets of the relevant warehouse with limited recourse to the other entities in the Group.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. Summary of accounting policies (continued)

Going Concern (continued)

Although the warehouse loan facilities totalling £454,337,299 (of which £128,225,572 was utilised as at the balance sheet date) have maturity dates within 12 months of the date of approving the financial statements, during the past 3 years, regular extensions have been obtained from the facility providers on terms consistent with each previous extension and the directors expect further extensions to be available at the end of the current loan period. Whilst there is no absolute certainty that the warehouse loan facilities will be renewed, given there is limited recourse to the other entities in the Group there is no impact on the going concern position of the Group should the warehouse loan facilities not be renewed.

The Directors have considered the future cash flow forecasts for the remainder of the Group's operations, excluding the cash flows ring-fenced within the managed trusts and warehouses, and have determined that there is sufficient cash available to continue its operations for a period of at least 12 months from the date of approval of the financial statements.

Warehouse Facilities

As discussed in note 14, the warehouse facilities totalling £454,337,299 are due to expire within 12 months. During the past 3 years regular extensions have been obtained by the facility providers on terms consistent with each previous extension. The Group is also in discussions with some of the warehouse providers regarding a longer term extension to the warehouse facilities.

The Directors consider it probable that extensions will continue to be available for the foreseeable future, however there is no certainty that this will occur.

In the event extensions are not available, the recourse of the facility providers is limited to the assets held as collateral by each warehouse trust as well as guarantees provided to the warehouse trusts by the corporate entities. Future interest margin from the assets would also be at risk.

Taking into account the above the Directors believe it is appropriate to prepare the Group and Company financial statements on a going concern basis.

Historical Cost Convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

Critical Accounting Estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bluestone Consolidated Holdings Limited as at 30 June 2017 and their results for the year then ended. Bluestone Consolidated Holdings Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those companies and SPEs over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

When assessing whether the Group controls (and therefore consolidates) a SPE, judgement is required about risks and rewards as well as the Group's ability to make operational decisions for the SPE. The range of factors that are considered in assessing control are whether: (a) a majority of benefits of an SPE's activities are retained, (b) a majority of the residual ownership risks related to the SPE's assets are retained, (c) the decision making powers of the SPE vest with the Group, and (d) the SPE's activities are being conducted on behalf of the Group and according to its specific business needs.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Bluestone Consolidated Holdings Limited.

Investments in subsidiaries are carried at cost, and where there is an indicator of impairment, assessed at recoverable amount in the individual financial statements of Bluestone Consolidated Holdings Limited.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(c) Income Tax

The income tax expense or revenue for the period is the tax payable/receivable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted at the balance sheet date for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible temporary differences to measure the deferred tax asset and liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for the deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(d) Foreign Currency Translations

(i) Functional and Presentational Currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in UK sterling, which is Bluestone Consolidated Holdings Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such foreign currencies transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group Companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Revenue Recognition

Revenue is generally measured at fair value of the consideration received or receivable. The principal sources of revenue are:

(i) Interest Income

Interest income arising from loans is brought to account using the effective interest rate method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Fees and transaction costs associated with the origination of the loans are capitalised and included in the effective interest rate and recognised over the expected life of the loan.

(ii) Sundry Fees and Commission

Sundry fees and commission not associated with the origination of the loan are recognised as the amounts become irrevocably due and payable.

(iii) Profit on reverse mortgages

The Group is required to consolidate the Emerald reverse mortgage securitised SPEs, however the Group de-recognises the financial assets and recognises them to the extent of the Group's ongoing cash flows attributable to the mortgage assets.

(f) Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. The classification depends upon the purpose for which the financial assets were acquired. The Group determines the classification of its financial assets at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

The Group's principal financial assets are mortgage and vehicle loan receivables and related derivative contracts to mitigate interest rate risks associated with the mortgage loans, which have been treated as follows:

Financial assets at fair value through profit or loss

This category includes all derivatives and the mortgage assets which were issued by Bluestone as fixed rate products and hedged by these derivatives. The policy of the Group is to designate a mortgage loan as such if a related interest rate contract has been entered into to swap fixed interest to floating interest. The assets are recognised initially at fair value and subsequent changes in fair value are reported in the income statement in other income. Interest income on such items is recognised in the income statement in interest and similar income. Fees and expenses relating to financial assets at fair value through profit or loss are expensed as incurred.

Other assets in this category are recognised initially at fair value and subsequent changes in fair value are reported in the income statement in interest income.

Loans and equity release mortgages held at amortised cost

All mortgage loan receivables for which no related interest rate derivative has been entered into are treated as loans held at amortised cost. They are initially recognised at fair value including direct and incremental costs. They are subsequently measured at amortised cost using the effective interest method, less impairment provisions.

(g) Impairment of Assets and Provisions for Doubtful Debts

Goodwill and certain intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are identifiable cash flows (cash generating units).

A bad debt provision is recorded in the Income Statement to take account of credit risk on issued mortgage and vehicle loans held at amortised cost. This is calculated in two stages. Specific provisions are based on the Group's Special Servicing team's estimate of losses for current properties in possession. Portfolio provisions use a rating agency model, assessing a number of loan characteristics, to produce an expected loss over the life of the loan. This is then combined with a loss emergence curve based on the Group's portfolio experience to model the current position at the statement of financial position date.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(h) Leased Assets

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance cost. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	Shorter of lease term and 5 years
Equipment under Finance Lease	5 years
Plant and equipment	3-5 years

(j) Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) Employee Entitlements

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised as liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Retirement benefit obligations

Contributions to the defined contribution superannuation fund are recognised as an expense as they become payable.

(iii) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Other employee related items

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(k) Employee Entitlements (continued)

(v) Share based payments

The Group awards C and D shares to certain employees (including executive directors). The grant-date fair value of the shares awarded is recognised as an employee expense in the income statement, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards.

(l) Interest Bearing Liabilities

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred such as legal fees and other consultancy costs incurred in relation to developing the funding structures and associated financing facilities.

Interest bearing liabilities which have been hedged by cross currency swaps and interest rate swaps are treated as financial liabilities at fair value through profit or loss. Changes in fair value of these liabilities are recorded through the income statement in other income.

Other borrowings not hedged are subsequently measured at amortised cost using the effective interest method.

(m) Provisions

Provisions are recognised when the consolidated entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the Group's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in provision due to the passage of time is recognised as interest expense.

(n) Equity issued by the Company

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

(p) Cash

For the purposes of the cash flow statement, cash includes cash on hand, deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Cash also includes amounts held by consolidated special purpose entities which is quarantined within the entity for distribution to bondholders in accordance with the legal documents governing the vehicle.

(q) VAT

Revenues, expenses and assets are recognised net of the amount of VAT, except

(i) where the amount of VAT incurred is not recoverable from the taxation authority, when it is recognised as part of the cost of the asset or expense;

(ii) for receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to the taxation authority, is classified as operating cash flows.

(r) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(s) Business Combinations

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(t) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

The Group has entered into foreign currency forwards that qualify as net investment hedges of foreign operations. The currency translation differences on the forwards relating to the effective portion of the hedge are recognised in other comprehensive income in the consolidated financial statements, accumulated in the currency translation reserve and reclassified to profit or loss as part of the gain or loss on disposal of the foreign operation. The currency translation differences relating to the ineffective portion of the hedge are recognised immediately in profit or loss.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Changes to assumptions used for estimating future cash flows could result in changes to reported results.

(a) Loan Loss Provisioning

The provision for doubtful debts includes individually assessed provisions and collectively assessed provisions. Individually assessed provisions are based on an independent valuation of the security adjusted by any cost of selling, less the outstanding loan balance. In arriving at the collectively assessed provisions the Group makes judgements as to whether there is any observable data which indicates there is a significant decrease in the estimated future cash flows from mortgage loans receivables before the decrease can be identified with an individual loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a portfolio or local economic conditions that correlate with defaults on assets in the portfolio. The Group uses a rating agency model to establish expected future losses on the loan portfolio based on a number of loan characteristics. Based on experience over the last three years the Group then models the emergence of these losses when scheduling its future cash flows.

(b) Fair Value of Financial Assets

All fixed interest rate mortgage loans have been classified as financial assets at fair value through profit or loss. As a result the Group has calculated an estimate of the fair value of the mortgage loans. This valuation is based on the fixed interest rate receivable on the mortgage, the current floating interest rate, the balance of the loan outstanding, any changes in the underlying credit profile of the loans and changes in credit spreads charged for these types of assets.

(c) Effective Interest Rate

Fee income and expenses which are associated with the mortgage receivables and the note liabilities are spread over the life of the mortgages/notes on an effective interest rate basis. Where income has been received or expenses paid upfront the actual amount received/incurred is spread over the life of the mortgages/notes. Where income is to be received or expenses to be incurred at a future date an estimate of the amounts to be received/paid is made based on the expected characteristics of loans/notes on a portfolio basis.

A critical accounting estimate is also made to determine the profile over which the amounts are spread. The profile is based on the expected prepayment rate of the mortgages. This assumption is reviewed annually.

(d) Tax Losses

The Group has a number of tax losses which are recognised in the financial statements as a deferred tax asset to the extent to which it is considered probable that future taxable profits will be available in future periods against which the losses can be utilised. An assessment is made each year of the future taxable profits which are probable based on the expected future taxable profits from earnings plus the extent to which any timing differences recognised will reverse and generate taxable income.

(e) Estimated Impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 12 for details of these assumptions and the potential impact of changes to the assumptions.

(f) Recognition of Deferred Purchase Consideration at Fair Value

The Group retains an investment in Basinghall Mortgage Finance No. 1 Limited as deferred purchase consideration for the sale of the UK mortgage assets which were substantially securitised in the Celeste SPE. This asset is recognised at a present value of expected future cashflows discounted at 25%. This calculation requires the use of assumptions. Changes in the value of this asset are recorded in the Income Statement as interest income.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

3. PROFIT BEFORE INCOME TAX

	Group	
	2017	2016
	£	£
Profit from ordinary activities before income tax includes the following items of revenue.		
Interest and similar income		
On loan balances	43,618,623	31,587,134
On cash balances	349,818	418,959
	<u>43,968,441</u>	<u>32,006,093</u>
Interest expense and similar charges		
On mortgage financing	(22,277,867)	(12,533,819)
On other borrowings	(604,748)	(763,423)
	<u>(22,882,615)</u>	<u>(13,397,242)</u>
Net interest income	<u>21,085,826</u>	<u>18,608,851</u>
Fee and commission income	10,310,101	8,536,100
Fee and commission expense	(4,683,972)	(2,511,360)
Net fee and commission income	<u>5,626,129</u>	<u>6,024,740</u>
Other income/(expense)		
Fair value gains/(losses) on financial assets at fair value through profit or loss*	(324,883)	(2,678,630)
Net (losses)/gains on interest rate derivatives	940,800	2,814,076
Other income	3,108,257	138,376
	<u>3,724,174</u>	<u>273,822</u>
Total income net of interest and other expense	<u>30,436,129</u>	<u>24,907,413</u>
* Included within this fair value movement is a loss of £37,671 (2016: £57,393 loss) relating to credit risk.		
Expenses include:		
Depreciation and amortisation		
Property, plant and equipment	(842,157)	(545,121)
Leasehold Improvements	(179,132)	(193,632)
Assets held under Finance Leases	(61,844)	(84,406)
	<u>(1,083,133)</u>	<u>(823,159)</u>
Loss on disposal of property, plant & equipment	-	-
Fees payable to the Company's auditors for the audit of the parent Company and the consolidation		
Total audit fees		
- Audit of the Parent Company pursuant to legislation	27,884	27,885
- Audit of the Company's subsidiaries pursuant to legislation	209,756	200,115
- Taxation compliance services	70,000	62,000
- Regulatory Compliance and Application services	57,413	59,280
- Other services (relating to the sale of a UK portfolio of non conforming mortgages)	306,200	-
	<u>671,253</u>	<u>349,280</u>
Total auditors' remuneration	<u>671,253</u>	<u>349,280</u>
Employee Benefits Expense:	£	£
Wages and Salaries	12,708,150	10,512,995
Social Security Costs	1,114,038	911,156
Other Pension costs	272,242	284,994
Termination benefits	56,053	535,619
Share based payments	156,347	158,819
	<u>14,306,830</u>	<u>12,423,583</u>

See note 24 for further details of employees

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

4. INCOME TAX EXPENSE

	Group	
	2017	2016
	£	£
(a) Income tax expenses		
Aggregate income tax expense comprises:		
Current tax	2,820,128	1,235,903
Deferred tax	(849,717)	(377,035)
Adjustment in respect of prior year (current tax)	(418,085)	(110,395)
	<u>1,552,326</u>	<u>748,473</u>
Deferred tax income/(expense) included in the income tax expense comprises:		
Increase/(decrease) in deferred tax assets	2,239,435	283,861
Increase in deferred tax liabilities	(1,389,718)	93,174
	<u>849,717</u>	<u>377,035</u>

(b) Reconciliation of income tax expense to theoretical tax payable

The tax on the Group's profit before tax differs from the theoretical amount which would arise using the weighted tax rate applicable in the year as follows

Profit from ordinary activities before income tax	5,762,290	4,292,431
Income tax charge at current rate 19.75% (2016: 20.00%)	1,335,552	858,486
Tax effect of permanent differences		
Differences in overseas tax rates	556,761	153,290
Non-chargeable interest	(409,605)	(411,807)
Non-deductible expenses	487,703	258,899
Income tax adjusted for permanent differences	<u>1,970,411</u>	<u>858,868</u>
Adjustment in respect of prior year	(241,404)	(83,697)
Change in Tax Rate	(176,681)	(26,698)
Income tax expense relating to ordinary activities	<u>1,552,326</u>	<u>748,473</u>

(c) Factors affecting future tax charges

UK corporation tax is calculated at 19.75% (2016: 20%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In the Budget on 16 March 2016, the Chancellor announced that the standard rate of UK Corporation Tax will be reduced from 1 April 2020 to 17%. In addition, he announced that the planned reductions in rates would be delayed and amended so that the standard rate of UK Corporation Tax will be reduced from 20% to 19% from 1 April 2017, with a further reduction to 17% from 1 April 2020. The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rates of 19% and 17%.

(d) Unused Tax Losses for which no deferred tax asset has been recognised

	Group	
	2017	2016
	£	£
Unutilised tax losses for which no deferred tax asset has been recognised	571,206	565,619
Potential tax benefit at 17.00% (2016: 19.75%)	<u>111,105</u>	<u>111,710</u>

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

5. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Cash held by consolidated special purpose entities	39,328,745	31,268,064	-	-
Other cash at bank and in hand	12,827,330	5,777,337	82,206	1,374
	<u>52,156,074</u>	<u>37,045,401</u>	<u>82,206</u>	<u>1,374</u>

Cash held by consolidated special purpose entities is quarantined within the entity and is distributed to noteholders in accordance with the legal documents governing the vehicle. Cash at bank earned interest at floating rates at an average of 0.78% (2016: 1.29%)

6. RECEIVABLES

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Accounts Receivable	1,151,250	971,445	-	-
Prepayments	1,052,761	765,950	3	7
Accrued income	3,687,484	2,696,607	16,796	16,795
Receivables from related parties	-	143,020	-	469,333
Sales tax receivable	1,802,459	397,864	-	-
Other	395,075	321,509	-	-
	<u>8,089,029</u>	<u>5,796,395</u>	<u>16,799</u>	<u>486,135</u>

(a) Bad and doubtful receivables

No provisions for bad and doubtful debts have been recorded against receivables balances as all balances are within agreed terms. A bad and doubtful debt provision has been raised against loans held at amortised cost, see note 8

(b) Fair values

The fair values of the receivables balances are not materially different to their carrying amount in the financial statements.

(c) Effective interest rates and credit risk

The Group is not exposed to any significant credit risk on receivables as these amounts are short term in nature or represent prepaid expenses or accrued income. None of the receivables are interest bearing.

(d) Maturity of receivables

All receivables are due within 12 months

7. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Assets				
Interest rate contracts	-	130,428	-	-
FX contracts	89,949	8,138	-	-
	<u>89,949</u>	<u>138,566</u>		
Liabilities				
Interest rate contracts	(1,285,382)	(3,390,360)	-	-
FX contracts	(1,180,423)	(1,583,543)	-	-
	<u>(3,166,404)</u>	<u>(4,974,003)</u>		

(a) FX Contracts

The Group enters into FX contracts in order to offset against the foreign exchange gain/loss on the translation of foreign subsidiaries. Changes in fair values are recognised within reserves on the statement of financial position

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

7. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) Interest Rate Contracts

The Group enters into interest rate contracts to swap interest receivable on fixed rate mortgages to floating rates in order to match the floating interest paid on the notes used to fund the mortgages. The interest rate swaps mitigate interest rate risk created by the fixed rate loans and the floating rate notes. Changes in fair values are recognised within other income/(expense) in the income statement.

(c) Fair Value Estimation

All of the Derivative Financial Instruments in the above note are considered Level 2 Assets and Liabilities.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

8. LOANS HELD AT AMORTISED COST

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Mortgage receivables	521,663,205	319,151,344	-	-
Other loans held at amortised cost	429,909	1,774,631	-	-
Vehicle Loans	57,539,849	25,606,769	-	-
Provision for bad and doubtful debts	(1,730,871)	(1,153,989)	-	-
	<u>577,902,092</u>	<u>345,378,755</u>	<u>-</u>	<u>-</u>

The mortgage receivables balance represents the outstanding principal amounts, accrued interest plus amounts capitalised under the effective interest rate method owed to the Group.

The mortgages are receivable from individual borrowers and are secured against the property. The credit risk on these loans comprises the exposure to individual borrower circumstances and the fluctuations in property values.

The mortgage receivables earn floating interest rates plus a margin above the base rate applicable in Australia and New Zealand and earned an average interest rate of 6.67% (2016: 7.93%). The mortgages have remaining terms of between 10 to 30 years, however prepayments can be made by the borrowers and the average life of the loans is approximately 6 years (2016: 6 years). Included within the year end balance is £118,175,132 (2016: £72,299,047) which is expected, based on current customer behaviour to be received within 12 months.

The vehicle loans are receivable from individual borrowers and are secured against the vehicle. The credit risk on these loans comprises the exposure to individual borrower circumstances and the fluctuations in vehicle values.

The vehicle loans pay a floating interest rate plus a margin above the base rate applicable in Ireland and earned an average interest rate of 13.77%. The mortgage loans have terms of between 2 to 5 years, however prepayments can be made by the borrowers and the average life of the loans is approximately 5 years. Included within the year end balance is £11,295,072 which is expected, based on current customer behaviour to be received within 12 months.

The Group has recognised an expense of £596,140 (2016: £531,119) in respect of bad and doubtful debt on originated mortgage and vehicle receivables during the year ended 30 June 2017.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Cost	36,654,304	38,177,057	-	-
Revaluations	<u>3,194,880</u>	<u>4,413,884</u>	<u>-</u>	<u>-</u>
	<u>39,849,184</u>	<u>42,590,941</u>	<u>-</u>	<u>-</u>

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Financial assets held at fair value through profit or loss represent:

- Fixed rate mortgages on which interest rate swap contracts have been entered to swap the fixed interest rate to floating rate and formerly fixed rate mortgages where there had been interest rate swaps in place. Changes in fair value are recorded in the income statement within other income /
- Bluestone's acquired loan portfolios including Bluestone's remaining interest in the Celeste securitised mortgage book. Changes in value are recorded in the income statement within interest income.

The financial assets held at fair value through profit or loss have remaining terms of between 4 to 30 years, however prepayments can be made by the borrowers and the average life of the loans is approximately 6 years (2016: 6 years) included within the year end balances £8,222,612 (2016: £8,873,399) which is expected, based on current customer behaviour, to be received within 12 months.

None of the financial assets at fair value through profit or loss are held for trading.

Fair Value Estimation

All of the Financial Assets at Fair Value Through Profit or Loss in the above note are considered Level 3 Assets. If one or more of the significant valuation inputs is not based on observable market data then the instrument is included in level 3. There were no transfers in to or out of Level 3 during the year.

	Group	
	2017	2016
	£	£
Opening Balance	42,590,941	54,295,796
Disposal of New Zealand Mortgage Warehouse	-	-
Discharged Loans	(2,416,875)	(9,026,225)
Gains and losses recognised in profit or loss	(324,883)	(2,678,630)
Closing Balance	<u>39,849,184</u>	<u>42,590,941</u>

Sensitivity

Had interest rates been 25 bps higher with all other variables held constant, it is estimated Group's closing balance of Fixed Rate Mortgage assets would have been reduced by £380,641.

10. OTHER INVESTMENTS

Bluestone Consolidated Holdings Limited holds investments in subsidiaries at a cost of £50,721,911 at 30th June 2017 (2016: £38,799,811). Full details of direct subsidiaries of the company are shown in note 25(b).

11. INTANGIBLE ASSETS

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Goodwill				
Carrying amount at beginning of year	2,033,345	2,024,981	-	-
Foreign Exchange	18,480	8,364	-	-
Carrying amount at end of year	<u>2,131,825</u>	<u>2,033,345</u>		

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

Goodwill arose on the following transactions

- Acquisition of the Minority Interest in Bluestone Equity Release Pty Limited. Goodwill was subject to an impairment test which determined that there was no impairment. The key assumptions used in performing the impairment test relate to the valuation of the residual interest and the discount rate of 15% per annum. Due to the headroom which exists between the recoverable amount and the carrying value there is no reasonable possible change in any of these key assumptions which would cause the cash generating unit's carrying amount to exceed its recoverable amount. Varying the discount rate by 1% would lead to a reduction in the recoverable amount of £395,760, there would be no impact to the Income Statement as there is sufficient headroom to the carrying value to absorb this reduction in recoverable amount

- Acquisition of 100% of the equity in Bluestone Credit Management Limited and Empingham Limited, considered to be a single CGU. Goodwill was subject to an impairment test which determined that there was no impairment. The key assumptions used in performing the impairment test relate to the valuation of the residual interest and the discount rate of 7% per annum. The calculation of the recoverable amount led to no reduction in the carrying value. Varying the discount rate by 1% would lead to a reduction in the recoverable amount of £56,093, there would be no impact to the Income Statement as there is sufficient headroom to the carrying value to absorb this reduction in recoverable amount

The treatment of Goodwill is in accordance with the Group's accounting policies set out in note 1(f).

12. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold Improvements	Plant and Equipment	Equipment under Finance Lease	Total
Cost	£	£	£	£
At 1 July 2015	914,929	5,176,755	963,574	8,055,258
Additions	-	752,209	-	752,209
Disposals	(14,883)	(593,173)	(27,808)	(635,864)
Foreign exchange differences	46,422	720,476	55,057	821,955
At 30 June 2016	<u>946,468</u>	<u>7,056,267</u>	<u>990,833</u>	<u>8,993,568</u>
At 1 July 2016	946,468	7,056,267	990,833	8,993,568
Additions	12,460	605,562	31,598	649,620
Foreign exchange differences	29,815	210,751	68,499	309,066
At 30 June 2017	<u>988,744</u>	<u>7,872,580</u>	<u>1,090,930</u>	<u>9,952,254</u>
Accumulated Depreciation				
At 1 July 2015	351,187	3,937,119	790,622	5,078,928
Depreciation	193,632	545,121	84,406	823,159
Disposals	(3,058)	-	(4,043)	(7,101)
Foreign exchange differences	39,066	605,801	73,434	718,301
At 30 June 2016	<u>580,827</u>	<u>5,088,041</u>	<u>944,419</u>	<u>6,613,287</u>
At 1 July 2016	580,827	5,088,041	944,419	6,613,287
Depreciation	179,132	842,157	61,844	1,083,133
Disposals	-	-	-	-
Foreign exchange differences	9,962	227,106	72,274	309,342
At 30 June 2017	<u>769,921</u>	<u>6,157,304</u>	<u>1,078,537</u>	<u>8,005,762</u>
Net Book Value				
At 1 July 2015	563,742	2,239,636	172,952	2,976,330
At 30 June 2016	365,641	1,968,226	46,414	2,380,281
At 30 June 2017	218,823	1,715,276	12,393	1,946,492

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

13. DEFERRED TAX ASSETS

	Note	Group		Company	
		2017	2016	2017	2016
		£	£	£	£
The balance comprises temporary differences attributable to:					
Amounts recognised in the income statement:					
Income and expenses spread on an effective yield basis		1,871,240	859,778	-	-
Accruals		1,165,628	316,119	-	-
Provision for doubtful debts		1,058,334	813,261	-	-
Employee entitlements		114,449	112,374	-	-
Tax losses		2,878,277	2,773,842	106,308	106,308
Property adjustments		59,576	56,984	-	-
Items held at Fair value		146,548	40,931	-	-
Accrued interest on internally held notes		18,870	9,160	-	-
Other		55,262	146,300	-	-
		<u>7,368,184</u>	<u>5,128,749</u>	<u>106,308</u>	<u>106,308</u>
Amounts recognised directly in equity					
		<u>7,368,184</u>	<u>5,128,749</u>	<u>106,308</u>	<u>106,308</u>
Set off against deferred tax liabilities	17	(2,462,204)	(1,072,486)	-	-
Net deferred tax asset		<u>4,905,980</u>	<u>4,056,263</u>	<u>106,308</u>	<u>106,308</u>
Deferred tax assets expected to be recovered within 12 months		3,293,236	2,292,312	-	-
Deferred tax assets expected to be recovered after 12 months		4,074,948	2,836,437	-	-
		<u>7,368,184</u>	<u>5,128,749</u>	<u>106,308</u>	<u>106,308</u>

14. PAYABLES

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Accrued interest payable on borrowings	(10,051,037)	(8,045,848)	-	-
Other Accruals	(8,952,345)	(7,288,544)	(66,047)	(37,288)
Trade payables	(3,062,475)	(3,035,236)	-	-
Payroll liabilities	(240,790)	(412,782)	-	-
Payables to related parties	(761,298)	-	(11,310,830)	-
Other Payables	(1,493,109)	(264,716)	(561)	(561)
	<u>(24,561,054)</u>	<u>(19,047,126)</u>	<u>(11,377,439)</u>	<u>(37,849)</u>
Payables are all due within 12 months				

15. INTEREST BEARING LIABILITIES

	Note	Group		Company	
		2017	2016	2017	2016
		£	£	£	£
Notes issued by managed trusts		(485,351,756)	(250,941,185)	-	-
Finance lease liabilities	22	(24,969)	(38,925)	-	-
Borrowings		<u>(128,225,572)</u>	<u>(124,116,293)</u>	-	-
		<u>(613,602,297)</u>	<u>(375,096,403)</u>	-	-

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

15. INTEREST BEARING LIABILITIES (continued)

(a) Notes issued by managed trusts

Notes issued by managed trusts are repayable under the terms of the trust agreements.

Interest is payable on the notes at the floating Bank Bill Swap Rate (BBSW) in Australia and Bank Bill Reference Rate (BKBM) in New Zealand plus a margin of between 1.2% and 14.0% (2016: 1.2% and 14.0%). The average interest rate paid during the year was 3.2% (2016: 3.4%).

The notes have an expected life of 5 years (2016: 5 years) and are secured against the mortgage receivables detailed in notes 8 and 9. The expected principal-pass-through to the funders is based on the expected principal receipts from mortgage loans. Calculations of expected principal receipts on mortgage loans have been derived using prepayment assumptions that are based on historic experience. Based on current prepayment assumptions it is anticipated that £109,949,307 (2016: £56,847,037) will be repaid within the next 12 months.

(b) Finance lease liabilities

Details of the term and interest payable on finance lease liabilities are included within note 22.

(c) Borrowings

These warehouse loan facilities have terms that expire in excess of 4 months and within 12 months from the balance sheet date and pay interest at the floating rate of Bank Bill Swap Rate (BBSW) in Australia, Bank Bill Reference Rate (BKBM) in New Zealand and one month libor in the UK plus a margin between 2% and 7.5% with an average of 2.8%.

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Used at balance sheet date	128,225,572	114,116,293	-	-
Unused at balance sheet date	326,111,727	271,226,809	-	-
	<u>454,337,299</u>	<u>385,343,102</u>	<u>-</u>	<u>-</u>

The warehouse loan facilities are largely secured against the assets of the relevant warehouse with limited recourse to the other entities in the Group.

(d) Liquidity Risk

Appropriate liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

16. CURRENT TAX LIABILITIES

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Income tax payable	(2,259,806)	(316,269)	-	-

17. DEFERRED TAX LIABILITIES

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Income and expenses spread on an effective yield basis	(2,444,568)	(1,056,095)	-	-
Other	17,636	16,391	-	-
	<u>(2,426,932)</u>	<u>(1,039,704)</u>	<u>-</u>	<u>-</u>
Set off against deferred tax assets	2,462,204	1,072,185	-	-
Net deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

17 DEFERRED TAX LIABILITIES (continued)

Deferred tax liabilities to be recovered within 12 months	(102,239)	(44,533)	-	-
Deferred tax liabilities to be recovered after 12 months	(2,359,965)	(1,027,953)	-	-
	<u>(2,462,204)</u>	<u>(1,072,486)</u>	<u>-</u>	<u>-</u>

18. PROVISIONS

	Group		
	Employee annual leave	Employee long service leave	Total
As at 1st July 2015	(117,464)	(132,852)	(266,542)
Charged to income statement	(63,197)	25,981	(37,216)
Utilised during year	28,211	(7,221)	37,216
As at 30th June 2016	<u>(152,450)</u>	<u>(114,092)</u>	<u>(266,542)</u>
As at 1st July 2016	(152,450)	(114,092)	(266,542)
Charged to income statement	(102,561)	-	(102,561)
Utilised during year	-	(8,663)	(8,663)
As at 30th June 2017	<u>(255,011)</u>	<u>(122,755)</u>	<u>(377,766)</u>

Of the year end provision balance, £255,011 (2016: £152,450) is due within 12 months
Bluestone Consolidated Holdings Limited has no provisions at 30 June 2017

19. CONTRIBUTED EQUITY

(a) Share Capital

	Issued and Fully Paid			
	2017 No.	2017 £	2016 No.	2016 £
Ordinary Shares A Class of £0.035 each (2016: £0.035)				
At 1st July 2016 & 30th June 2017	<u>5,168,005</u>	<u>180,880</u>	<u>5,168,005</u>	<u>180,880</u>

Ordinary shares A Class holders are entitled to participate in dividends and to share in the winding up of the Company in proportion to the number and amounts paid on the shares held. However, Ordinary shares A class must never confer an entitlement on the holders to more than 50% of any such distribution. They are entitled to appoint up to two persons as Directors and to remove any such person from office.

Every holder has the right to receive notice of and to attend, speak and vote at all general meetings of the Company. They are entitled to one vote per share provided that a single holder does not confer more than 49.9% of the total voting rights of all shares at any time.

	Issued and Fully Paid			
	2017 No.	2017 £	2016 No.	2016 £
Ordinary Shares B Class of £0.035 each (2016: £0.035)				
At 1st July 2016 & 30th June 2017	<u>4,435,871</u>	<u>155,255</u>	<u>4,435,871</u>	<u>155,255</u>

Ordinary shares B Class holders are entitled to equal participation in dividends as are the A Class shareholders. They are also entitled to share in the winding up of the Company in proportion to the number and amounts paid on the shares held. Every holder has the right to receive notice of and to attend, speak and vote at all general meetings of the Company. They are entitled to one vote per share provided that a single holder does not confer more than 49.9% of the total voting rights of all shares at any time.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

19. CONTRIBUTED EQUITY (continued)

	2017	Issued and Fully Paid	2016	2016
	No.	2017	No.	£
		£		
Ordinary Shares C Class of £0.01 each (2016: £0.01)				
At 1st July 2016	210,300	2,103	-	-
Issued in year	70,300	703	210,300	2,103
At 30th June 2017	280,600	2,806	210,300	2,103

Ordinary shares C Class holders are not entitled to participate in dividends and they do not have the right to attend, speak or vote at general meetings of the Company

Ordinary Shares D Class of £0.01 each (2016: £0.01)				
At 1st July 2016	378,555	3,786	-	-
Adjustment	27,092	(271)	378,555	3,786
At 30th June 2017	351,463	3,515	378,555	3,786

Ordinary shares D Class holders are not entitled to participate in dividends and do not have the right to attend, speak or vote at general meetings of the Company. At any point in time the Directors shall not issue more than 500,000 D shares.

Ordinary Preferred Shares of £0.035 each (2016: £0.035)				
At 1st July 2016 & 30th June 2017	33,354,269	1,167,400	33,354,269	1,167,400

Ordinary Preferred shares may be entitled to receive dividends with majority approval from the board. They do not have the right to speak or vote at general meetings of the Company

(b) Share Premium

	2017	2016
Ordinary Shares A Class		
At 1st July	19,120	19,120
Movement	-	-
At 30th June	19,120	19,120
Ordinary Preferred Shares		
At 1st July	16,677,135	16,677,135
Movement	-	-
At 30th June	16,677,135	16,677,135

(c) Equity Raising Expenses

	Group	Company		
	2017	2016	2017	2016
	£	£	£	£
At 1st July	(6,525,920)	(6,525,920)	(6,525,920)	(6,525,920)
Movement	-	-	-	-
At 30th June	(6,525,920)	(6,525,920)	(6,525,920)	(6,525,920)

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

19. CONTRIBUTED EQUITY (continued)

	Group	
	2017	2016
	£	£
(d) Contributed Equity		
Ordinary Shares A Class of £0.035 each	180,880	180,880
Ordinary Shares B Class of £0.035 each	155,255	155,255
Ordinary Shares C Class of £0.01 each	2,806	2,103
Ordinary Shares D Class of £0.01 each	3,515	3,786
Ordinary Preferred Shares of £0.035 each	1,167,400	1,167,400
Ordinary Shares A Class Share Premium	19,120	19,120
Ordinary Preferred Shares Share Premium	16,677,135	16,677,135
Equity Raising Expenses	<u>(6,525,920)</u>	<u>(6,525,920)</u>
	<u>11,680,191</u>	<u>11,679,759</u>

20. RESERVES

	Group	Company	
	2017	2016	2017
	£	£	£
Foreign Currency Translation Reserve	1,975,013	1,314,115	50
Share Based Payments Reserve	317,574	162,055	317,574
Minority Interest Acquisition Reserve	<u>(7,171,544)</u>	<u>(7,171,544)</u>	<u>-</u>
Merger Reserve	<u>(19,018,665)</u>	<u>(19,018,665)</u>	<u>(10,873,003)</u>
	<u>(23,897,622)</u>	<u>(24,714,039)</u>	<u>(10,555,379)</u>
(a) Foreign Currency Translation Reserve			
Balance at the beginning of the financial year	1,314,115	(916,139)	50
Translation of foreign operations	<u>660,898</u>	<u>2,230,254</u>	<u>-</u>
Balance at the end of the financial year	<u>1,975,013</u>	<u>1,314,115</u>	<u>50</u>

Exchange differences arising from the translation of foreign operations have been recognised in the foreign currency translation reserve as described in note 1(d). The reserve is recognised in the income statement when the net investment in foreign operations are sold.

(b) Share Based Payment Reserve

Balance at the beginning of the financial year	162,055	162,055	-
Share issuance expense	<u>155,519</u>	<u>162,055</u>	<u>155,519</u>
Balance at the end of the financial year	<u>317,574</u>	<u>162,055</u>	<u>162,055</u>

The share based payments reserve is used to recognise the fair value of shares issued but not exercised.

(c) Minority Interest Acquisition Reserve

Balance at the beginning of the financial year	<u>(7,171,544)</u>	<u>(7,171,544)</u>	<u>-</u>
Acquisitions	<u>-</u>	<u>-</u>	<u>-</u>
Balance at the beginning/end of the financial year	<u>(7,171,544)</u>	<u>(7,171,544)</u>	<u>-</u>

The Minority Interest Acquisition Reserve is used to record the difference between net assets acquired from Minority interests and face value or consideration paid

(d) Merger Reserve

Balance at the beginning of the financial year	<u>(19,018,665)</u>	<u>(19,018,665)</u>	<u>(10,873,003)</u>
Acquisitions	<u>-</u>	<u>-</u>	<u>-</u>
Balance at the end of the financial year	<u>(19,018,665)</u>	<u>(19,018,665)</u>	<u>(10,873,003)</u>

The Merger Reserve is used to recognise the difference between the pre-acquisition net assets of the Company (the net assets of the consolidated Group for the Group figure) acquired as part of the capital re-organisation in 2014 and the face value of the shares issued as payment

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

	Group	
	2017	2016
	£	£
(a) Key Management Personnel Compensation		
Short term employee benefits	1,325,941	1,665,014
Post employment benefits	12,191	10,689
Share based payments	41,769	63,833
Total compensation	<u>1,379,901</u>	<u>1,739,536</u>

The following personnel are considered Key Management Personnel at the year end

Mr A. J. Jeffery (Executive Chairman)
 Mr P. T. McGuinness (Group CEO)
 Mr A. Weinel (Non Executive Director)
 Mr A. Cameron (Non Executive Director)
 Mr A. Cumming (Non Executive Director)
 Ms P. Khroud (Non Executive Director)
 Mr Y. Shozo Souillard (Non Executive Director)
 Mr A. Voss (Chief Financial Officer)
 Mr C. Smyth (CEO, Asia Pacific)

(b) Directors' Emoluments

Directors' emoluments (including benefits in kind) for management services	<u>1,247,270</u>	<u>1,133,383</u>
--	------------------	------------------

(c) Remuneration of the Highest Paid Director

Directors' emoluments (including benefits in kind) for management services	<u>473,137</u>	<u>520,577</u>
--	----------------	----------------

(d) Shares to Directors

Total number and value of shares granted during the year is as follows

	2017	2017	2016	2016
	No.	£	No.	£
Ordinary Class C shares	26,466	39,699	33,941	32,583
Ordinary Class D shares	16,738	9,185	118,895	43,123

(e) Retirement Benefits

The aggregate retirement benefits paid to all Directors of the Company, by the Company or by any related party, during the financial year was £23,173 (2016: £21,378). The amount in respect of the highest paid Director during the financial year was £11,765

22. COMMITMENTS

Finance Lease Liabilities

Finance leases relate to equipment with lease terms of 2 years (2016: 3 years). Commitments in relation to finance leases are payable as follows

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
No later than 1 year	25,460	29,691		-
Later than 1 year and not later than 5 years		14,697		
Minimum finance lease payments	25,460	44,388		-
Less future finance charges	(491)	(5,463)		
Finance lease liabilities	<u>24,969</u>	<u>38,925</u>		
Included in the financial statements as:				
Interest bearing liabilities	<u>(24,969)</u>	<u>(38,925)</u>		

The following amounts have been committed to but not recognised in the financial statements

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

22. COMMITMENTS (continued)

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Operating Leases				
Commitments under non-cancellable operating leases are payable as follows				
Within one year	765,085	721,309	-	-
Later than one, not later than five years	1,191,515	1,663,329	-	-
After 5 years	344,985	158,928	-	-
	<u>2,301,685</u>	<u>2,543,566</u>	<u>-</u>	<u>-</u>

Operating lease commitments relate to motor vehicles, office equipment and office rent. Lease terms are between 1 and 10 years (2016: 1 and 7 years).

23. RELATED PARTY DISCLOSURES

(a) Directors' Remuneration

Details of the Directors and key management personnel's remuneration is disclosed in note 21 to the financial statements.

(b) Directors' Loans

The Group secured loan to Mount Farm Ventures Limited, which is controlled by Alistair Jeffery, a director of Bluestone Consolidated Holdings Limited. The loan was repaid in full during the year and the balance on the loan at 30 June 2017 is £nil (2016: £1,057,876).

(c) Amounts Receivable from Related Parties

At the Balance Sheet date there is £761,298 payable (2016: £143,020 receivable) to related parties in respect of servicing fees and management services owed by non-consolidated SPEs.

24. EMPLOYEES

The figures below include executive Directors employed directly by the Group. The Company has no (2016: no) employees.

(a) Monthly Average Number of People Employed

	Group	
	2017	2016
Capital Management	7	5
Loan Servicing	100	162
Loan Origination	78	56
Administration	85	29
Total	<u>270</u>	<u>253</u>

(b) Employee Benefits Expense

	£	£
Wages and Salaries	12,708,150	10,512,995
Social Security Costs	1,114,038	911,156
Other Pension costs	272,242	284,994
Termination benefits	56,053	555,619
Share based payments	<u>156,347</u>	<u>158,819</u>
	<u>14,306,831</u>	<u>12,423,583</u>

(c) Share based payments

A scheme under which shares may be issued by the Company to employees for no cash consideration was approved by shareholders at the 2016 annual general meeting. All employees who have been continuously employed by the Group for a period of at least one year are eligible to participate in the scheme. Under the scheme, the eligible employees may be awarded fully paid ordinary class C and/or D shares in the Company annually for no cash consideration.

Offers under the scheme are at the discretion of the Company. Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment by the Group.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

24. EMPLOYEES (continued)

Each participant was issued with Class C shares with a grant date fair value of £1.50 (2016: £0.96) or Class D shares with a grant date fair value of £0.57 (2016: £0.36) or both.

25. DIVIDENDS

	Group	
	2017	2016
	£	£
(i) Ordinary shares A Class		
Final paid (2016): 10.6p (2015: 16.4p) per £0.035 share	545,880	847,520
Interim paid (2017): 10.0p (2016: 6.8p) per £0.035 share	515,766	351,815
(ii) Ordinary shares B Class		
Final paid (2016): 11.9p (2015: 19.1p) per £0.035 share	528,002	847,619
Interim paid (2017): 11.4p (2016: 7.9p) per £0.035 share	503,471	351,816
	2,093,119	2,398,770

26. SUBSIDIARIES AND CONTROLLED ENTITIES

(a) Controlled Entities

The Group had the following controlled entities at 30 June 2017:

Name of Controlled Entity	Country of Incorporation	Nature of Business	Registered Address	% Ownership Interest
Bluestone APAC Holdings Limited	United Kingdom	Financial Services	Newnham Mill, Newnham Rd, Cambridge, CB3 9EY	100%
Bluestone Finance (Jersey) Limited	Jersey	Financial Services	22 Grenville St St Helier, Jersey JE4 8PX	100%
Bluestone Holdings (Australia) Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Holdings II (Australia) Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Group Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Special Servicing Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Management Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Mortgages NZ Limited	New Zealand	Financial Services	Rifleman Tower Level 19, 120 Albert St, Auckland Central	100%
Sapphire Administration Services Limited	New Zealand	Financial Services	Level 22, Vero Centre, 48 Shortland St, Auckland, 1010	100%
Bluestone Equity Release Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Mortgages Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Administrative Services Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Isomer Finance Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Capital Management Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney 2000 Australia	100%
Bluestone Capital Management (NZ) Limited	New Zealand	Financial Services	Bell Gully, Level 22, Vero Centre, 48 Shortland St, Auckland, 1010	100%
Bluestone Asset Management (NZ) Limited	New Zealand	Financial Services	Bell Gully, Level 22, Vero Centre, 48 Shortland St, Auckland, 1010	100%
Bluestone Asset Management Spain S.L.U.	Spain	Financial Services	Rambla de Catalunya, 86, 08008 Barcelona, Barcelona, España	100%
Bluestone Asset Finance (Ireland) DAC	Ireland	Financial Services	Suite 3, Earsfort Centre, Earsfort Terrace, Dublin 2	100%
Bluestone Capital Management Limited	United Kingdom	Financial Services	Newnham Mill, Newnham Rd, Cambridge, CB3 9EY	100%
Bluestone Portfolio Management (UK) Limited	United Kingdom	Financial Services	Newnham Mill, Newnham Rd, Cambridge, CB3 9EY	100%
Bluestone Credit Management Limited	United Kingdom	Financial Services	Derwent House, 150 Arundel Gate, Sheffield, S1 2FN	100%

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

26. SUBSIDIARIES AND CONTROLLED ENTITIES (continued)

Name of Controlled Entity	Country of Incorporation	Nature of Business	Registered Address	% Ownership Interest
Five Rivers 2013-1 Limited	United Kingdom	Financial Services	Derwent House, 150 Arundel Gate, Sheffield, S1 2FN	100%
Bluestone Servicing Pty Limited	Australia	Financial Services	Level 3, 101 Sussex St, Sydney	100%
Bluestone Servicing NZ Limited	New Zealand	Financial Services	2000 Australia	100%
Bluestone Equity Release NZ Limited	New Zealand	Financial Services	Level 1, Northern Steamship Generator, 122 Quay St, Level 1, 28 Customs St, East	100%
Bluestone Mortgages Warehouse Trust	Australia	Financial Services	Auckland, 1010, New Zealand	100%
Bluestone Series 3 (NZ) Warehouse Trust	New Zealand	Financial Services	Level 3, 101 Sussex St, Sydney	100%
Bluestone Equity Release NZ Series 1 Warehouse Trust	Australia	Financial Services	2000 Australia	100%
Emerald Reverse Mortgage Series 2006-1 Trust	Australia	Financial Services	Level 3, 101 Sussex St, Sydney	100%
Emerald II Reverse Mortgage Series 2007-1 Trust	Australia	Financial Services	2000 Australia	100%
Sapphire Series 2006-1 Trust	Australia	Financial Services	Level 3, 101 Sussex St, Sydney	100%
Sapphire Series 2007-1 Trust	Australia	Financial Services	2000 Australia	100%
Sapphire XII Series 2013-1 Trust	Australia	Financial Services	Level 3, 101 Sussex St, Sydney	100%
Sapphire V NZ Series 2013-1 Trust	New Zealand	Financial Services	2000 Australia	100%
3CMNZ Series 2008-1 (NZ) Trust	New Zealand	Financial Services	Bell Gully, Level 22, Vero Centre, 48 Shortland St, Auckland, 1010	100%
Permanent Custodians Limited ATF Macquarie Bank Limited	Australia	Financial Services	Bell Gully, Level 22, Vero Centre, 48 Shortland St, Auckland, 1010	100%
Bluestone Mortgages Limited	United Kingdom	Financial Services	PO Box Q1136, Sydney, NSW 2000	100%
Bluestone Administrative Services (UK) Limited	United Kingdom	Financial Services	Melbourne House, 44-46 Aldwych London, England, WC2B	95%
Bluestone Mortgages Investment Limited	United Kingdom	Financial Services	Newnham Mill, Newnham Rd, Cambridge, CB3 9EY	100%
Empingham Limited	United Kingdom	Financial Services	Newnham Mill, Newnham Rd, Cambridge, CB3 9EY	95%
Bluestone Asset Management (Ireland) DAC	Ireland	Financial Services	Derwent House, 150 Arundel Gate, Sheffield, S1 2FN	100%
Bluestone Finance 1 Limited	Ireland	Financial Services	Suite 3, Earlsfort Centre, Earlsfort Terrace, Dublin 2	100%
Bluestone CBA Warehouse Trust 2015	Australia	Financial Services	Unit 18 Northwood House, Northwood Business Campus, Level 3, 101 Sussex St, Sydney	100%
Sapphire XIV Series 2016-1 Trust	Australia	Financial Services	2000 Australia	100%
Sapphire XIII Series 2014-1 Trust	Australia	Financial Services	Level 3, 101 Sussex St, Sydney	100%
Bluestone Mortgage Finance No. 2 Limited	United Kingdom	Financial Services	2000 Australia	100%
Topaz Asset Finance 2015-1 DAC	Ireland	Financial Services	Level 1, Newnham Mill, Newnham Rd, Cambridge, CB3	95%
Topaz Asset Finance 2015-2 DAC	Ireland	Financial Services	1st Floor, 1-2 Victoria Buildings, Haddington Rd, Dublin 4	100%
Topaz Asset Finance 2017-A1 DAC	Ireland	Financial Services	1st Floor, 1-2 Victoria Buildings, Haddington Rd, Dublin 4, D04	100%
Bluestone Funds Management Limited	United Kingdom	Financial Services	1st Floor, 1-2 Victoria Buildings, Haddington Rd, Dublin 4, D04	100%
Sapphire XV Series 2016-2 Trust	Australia	Financial Services	Newnham Mill, Newnham Road, Cambridge, CB3 9EY	100%
Sapphire XVI Series 2017-1 Trust	Australia	Financial Services	Level 3, 101 Sussex Street, Sydney 2000 Australia	100%
Bluestone Capital Management II Limited	United Kingdom	Financial Services	Level 3, 101 Sussex Street, Sydney 2000 Australia	100%
Bluestone RLU Holdings I Pty Limited	Australia	Financial Services	Newnham Mill, Newnham Road, Cambridge, CB3 9EY	100%

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

(b) Direct subsidiaries of the Company

The Company had the following direct subsidiaries as at 30 June 2017

	Type of shares	Proportion of shares held and voting rights	Included in the consolidation	Reason is a subsidiary
Bluestone Consolidated Holdings II (UK) Limited	Ordinary	100%	Yes	100%
Bluestone Finance (Jersey) Limited	Ordinary	100%	Yes	controlled 100%
Bluestone Administrative Services (UK) Limited	Ordinary	100%	Yes	controlled 100%
Bluestone Mortgage Holdings Limited	Ordinary	95%	Yes	controlled 95%
Bluestone Administrative Services (UK) Limited	Ordinary	100%	Yes	controlled 100%
Bluestone Credit Management Limited	Ordinary	100%	Yes	controlled 100%
Bluestone Funds Management Limited	Ordinary	100%	Yes	controlled 100%
Bluestone Capital Management II Limited	Ordinary	100%	Yes	controlled 100%
Bluestone Finance 1 Limited	Ordinary	100%	Yes	controlled 100%
Bluestone Asset Finance (Ireland) DAC	Ordinary	100%	Yes	controlled 100%

Bluestone Consolidated Holdings Limited holds investments in subsidiaries at a cost of £50,721,911 at 30th June 2017 (2016: £38,799,811). During the year the following additions were made:

Subsidiary	Cost (£)
Bluestone Funds Management Limited	205,000
Bluestone Capital Management II Limited	100
Bluestone Credit Management Limited	950,000
Bluestone Asset Finance (Ireland) DAC	7,937,940
Bluestone Finance 1 Limited	2,829,060

(c) Subsidiaries exempt from audit

The below subsidiary undertakings have claimed audit exemption under UK Companies Act 2006 section 479A with respect to the year ended 30 June 2017. The Group parent company, Bluestone Consolidated Holdings Limited, has given a statement of guarantee under Companies Act 2006 section 479A, whereby Bluestone Consolidated Holdings Limited will guarantee all outstanding liabilities to which the respective subsidiary companies are subject as at 30 June 2017.

Subsidiary	Company Number
Bluestone APAC Holdings Limited	08754669
Bluestone Capital Management Limited	06767874
Bluestone Administrative Services (UK) Limited	09229739
Five Rivers 2013-1 Limited	08253843
Empingham Limited	04111298
Bluestone Finance (Jersey) Limited	08754669

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

26. SUBSIDIARIES AND CONTROLLED ENTITIES (CONTINUED)

(c) Subsidiaries exempt from audit (continued)

Subsidiary	Company Number
Bluestone Portfolio Management (UK) Limited	06767914
Bluestone Mortgage Holdings Limited	09164380
Bluestone Capital Management II Limited	10367076

The below subsidiary undertakings have claimed audit exemption under Irish Companies Act 2014 section 357 with respect to the year ended 30 June 2017. The Group parent company, Bluestone Consolidated Holdings Limited, has given a statement of guarantee under UK Companies Act 2006 section 479A, whereby Bluestone Consolidated Holdings Limited will guarantee all outstanding liabilities to which the respective subsidiary companies are subject as at 30 June 2017.

Subsidiary	Company Number
Bluestone Asset Finance (Ireland) DAC	507250
Bluestone Asset Management (Ireland) DAC	538104

27. INCOME STATEMENT FOR BLUESTONE CONSOLIDATED HOLDINGS LIMITED (THE COMPANY)

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own income statement for the year.

Bluestone Consolidated Holdings Limited recorded a profit for the year ended 30th June 2017 of £2,131,174.

28. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as FX forwards, average rate options and interest rate swaps to hedge certain risk exposures. Derivatives are used exclusively for hedging purposes and not for trading or other speculative purposes. The Group uses different methods to measure different types of risks to which it is exposed. These methods include ageing analysis for credit risk and maturity analysis for liquidity risk.

Risk management is carried out by a central Treasury department (Treasury) under policies approved by the board of Directors and the Group's Interest Rate Committee (IRC). Treasury evaluates, identifies and hedges financial risks.

(a) Market Risk

(i) Foreign Exchange Risk

Foreign exchange risk arises when the Group obtains funding in a foreign currency which is not backed by assets in the same currency. In such circumstances, the Group's policy is to ensure swaps are in place with an appropriately rated counterparty to eliminate the potential impact of adverse movements in exchange rates.

The Group's exposure to foreign exchange risk at the reporting date was fully hedged, through the use of FX forwards, average rate options, or backed by assets in the currency of funding.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

28. FINANCIAL RISK MANAGEMENT (continued)

(i) Foreign Exchange Risk (continued)

The table below illustrates the Group's financial assets and liabilities denominated in foreign currencies:

	30 June 2017		
	EUR £	AUD £	NZD £
Cash	923,611	38,308,251	2,596,815
Interest Bearing Financial Liabilities	(54,562,322)	(534,955,563)	(20,539,538)
Loans held at amortised cost	57,539,849	483,888,327	20,537,749
Financial assets at fair value through profit or loss	-	30,577,317	1,297,798

	30 June 2016		
	EUR £	AUD £	NZD £
Cash	2,051,124	15,990,529	3,673,007
Interest Bearing Financial Liabilities	(16,913,923)	(306,650,508)	(23,675,802)
Loans held at amortised cost	25,606,769	302,367,227	24,767,741
Financial assets at fair value through profit or loss	2,497,242	32,663,802	1,762,492

Sensitivity

The Group's financial assets and liabilities denominated in AUD, NZD and EUR above represent financial assets/liabilities of the Group's foreign entities operating in Australia, New Zealand and Ireland respectively. Due to the Group's hedging activities, the change of GBP rates against these respective currencies would only result in immaterial movements in the Income Statement.

(ii) Interest rate risk

The Group's main interest rate risk arises from mortgage loans, cash deposits and interest bearing liabilities. All of the Group's borrowings are issued at variable rates and expose the Group to interest rate risk. Mortgage loans that are written at variable rates and cash deposits also expose the Group to interest rate risk, however the risk is naturally hedged by the variable rate borrowings. Mortgages written at fixed interest rates are hedged with interest rate swaps to match the borrowings used to fund the mortgages. It is company policy to hedge 100% of the outstanding balance of fixed rate loans. Such interest rate swaps have the economic effect of converting mortgage loans from fixed rates to floating rates.

The notes to the financial statements set out the details of each class of financial asset/liabilities and set out whether interest is earned/paid on a floating rate and the weighted average interest cost for the financial year.

Sensitivity

Had interest rates been 25 bps higher with all other variables held constant, it is estimated Group's results would have been impacted as follows:

	Group	
	2017 £	2016 £
Profit after tax - lower	(105,154)	(32,996)
Equity - (lower)/higher	(138,150)	(44,323)

The parent entity has no material sensitivity to interest rates.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default in its contractual obligations resulting in financial loss to the Group. Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions and mortgage loans.

The carrying value of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Group has no significant concentrations of mortgage customer credit risk. Mortgage loans consist of a large number of customers spread across diverse geographical areas within Australasia. The Group has procedures in place to ensure that sales of mortgage products were made to customers within the Group's credit and security policy criteria. The Group retains the registered mortgages over security property until the mortgage loans are repaid. The Group is entitled to take possession of and enforce of security property in the event that the customer defaults under the terms of their mortgage.

The following table demonstrates the split of the Group's mortgage loans based on the borrowers financial record to defaults, arrears and bankruptcy at origination.

Ratings	Consolidated	
	2017	2016
	£	£
Clear	321,877,214	169,178,479
Alt-Doc	10,189,866	10,701,065
AAA	88,392,402	54,365,307
AA	69,961,628	70,564,247
A	29,552,011	21,943,344
BBB	38,344,388	27,975,960
	558,317,509	357,328,402

The Group's exposure to the mortgage loans is limited as although the assets are consolidated in the Group financial statements, they sit within quarantined trust vehicles with no recourse to the Group. Losses on mortgage loans are therefore limited to the Group's investments in notes in these trusts. These total £24,087,907 (2016: £18,675,573) and any losses in excess of Bluestone's equity and retained notes will be borne by the third party note investors.

The Group's approach to identifying an applicant's credit rating level is shown in the table below.

The parent entity only has exposure to credit risk from related and consolidated entities.

Credit Rating Levels	Non-Conforming				
	Clear	AAA	AA	A	BBB
Defaults - Number (inc. defaults, judgements, writs and summons)	None	1 (Paid Only)	1-2	3-4	No Limit
Mortgage Arrears and Rent Arrears - full month payment, number of instances (last 6 months)	<1	1 up to 2	2 up to 3	3 up to 4	4 or more
Bankruptcy, Part 9 or Part 10 as shown on CRA* - (time since bankruptcy)	None	3 Years or more	>2 Years	>1 Year	Discharged within the last years or now in Part 9 or Part 10

Credit Rating Levels	Alt-Doc**
Defaults - Number (inc. defaults, judgements, writs and summons)	None
Mortgage Arrears and Rent Arrears - full month payment, number of instances (last 6 months)	<1
Bankruptcy, Part 9 or Part 10 as shown on CRA* - (time since bankruptcy)	None

- * CRA are external reports received from credit rating agencies. Part 9 relates to borrowers who have entered into a debt agreement, Part 10 relates to borrowers who have entered into personal insolvency agreements.

- ** Alt-Doc loans are not being offered in the Australian origination programme initiated during the current financial year.

As at the reporting date, receivables under derivative financial instruments are with swap counterparties with a rating of 4 or above (2016: 4).

Mortgage loan balances where security is held over the property have an assessed value of £558,317,509 at 30 June 2017 (2016: £357,328,402). The valuations of the underlying security properties have been performed at the later of the original loan application date or subsequent loan variation date, and do not take into account any realisation costs.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The following table demonstrates the mortgage loan balances past due at the reporting date

Loan Status	Consolidated	
	2017 £	2016 £
Current Loans	492,318,945	313,055,736
0-30 days	30,212,473	23,422,016
31-60 days	10,502,593	5,092,229
61-90 days	7,676,027	4,245,393
91-180 days	9,372,995	5,662,904
180+	8,234,475	4,850,124
Arrears Loans	65,998,564	44,272,666
Total Loans	558,317,509	357,328,402

The valuation of the collateral of the loans in arrears at balance date is £1,015,504,395 (2016: £69,981,643).

A provision of £1,730,871 has been raised against the assets shown in the table above. The provision for doubtful debts includes individually assessed provisions and collectively assessed provisions. In arriving at the collectively assessed provisions the Group makes judgements as to whether there is any observable data which indicates there is a significant decrease in the estimated future cash flows from mortgage loans receivables before the decrease can be identified with an individual loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group or local economic conditions that correlate with defaults on assets in the Group. The Group uses estimates based on historical loss experience for the last 3 years for mortgage loans with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes to assumptions used for estimating future cash flows could result in a change in provision for loan losses and have a direct impact on the bad debt expense.

At the reporting date, the Group has taken possession of security properties with a current loan balance of £1,272,499 (2016: £3,834,634). A provision of £8,466 (2016: £283,952) has been raised against these loans.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group's Treasury department aims to ensure that sufficient cash and credit facilities are maintained to meet funding requirements.

The Group's finance department also monitors forecast and actual cash flows to ensure that sufficient cash resources and/or financing facilities are in place to ensure the Group can meet its corporate debts as and when they fall due.

The Group's mortgage loan balances are typically repayable over 25 or 30 years. Although the majority of the Group's borrowings match the terms of the assets via the securitised trusts, the Group borrows from other sources with differing maturity profiles, these are set out below.

Term Bonds payable

Term bonds payable are residential mortgage backed securities (RMBS) issued by the Group's Securitised Trusts. They are 25-30 year pass through securities that may be repaid early (i.e. at the call date) by the issuer in certain circumstances at the option of the Group.

Warehouse Facilities

Warehouse facilities are typically short term funding facilities (typically 364 days) that are renewable annually. All of the facilities expire in excess of 4 months from the balance sheet date.

The Group's Treasury department aims at maintaining flexibility in funding by keeping surplus un-drawn warehouse facilities available. At 30 June 2017 the Group has £326,111,727 of undrawn warehouse facilities.

BLUESTONE CONSOLIDATED HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

28. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Warehouse Facilities (continued)

If a warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between our mortgage rate and the cost of funds, fee income and write-off of any unamortised balance of deferred transactions costs and loss of equity and retained notes.

The Directors are satisfied that any sale of mortgages in order to repay warehouse facilities or in an event of default in relation to the Group's warehouse facilities will not affect the Group's ability to continue as a going concern.

The maturity profile of financial liabilities and derivative financial instruments of the Group is demonstrated in the following table:

Group - 30 June 2017	6 Months or Less	6 - 12 Months	Between 1 & 2 years	Between 2 & 5 years	Over 5 Years
	£	£	£	£	£
Interest Bearing Financial Liabilities	(69,510,193)	(69,511,193)	(31,487,711)	(9,115,029)	(433,978,171)
Derivative Financial Instruments - Payables	(358,651)	(358,651)	(162,494)	(47,038)	(2,239,569)
Derivative Financial Instruments - Receivables	10,188	10,188	4,616	1,336	63,620
Total	(69,858,656)	(69,859,656)	(31,645,589)	(9,160,731)	(436,154,120)

Group - 30 June 2016	6 Months or Less	6 - 12 Months	Between 1 & 2 years	Between 2 & 5 years	Over 5 Years
	£	£	£	£	£
Interest Bearing Financial Liabilities	(42,495,725)	(42,496,725)	(19,250,965)	(5,582,708)	(265,270,279)
Derivative Financial Instruments - Payables	(563,394)	(563,394)	(255,257)	(73,891)	(3,518,067)
Derivative Financial Instruments - Receivables	15,695	15,695	7,111	2,058	98,006
Total	(43,043,424)	(43,044,424)	(19,499,111)	(5,654,541)	(268,690,340)

The parent entity has no financial liabilities.

The above analysis is based on the remaining period at the reporting date to the expected maturity date, assuming renewal of warehouse facilities. The amounts disclosed in the table are undiscounted cash flows based on the earliest date at which repayment is required, however it should be noted that funding is arranged on a 'pass through' basis and therefore there is an element of principal amortisation in each funding facility prior to repayment. The expected principal-pass-through to the funders is based on the expected principal receipts from mortgage loans. Calculations of expected principal receipts on mortgage loans have been derived using prepayment assumptions that are based on historic actual experience.

In the case of Residential Mortgage Backed Securities, the maturity analysis assumes that the issuer (being one of the Group's Securitised Trusts) will not opt to repay the securities at the call date but rather, that they will be repaid at their respective maturity dates.

29. SUBSEQUENT EVENTS

There are no events subsequent to the year end requiring disclosure.

30. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party.