

Supplementary capital and remuneration disclosure

Introduction

This report discloses information on the capital adequacy and remuneration policies of Castle Trust Capital plc (“CTC”) and Castle Trust Capital Management Limited (“CTCM”), (together “Castle Trust”). The information disclosed in this report has been reviewed and approved by Castle Trust’s Board of Directors (“the Board”). The disclosures are not subject to audit.

This report will be published on Castle Trust’s website (www.castletrust.co.uk). This information is intended to supplement disclosures in the CTC and CTCM financial statements and the Castle Trust Direct plc Base Prospectus which are also published on Castle Trust’s website.

Capital Adequacy

The disclosure is presented on the basis of a Prudential Consolidation of Castle Trust Capital plc and Castle Trust Capital Management Limited calculated in accordance with the Capital Requirements Regulation (“CRR”). The Prudential Consolidation own funds and risk exposure amounts as at 30 September 2016 are shown in table below. Own funds represent 24.8% of the total risk exposure amount as at 30 September 2016 (2015: 35.3%).

| Year ended 30 September | NOTES | 2016 £'000 | 2015 £'000 |
|--|-------|----------------|----------------|
| Share capital | | 8,378 | 8,378 |
| Share premium | | 62,640 | 62,640 |
| Capital contribution | | 3,194 | 3,194 |
| Retained earnings | | (21,968) | (23,432) |
| Less: Investment in subsidiary in Prudential Consolidation | | (10,962) | (10,962) |
| COMMON EQUITY TIER 1 ITEMS | | 41,283 | 39,819 |
| DEDUCTIONS FROM COMMON EQUITY TIER 1 ITEMS | | | |
| Less: Investment in subsidiary | | (4,200) | (1,700) |
| Less: Intangible Assets | 1 | (387) | (134) |
| Less: Deferred Tax Asset | 1 | (94) | (162) |
| Less: Prudential Valuation Adjustment | | (69) | (53) |
| Less: Debit Valuation Adjustment | | (1,109) | - |
| COMMON EQUITY TIER 1 CAPITAL | | 35,423 | 37,770 |
| Tier 2 capital | | 246 | 58 |
| TOTAL OWN FUNDS | | 35,669 | 37,828 |
| Risk exposure amount for credit and counterparty risks | 2 | 142,775 | 100,571 |
| Risk exposure amount for Credit Valuation Adjustment | 3 | 815 | 6,738 |
| TOTAL RISK EXPOSURE AMOUNT | | 143,590 | 107,309 |
| RISK RATIOS AND METRICS | | | |
| CET1 capital ratio (regulatory minimum 4.5%) | | 24.7% | 35.2% |
| Surplus of CET1 capital | | 28,961 | 32,941 |
| Own funds ratio (regulatory minimum 8%) | | 24.8% | 35.3% |
| Surplus of Own funds | | 24,181 | 29,243 |

1. Own fund deductions for Intangible Assets and Deferred Tax Assets are calculated on a transitional basis in accordance with CRR Article 469 and 470 and IFPRU TP 4. Absent the transitional provisions, the surplus of CET1 capital as of 30 September 2016 would be £3,936,000 lower.

For the year ended 30 September 2016

2. In accordance with Financial Conduct Authority (“FCA”) and CRR rules, Castle Trust has adopted minimum capital requirement (“Pillar 1”) to calculate risk exposures as shown in the table below. The table shows the total risk exposure amount for credit and counterparty risks. Firms can choose either to use their own estimated risk parameters for the purpose of calculating regulatory capital to be held or to use standardised approach. Castle Trust uses the standardised approach to risk weight its assets for credit risk and is required to hold capital equivalent to 8% of its total risk exposure.
3. The reduction in CVA risk between 2015 and 2016 was due to the reduction in derivative exposure to unregulated and unrated group subsidiaries.

The breakdown of credit and counterparty risk exposure is shown in the table below.

| RISK EXPOSURE ASSET CLASS AS AT 30 SEP | 2016 EXPOSURE £'000 | 2016 RWAs £'000 | 2015 EXPOSURE £'000 | 2015 RWAs £'000 |
|---|---------------------------|-----------------------|---------------------------|-----------------------|
| Secured by mortgages on residential property | 211,481 | 74,018 | 166,454 | 58,259 |
| Speculative immovable property financing | 10,727 | 16,090 | 7,292 | 10,938 |
| Retail exposures | 1,265 | 949 | 3,087 | 2,315 |
| Exposures in arrears secured by mortgages on residential property | 147 | 147 | 17 | 17 |
| Cash, cash equivalents and term deposits | 124,952 | 24,990 | 55,670 | 11,134 |
| Counterparty Credit Risk on derivatives held for risk management | 1,810 | 362 | 976 | 397 |
| Deferred Tax Asset not deducted from CET1 | 4,128 | 10,321 | 3,982 | 9,955 |
| Other assets | 15,898 | 15,898 | 7,556 | 7,556 |
| Total | 370,409 | 142,775 | 245,034 | 100,571 |

In the table above, other assets comprise exposures to equity, corporates, prepayments, intangible assets and property, plant and equipment.

Where the Board considers that the Pillar 1 calculations do not adequately reflect the underlying risks, additional capital is held. Castle Trust continuously assesses and carefully monitors exposures to various risks and the Board has set a clear risk framework to ensure Castle Trust has sufficient capital.

Remuneration Policy

Castle Trust follows the FCA's rules and guidance on pay and rewards, as set out in its IFPRU Remuneration Code (SYSC 19A) and General Guidance on Proportionality (together, the "Code").

The Code applies to investment firms in accordance with certain proportionality thresholds. Castle Trust is a proportionality level three firm.

Information concerning the decision-making process

The Remuneration Committee ("RemCo") meets at least once each financial year. It reviews, amends (if appropriate) and approves the Remuneration Policy annually, taking into account general economic conditions, business performance, the regulatory environment and conduct considerations (among any other relevant considerations). RemCo is comprised of two non-executive members of the management body, one of whom is independent. For further information on RemCo, please see paragraph 19, Part IV and paragraph 8, Part XV of the Castle Trust Direct plc Base Prospectus.

On commencement of directorship / employment (as appropriate) and at the beginning of each financial year, each member of the management body and senior management will have their base salary, benefits and variable remuneration reviewed on an individual basis by RemCo. RemCo then make recommendations to the Board which ultimately approves individual remuneration for the financial year.

Remuneration for members of the management body is approved by RemCo on recommendation of the Chairman. Material changes in remuneration for members of the senior management is approved by RemCo on the recommendation of the CEO.

RemCo terms of reference provide the criteria for determining the appropriateness of individual remuneration. No director or manager can be involved in any decisions regarding the approval of their own remuneration.

Information on link between pay and performance, performance criteria, and parameters and rationale for compensation

Castle Trust does not operate a formal grade structure with salary bands. Regarding changes in the remuneration of senior management, any recommendation for a change in remuneration to RemCo by the CEO will take account of individual performance among a number of other important considerations, such as general economic conditions, market rates for similar jobs, business performance, conduct considerations, the competitiveness of total remuneration and the appropriateness of the blend of fixed, variable and/or deferred remuneration. RemCo will review the CEO's recommendations and then make their own recommendations to the Board. The Board has ultimate responsibility for the approval of remuneration.

Remuneration for non-executive members of the management body will be reviewed on an individual case by case basis by RemCo following consultation with the shareholders. RemCo is guided but not bound by the policy rules, limits and principles as they apply to senior management. RemCo will in turn make recommendations to the Board for its ultimate approval.

Design characteristics of the remuneration system

All remuneration will contain a fixed salary element. Dependent on the role and level of experience, each member of the senior management may receive one or more additional optional benefits, the availability of which is determined from time to time by RemCo. Where an optional benefit is offered and taken up, it will become an element of fixed remuneration. Variable remuneration is not guaranteed and is dependent upon organisational performance in terms of corporate goals, targets and risk triggers, as well as individual performance against individual objectives, which include conduct considerations.

In the absence of traded or new equity, variable remuneration may take the form of cash bonuses.

Deferred remuneration is provided through the Long Term Incentive Plan ("LTIP"), which is entirely share based. Some members of both the senior management and the management body own shares in Castle Trust Capital plc outside the LTIP, having invested their own money into the business at an early stage. The combination of co-ownership and the LTIP

Castle Trust Capital plc

For the year ended 30 September 2016

results in the close alignment of interest of the senior management and the shareholder. Any award through the LTIP is subject to a vesting period. No material value has been assigned to LTIP awards to date.

Total Remuneration

The total remuneration of Castle Trust staff in the year ending 30 September 2016 was £6,230,608. Castle Trust does not operate distinct, disclosable business units. Total remuneration is different to the staff expenses recorded in the financial statements primarily due to the allocation of certain staff expenses to development of intangible assets or to unregulated subsidiaries and to the payment of certain social security costs by Castle Trust.

Code staff remuneration

Number of Code Staff: 13

| Remuneration Type | Aggregate Remuneration (£) Year Ending 30 Sep 2016 |
|--|---|
| Fixed Remuneration (including BIK and Pension Contributions) | 1,417,621 |
| Variable Remuneration (cash) | 52,975 |
| Total | 1,470,596 |

Code Staff also participate in the LTIP.

Aggregate sign-on payments made during the financial year to 30 Sep 2016: £0, with 0 beneficiaries.

Aggregate severance payments made during the financial year to 30 Sep 2016: £0, with 0 beneficiaries and with £0 being the highest award to a single person.

In the financial year to 30 Sep 2016, no Code Staff were remunerated €1m or more per financial year for services to the Castle Trust group.