Charter Court Financial Services Limited

Annual report and financial statements

for the year ended 31 December 2016

Registered number: 06749498

Charter Court Financial Services Limited

Contents

Charter Court Financial Services Limited

Strategic Report

The Directors present their Strategic Report of Charter Court Financial Services Limited (the Company or CCFS) for the year ended 31 December 2016.

Principal activities

The principal activities of the Company includes the provision of buy to let and residential mortgage loans, secured short term lending, second charge loans, savings products, mortgage administration services and a range of analytical services within the UK residential mortgage sector.

The Company is part of Charter Court Financial Services Group (Group). The Group comprises the Company's parent, Charter Court Financial Services Group Limited (CCFSG) along with CCFSG's subsidiaries.

The Company operates under three brands Charter Savings Bank, Precise Mortgages and Exact Mortgage Experts.

Business review

As shown in the Statement of Comprehensive Income on page 15, the profit after taxation for the year increased from £19.4m to £33.7m. Total income increased from £59.5m to £89.1m. The drivers of increased profitability were growth in the Company's mortgage origination activities. Costs continue to increase in line with business activity.

As shown in the Statement of Financial Position on page 16, the net assets of the Company increased from £151.5m to £219.9m. No dividend has been proposed or paid in respect of the year (2015: £nil). CCFSG subscribed for £34.7m of additional share capital in the Company during the year, £34.7m was recognised as share premium in the year.

2016 has seen Charter Savings Bank grow to £3,436m of deposits (2015: £1,563m) from 71,673 (2015: 30,650) online customers in total, holding a range of term deposits, instant access and notice accounts. The Company has also seen the first maturities of term deposits in 2016 and to date has consistently achieved c. 80% customer retention at maturity. There is now a wider awareness of the Charter Savings Bank brand through continued positive press coverage. Charter Savings Bank is a multi-award-winning customer focused bank which has appeared in best buy tables throughout 2016.

Precise Mortgages continues to grow and originated loans of £2,498m (2015: £1,609m) during 2016 and also achieved a record number of applications for mortgages during the year. During 2016 Precise Mortgages has continued to expand its mortgage products as well as introducing automated application processing solutions that reduce turnaround times.

CCFS manages a primary servicing portfolio comprising 33,471 loans (2015: 26,075 loans) with an outstanding balance of £4,749m (2015: £3,039m) and a special servicing portfolio comprising 1,202 loans (2015: 1,204 loans) with an outstanding balance of £154m (2015: £148m). Exact Mortgage Experts received a Fitch Primary Servicing rating upgrade from RPS2- to RPS2 during 2016, matching its Special Servicer rating. Exact Mortgage Experts continues to manage a portfolio of 3rd party client assets along with Precise Mortgages originations covering both securitised and non-securitised loan portfolios.

CCFS has a dynamic funding strategy designed to optimise its cost of funds whilst prudently managing funding and liquidity risks.

The Company has a growing retail deposit customer base, together with wholesale funding through securitisations, short term repo lines, an uncommitted warehouse facility with a Tier 1 bank, and has access to the Bank of England's Sterling Monetary Framework and the Bank of England's Term Funding Scheme (TFS).

Charter Court Financial Services Limited

Strategic Report (continued)

Business review (continued)

The TFS was introduced in 2016 to promote net additional lending through 2016 and 2017 through the provision of lower cost funding. The Board believe that CCFS is in a sound funding position and through its executive committee governance structure is committed to developing existing channels through product and system innovations and exploring the potential for further funding strategy diversification.

The majority of the Company's funding now comes from retail deposits. The Company uses wholesale funding to supplement its retail deposits, as and when required.

CCFS has maintained coverage above regulatory capital ratios throughout 2016 by holding a buffer above the minimum requirement and has successfully raised additional capital in the year to support balance sheet growth. Additionally the Company adopts a prudent approach to liquidity risk and maintains a significant liquid asset buffer and access to contingent liquidity at all times.

Employees

In March 2017 the Company was ranked 3rd in the Sunday Times Best 100 Companies to work for 2017 list and continues to promote the welfare, development and engagement of its employees.

Future developments

Charter Savings Bank

The Company continues to explore opportunities to further diversify its retail funding base, seeking out new products, markets and channels to enhance its range and reduce cost of funds whilst continuing to meet consumer needs.

Precise Mortgages brand

From a lending perspective the Company has a full and ongoing program of new product development that is expected to continue meeting consumer demands, deliver ongoing enhancements to existing product offering and widen its proposition into new products throughout 2017 and into the following years.

Exact Mortgage Experts brand

Exact Mortgage Experts continues to manage a portfolio of 3rd party client assets along with Precise Mortgages originations, covering both securitised and non-securitised loan portfolios.

Principal risks and uncertainties

The Company's activities expose it to a number of financial risks and uncertainties, primarily credit risk, liquidity and funding risk, market risk, business risk, operational risk and assurance of compliance with regulations which are explained in more detail below:

Credit risk

Credit risk is the risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.

Credit risk arises on the Company's financial assets consisting of investments in debt securities, residential mortgages, derivative financial instruments, trade and other receivables and cash and cash equivalents. Credit risk is reviewed by the Credit Management Committee and overseen by the Executive Risk Management Committee and Board Risk Committee.

Charter Court Financial Services Limited

Strategic Report (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

The assets of the Company subject to credit risk are set out below:

Class	2016 £000	2015 £000
Investments in debt securities	138,085	125,389
Residential mortgages	2,868,002	604,946
Residential mortgages held in:		
Precise Mortgage Funding No. 1 Plc	55,931	93,426
Precise Mortgage Funding 2014-1 Plc	90,447	204,388
Precise Mortgage Funding 2014-2 Plc	121,858	217,849
Precise Mortgage Funding 2015-3R Plc	510,577	515,886
CCFS Warehouse No.1 Plc	1,032	115,563
Derivative financial instruments	7,081	1,133
Trade and other receivables	3,508	5,445
Cash and cash equivalents	162,639	482,473
	3,959,160	2,366,498

The Company internally assesses the level of credit risk from holdings with individual counterparty's. Holding limits are set for each counterparty in order to control the risk.

For mortgages held in Precise Mortgage Funding No.1 Plc (PMF No.1 Plc), Precise Mortgage Funding 2014-1 Plc (PMF 2014-1 Plc) and Precise Mortgage Funding 2014-2 Plc (PMF 2014-2 Plc) the Company's credit risk is limited to its holding in each securitisation. There is also exposure to losses in income through excess spread being otherwise used to cure principal losses. Loss expectations are significantly less than the Company's holdings in each securitisation. For mortgages held in Precise Mortgage Funding 2015-3R Plc (PMF 2015-3R Plc) and CCFS Warehouse No.1 Plc the Company is exposed to 100% of losses.

At 31 December 2016, the average loan to value percentage of underlying mortgage assets to which the loans relate was 70% (2015: 68%) and only £252,000 (2015: £94,000) of the total balance represented arrears (amounts quoted being the actual amount in arrears). The estimated fair value of collateral held against residential mortgages is £7,094,280,000 (2015: £3,616,460,000) which consists of the property's the loans are secured on. The collateral cannot be sold unless it is in possession. At the year-end date there was 1 (2015: none) property in possession with a value of £120,000 (2015: £nil).

Analysis of loans by Loan to Value (LTV)

Current LTV	2016 £000	2015 £000
≥ 80%	569,201	316,174
70 to 79.99%	1,799,347	732,708
60-69.99%	652,700	317,680
<60%	626,599	385,496
	3,647,847	1,752,058

Charter Court Financial Services Limited

Strategic Report (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

Analysis of loans by LTV (continued)

The analysis by LTV above does not include accounting adjustments such as effective interest rate adjustments, mortgages fair value hedge adjustments or impairment provisions, which are included in the figure quoted in the Statement of Financial Position of £3,637,034,000 (2015: £1,746,823,000).

The Company offers secured borrowers who are in financial difficulties a range of account management and forbearance options including capitalisation of arrears, temporary interest only concessions, payment holidays and term extensions. Term extensions are available on short term loans typically for no more than 3 months; the period of time is dependent upon the individual circumstances. These are granted on a discretionary basis by the Company. The arrangements in place at year end are to pay back arrears amounts.

The table below presents an analysis of mortgages subject to forbearance indicators at 31 December 2016.

2016	Transfers to interest only £000	Payment holiday £000	Term extensions £000	Arrangements £000	Total £000
Current	1,080	1,240	15,037	10,335	27,712
Past due up to 3 months	-	-	1,105	2,135	3,240
Past due from 3 months up to 6 months	-	-	269	316	585
2015					
Current	146	237	4,554	5,149	10,086
Past due up to 3 months	-	-	-	1,450	1,450
Past due from 3 months up to 6 months	-	-	-	205	205

Wholesale credit risk

The Company's investments, derivatives and cash counterparties are primarily large financial institutions and there is no significant history of credit/bad debt losses and no provisions have been made for bad or doubtful receivables. Details of trade and other receivables are shown in note 18.

The Company's cash balances are held in sterling at London banks in current accounts. Further details of cash and cash equivalents are shown in note 18.

Wholesale Credit Risk is managed by ensuring Treasury counterparties are subject to Board approval, and continue to meet minimum external credit ratings. Exposures to single counterparties are assigned and monitored on an ongoing basis against the underlying instruments, such as cash or derivative exposures which are used to manage risk, or provide liquidity.

As part of the Liquidity and Treasury Investment Policies, CCFS holds cash balances at central banks, and in high quality assets such as residential mortgage backed securities (RMBS) which meet minimum rating requirements. These investments are held to maturity and therefore not part of any Trading portfolio.

Charter Court Financial Services Limited

Strategic Report (continued)

Principal risks and uncertainties (continued)

Wholesale credit risk (continued)

Regulatory developments are also monitored as part of the responsibilities within the Treasury Risk oversight.

Liquidity, funding, interest rate and market risks are overseen by the Assets and Liabilities Committee and Board Risk Committee.

Liquidity and funding risk

Liquidity risk is the risk that CCFS fails to meet its financial obligations as they fall due; funding risk is the adverse impact of higher funding costs and/or lack of available funds on CCFS' cash flow.

Liquidity and funding risks are centrally managed by treasury in line with group policies and risk appetites, and any regulatory guidance.

The Company's Liquidity Risk Appetite Statement is consistent with the PRA's Overall Liquidity Adequacy Rule (OLAR).

The Company has established an Internal Liquidity Buffer Requirement (ILBR) for its operational level of required liquidity. ILBR is a stronger measure than the industry standard Liquidity Coverage ratio (LCR) measure and is calculated on a stressed deposit outflow basis, frequent Stress testing is undertaken to ensure ongoing adherence.

The Company conducts an annual internal liquidity adequacy assessment process (ILAAP), which is approved by the Board with the current version as at September 2016.

The ILAAP is used to assess the Company's liquidity adequacy and determine the levels of liquidity required to support the current and future risks in the business derived from the three year corporate plan.

The main funding risk for the Company is that of funding longer term mortgage assets primarily with shorter term retail deposits, and the risk that retail deposits may be withdrawn or new deposits cannot be raised over the life of the assets. The Company has developed a successful retention programme for maturing fixed term bonds customers, and the Company structures its retail deposit products and production mix so as to provide maximum foresight on customer withdrawals. The Company also considers utilisation of secured funding and other wholesale funding (dependent on market conditions), which, provide longer term or matched funding for the assets.

The contractual maturity of retail deposits is analysed in note 22.

Market risk

Market risk is the risk of losses in both on and off balance sheet positions, resulting from movements in market prices or other external factors. The most significant market risk for the Company is interest rate risk.

Interest rate risk

The Company is exposed to interest rate risk only as a consequence of the provision of banking products, often referred to as Interest Rate Risk in the Banking Book (IRRBB).

Charter Court Financial Services Limited

Strategic Report (continued)

Principal risks and uncertainties (continued)

Interest rate risk (continued)

The Company manages interest rate risk, the risk that interest margins will be adversely affected by movements in market interest rates, by maintaining floating rate liabilities and matching those with floating rate assets, and hedging fixed rate assets and liabilities through the purchase of interest rate swaps from large financial institutions with strong credit ratings. Interest rate risk is managed to ensure that the value at risk does not exceed 2% of capital resources or that earnings at risk do not exceed 3% of projected net interest income in the following twelve months.

Interest rate sensitivity analysis

In measuring the impact of the Company's position at year end, account is taken of the Company's assets, liabilities and derivatives and their maturity and repricing arrangements. Account is also taken of pipeline and repayments. IFRS 7 requires a sensitivity analysis for a reasonably possible change. A 0.5% parallel shift in interest rates has been used, as, in the current interest rate environment, it would seem most reasonable. The impact on the expected profitability of the Company in the next 12 months of a 0.5% parallel shift in interest rates prevalent at the year end is set out below.

	2016	**2015**
	£000	**£000**
+ 0.5%	91	153
- 0.5%	(891)	(160)

This is due to the Company's net exposure to interest rates on its floating rate mortgage assets, floating rate investments, floating rate savings products and floating rate borrowings.

Business risk

The Company provides a number of services, including the provision of mortgage lending, to the UK mortgage market.

Whilst lending activity continues to grow within the UK mortgage market, the Company's ability to meet its future forecasts is partially dependent upon any future changes in the level of activity in the economy and mortgage market as a whole.

It is too early to assess the impact on the market and the wider economy of the decision by the UK to leave the European Union. This matter and any emerging risks continue to be kept under close review.

Developments emanating from the Basel Committee of Banking Supervisors (BCBS) and discussions being held under the auspices of the Global Heads of Supervision (GHOS), particularly in relation to possible changes in risk weights and associated regulatory capital requirements, have been closely followed and expect to be an area of focus during the coming year.

The Directors believe that the Company's products and services are targeted at specific segments of the market and are confident that growth can be achieved independently of changes in market activity levels.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Operational risk (continued)

Of late, the press and media have reported on IT risk issues and cyber-crime related activity has affected a number of firms. The Company is alert to these risks and they are assessed, monitored and controlled as part of CCFS' IT strategy and operational risk management activities.

CCFS has an operational risk management framework to support the identification, measurement, management and reporting of operational risks and is managed and controlled by senior management having the responsibility for understanding the operational risks within their respective business area and for putting in place appropriate controls and mitigating actions to further strengthen the control environment.

Operational risk and the broader framework is reviewed by the Operational Risk Working Group which comprises senior members of risk management and all business areas and is overseen by the Executive Risk Management Committee and Board Risk Committee.

Regulatory compliance

The Company closely monitors compliance with regulatory requirements of the Financial Conduct Authority and the Prudential Regulation Authority is monitored by the compliance team. These matters, along with conduct risks, are reported into the Operational Risk Working Group and Conduct Risk Management Committee and overseen by the Executive Risk Management Committee and Board Risk Committee.

Performance and position

Key performance indicators (KPIs)

	2016	**2015**
Financial		
Net interest income (1)	£81,983,000	£42,374,000
Return on capital employed (2)*	20.0%	9.0%
Operating profit margin (3)*	49.5%	28.1%
Deposits held (4)	£3,435,896,000	£1,562,509,000

*2015 excludes gain on sale to securitisation

Non-financial		
Number of mortgage and loan originations (5)	13,833	9,595
Number of savings customers (6)	71,673	30,650
Number of loans held in CCFS (7)	16,914	4,249
Number of loans held in securitisations (7)	5,098	7,486

Strategic Report (continued)

Performance and position (continued)

Key performance indicators (KPIs) (continued)

1 – Net interest income = interest income and similar income less interest expense and similar charges

Interest income and similar income and interest expense and similar charges are per the Statement of Comprehensive Income.

As the key revenue stream for the business is from the interest income from customer mortgages the net interest income is a key figure in the financial statements that management use to assess the performance of the Company. On a monthly basis the net interest margin over the London Inter Bank Offer Rate (LIBOR) is monitored for the different types of mortgages assets; buy-to-let, homeowner, short term bridging and second charge revenue streams.

2 - Return on capital employed = operating profit as a percentage of capital employed

Operating profit is per the Statement of Comprehensive Income less any gain on sale to securitisations.

Capital employed being total assets less total liabilities per the Statement of Financial Position.

The purpose of this measure is to show how efficiently the Company is making use of resources available to it.

3 – Operating profit margin = operating profit as a percentage of total income

Operating profit and total income are as per the Statement of Comprehensive Income. Management use operating profit margin to control the costs and expenses associated with their normal business operations.

4 – Deposits held = deposits from customers

Deposits from customers are as per the Statement of Financial Position. Charter Savings Bank is a key source of funding for the Company and has assisted in the growth of residential lending. Deposit balances have grown strongly and is a measure of the growth in the Charter Saving Bank brand.

5 – Number of mortgage and loan originations

This measure enables management to monitor and control the growth of this business activity throughout the year.

6 – Number of savings customers

This measure enables management to monitor and control the growth of this business activity throughout the year.

7 – Number of loans held in CCFS and securitisations

This measure enables management to monitor stability and growth of this business activity and monitor the level of funding sourced from securitisation vehicles.

Charter Court Financial Services Limited

Strategic Report (continued)

Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the impact on the environment include recycling and reducing energy consumption.

Employees

The Company has no employees (2015: none). All operational services have been formally contracted to other group companies.

Approval

This report was approved by the Board of Directors and signed on its behalf by:

Ian-Martin Lonergan
2 Charter Court,
Broadlands,
Wolverhampton,
West Midlands,
WV10 6TD

16 March 2017

Charter Court Financial Services Limited

Directors' Report

The Directors present their annual report, together with the audited financial statements and Auditor's Report, for the year ended 31 December 2016.

Information presented in other sections

Information relating to future developments, dividends, employees, financial instruments and principal risks and uncertainties has been included in the Strategic Report.

Going concern

The profit before tax for the year was £44.1m (2015: £24.2m). The Statement of Financial Position shows a net asset position of £219.9m (2015: £151.5m) but a net current liability position of £2,297.5m (2015: £569.3m) at 31 December 2016 largely as a result of retail deposits repayable within one year. The Company holds liquid assets above its regulatory minimum requirement to ensure obligations can be met as they fall due on a business as usual and stressed basis. The appropriateness of the Company's liquidity risk appetite and risk management framework and controls is subject to at least an annual view through the Internal Liquidity Adequacy Assessment Process (ILAAP). At 31 December 2016 the Company held £162.7m (2015: £482.4m) of liquid assets consisting of £132.6m (2015: £461.3m) of Bank of England Reserve Account balances and £30.1m (2015: £21.1m) of balances held with tier 1 UK banking institutions.

The Company also has access to an uncommitted wholesale funding facility provided by a tier 1 investment bank and to the Bank of England's Term Funding and other facilities. The Company pre-positions collateral with the Bank of England and manages its level of asset encumbrance to enable access to its funding and liquidity facilities at short notice.

The Company conducts an annual ICAAP and this is used to assess the Company's capital adequacy and determine the levels of capital required to support the current and future risks in the business derived from the three year corporate plan.

After making enquiries, the Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors

The Directors who served throughout the year (unless stated otherwise) and to the date of this report were as follows:

Name of director	
Ian Martin Lonergan	Chief Executive Officer
Philip Anthony Jenks	Chairman
Jean-Sebastien Maloney	Chief Financial Officer
Timothy Tracy Brooke	Independent Non-Executive Director
Ian William Ward	Independent Non-Executive Director
Peter Charles Elcock	Chief Risk Officer
Rajan Kapoor (appointed 23 September 2016)	Independent Non-Executive Director

Charter Court Financial Services Limited

Directors' Report (continued)

Directors' indemnities

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

Capital structure

Details of issued share capital of the Company, together with details of movements in issued share capital in the year, are given in note 26 to the financial statements. The Company has one class of ordinary shares which carries no right to fixed income. The rights and obligations attaching to ordinary shares are set out in the Articles of Association of the Company.

Post balance sheet event

The controlling entities of Bridestone Financing Plc, a related party, have agreed to sell the mortgage portfolio held by Bridestone Financing Plc to CCFS. Details of the transaction are given in note 39 to the financial statements.

Audit disclosure

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Deloitte LLP was appointed as auditor for the year and has indicated its willingness to continue in office as auditor.

By order of the Board,

Ian Martin Lonergan
2 Charter Court,
Broadlands,
Wolverhampton,
West Midlands,
WV10 6TD

16 March 2017

Charter Court Financial Services Limited

Directors' Responsibilities Statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company 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 corporate and financial information included in this report.

Independent Auditor's Report to the Members of Charter Court Financial Services Limited

We have audited the financial statements of Charter Court Financial Services Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditor's Report to the Members of Charter Court Financial Services Limited (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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

K. J. Cooper

Kieren Cooper (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom

16 March 2017

Charter Court Financial Services Limited

Statement of Comprehensive Income
For the year ended 31 December 2016

	Note	31 December 2016 £000	31 December 2015 £000
Continuing operations			
Interest income from debt securities		15,335	24,436
Other interest income and similar income	5	131,851	72,895
Interest expense and similar charges	6	(65,203)	(54,957)
Net interest income		81,983	42,374
Non-interest income	7	7,100	5,903
Gain on sale to securitisation		-	10,993
Net (loss)/gain from derivative financial instruments	8	(11)	267
Total income		89,072	59,537
Administrative expenses		(45,003)	(34,907)
Operating profit	9	44,069	24,630
Impairment gains/(losses)	17	29	(475)
Profit before tax		44,098	24,155
Tax	12	(10,369)	(4,707)
Profit after tax		33,729	19,448
Other comprehensive income for the year		-	-
Total comprehensive income for the year		33,729	19,448
Attributable to:			
Equity holders		33,729	19,448

The notes on pages 19 to 56 form an integral part of the financial statements.

Charter Court Financial Services Limited
Statement of Financial Position
As at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets	13	629	375
Property, fixtures and equipment	14	843	785
Loan notes receivable	15	32,307	47,611
Investments in debt securities	16	138,085	125,389
Loans and receivables	17	3,437,591	1,567,501
Deferred tax asset	25	33	-
		3,609,488	1,741,661
Current assets			
Loans and receivables	17	199,443	179,322
Trade and other receivables	18	3,508	5,445
Deferred deal costs	18	943	2,142
Cash and cash equivalents	18	162,639	482,473
Other assets	18	220	269
Derivative financial instruments	19	7,081	1,133
		373,834	670,784
Total assets		3,983,322	2,412,445
Current liabilities			
Trade and other payables	20	(10,214)	(5,786)
Deposits from banks	21	(20,000)	(60,094)
Deposits from customers	22	(2,633,068)	(1,172,832)
Derivative financial instruments	19	(8,027)	(1,336)
		(2,671,309)	(1,240,048)
Non-current liabilities			
Deemed loans due to Group undertakings	23	(269,268)	(631,226)
Deposits from customers	22	(802,828)	(389,677)
Deposits from banks	21	(20,000)	-
Deferred tax liability	25	-	(7)
		(1,092,096)	(1,020,910)
Total liabilities		(3,763,405)	(2,260,958)
Net assets		219,917	151,487
Equity			
Share capital	26	2,870	2,870
Share premium	27	157,340	122,640
Retained earnings	28	59,707	25,978
Available for sale reserve	29	-	(1)
Equity attributable to equity holders		219,917	151,487
Total equity		219,917	151,487

Company Number: 06749498

The notes on pages 19 to 56 form an integral part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 16 March 2017. They were signed on its behalf by:

Ian Martin Lonergan - Chief Executive Officer

Jean-Sebastien Maloney - Chief Financial Officer

Charter Court Financial Services Limited

Statement of Changes in Equity
For the year ended 31 December 2016

	Share capital £000	Share premium £000	Retained earnings £000	Available for sale reserve £000	Total £000
At 1 January 2015	2,870	-	6,530	-	9,400
Share issue	-	133,740	-	-	133,740
Repayment of capital to parent company	-	(11,100)	-	-	(11,100)
Profit and total comprehensive income for the year	-	-	19,448	-	19,448
Fair value loss	-	-	-	(1)	(1)
At 31 December 2015	2,870	122,640	25,978	(1)	151,487
Share issue	-	34,700	-	-	34,700
Profit and total comprehensive income for the year	-	-	33,729	-	33,729
Fair value gain	-	-	-	1	1
At 31 December 2016	2,870	157,340	59,707	-	219,917

The notes on pages 19 to 56 form an integral part of the financial statements.

Charter Court Financial Services Limited

Statement of Cash Flows
For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Net cash generated in operating activities	30	5,769	1,011,413
Net cash utilised in investing activities	31	(13,642)	(546,138)
Net cash (utilised)/generated in financing activities	32	(311,961)	11,132
Net (decrease)/increase in cash and cash equivalents		(319,834)	476,407
Cash and cash equivalents at the beginning of the year		482,473	6,066
Cash and cash equivalents at end of year		162,639	482,473

The notes on pages 19 to 56 form an integral part of the financial statements.

Charter Court Financial Services Limited

Notes to the financial statements
For the year ended 31 December 2016

1. General information

Charter Court Financial Services Limited is a company incorporated in Wolverhampton, United Kingdom under the Companies Act 2006 with company number 06749498. The address of the registered office is 2 Charter Court, Broadlands, Wolverhampton, West Midlands, WV10 6TD. The Company is a private company limited by shares. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 9.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. There are currently no foreign operations.

2. Adoption of new and revised standards

The Company has elected to adopt International Financial Reporting Standards (IFRS) as applied in the EU in force as at the statement of financial position date of 31 December 2016.

In the current year, the Company has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IAS/IFRS standards

IAS 1 (amendments)	Disclosure Initiative
Annual Improvements to IFRS: 2012-2014 Cycle	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures and IAS 19 Employee Benefits
IAS 16 and IAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IAS/IFRS standards

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IAS 7 (amendments)	Disclosure Initiative
IAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 16 will require leases to be recognised on the Statement of Financial Position.

Charter Court Financial Services Limited

Notes to the financial statements (continued)
For the year ended 31 December 2016

2. Adoption of new and revised standards (continued)

IFRS 9 Financial instruments is the replacement of IAS 39 'Financial Instruments: recognition and measurement' and will be applied for the first time in the Company's year ended 31 December 2018. The new standard is split into three phases, classification and measurement, impairment and hedge accounting and will see some significant changes from existing requirements. The Company is reviewing potential classification and measurement changes to financial assets based on the composition of the Statement of Financial Position as at 31 December 2016. The recognition and measurement of impairment under IFRS 9 is an expected credit loss (ECL) model and the Company is currently developing the systems required to implement this model. It is expected the impairment charge under IFRS 9 will tend to be more volatile than under the incurred loss model in IAS 39. It is also expected to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. Based on the analysis performed to date, the Company expects to exercise the IFRS 9 accounting policy choice to continue IAS 39 hedge accounting and therefore is not currently planning to change hedge accounting, although the Company will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 Financial Instruments: Disclosures.

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. It introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases and requires recognition of a right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payment, as well as the impact of lease modifications, amongst others. In summary, there will be a change in the overall expense profile under the adoption of IFRS 16, however due to the short term nature of leases (less than five years) the impact is considered insignificant.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed, however, the effect is not expected to be material.

3. Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRS adopted by the European Union.

The financial statements have been prepared on the historic cost basis. The principal accounting policies are set out below.

Going concern basis

The profit before tax for the year was £44.1m (2015: £24.2m). The Statement of Financial Position shows a net asset position of £219.9m (2015: £151.5m) but a net current liability position of £2,297.5m (2015: £569.3m) at 31 December 2016 largely as a result of retail deposits repayable within one year. The Company holds liquid assets above its regulatory minimum requirement to ensure obligations can be met as they fall due on a business as usual and stressed basis.

3. Accounting policies (continued)

Going concern basis (continued)

The appropriateness of the Company's liquidity risk appetite and risk management framework and controls is subject to at least an annual view through the Internal Liquidity Adequacy Assessment Process (ILAAP).

At 31 December 2016 the Company held £162.7m (2015: £482.4m) of liquid assets consisting of £132.6m (2015: £461.3m) of Bank of England Reserve Account balances and £30.1m (2015: £21.1m) of balances held with tier 1 UK banking institutions.

The Company also has access to an uncommitted wholesale funding facility provided by a tier 1 investment bank and to the Bank of England's Term Funding and other facilities. The Company pre-positions collateral with the Bank of England and manages its level of asset encumbrance to enable access to its funding and liquidity facilities at short notice.

The Company conducts an annual ICAAP and this is used to assess the Company's capital adequacy and determine the levels of capital required to support the current and future risks in the business derived from the 3 year corporate plan.

After making enquiries, the Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of preparation

The Company's accounting reference date is 31 December so that the year end is co-terminus with its immediate parent company and associated subsidiaries within the Group for the purposes of preparing consolidated financial statements for the Group. The Company has no subsidiaries and accordingly, these financial statements relate to the Company only.

Securitisation transactions

The Company has entered into securitisation transactions in which it sells mortgages to special purpose entities (SPEs). In accordance with IAS 39 the Company recognises the securitised assets as loans and receivables and consequently also shows a deemed loan liability to the SPEs where the Company still holds an interest in the mortgages. Where the Company no longer holds an interest in the mortgages sold the mortgage assets are derecognised from the Company's Statement of Financial Position.

Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost are recognised in profit or loss using the effective interest rate (EIR) method. The EIR is the rate which exactly discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability. In calculating the EIR the Company estimates the cash flows considering all contractual terms but not future credit losses. Origination fees received and paid on loans to customers are included within loans and advances to customers and are amortised over the expected life of those assets using the EIR method.

3. Accounting policies (continued)

Interest income and expense (continued)

Non-interest income on available for sale investments is included in interest income and similar income. Interest on derivatives is included in interest receivable and similar income or interest expense and similar charges following the underlying instrument it is hedging.

Non-interest income

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Income from the rendering of services is recognised when the services are delivered and benefits are transferred to clients and customers. Turnover from services supplied is recognised upon completion of services on a monthly basis under the terms of contracts held with key clients.

Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). The results and financial position of the Company is expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for these financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise.

Operating Profit

Operating profit is stated after charging administrative expenses but before impairment gains/losses.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

3. Accounting policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Retail deposits

Retail deposits are carried in the Statement of Financial Position on an amortised cost basis. The initial fair value recognised represents the cash amount received from the customer.

Interest payable to the customer is expensed to the income statement as interest payable over the deposit term on an Effective Interest Rate (EIR) basis.

Property, fixtures and equipment

Leasehold property improvements, fixtures and equipment and computer equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold property improvements	20% per annum
Fixtures and equipment	20% - 33.3% per annum
Computer equipment	33.3% per annum

The net gain or loss arising on the disposal or retirement of tangible fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income or expenses.

3. Accounting policies (continued)

Intangible assets

Computer software and licences, which are not integral to specific related items of equipment, are stated at cost less accumulated amortisation and any recognised impairment loss. Internally generated assets are amortised once the assets are developed and in use.

Amortisation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Computer software and licences	20% - 33.3% per annum
Development costs	25% per annum

Internally-generated intangible assets – development expenditure

Internally-generated intangible assets are recognised only if all of the following conditions are met:

- an asset is being created that can be identified after establishing the technical and commercial feasibility of the resulting product;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives of between three and five years, which is determined at the point at which the asset is developed and is capable of being used. Subsequent expenditure on internally-generated intangible assets, after its purchase or completion, is recognised as an expense in the year in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill

At each Statement of Financial Position date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the financial statements (continued)
For the year ended 31 December 2016

3. Accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit and loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value though profit or loss (FVTPL), held to maturity (HTM) investments, available for sale (AFS) financial assets and loans and receivables. The classification on the nature and purpose of the financial assets is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments*: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. Accounting policies (continued)

Fair value hierarchy

In accordance with IFRS 7, the Company groups financial instruments, that are measured at fair value subsequent to initial recognition, into fair value hierarchy levels based on the degree to which the fair value is observable in a manner that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (e.g. as prices) or indirectly (e.g. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial instrument is categorised, is determined on the basis of the lowest level input that is significant to the fair value measurement.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) HTM investments or (c) financial assets at fair value through profit or loss.

Treasury bills and gilts held by the Company that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting year. Changes in the carrying amount of AFS monetary financial assets relating to changes in interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of AFS reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity other than (a) those that the Company upon initial recognition designates as at fair value through profit loss, (b) those that the Company designate as AFS and (c) those that meet the definition of loans and receivables.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the EIR method, less any impairment. Interest income is recognised by applying the EIR.

3. Accounting policies (continued)

Loans and receivables (continued)

Mortgage assets

Mortgage assets are classified as loans and receivables and accounted for on an amortised cost basis using the EIR method as described further below.

Effective interest rate

The EIR is the method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The EIR is the rate which exactly discounts the expected future cash flows over the expected life of the financial asset, to the net carrying value of the financial asset. The main impact for the Company relates to mortgage advances where fees such as application fees and costs are incorporated into the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historical data and management judgement and the calculation is adjusted when actual experience differs from estimates with changes in deferred amounts being recognised immediately in the Statement of Comprehensive Income.

Impairment of financial assets held at amortised cost

Financial assets are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For loans that are considered individually significant, the Company assesses on a case by case basis if there is any evidence that a loan is impaired. All loans 90 days or more in arrears are classified as impaired and credit risk management will assess the likelihood of default and severity of loss should a default occur. A provision is made on this basis.

Impairment is assessed on a collective basis in the following circumstances:

- to estimate losses which have been incurred but have not yet been reported on loans subject to individual assessment; and
- to estimate losses for homogeneous groups of loans that are considered individually significant such as those with forbearance strategies on place or are in arrears.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

3. Accounting policies (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the EIR method, with interest expense recognised on an effective yield basis. The EIR method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Deemed loan

The mortgage assets originated and sold to PMF No.1 Plc, PMF 2014-1 Plc, PMF 2014-2 Plc, PMF 2015-3R Plc and CCFS Warehouse No.1 Plc fail to meet the derecognition criteria of IAS 39 as the Company has retained significant risk and rewards of ownership and therefore these mortgage assets and the resulting deemed loan liability remains on the Statement of Financial Position.

Provisions

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

Hedge accounting

The Company designates certain hedging instruments as fair value hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item.

Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of certain mortgage assets and certain retail deposits. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or, in the year of the revision and future years, if the revision affects both current and future years.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical accounting judgements

The following are the critical accounting judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Recognition and derecognition of mortgage assets

When the Company originates and sells mortgage assets to securitisation vehicles it assesses the derecognition criteria of IAS 39. If the Company has retained significant risk and rewards of ownership the mortgage assets and the resulting deemed loan liability remains on the Statement of Financial Position (see note 23); otherwise the mortgages assets are derecognised. A key judgement is whether the Company has retained significant risk and rewards of ownership. The assessment includes the extent of the investment in the securitisation structure and exposure to losses through excess spread.

Recoverability of internally-generated intangible asset

During the year, management considered the recoverability of its internally-generated intangible asset which is included in its Statement of Financial Position at £430,000 (2015: £81,000), see note 13.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Statement of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Effective interest rates (EIR)

In order to determine the EIR applicable to a loan an estimate must be made of the life of the loan and the cash flows attributable to it. Estimates are based on historical data and current market analysis. Estimates are reviewed regularly. The accuracy of the EIR rates applied would be compromised by any differences in actual borrower behaviour and that predicted.

A critical assumption in the EIR calculation is the expected life, as this determines the assumed period over which customers may be paying various differentiated interest rates. The assumptions on expected life are based on the historic experience of similar products. These assumptions are monitored to ensure their ongoing appropriateness. See note 17 for details of the EIR balance at the year-end date.

Derivative financial instruments

The Company fair values its interest rate swaps using observable market data which is used to construct zero coupon curves and derive the necessary forward interest cash flows and discount rates. See note 19 for the fair value of derivative financial instruments at the year end date.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Derivative financial instruments (continued)

For balance guarantee swaps taken out to hedge interest rate risk on portfolios of fixed rate mortgages there is uncertainty regarding the future behaviour of the underlying mortgages which will affect the notional value at which a balance guarantee swap accrues and pays interest. Expectations of future behaviour of the underlying portfolios is reviewed periodically by management and factored into the balance guarantee swap's valuation calculations.

Uncertainty regarding credit valuation adjustments for swaps is mitigated through the requirement for CCFS external counterparties to maintain minimum rating levels at all times. In the event of a rating downgrade counterparties are required to post collateral or, should the downgrade be below a certain level replace themselves as counterparty to the swap.

Impairment losses on loans and receivables

Impairment losses on mortgage loans are calculated based on statistical models. Key assumptions are based on expected cash flows from borrowers after taking account of expected proceeds from realisable security. The key assumptions are based on historical data and market analysis.

The accuracy of impairment calculations will be affected by unexpected changes in the economic environment which could impact upon cash flows and borrower behaviour. Key macro-economic factors which could result in losses exceeding those expected, to the extent that they vary from those assumed in management's impairment models, could include increases in unemployment and falling house prices. See note 17 for details of the impairment provision at the year-end date.

5. Other interest income and similar income

	2016 £000	2015 £000
Interest on residential mortgages	134,002	71,938
Interest and other income on liquid assets	1,457	1,749
Net expense on financial instruments hedging assets	(3,608)	(792)
	131,851	72,895

Notes to the financial statements (continued)
For the year ended 31 December 2016

6. Interest expense and similar charges

	2016 £000	2015 £000
Interest on deemed loan	20,884	41,706
Interest on subordinated debt with connected party	-	426
Interest expense on deposits and other borrowings	46,890	13,781
Net income on financial instruments hedging liabilities	(2,571)	(956)
	65,203	54,957

7. Non-interest income

	2016 £000	2015 £000
Revenue from the rendering of mortgage administration services under client contracts	3,976	5,578
Revenue from the rendering of credit analytical services under client contracts	-	2
Revenue from mortgage origination activities	3,124	323
	7,100	5,903

All revenues are generating within the UK from a single income generating unit of business.

Notes to the financial statements (continued)
For the year ended 31 December 2016

8. Net (loss)/gain from derivative financial instruments

	2016 £000	2015 £000
Loss on derivatives designated as fair value hedges	(589)	(226)
Gain in fair value of hedged items attributable to hedged risk	581	225
	(8)	(1)
Net (loss)/gain on disposal of interest rate swaps	(3)	268
	(11)	267

9. Operating profit

Operating profit for the year has been arrived at after charging:

	2016 £000	2015 £000
Net foreign exchange losses	12	4
Depreciation of property, fixtures and equipment	397	305
Amortisation of intangible assets	170	114
Amortisation of internally developed software	29	25
Loss on disposal of property, fixtures and equipment	38	-
Research and development costs	435	-
Operating lease costs	170	35

The auditor's remuneration for audit and other services is disclosed in note 10.

10. Auditor's remuneration

The analysis of auditor's remuneration is as follows:	2016 £000	2015 £000
Fees payable to the auditor for the audit of the Company's annual accounts	113	63
Fee payable to auditor for non-audit services:		
- Tax compliance services	-	8
- Other services pursuant to legislation	747	392
Total fees	860	463

Fees payable to Deloitte LLP for other services include audit related assurances services, profit verification, securitisation due diligence services, corporate finance advisory and risk and regulation services.

Charter Court Financial Services Limited

Notes to the financial statements (continued)
For the year ended 31 December 2016

11. Staff costs

The Company has no employees (2015: none). All services to the Company are provided by employees of Exact Mortgage Experts Limited (EME), a related party which is an associated subsidiary within the Company's immediate group as stated in note 36. The Company pays servicing fees to EME for management services provided as disclosed further in note 36. All Directors are employees of EME and therefore receive their remuneration from that entity.

12. Tax

	2016 £000	2015 £000
Current tax:		
Current tax on profits for the year	8,867	1,706
Bank surcharge on profits for the year	1,548	-
Adjustment in respect of prior years	(6)	-
	10,409	1,706
Deferred tax:		
Current year	(60)	3,214
Adjustments in respect of prior years	12	(173)
Effect of changes in tax rates	8	(40)
Total deferred tax (credit)/charge	(40)	3,001
Tax per Statement of Comprehensive Income	10,369	4,707

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year, prior to adjustments.

12. Tax (continued)

The charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Profit from continuing operations	44,098	24,155
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	8,820	4,891
Banking surcharge	1,548	-
Adjustment in respect of prior years	7	(173)
Expenses not deductible for tax purposes	273	248
Adjustments in respect of transfer pricing	(285)	(212)
Adjustments in respect of group relief	(2)	(7)
Effect of differences in tax rate	8	(40)
Tax charge for the year	10,369	4,707

The effective tax rate for the 2016 financial year was 23.51% (2015: 19.49%).

Deferred tax balances are in respect of timing differences of capital allowances in excess of depreciation and other short term differences. The net deferred tax credit of £40,000 (2015: charge of £3,001,000) has been recognised in the Statement of Comprehensive Income and the corresponding net deferred tax asset (2015: liability) has been recognised in non-current assets (2015: non-current liabilities). For further details refer to note 25.

Change in tax rate

A reduction in the UK corporation tax rate from 21% to 20% (effective 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset as at 31 December 2016 has been calculated based on these rates.

Charter Court Financial Services Limited

Notes to the financial statements (continued)
For the year ended 31 December 2016

13. Intangible assets

	Development costs £000	Computer software and licenses £000	Total £000
Cost			
At 31 December 2015	116	486	602
Additions	378	75	453
At 31 December 2016	494	561	1,055
Amortisation			
At 31 December 2015	35	192	227
Charge for the year	29	170	199
At 31 December 2016	64	362	426
Carrying amount			
At 31 December 2016	430	199	629
At 31 December 2015	81	294	375

Amortisation of internally-generated assets begins at the point the asset is developed and is capable of being used. At the year end the total assets included in development costs and not being amortised was £369,000 (2015: £nil).

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at the year end.

Notes to the financial statements (continued)
For the year ended 31 December 2016

14. Property, fixtures and equipment

	Leasehold property improvements £000	Fixtures and equipment £000	Computer equipment £000	Total £000
Cost				
At 31 December 2015	321	186	733	1,240
Additions	-	196	297	493
Disposals	-	-	(67)	(67)
Reclassification*	-	20	(20)	-
At 31 December 2016	321	402	943	1,666
Accumulated depreciation				
At 31 December 2015	110	34	311	455
Charge for the year	64	63	270	397
Disposals	-	-	(29)	(29)
Reclassification*	-	4	(4)	-
At 31 December 2016	174	101	548	823
Carrying amount				
At 31 December 2016	147	301	395	843
At 31 December 2015	211	152	422	785

*During 2016 £20,000 (2015: £nil) of assets included in computer equipment were reclassified to fixtures and equipment.

15. Loan notes receivable

	2016 £000	2015 £000
PMF No.1 Plc Z note	2,875	2,875
PMF No.1 Plc Subordinated note	5,380	5,416
PMF 2014-1 Plc Z note	4,900	4,900
PMF 2014-1 Plc Subordinated note	6,936	6,950
PMF 2014-2 Plc Z note	4,761	4,761
PMF 2014-2 Plc Subordinated note	6,868	6,904
CCFS Warehouse No.1 Plc Z note	548	15,805
CCFS Warehouse No. Plc Subordinated note	39	-
	32,307	47,611

The PMF No.1 Plc Subordinated note had a principal balance of £5,309,000 plus a £171,782 premium paid at inception. The premium is being amortised over 60 months on an EIR basis. The Z note and Subordinated note attract a fixed rate coupon of 90 bps payable quarterly in arrears. The notes mature March 2047, although the expected maturity is December 2018 and they are redeemable at the discretion of PMF No.1 Plc.

The PMF 2014-1 Plc Subordinated note had a principal balance of £6,903,000 plus a £66,000 premium paid at inception. The premium is being amortised over 60 months on an EIR basis. The Z note and Subordinated note attract a fixed rate coupon of 90 bps payable quarterly in arrears. The notes mature September 2047, although the expected maturity is June 2019 and they are redeemable at the discretion of PMF 2014-1 Plc.

The PMF 2014-2 Plc Subordinated note had a principal balance of £6,757,000 plus a £188,213 premium paid at inception. The premium is being amortised over 60 months on an EIR basis. The Z note and Subordinated note attract a fixed rate coupon of 90 bps payable quarterly in arrears. The notes mature December 2047, although the expected maturity is December 2019 and they are redeemable at the discretion of PMF 2014-2 Plc.

The CCFS Warehouse No.1 Plc Z note attracts a variable rate coupon of 375 bps above the three month ICE sterling LIBOR payable monthly in arrears. The note matures February 2018. The Subordinated note has a principal balance of £38,868 and attracts a variable rate coupon of 50 bps above the three month ICE sterling LIBOR payable monthly in arrears. Under the Subordinated note agreement CCFS Warehouse No.1 Plc can draw down on the facility up to a level of £2,000,000 (2015: £2,000,000). Since the Statement of Financial Position date a new agreement has been entered into which has reduced the facility available up to a level of £250,000. Repayment can be made on Interest Payment Dates when funds are available, with final payment of the note and any unpaid interest becoming due in the event of any of the following: if an enforcement notice is served by the issuer, in the event of default or full repayment of the variable funding notes which have a final maturity date of 16 February 2018. Since the Statement of Financial Position date the final maturity has been extended to 16 February 2019.

16. Investments in debt securities

	2016 £000	2015 £000
Available for sale debt securities	-	1,997
Held to maturity debt securities	138,085	123,392
	138,085	125,389

All available for sale debt securities are held at fair value and are level 1 fair value measurements being derived from observable quoted prices, in active markets.

Movements in the debt securities held during the year were:

	Available for sale £000	Held to maturity £000	Total £000
At 1 January 2015	-	-	-
Additions	1,998	127,507	129,505
Disposals and redemptions	-	(4,504)	(4,504)
Changes in fair value	(1)	-	(1)
Amortisation	-	228	228
Accrued interest	-	161	161
At 31 December 2015	1,997	123,392	125,389
Additions	-	36,941	36,941
Disposals and redemptions	(2,000)	(23,560)	(25,560)
Changes in fair value	1	-	1
Amortisation	2	1,262	1,264
Accrued interest	-	50	50
At 31 December 2016	-	138,085	138,085

The changes in fair value of the available for sale debt securities have been recognised in the AFS reserve, see note 29. Within the held to maturity debt securities there is a balance of £19,139,000 (2015: £11,151,000) consisting of £5,660,000 (2015: £11,151,000) A notes and £7,000,000 (2015: £nil) C notes issued by PMF 2014-2 Plc and £2,296,000 (2015: £nil) A notes, £1,483,000 (2015: £nil) C notes and £2,700,000 (2015: £nil) D notes issued by PMF 2014-1 Plc. The A notes issued by PMF 2014-2 Plc attract a variable coupon of 95 bps and C notes a variable coupon of 1.90% above the three month ICE sterling LIBOR, both payable quarterly in arrears. The A notes issued by PMF 2014-1 Plc attract a variable coupon of 0.80%, the C notes a variable coupon of 1.40% and D notes a variable coupon of 1.90% above the three month ICE sterling LIBOR, all payable quarterly in arrears.

Charter Court Financial Services Limited

Notes to the financial statements (continued)
For the year ended 31 December 2016

17. Loans and receivables

	2016 £000	2015 £000
Loans and receivables – non current	3,437,591	1,567,501
Loans and receivables – current	199,443	179,322
	3,637,034	1,746,823

	2016 £000	2015 £000
Un-securitised residential mortgage assets	2,868,002	604,946
Residential mortgage assets securing loan notes issued by:		
PMF No. 1 Plc	55,931	93,426
PMF 2014-1 Plc	90,447	204,388
PMF 2014-2 Plc	121,858	217,849
PMF 2015-3R Plc	510,577	515,886
CCFS Warehouse No.1 Plc	1,032	115,563
	3,647,847	1,752,058
Fair value adjustment for hedged risk	4,136	603
EIR adjustment	(14,452)	(5,312)
Impairment provision	(497)	(526)
	3,637,034	1,746,823

An analysis of the types of mortgage loans at 31 December 2016 is set out below.

	2016 £000	2015 £000
Buy-to-let mortgage assets	2,053,748	726,258
Homeowner mortgages assets	1,227,320	751,124
Short term bridging mortgage assets	205,818	188,656
Second charge mortgage assets	150,148	80,785
	3,637,034	1,746,823

Residential mortgages are secured on residential property within the United Kingdom.

Included within residential mortgages are securitised mortgage loans on which the Company has retained the risks and rewards of ownership and therefore in accordance with the applicable accounting standards are not derecognised.

17. Loans and receivables (continued)

Mortgage loans have a contractual term of up to thirty five years. Borrowers are entitled to settle the loan at any point and in most cases early settlement does take place. All borrowers are required to make monthly payments.

The fair value of residential mortgages is not considered to be materially different to the amortised cost value at which they are disclosed.

Fair value adjustment for hedged risk (FVAHR)

The Company has entered into interest rate swaps that protect it from changes in interest rates on the floating rate liabilities that fund its portfolio of fixed rate mortgages. Changes in the fair value of these swaps are offset by changes in the FVAHR of the fixed rate mortgages.

Ageing of past due but not impaired mortgage loans

	2016 £000	2015 £000
0-30 days	17,370	7,288
31-60 days	4,486	1,395
61-89 days	2,156	967
	24,012	9,650

A collective provision of £476,000 (2015: £260,000) is held against loans and advances to customers which have not been specifically provided against.

Ageing of past due and impaired mortgage loans

	2016 £000	2015 £000
90-120 days	1,274	217
> 120 days	1,016	374
	2,290	591

A specific provision of £21,000 (2015: £14,000) is held against the past due and impaired mortgage loans. Mortgage loans which are not past due but considered to be impaired totalled £27,712,000 (2015: £10,590,000) and a specific provision of £nil (2015: £252,000) is held against these mortgages. This includes loans subject to forbearance indicators which are not past due as disclosed in the Strategic Report on page 4.

Loans which are neither past due or impaired have been rated internally with average credit scores of 314 for homeowner mortgage assets, 316 for buy-to-let mortgage assets, 316 for short term bridging mortgage assets and 469 for second charge mortgage assets. Based on this there are no concerns over the credit quality of the loans.

Notes to the financial statements (continued)
For the year ended 31 December 2016

17. Loans and receivables (continued)

Residential mortgages

The movements in the Company's mortgages in the year were:

	2016 £000	2015 £000
At 1 January	1,746,823	722,924
Additions	2,497,622	1,745,663
Effective interest rate adjustments	(9,140)	(1,436)
Sale of securitisation to PMF 2015-1 Plc and PMF 2015-2b Plc	-	(428,914)
Interest charged and other debits	132,260	66,762
Repayments and redemptions	(734,092)	(358,303)
Write-offs	(1)	(1)
Movement on impairment provision	29	(475)
Fair value gains	3,533	603
At 31 December	3,637,034	1,746,823

Impairment provisions on first charge mortgages

The following amounts in respect of impairment provisions have been deducted from the appropriate assets in the Statement of Financial Position:

	2016 £000	2015 £000
Collective impairment provision		
At 1 January	260	36
Charge for the year	216	224
At 31 December	476	260
Specific impairment provision		
At 1 January	266	15
(Credit)/charge for the year	(245)	251
At 31 December	21	266
Total impairment provision	497	526

18. Current assets

Trade and other receivables

	2016 £000	2015 £000
Trade receivables	365	1,272
Prepayments and other receivables	3,143	4,093
Subordinated loan	-	80
	3,508	5,445

Trade receivables disclosed above are made up of fees invoiced at the year end of £42,000 (2015: £472,000) and accrued income in respect of fees not invoiced at the year end of £323,000 (2015: £800,000).

Ageing of past due but not impaired receivables:	2016 £000	2015 £000
30-60 days	-	127
61-90 days	5	109
	5	236

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Subordinated loan

The subordinated loan has a principal balance of £nil (2015: £80,000) and is owed by CCFS Warehouse No.1 plc. Interest on the subordinated loan is payable on the monthly interest payment dates at three month ICE sterling LIBOR plus a margin of 0.5%.

Prepayments and other receivables

Included in the prepayments and other receivables balance is £570,000 (2015: £300,000) representing amounts held by banks. This consists of £350,000 (2015: £300,000) deposited with Barclays and £220,000 (2015: £nil) deposited with HSBC under interest rate swap collaterisation agreements.

Charter Court Financial Services Limited

Notes to the financial statements (continued)
For the year ended 31 December 2016

18. Current assets (continued)

Deferred deal costs	2016 £000	2015 £000
Deferred deal costs	943	2,142

Deferred deal costs relate to the PMF No.1 Plc, PMF 2014-1 Plc and PMF 2014-2 Plc securitisations and CCFS Warehouse No.1 Plc. Costs of £4,850,000 (2015: £4,748,000) have been capitalised and are being amortised over the expected life of each transaction and in line with the predicted investment return due to the Company. Amortisation in the year amounted to £1,301,000 (2015: £1,940,000).

Cash and cash equivalents	2016 £000	2015 £000
Cash at bank	30,072	21,134
Balances with the Bank of England other than mandatory reserve deposits	2,586	36,813
Mandatory reserve with the Bank of England	129,981	424,526
	162,639	482,473

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is not materially different to their fair value. The mandatory reserve with the Bank of England forms part of the Company's liquid assets but are not used in the Company's normal day to day operations.

Other assets	2016 £000	2015 £000
Other assets held at fair value	220	269

Other assets held at fair value relate to the fair value gain on mortgage assets sold to third parties, where the premium recovered over par value is received by Charter Court Financial Services Limited. All other assets held at fair value are Level 3 fair value measurements, being derived from inputs which are not quoted in active markets. The fair value is based on discounted future cash flows arising from performance based payments receivable. The movement in fair value of £49,000 has been recognised in the Statement of Comprehensive Income. During the year, there have been no new purchases or settlements of Level 3 assets and no transfers into or out of the Level 3 category.

19. Derivative financial instruments

	2016		
	Notional £000	**Positive MV £000**	**Negative MV £000**
Derivative financial instruments			
Interest rate swaps	4,073,300	7,081	8,027

	2015		
	Notional £000	**Positive MV £000**	**Negative MV £000**
Derivative financial instruments			
Interest rate swaps	1,688,000	1,133	1,336

All derivative financial instruments are held at fair value and are Level 2 fair value measurements, being derived from inputs are not quoted in active markets but are based on observable market data. The fair value is based on discounted future cash flows using a forecast future interest rate curve derived from market data.

20. Other financial liabilities

Trade and other payables

	2016 £000	**2015 £000**
Trade payables	2,159	1,332
Deferred income	9	9
Accruals and other trade payables	3,086	3,624
Current tax liabilities	4,960	821
	10,214	5,786

Included within trade payables is £133,000 (2015: £nil) payable to Exact Mortgage Experts Limited and £158,000 (2015: £nil) payable to Charter Court Financial Services Group Limited for management services and holding company services respectively, as disclosed in note 36.

The Company, through its group, has financial risk management policies in place to ensure that payables are settled within the agreed credit timeframes, without any further liabilities.

21. Deposits from banks

As at 31 December 2016 deposits from banks include £20,000,000 (2015: £60,094,000) in respect of sale and repurchase agreements included within current liabilities. The carrying value of assets of £26,563,000 (2015: £83,301,000) sold under sale and repurchase agreements is included within debt securities (see note 16).

As at 31 December 2016 deposits from the Bank of England's Term Funding Scheme totalled £20,000,000 (2015: £nil) included with non-current liabilities. The carrying value of assets pledged as collateral was £26,565,000 (2015: £nil).

22. Deposits from customers

	2016 £000	2015 £000
Deposits from customers – current	2,633,068	1,172,832
Deposits from customers – non current	802,828	389,677
	3,435,896	1,562,509

Deposits from customers are retail deposits held by the Company which were received from customers in the UK and denominated in pounds sterling. The deposits comprise principally term deposits and 30 – 120 day notice accounts.

The contractual maturity of these deposits is analysed below.

	2016 £000	2015 £000
Amounts repayable		
On demand	68,941	21,892
In less than 3 months	323,714	26,492
In more than 3 months but less than 1 year	2,240,413	1,124,448
In more than 1 year but less than 2 years	715,817	200,867
In more than 2 years but less than 5 years	83,676	188,430
Total deposits	3,432,561	1,562,129
Fair value adjustment for hedged risk	3,335	380
	3,435,896	1,562,509

Fair value adjustment for hedged risk (FVAHR)

The Company has entered into interest rate swaps that protect it from changes in interest rates on the floating rate assets that are funded by its portfolio of fixed rate customer deposits. Changes in the fair value of these swaps are offset by changes in the FVAHR of the fixed rate customer deposits.

Notes to the financial statements (continued)
For the year ended 31 December 2016

23. Non-current liabilities

Deemed loans due to Group undertakings

	2016 £000	2015 £000
Deemed loan due to Precise Mortgage Funding No. 1 Plc	55,931	93,426
Deemed loan due to Precise Mortgage Funding 2014-1 Plc	90,447	204,388
Deemed loan due to Precise Mortgage Funding 2014-2 Plc	121,858	217,849
Deemed loan due to CCFS Warehouse No.1 Plc	1,032	115,563
	269,268	631,226

24. Financial guarantee

On 10 December 2015 the Company entered into a financial guarantee in favour of GIFS Capital Company, LLC acting as Original Class A Variable Funding Noteholder to CCFS Warehouse No 1 Plc, and Elavon Financial Services Limited acting in its capacity as Agent to the same transaction. The guarantee covers interest, default interest, principal, tax gross up and break costs as they fall due, should CCFS Warehouse No 1 Plc be unable to meet its obligations due in relation to the Class A Variable Funding Notes issued. As at 31 December 2016 the fair value of the guarantee was £nil (2015: £nil).

25. Deferred tax

	2016 £000	2015 £000
Deferred tax asset/(liability)	33	(7)

Movement on deferred taxation balance during the year

	2016 £000	2015 £000
Opening balance	(7)	2,994
Credit/(charge) to the Statement of Comprehensive Income	40	(3,001)
	33	(7)

Charter Court Financial Services Limited

Notes to the financial statements (continued)
For the year ended 31 December 2016

25. Deferred tax (continued)

Analysis of deferred tax balance

	2016 £000	2015 £000
Capital allowances in excess of depreciation	(7)	(50)
Short term timing differences	40	43
	33	(7)

26. Share capital

	2016 Number	2016 £000	2015 Number	2015 £000
Authorised, issued, called up and fully paid up:				
Ordinary shares of £1 each	2,870,004	2,870	2,870,002	2,870

During the year 2 Ordinary shares were issued at £1 nominal value each. The Company has 2,870,004 ordinary shares which carry no right to fixed income.

27. Share premium

	2016 £000	2015 £000
At 1 January	122,640	-
Share premium arising in the year	34,700	133,740
Repayment of capital to parent company	-	(11,100)
At 31 December	157,340	122,640

The share premium arose in the year due to the issue of 1 Ordinary share for consideration of £24,700,000 on 10 August 2016 and 1 Ordinary share for consideration of £10,000,000 on 8 December 2016.

28. Retained earnings

	2016 £000	2015 £000
At 1 January	25,978	6,530
Net profit for the year	33,729	19,448
At 31 December	59,707	25,978

29. Available for sale reserve

	2016 £000	2015 £000
At 1 January	(1)	-
Fair value gain/(loss)	1	(1)
At 31 December	-	(1)

This is the fair value movement on revaluation of Treasury Bills (level 1 fair value measurements) that are available for sale.

30. Net cash flow from operating activities

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Profit before tax	44,098	24,155
Non-cash (gains)/loss items		
Impairment losses	(29)	475
Depreciation of property, fixtures and equipment	397	305
Amortisation of intangible assets	199	139
Loss on disposal of property, fixtures and equipment	38	-
Amortisation of subordinated note premium	87	86
EIR adjustment	9,140	1,436
Movement in fair value hedge	(3,533)	(603)
Movement in AFS reserve	1	(1)
Changes in operating assets & liabilities		
Movement of other asset held at fair value	49	(94)
Decrease in receivables and prepayments	3,056	971
Increase in payables	289	2,528
Decrease in loans from undertakings for working capital	-	(34,960)
Increase in retail deposits	1,873,387	1,562,509
Increase in residential mortgages	(1,895,789)	(604,946)
Movement in derivative financial instruments	743	203
Deposits (to)/from banks	(20,094)	60,094
Cash generated from operations	12,039	1,012,297
Taxation paid	(6,270)	(884)
Net cash generated in operating activities	5,769	1,011,413

31. Net cash flow from investing activities

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Residential mortgages transferred to third parties	-	(420,262)
Expenditure on system development and software	(453)	(191)
Purchase of property improvements, fixtures and equipment	(493)	(296)
Investment in debt securities	(12,696)	(125,389)
Net cash utilised in investing activities	(13,642)	(546,138)

32. Net cash flow from financing activities

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Deemed loan due to Group undertakings	(361,958)	(95,624)
Issue of Z note, subordinated note and residual certificate	-	(15,884)
Proceeds from Z note and subordinated loan repaid	15,297	-
Proceeds from share issue	34,700	122,640
Net cash (utilised)/generated in financing activities	(311,961)	11,132

33. Operating lease arrangements

	2016 £000	2015 £000
Minimum lease payments under operating leases recognised as an expense in the year	170	35

At the Statement of Financial Position date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:	2016 £000	2015 £000
Within one year	53	141
In the second to fifth years inclusive	13	24
	66	165

Operating lease payments represent rent expense payable by the Company for the use of the Midlands Technology Centre office premises and a company car. The premises lease is negotiated for between one and three years and rentals are fixed over the term of the lease, expiring February 2017. The company car lease was entered into in October 2016. The lease and rental is fixed for 24 months, expiring September 2018.

34. Financial instruments

Capital risk management

The Company manages its capital to ensure that entities in the Group have sufficient capital resources to continue as going concerns while optimising the return to stakeholders through the balance of its capital resources. The capital structure of the Group consists of debt, which includes the borrowings disclosed in the Group financial statements, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Group financial statements.

The Company conducts an annual ICAAP, which is approved by the Board with the current version as at October 2016.

Capital Requirement Directive IV introduced the concept of a leverage ratio requirement, a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The UK Leverage Ratio Framework is applicable to firms with over £50bn of retail deposits, whilst not publically disclosed the Company reports its Leverage ratio through its COREP returns to the Prudential Regulation Authority (PRA).

Relevant changes resulting from the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), collectively known as CRD IV, have been incorporated where applicable. CRD IV introduced a leverage ratio requirement. The leverage ratio is a non risk-based measure that is designed to act as a supplement to risk-based capital requirements. The Company reports its leverage ratio based on guidance from the PRA.

The Company is supervised by the PRA who review the Capital adequacy, compliance with regulatory requirements and the ICAAP as part of its Supervisory Review and Evaluation Process (SREP). The PRA issues individual capital guidance which specifies the level of regulatory capital which the Company is required to hold relative to its risk weighted assets as well as a PRA designated capital buffer.

34. Financial instruments (continued)

Capital risk management (continued)

The Company's regulatory capital is reviewed on a monthly basis by the Board of Directors and the Assets and Liability Committee on both a current and forward looking basis.

The future regulatory capital requirements are also considered as part of the Company's forecasting and strategic planning process.

Categories of financial instruments

	Carrying value 2016 £000	2015 £000
Financial assets held at amortised cost		
Loan notes receivable	32,307	47,611
Loans and receivables	3,637,034	1,746,823
Held to maturity debt securities	138,085	123,392
Trade and other receivables	3,508	5,445
Cash and cash equivalents	162,639	482,473
Financial liabilities held at amortised cost		
Trade and other payables	(10,214)	(5,786)
Deemed loan due to Group undertaking	(269,268)	(631,226)
Deposits from banks	(40,000)	(60,094)
Deposits from customers	(3,435,896)	(1,562,509)
Financial instruments held at fair value		
Other assets held at fair value	220	269
Available for sale debt securities	-	1,997
Derivative financial instruments - assets	7,081	1,133
Derivative financial instruments - liabilities	(8,027)	(1,336)

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

34. Financial instruments (continued)

The Company's maturity analysis of its liabilities as at the year end are summarised as follows:

At 31 December 2016	Not more than 3 months £000	More than 3 months but not more than one year £000	More than one year but not more than 5 years £000	Total £000
Liabilities				
Trade and other payables	5,254	4,960	-	10,214
Deposits from banks	20,000	-	20,000	40,000
Deposits from customers	392,655	2,240,413	802,828	3,435,896
Derivative financial instruments	8,027	-	-	8,027
Deemed loan due to group undertaking	-	-	269,268	269,268

At 31 December 2015	Not more than 3 months £000	More than 3 months but not more than one year £000	More than one year but not more than 5 years £000	Total £000
Liabilities				
Trade and other payables	4,965	821	-	5,786
Deposits from banks	-	60,094	-	60,094
Deposits from customers	48,384	1,124,448	389,677	1,562,509
Derivative financial instruments	1,336	-	-	1,336
Deemed loan due to group undertaking	-	-	631,226	631,226
Deferred tax liability	-	-	7	7

Charter Court Financial Services Limited

Notes to the financial statements (continued)
For the year ended 31 December 2016

35. Financial risk management objectives and policies

Risk Management

The Company's activities expose it to a number of financial risks and uncertainties; primarily credit risk, liquidity risk, market risk, interest rate risk, wholesale risk, business risk, operational risk, conduct risk and assurance of compliance with regulations. For detailed information on each of these risks refer to the Strategic Report on page 2.

36. Related party transactions

Transactions between the Company and its related parties are disclosed below.

Management services

	Servicing fees charged		Creditor/(Debtor) outstanding	
	2016	**2015**	**2016**	**2015**
	£000	**£000**	**£000**	**£000**
Charter Court Financial Services Group Limited	375	-	158	-
Exact Mortgage Experts Limited	28,438	20,597	133	(496)

Charter Court Financial Services Group Limited provides Holding Company Services to the Company and recharges any group costs to its subsidiaries. The agreement commenced on 29 November 2016.

Exact Mortgages Experts Limited provides management services to the Company including the provision of staff, premises and systems. A fee is charged towards these services as shown above.

Interest charges

	Interest charged		Outstanding at end of year	
	2016	**2015**	**2016**	**2015**
	£000	**£000**	**£000**	**£000**
Charter Court Financial Services Group Limited	-	426	-	-

Charter Court Financial Services Group Limited issued a £65.6m loan to the Company on 6 January 2015 and a further £30m on 30 January 2015. All was fully repaid on 17 November 2015. Interest was charged at a 3 month LIBOR plus 1.5%.

Notes to the financial statements (continued)
For the year ended 31 December 2016

36. Related party transactions (continued)

Trading transactions

During the year, the Company entered into the following transactions with related parties:

	Mortgage administration fees		Interest received from loan notes and investment securities		Deferred consideration Receivable/(payable)	
	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000
PMF No. 1 Plc	136	252	74	74	1,784	3,673
PMF 2014-1 Plc	270	405	214	106	4,269	7,103
PMF 2014-2 Plc	355	397	321	141	4,564	5,858
PMF 2015-1 Plc	349	307	-	-	-	-
PMF 2015-3R Plc	1,284	198				
Buttermere Plc	-	925	-	-	(48)	6,476
CCFS Warehouse No.1 Plc	11	1	263	26	429	324
Bridestone Financing Plc	129	130	-	-	-	-

Bridestone Financing plc is a related party owing to shared control by Elliott, the ultimate controlling party of Charter Court Financial Services Group, see note 38.

All other related party transactions are with other subsidiaries of Charter Court Financial Services Group Limited. Transactions with other companies within the group are considered to be at arm's length.

36. Related party transactions (continued)

As at the Statement of Financial Position date the following balances were outstanding with related parties:

	Loan notes and investment securities held		Interest receivable from loan notes and investment securities		Deferred consideration receivable		Deemed loan from Group undertakings	
	2016	2015	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000	£000	£000
PMF No. 1 Plc	8,255	8,291	4	4	318	401	55,931	93,426
PMF 2014-1 Plc	18,315	11,850	12	6	669	972	90,447	204,388
PMF 2014-2 Plc	24,289	22,991	18	14	411	612	121,858	217,849
Buttermere Plc	-	-	-	-	101	402	-	-
CCFS Warehouse No.1 Plc	587	15,885	1	26	-	324	1,032	115,563

Notes to the financial statements (continued)
For the year ended 31 December 2016

37. Immediate parent company

Charter Court Financial Services Group Limited is the immediate parent of the Company which owns 100% of the issued ordinary share capital. The Group prepares consolidated financial statements of which copies may be obtained from the Company Secretary at the registered office: 2 Charter Court, Broadlands, Wolverhampton, West Midlands WV10 6TD.

38. Ultimate controlling party

As at 31 December 2016, Charter Court Financial Services Group Limited's joint controlling parties were Elliott International L.P. and Elliott Associates L.P. by virtue of their combined controlling interest in the Group's issued share capital and voting rights.

39. Post balance sheet event

The controlling entities of Bridestone Financing Plc have agreed to sell the mortgage portfolio held by the Company to CCFS. The transaction was approved on 21 December 2016 and was legally closed on 12 January 2017 at a price of £26,108,000. CCFS will recognise the mortgage assets in its Statement of Financial Position from this date.

40. Contingent liability

The Company has a contingent liability in respect of contributions to the Financial Services Compensation Scheme provided by the Financial Services and Markets Act 2000. The FSCS provides compensation to depositors in the event that a financial institution is unable to repay amounts due and is funded by contributions from the financial services industry. Following the failure of a number of financial institutions, the FSCS raised borrowings from the UK Government to cover compensation in relation to protected deposits. These borrowings are anticipated to be largely repaid from the realisation of the assets of the failed institutions. During 2016 there was no FSCS specific capital element levied separately as sufficient levies had been paid in previous years to fund the shortfalls arising. It is possible that capital levies may be required in the event of institutional failures in the future.