Press release - *20 March 2018*

Delivering against our IPO targets

Preliminary results for the year ended 31 December 2017

Financial highlights[1]

	2017	**2016**
Loan book	£5.4bn	£3.8bn
Mortgage originations	£2.7bn	£2.5bn
Retail deposits	£4.4bn	£3.4bn
Net interest income	£144.1m	£87.3m
Net interest margin	3.19%	3.08%
Profit before tax	£111.7m	£48.9m
Profit after tax	£81.3m	£37.3m
Cost income ratio	34.1%	47.6%
Underlying cost income ratio	31.2%	46.4%
Cost of risk[2]	0.011%	-0.002%
Cost of funds	1.3%	1.7%
Return on equity	28.6%	18.7%
Underlying return on equity	30.4%	19.3%

Continued strong balance sheet growth

- Loan book growth principally driven by strong increase in buy-to-let and specialist residential mortgage origination volumes

Disciplined risk management

- Strong credit performance maintained across lending portfolio with rigorous credit standards reflected in the low cost of risk of only 0.011%

Diversified funding strategy in action

- Successful implementation of dynamic funding strategy evident in the steady decline in blended cost of funds to 1.3% in 2017 (2016: 1.7%)
- Retail savings deposit base up by 29% to £4.4 billion (2016: £3.4 billion)
- Successful execution of two securitisation transactions totaling £597.3 million in 2017 (2016: £nil)

Strong profitability driving improved returns

[1] This financial report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use, where relevant, and a glossary indicating the APMs we use, an explanation of how they are calculated and why we use them. Please see page 58 for further detail.

[2] Cost of risk was negative in 2016 as the reversal of specific provisions, previously raised in 2015, outweighed new provisions made in the year.

- Improvement in net interest margin to 3.19% (2016: 3.08%) and net interest income up 65% to £144.1 million (2016: £87.3 million), driven by strong origination volumes and efficient funding strategy
- Profit after tax up 118% to £81.3 million (2016: £37.3 million), attributable to the significant increase in net interest income and £17.7 million gain on the sale of loans (2016: £nil)
- Significant improvement in return on equity to 28.6% (underlying: 30.4%) (2016: 18.7% (underlying: 19.3%))

Increasing operational efficiency

- Cost income ratio down from 47.6% (underlying: 46.4%) in 2016 to 34.1% (underlying: 31.2%) in 2017 reflecting scalability of platform

High customer loyalty

- Blended Net Promoter Score of 67 achieved

Leading employer

- Third best place to work in the 'mid' sized business category in the Sunday Times 'Top 100 companies to work for' in 2017

Ian Lonergan, CEO of Charter Court, said:

"Our annual results for 2017, our first as a listed company, demonstrate that we are continuing to grow strongly in our specialist markets at the same time as maintaining our asset quality and meeting or exceeding all other medium term key performance indicator targets set out at IPO. Tightly focussed on our growth markets of specialist buy-to-let and residential mortgage lending, we grew our loan book by 41% to £5.4 billion, generating £2.7 billion in new loan originations in the year.

We are particularly pleased with the performance of our proprietary operating platform which underpins the efficiency and scalability of our business and enables us to control risk effectively. The quality of our mortgage book remains excellent with only 0.1% of our loan book 3 months or greater in arrears, as we maintained our low, market-leading cost of risk at 0.011%.

On the funding side, we continued to expand retail deposits at our award-winning Charter Savings Bank, which are more than a quarter higher than last year at £4.4 billion, as well as successfully securitising £597 million of our mortgages alongside accessing the Bank of England's Term Funding Scheme ("TFS").

Although costs overall were higher for the year reflecting increased origination and growing scale of the business, excluding costs associated with our listing in October 2017, our underlying cost income ratio further improved to 31.2% from 46.4% last year, reaching our low 30s (%) medium term target.

With a strong CET1 ratio of 15.6% at 31 December 2017 and a leverage ratio comfortably above the Bank of England's minimum requirement of 3.25%, we remain well capitalised for future growth."

Outlook

Purpose built for our chosen specialist mortgage markets, we are confident of the sustainability of our performance in 2018 as we continue to build our balance sheet and take advantage of the opportunities arising from the increasing complexity of our markets.

Charter Court reiterates the medium term financial targets set at IPO and provides updated guidance for 2018. We target loan book growth greater than 20%, a cost income ratio in the low 30s (%), a sector-leading cost of risk and a return on equity in the mid-20s (%), with a minimum CET1 ratio of 13%.

Charter Court ended 2017 with a robust pipeline and has enjoyed a strong start to 2018. As stated at IPO and demonstrated in 2017, our mortgage lending franchise remains well placed to consistently deliver in the region of £2.5bn of new origination volumes annually across its four product lines. For 2018 we are targeting a net interest margin greater than 300 basis points.

The Group, on an ongoing basis, monitors and engages in capital market transactions and may from time to time issue further securitisations or sell additional residual positions in its securitisations depending on market conditions.

Following listing, the Board adopted a dividend policy which envisages a pay-out ratio reflective of the growth profile of Charter Court's business. The Board continues to target a dividend pay-out ratio of at least 15% of the profit for the year, with the aim of increasing it over the medium term as our balance sheet continues to build. The Directors expect to commence dividend payments with an interim dividend in respect of the first half of 2018, which will be payable in the second half of 2018.

Enquiries:

Analysts and investors

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Analyst and investor presentation

A presentation for analysts and investors will be held at 10am on 20 March 2018 at the South Place Hotel, 3 South Place, London EC2M 2AF.

Participants will be able to take part via a conference call facility by dialling +44 (0) 20 3003 2666 or

0808 109 0700 (Password: Charter Court Financial Services). A live audio webcast of the presentation will be broadcast on our IR website at http://www.chartercourtfs.co.uk/InvestorCentre.

Forward–Looking Statements

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". Forward-looking statements are statements that are not historical facts and may be identified by words such as “intend”, “aim”, “project”, “anticipate”, “estimate”, “plan”, “believes”, “expects”, “may”, “envisage”, “should”, “will”, “target", “continues”, “set to”, or similar expressions. These forward-looking statements involve substantial known and unknown risks, uncertainties, assumptions, estimates and other factors which may be beyond the control of Charter Court Financial Services Group plc (“Charter Court”) and its subsidiaries (together, “the Group"). Actual results and developments may differ materially from those expressed or implied by these statements and depend on a variety of factors. These statements are made in respect of Charter Court’s intentions or future beliefs and current expectations at the time made concerning, among other things, Charter Court’s results of operations, financial condition, liquidity, prospects, growth and strategies. In light of these risks, uncertainties and assumptions, actual results could be materially different from projected future results expressed or implied by these forward-looking statements which speak only as to the date of this announcement. The Group cannot guarantee that its forward-looking statements will not differ materially from actual results. Charter Court disclaims any obligation to update any forward-looking statements in this announcement that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement. Undue reliance should not be placed on any forward-looking statement.

About Charter Court Financial Services Group plc (‘Charter Court’)

Charter Court is one of the UK’s leading specialist challenger banks by originations, founded in 2008 by its senior management team and purpose built to focus on specialist buy-to-let, residential, bridging and second charge mortgage lending. We operate through our three brands – Precise Mortgages, Exact Mortgage Experts and Charter Savings Bank – providing buy-to-let and specialist residential mortgages; mortgage servicing, administration and credit consultancy; and retail savings products.

We have continued to grow in our chosen markets and to translate that growth into strong financial and operational performance. At 31 December 2017, our total mortgage balances stood at £5.4 billion generated through our relationships with more than 21,000 intermediaries nationwide, whilst Charter Savings Bank had attracted £4.4 billion in retail deposits at the same date from over 120,000 retail savings accounts.

Underpinning our success, our risk management expertise and best-of-breed automated technology and systems ensure efficient processing, strong credit and collateral risk control and speed of product development and innovation. These factors have enabled our strong balance sheet growth whilst maintaining the high credit quality of our mortgage assets.

Charter Court was admitted to the main market of the London Stock Exchange in October 2017 (CCFS.L). Charter Court Financial Services Limited, a subsidiary of the Group is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Chief Executive Officer's review

It gives me great pleasure to present Charter Court's first set of results as a listed company.

Our results in 2017 are reflective of the key strengths and competitive advantages upon which we have built our business. Since our inception in 2008, we have leveraged our deep understanding of mortgage credit risk, to provide over £8.1 billion of cumulative mortgage loans to customers.

Our strong growth has been facilitated by our bespoke underwriting approach that utilises an automated platform to provide a lending decision in principle in an average of eight minutes. Such process automation has allowed us to manage applications efficiently whilst maintaining strong credit quality across our lending portfolio. Our systems also allow us to react promptly to fast-moving market conditions and changes in regulatory requirements, which is critical in current market conditions.

In building our share of specialist mortgage originations, we benefit from our broad and highly effective distribution network. Our relationships with over 21,000 intermediaries facilitate strong origination volumes and product and service innovation.

Our lending operation is supported by our award-winning retail savings business and a wide range of funding options including an in-house securitisation platform, funding facilities provided by the Bank of England and a warehouse facility. Such a dynamic, diversified and sophisticated funding strategy allows us to optimise our cost of funds while prudently managing funding and liquidity risks.

Outperforming the market in balance sheet growth

During 2017, we managed regulatory hurdles in our core markets which, along with increased uncertainty caused by the UK's decision to leave the European Union, added complexity to our business.

Thanks to the strength of our business model and our talented employees, we delivered healthy performance across all areas of our business in 2017, in line with the financial objectives set out in our IPO prospectus.

Our loan book grew by 40.9% in 2017 to £5.4 billion. We generated some £2.7 billion in new mortgage originations, up 9.6% on prior year, driven principally by strong growth in buy-to-let and special residential lending. We received a positive response to recently launched products aimed at specific market segments. In buy-to-let, solutions for limited companies and houses in multiple occupation were particularly well received by customers, as was our specialist Help-to-Buy product in the residential segment.

Building on our award-winning savings business

In line with our strategy, we continued to develop our savings business, which has been one of the UK's fastest growing banks from a deposit-gathering perspective since its launch. Supported by the successful launch of our first ISA product range, our deposit balances from customers grew by 28.8% to £4.4 billion in 2017.

Chief Executive Officer's review (continued)

Enhancing our customer experience

Our continued success is based on the trust our customers place in Charter Court. We continually invest across our lending and savings operations to make sure our products are attractive and high standards of customer service are maintained. To ensure we consistently improve our relationship with both borrowers and savers, in 2017, we set out to measure customer satisfaction using Net Promoter Scores ("NPS"). I am delighted to report that a majority of our customers were 'promoters', as reflected in our combined NPS of 67 for the Group.[3]

Delivering a solid financial performance

We delivered strong origination volumes and balance sheet growth in 2017, increasing our economies of scale and enabling us to more than double our profit before tax to £111.7 million in 2017. Underlying profit before tax, excluding IPO related and similar costs, grew 133.0% in 2017 to £116.7 million.

Our disciplined risk management and extensive experience in specialist mortgage risk evaluation are reflected in our low cost of risk of just 0.011% for 2017 with only 0.1% the total loan book in arrears of 3 months or greater at year end.

With growing net interest margins and profit after tax, we further enhanced our return on equity to 28.6% in 2017. Underlying return on equity, excluding IPO related and similar costs, increased to 30.4% in 2017.

Investing in risk management

Charter Court's growth is underpinned by our rigorous risk management function, which allows us to expand our balance sheet and increase profitability, while maintaining the strong credit quality of our loan book.

We invested throughout 2017 to continuously strengthen our risk management function to pre-empt challenges and to support our future development and growth.

We also successfully delivered an internal project for the implementation of IFRS 9, the new international financial reporting standard which came into force on 1 January 2018. In response to the new bank capital framework announced by the Basel Committee on Banking Supervision, we are now pursuing a waiver to attain the Internal Ratings Based approach ("IRB"). We believe this is a natural progression, consistent with our analytical and sophisticated approach to credit risk management and will bring important risk, business and capital benefits.

Given the growing threat of cybercrime, in 2017, Charter Court continued to invest in cyber defence resources and expertise. The Group continuously monitors emerging criminal trends and tactics and undertakes frequent penetration testing.

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[3] NPS is measured out of 100. Group NPS (67) is determined by combining the NPS for Precise Mortgages (57) and Charter Savings Bank (70), and weighting the average by customer numbers.

Chief Executive Officer's review (continued)

Outlook

Purpose built for our chosen specialist mortgage markets, we are confident of the sustainability of our performance in 2018 as we continue to build our balance sheet and take advantage of the opportunities arising from the increasing complexity of our markets.

Charter Court reiterates the medium term financial targets set at IPO and provides updated guidance for 2018. We target loan book growth greater than 20%, a cost income ratio in the low 30s (%), a sector-leading cost of risk and a return on equity in the mid-20s (%), with a minimum CET1 ratio of 13%.

Charter Court ended 2017 with a robust pipeline and has enjoyed a strong start to 2018. As stated at IPO and demonstrated in 2017, our mortgage lending franchise remains well placed to consistently deliver in the region of £2.5bn of new origination volumes annually across its four product lines. For 2018 we are targeting a net interest margin greater than 300 basis points.

The Group, on an ongoing basis, monitors and engages in capital market transactions and may from time to time issue further securitisations or sell additional residual positions in its securitisations depending on market conditions.

Following listing, the Board adopted a dividend policy which envisages a pay-out ratio reflective of the growth profile of Charter Court's business. The Board continues to target a dividend pay-out ratio of at least 15% of the profit for the year, with the aim of increasing it over the medium term as our balance sheet continues to build. The Directors expect to commence dividend payments with an interim dividend in respect of the first half of 2018, which will be payable in the second half of 2018.

Ian Lonergan

Chief Executive Officer

Financial review

Group highlights

Continued balance sheet growth
Charter Court's loan book grew by 40.9% year-on-year in 2017 to £5.4 billion (2016: £3.8 billion), principally driven by strong growth in buy-to-let and specialist residential mortgage origination volumes. Performance across all segments was supported by continued successful new product development that addressed changing customer needs and regulatory requirements.

Balance sheet - key items (£m)	2017	2016	% change
Customer loans and receivables	5,364.2	3,807.9	40.9
Cash and cash equivalents	966.8	214.0	351.8
Total assets	6,424.4	4,157.3	54.5
Deposits from banks	1,003.5	40.0	2,408.6
Deposits from customers	4,420.0	3,432.6	28.8
Debt securities in issue	627.4	426.1	47.2
Total liabilities	6,089.4	3,923.8	55.2
Equity attributable to equity holders of the parent and total equity	335.0	233.5	43.4

Disciplined risk management
Despite significant loan book growth, Charter Court maintained strong credit performance across its lending portfolio throughout the year. As a result of rigorous credit standards, only 0.1% of the Group's loan book was three months or greater in arrears at 31 December 2017 (2016: 0.1%).

Our disciplined risk management and extensive experience in specialist mortgage risk evaluation are reflected in our sector-leading cost of risk of 0.011% for 2017 (2016: -0.002%[4]).

Diversified funding strategy in action
We have a dynamic funding strategy designed to optimise our cost of funds and deliver a stable net interest margin, while prudently managing funding and liquidity risks. Successful implementation of this strategy is evident in the steady decline in our cost of funding, from 2.0% in 2015, to 1.7% in 2016 to 1.3% in 2017.

In addition to growing our retail deposit customer base by 28.8% to £4.4 billion (2016: £3.4 billion), we continued to benefit from access to wholesale funding through securitisations, short-term repo lines, and warehouse facilities.

We executed two securitisation transactions amounting to a total of £597.3 million during the year (2016: £nil). Combined with additional Bank of England Term funding Scheme ("TFS") drawdowns, this allowed us to further optimise the balance of our funding mix and rebalance the weighted average life of our liabilities. As a result, the Group's loan to deposit ratio increased to 121.4% (2016: 110.9%).

Income statement – key items (£m)	2017	2016	% change
Net interest income	144.1	87.3	65.1
Total income	170.2	93.3	82.5
Administrative expenses	(58.0)	(44.5)	30.6
Profit before tax	111.7	48.9	128.5
Tax	(30.4)	(11.6)	163.3
Profit after tax	81.3	37.3	117.7

[4] Cost of risk was negative in 2016 as the reversal of specific provisions, previously raised in 2015, outweighed new provisions made in the year.

Financial review (continued)

Profit after tax up 117.7%

Strong performance across all aspects of our business enabled us to more than double our profit before tax to £111.7 million in 2017 (2016: £48.9 million).

Underlying profit before tax excluding IPO related and similar costs (£5.0 million), was £116.7 million, up 133.0% on the £50.1 million achieved in 2016. This trend is attributable to the significant increase in our net interest income, supported by a gain on the sale of loans in the amount of £17.7 million. The increase in our tax charge to £30.4 million in 2017 (2016: £11.6 million) was principally a result of increased profits. The effective tax rate in 2017 was 27.23% (2016: 23.63%). Profit after tax for the year ended 31 December 2017 was up 117.7% year-on-year to £81.3 million (2016: £37.3 million).

Thanks to growing net interest margins and operational efficiency, we saw a continued increase in our return on equity from 18.7% in 2016 to 28.6% in 2017. Underlying return on equity also rose from 19.3% in 2016 to 30.4% in 2017.

Total income up 82.5%

During 2017, our interest income and similar income increased by 46.8% year-on-year to £211.1 million in 2017 (2016: £143.8m), principally a result of the continued growth of the mortgage loan book.

Interest expense and similar charges increased by 18.5% percent to £67.0 million in 2017 (2016: £56.5 million), mainly due to the continued expansion of the mortgage origination business, which was funded principally through the growth of the retail deposit business.

As a result of strong origination volumes and growing economies of scale, the Group's net interest income increased significantly in 2017, rising by 65.1% year-on-year to £144.1 million (2016: £87.3 million).

During 2017, we sold residual certificates in one of our securitisation vehicles, PMF 2017-1B, to a third party in a transaction which resulted in the full derecognition of the underlying mortgage assets from the Group and delivered a net gain on sale of loans of £17.7 million (2016: £nil).

Our total income for 2017 increased by 82.5% year-on-year to £170.2 million (2016: £93.3 million).

Continued implementation of our diversified funding strategy allowed us to price our products competitively while improving our net interest margin to 3.19% (2016: 3.08%).

Increasing operational efficiency

Administrative expenses increased by 30.6% year-on-year to £58.0 million in 2017 (2016: £44.5 million), principally as a result of the continued growth of the mortgage origination business and wider business support functions, such as Finance, Risk and IT. In 2017, there was a charge for provision for impairments of £0.5 million comprising a £0.1 million increase in the collective provision and a £0.4 million increase in the specific provision.

The statutory cost income ratio decreased from 47.6% in 2016 to 34.1% in 2017. Administrative expenses in 2017 include £5m of costs incurred in connection with the IPO and residual costs related to a project to sell the Group to private bidders in 2016. Given their material and one-off nature, these costs are excluded from our cost income ratio to provide an 'underlying' view of our performance. Our underlying cost income ratio decreased from 46.4% in 2016 to 31.2% in 2017, reflecting the scalability of our operations and our high operating leverage.

Financial review (continued)

Prudent liquidity management

Charter Court predominantly offers term deposits and notice accounts which represent 88% of all retail savings accounts. These have a more predictable liquidity profile than easy access accounts. As at 31 December 2017, we held £886.9 million in liquid assets (2016: £145.8 million).

Under our treasury policy the individual liquidity guidance is met by maintaining a liquid asset buffer that is determined by the Board, and is larger than any regulatory requirements. At 31 December 2017 the Group held £848.0 million (2016: £130.0 million) of liquid assets in Bank of England reserve account balances and £34.5 million (2016: £13.2 million) of liquid assets in balances held with tier 1 UK banking institutions. Charter Court's ability to meet a short-term liquidity stress is managed through holding high quality liquid assets. As at 31 December 2017 Charter Court had a Liquidity Coverage ratio (a measure of surplus (or deficit) of a bank's high-quality liquid assets relative to weighted net stressed cash outflows over a 30 day period) was 200% of its regulatory requirement.

Preparations for IFRS 9 completed

In June 2017, we implemented the measurement and calculation capability of financial instruments according to IFRS 9. The parallel running of IFRS 9 and IAS 39 during the second half of the year showed that early adoption of the new accounting standard would have resulted in an increase in provisions for loan impairments of £733,000 at 31 December 2017, compared to provision levels under IAS 39. This difference stems purely from the change in accounting methodology and is not a reflection of deterioration in Charter Court's loan book credit performance.

Well capitalised for future growth

Charter Court conducts an annual internal capital adequacy assessment process ("ICAAP"), which is approved by the Board. The ICAAP is used to assess Charter Court's capital adequacy and determine the levels of capital required to support the current and future risks in the business derived from its three-year corporate plan.

The Group's capital resources and requirements are determined on the basis of the CRD IV regulatory framework, as implemented by the Prudential Regulation Authority ("PRA") in the United Kingdom. Regulatory capital is reviewed on a monthly basis by the Board and the assets and liabilities committee ("ALCO") on both a current and forward-looking basis.

With a strong CET1 ratio of 15.6% at 31 December 2017 and a leverage ratio comfortably above the Bank of England requirement of 3.25%, Charter Court remains well capitalised for future growth.

Delivery against targets

Our strategy is to continue to offer specialist lending products, through organic origination sourced from our broad network of intermediaries, focussing on niche, underserved specialist markets where we believe we can deliver high quality growth and sustainable and attractive risk-adjusted returns, supported by a sophisticated and diversified funding strategy.

Charter Court met or exceeded all its financial targets in 2017 helping to support the Group's overall strategy.

Business review by segment

Lending

Outperforming the market in specialist mortgage origination

Highlights

- New originations £2.7 billion (2016: £2.5 billion)
- Loan book up by 40.9% to £5.4 billion (2016: £3.8 billion)
- Net interest income of £141.3 million (2016: £87.3 million)
- Profit contribution up 61.8% to £144.5 million (2016: £89.3 million)
- Precise Mortgages achieved an NPS score of 57

Profit by lending segment

Year ended 31 December 2017	**Buy-to-let**	**Resid-ential**	**Short term lending £m**	**Second charge lending**	**Total**
Net interest income	69.8	49.2	16.4	5.9	141.3
Fees and commissions income	1.3	2.0	0.2	0.2	3.7
Provisions for loan impairments	(0.4)	-	-	(0.1)	(0.5)
Profit contribution	70.7	51.2	16.6	6.0	144.5
Year ended 31 December 2016					
Net interest income	35.7	31.7	14.4	4.1	85.9
Fees and commissions income	1.3	1.8	0.2	-	3.3
Provisions for loan impairments	-	(0.1)	0.2	-	0.1
Profit contribution	37.0	33.4	14.8	4.1	89.3

Profit contribution is equal to segment profit as per note 5 of the financial statements (pages 39 and 40).

Lending competitive environment

Competition in the Group's core lending markets has remained relatively stable with few new entrants. Our main peer group in all market sectors are the specialist banks with non-banks and regional building societies featuring in the specialist sectors. All of our peer group lenders were active in 2017, with the non-bank specialist lenders notable in our residential first charge market sector. With changes to the buy-to-let regulatory landscape we have seen a shift towards more specialist lending propositions creating a vibrant market place. Bridging has polarised further with the likes of the Group and its peer group of specialist bank lenders focusing on the simple low risk bridging sector and non-bank specialists serving the complex bridging market. The second charge lending market was tough in 2018, hence we chose to focus on taking volume aligned with our pricing model and risk appetite.

Business review by segment (continued)

Buy-to-let

Highlights

- New originations £1.6 billion (2016: £1.5 billion)
- Loan book up by 49.7% to £3.2 billion (2016: £2.2 billion)
- Net interest income of £69.8 million (2016: £35.7 million)
- Profit contribution up 91.1% to £70.7 million (2016: £37.0 million)

Buy-to-let has been the fastest growing segment of the UK mortgage market since the 2008 financial crisis. This rapid growth has resulted in a number of government and regulatory interventions over the past two years. Restrictions on tax relief received on landlords' mortgage costs became effective in April 2017, while new buy-to-let underwriting standards introduced by the PRA were implemented on 1 January 2017.

As a result of such measures, the number of purchases in the buy-to-let segment in 2017 declined by 26.6% year-on-year to around 6,250 per month. An estimated 232,000 buy-to-let mortgages were issued, down 10.4% year-on-year. Meanwhile, buy-to-let re-mortgage volumes declined 0.6% year-on-year.[5]

Despite the wider market slowdown in 2017, the majority of Charter Court's new lending came from the buy-to-let segment with new originations of £1.6 billion. Mortgage balances increased by 49.5% year-on-year to £3.2 billion. Charter Court outperformed the market by successfully capturing growing demand for specialist buy-to-let mortgages driven by the changing regulatory landscape.

As a consequence of regulatory changes and the current low interest rate environment, the buy-to-let sector has seen a shift towards a longer term 5-year fixed rate product in 2017. This trend is reflected in Charter Court's loan book.

Buy-to-let completion volumes increased across both purchases and re-mortgages as the Group capitalised on its enhanced product proposition. Charter Court saw significant take up of its targeted products aimed at specific market segments launched in 2016, such as solutions for limited companies and houses in multiple occupation.

Buy-to-let mortgages represent 60% of Charter Court's total loan book.

Residential

Highlights

- New originations £0.8 billion (2016: £0.7 billion)
- Loan book up by 35.0% to £1.7 billion (2016: £1.3 billion)
- Net interest income of £49.2 million (2016: £31.7 million)
- Profit contribution up 53.3% to £51.2 million (2016: £33.4 million)

According to UK Finance, in 2017, residential owner-occupied mortgage loan origination was around £214 billion, up by 10.3% over 2016.

Specialist residential mortgage lending is shaped by economic and social trends across the UK as well as government policies. For instance, the rapid growth in self-employment in the UK in recent years, continues to drive increased demand for specialist mortgages. Meanwhile, initiatives put in place by the UK government, such as Help-to-Buy, supported an increase in total lending to first time buyers during 2017.

Charter Court capitalised on its strong credit assessment ability to increase both lending volumes and market share in the relatively stable market for specialist residential mortgages.

[5] UK Finance, Mortgage Trends Update, 13 February 2018

Business review by segment (continued)

Residential (continued)

In 2017 Charter Court's specialist residential mortgage balances increased by 33.3% year-on-year to £1.7 billion with new originations of £0.8 billion. The Group also launched specialist Right-to-Buy ("RTB"), Help-to-Buy ("HTB") and New Build schemes aimed at customers with minor credit issues who fail current mainstream lenders criteria.

Specialist residential mortgages represent 33% of Charter Court's total loan book.

Short term lending (Bridging)

Highlights

- New originations £314 million (2016: £287 million)
- Loan book up by 6.4% to £218.9 million (2016: £205.8 million)
- Net interest income of £16.4 million (2016: £14.4 million)
- Profit contribution up 12.2% to £16.6 million (2016: £14.8 million)

Residential bridging financing is typically characterised by short term (approximately six to twelve month terms), retained interest lending, secured against residential or buy-to-let property on a first or second charge basis. The Group is mainly focused on prime borrowers with up to 75% Loan to Values.

During 2017, bridging loans increased by 6.4% year-on-year to £218.9 million, with new originations of £314 million. This growth was achieved whilst maintaining our strong credit risk management, with no losses suffered in 2017.

Bridging loans represent 4% of Charter Court's total loan book.

Business review by segment (continued)

Second charge loans

Highlights

- New originations £60 million (2016: £95 million)
- Loan book up by 13.9% to £170.8 million (2016: £150.0 million)
- Net interest income of £5.9 million (2016: £4.1 million)
- Profit contribution up 46.3% to £6.0 million (2016: £4.1 million)

Charter Court offers second charge loans to prime residential and buy-to-let customers who wish to secure a loan with a charge against a property which is already charged to another lender.

In 2016 the FCA aligned second charge loan regulation with first charge mortgage regulation via the Mortgage Credit Directive ("MCD") and during 2017 they conducted a review of MCD's implementation. The MCD is an EU wide framework designed to create a single market for mortgages and brings the affordability requirements for second charge loans more into line with those for first charge mortgages. As an existing first charge lender Charter Court thoroughly understood and applied these requirements on launch into second charge lending.

During 2017 the market experienced solid growth with gross new lending increasing 14% to £1 billion.[6]

During 2017 this market became increasingly competitive. Charter Court focused on controlled originations and prioritised credit quality over origination volumes. As a result, second charge loan origination slowed to £60 million and balances grew at a slower rate of 13.9% year-on-year (2016: 85.6%) to £170.8 million.

Second charge loans represent 3% of Charter Court's total loan book.

Reinforcing distribution and service standards

During the year, Charter Court successfully maintained its distribution leadership across more than 21,000 intermediaries and affirmed its position as one of the largest single specialist bank providers through the country's leading mortgage clubs and networks.

The Group launched its 'Broker Journey' project in early 2017. This project focuses on non-system based improvements to its service proposition which deliver increased activity, reduced time to offer and improved conversion rate. Performance and progress is monitored on a six-monthly basis by a bespoke third-party broker experience survey with the most recent results showing notable improvements in all service measures.

During 2017, Charter Court continued to expand its sales team with greater emphasis on face-to-face meetings, roadshow presence and the deployment of Business Development Managers.

[6] Source FLA press release 09/02/2018 https://www.fla.org.uk/index.php/second-charge-mortgage-new-business-volumes-grow-in-2017/

Business review by segment (continued)

Funding

Highlights

- Customer balances up 28.8% to £4.4 billion (2016: £3.4 billion)
- Successful launch of ISA product range in June 2017
- Charter Savings Bank achieved an excellent NPS score of 70

Retail deposits competitive environment

The savings landscape has become progressively more competitive as we have seen both new and incumbent challenger banks become active in our markets. We saw five new entrants launch in 2017 with up to 30 potential new entrants in the banking licence pipeline. The increasing competitive pressures and the ambitions for our business mean that alternative sources of funding are being actively pursued. The launch of ISAs in June 2017 has already demonstrated the benefits of diversifying our sources of funding away from the original core proposition and we continue to explore further diversification opportunities including deposits from small to medium size enterprises ("SME"), charities, clubs, wealth managers, cash SIPPs and structured products. We are also looking at adding new channels to our existing product range to enable account application by both post and phone.

Strong growth in retail deposits

A key priority during 2017 was to maintain and develop the Group's award-winning retail savings business. Charter Court took the opportunity to attract a strong flow of savings customers with a product offering focused on term and notice-based products rather than instant access accounts.

In combination with Charter Court's access to securitisation funding and the Group's other liquidity arrangements, Charter Court's savings business is designed to provide a stable and scalable platform to support the Group's lending activities and this combination is a core part of the Group's dynamic, diversified and sophisticated funding strategy. This approach broadens the range of funding options available to Charter Court and helps to reduce the overall cost of funding through improved margins.

During 2017, competition for retail deposits remained high with new market entrants offering attractive rates. At the same time, the UK government took action to encourage savings through the launch of Lifetime ISAs in April 2017.

As at 31 December 2017, the Group had 102,394 savings customers (2016: 77,474), operating 122,825 savings accounts (2016: 85,956), with an average balance per account of £36,000 (2016: £40,000). Charter Court's retail deposits grew by 28.8% year-on-year to £4.4 billion (2016: £3.4 billion). The Group continued to price tactically and reprice quickly so that its retail savings products appeared at the top of "best buy" tables when most efficient and effective to do so.

88% of the deposits held by savings customers with the Group were held either in fixed term savings products (with durations between one and five years) or in notice accounts (with notice periods ranging from 30 to 180 days) and 12% of customer deposits were held in easy access savings accounts. The Group's recently launched ISA products have been well received and 11% of all deposits were held in ISAs, in a mixture of fixed, notice and easy access accounts.

The significant weighting of savings deposited with the Group towards longer term and notice-based products provides relative stability of funds.

Through frequent product launches, the Group's savings business continued to enhance its understanding of customer behaviour, allowing Charter Court to tailor its products to customer needs.

Business review by segment (continued)

Funding (continued)

Strong growth in retail deposits (continued)

With a Net Promoter Score of 70[7] and with 99% of customers agreeing that our accounts are straightforward and easy to understand, Charter Savings Bank has worked hard to maintain high levels of customer satisfaction and retention.

The successful launch of the Group's ISA offering provides Charter Court with access to a new market with fewer competitors, allowing the Group to further lower its cost of funds, in line with its overall funding strategy.

Opportunistic securitisations

Highlights

- Two securitisation transactions concluded with a combined value of £597.3 million, including the Group's first prime residential RMBS transaction
- Additional committed warehouse facility secured, with £350.0 million of senior funding available
- Continued access to Bank of England funding facilities, with £977.8 million of drawings through the Term Funding Scheme (2016: £20.0 million)

Securitisation is a key strategic funding source for the Group, with over £2.2 billion of issuance completed since December 2013. As well as enabling Charter Court to add term funding to the balance sheet, further diversifying the funding mix, and increasing the weighted average life of the Group's liabilities; securitisation is used strategically to accelerate organic capital generation through the sale of residual positions; an option that has been successfully deployed since 2015.

2017 was a particularly successful year from a securitisation standpoint, with the Group able to take advantage of strong UK RMBS markets by securing £597.3 million of term funding through two transactions. In April it closed PMF 2017-1B, a securitisation of £300.0 million of buy-to-let mortgage assets, and followed that up in July with CMF 2017-1, the Group's inaugural £297.4 million prime residential securitisation. Both transactions benefitted from favourable market conditions, resulting in very attractive pricing: PMF 2017-1B closed with a senior margin of 0.75% over 3 month sterling Libor; the tightest pricing on a senior note the Group had achieved to that date.

That landmark was then surpassed in July 2017, with the closing of the heavily oversubscribed CMF 2017-1, which priced at three month sterling Libor plus 0.50% on the senior note, with an all-in closing cost of funds across the rated notes placed of Libor plus 0.64%.

Both transactions were structured in such a way as to provide the Group with the option to achieve full derecognition of the mortgage assets from the Group through the sale of the residual positions, either at closing, or at a future point in time. This optionality provides the Group with a source of contingent capital, which can quickly be realised in a situation where the capital markets are particularly strong – and thus a sale above the Group's view of fair value can be achieved – or where the Group has a particular need to generate additional capital for other purposes. The regulatory capital headroom is generated not only from the gain on sale of subordinated notes and residual certificates, but also from derecognition of the underlying mortgage assets, and subsequent reduction in risk weighted assets.

The Group recognised an opportunity to transact on such a basis in April 2017, where strong market conditions facilitated the sale of the residual positions in PMF 2017-1B at the same time as the collateralised debt securities were being priced, thereby transforming a funding trade into a full derecognition of mortgage assets transaction, and delivering shareholder value through a gain on sale of £17.7 million.

[7] Charter Savings Bank

Business review by segment (continued)

Funding (continued)

Opportunistic securitisations (continued)

The successful placement of the 2017 transactions took the Group's total securitisation activity to more than £2.2 billion. The stable of eight transactions continues to perform well, with minimal arrears and zero losses to date.

In addition to RMBS, Charter Court has actively pursued other wholesale funding opportunities, in particular, making use of the Bank of England's TFS. Strong lending growth has enabled CCFS to generate a significant TFS quota, which we have then been able to take advantage of through 2017 with drawdowns for the year totalling £977.8 million (2016: £20.0 million).

Towards the end of the year, the Group added additional warehouse funding capacity through the closing of a committed senior funding line of £350 million. The line, secured on attractive terms, provides the Group with incremental wholesale funding capacity above and beyond that available to the bank entity, Charter Court Financial Services Limited.

The continued availability of wholesale funding depends on a variety of factors including central bank activity, market conditions, the general availability of credit, the volume of trading activities, the markets' assessment of the Group's credit strength and the quality of its mortgage portfolios and the credit rating attributed to relevant debt securities.

Our approach to risk management

Clearly articulated risk appetite

Charter Court has developed a comprehensive risk appetite framework which adopts the Financial Stability Board's principles. Based on the business and financial plan, this framework informs risk capacity, sets risk appetite and the associated limits for the key risks.

Risk appetite limits for the key risks are set and underpinned by a suite of policies against which the independent risk management function monitors and reports business performance and adherence.

Ongoing dynamic monitoring, control and reporting of risk management performance against a Key Risk Indicator ("KRI") framework is fully embedded, overseen and reviewed by a number of executive risk committees as well as the Board Risk Committee and the Board.

A monthly CRO Board report provides a comprehensive review of performance against the KRIs for each risk appetite limit.

A strong, clearly defined and effective risk management framework

Charter Court has a well-structured and mature risk management framework which was further augmented in 2017. Reflecting shareholder objectives and the external environment, the Corporate Plan defines the direction, strategy and operating model for the business. Drawing from this, Risk Appetite is set and owned by the Board and enables the realisation of the Corporate Plan.

The Board is responsible for continually ensuring that an effective risk management framework is in place. The executive team, overseen by Board Risk Committee, ensures that there is an ongoing focus on effective risk management to facilitate strong support for compliance with policies, new initiatives and change.

The Group's enterprise risk management framework sets out the various risk management components to provide an overarching view.

Experienced risk management team

Structured around the key risk types, the risk function is both fully independent and integrated across the main business areas.

The CRO is accountable to the Board for the effective identification and management of risks across the business with responsibility for the establishment of the risk control framework, monitoring, and reporting of risk exposures and maintenance of risk policies and procedures.

The Risk team includes experienced team leaders who are experts in their field, highly qualified analysts and those possessing specialisms in strategically important areas such as credit risk analysis, modelling, operational risk, regulatory risk management and compliance.

Many senior members of the team have been with Charter Court since its formation and their understanding of the business, its people, culture and operating model provides for a highly effective business-risk partnership which stimulates and promotes a strong risk culture.

An important feature of the ERMF is that the risk team leaders chair their own risk committees. This enables each to set their own agenda, bringing for discussion key issues where business input is welcomed. As a result, the risk committee members and attendees are truly engaged, contribute fully to the effective risk management of the business and welcome the opportunity for debate and resolution of any issues.

Our approach to risk management (continued)

Effective risk governance and control

Charter Court has adopted a 'three lines of defence' organisational and operating model to underpin the risk management approach, in line with best practice financial services risk management.

This model aims to ensure at least three stages of oversight to protect customers and the Group from risks, any control weaknesses and to ensure that the Group operates within the Board's risk appetite and is compliant from a regulatory and internal policy perspective.

First Line of Defence

The first line of defence is provided by the operational business lines, which include customer facing roles, those that are responsible for product development and distribution, and management of finances of the business. Day-to-day risk management and compliance with policies and processes is primarily the responsibility of all managers and staff. Management has a responsibility to understand how risks impact their area of the business and to support and ensure adherence to controls.

Each business line is responsible for measuring, assessing and controlling risks through the day-to-day activities of the business, within the framework set by the Risk function. As such, each business line is responsible for ensuring that there is a comprehensive suite of processes and procedures that guide the operations of the business in accordance with risk appetite.

Second Line of Defence

The second line of defence is provided by the risk management function, which provides independent oversight to ensure adherence to policies and regulation, challenges managers and staff effectively of their performance of risk and compliance management and provides risk-orientated advice and guidance as necessary.

Third line of defence

The third line of defence is provided by the Group's internal audit function, which is responsible for independently reviewing the effectiveness of the risk management structure and adherence to processes – both from first and second line perspectives.

The internal audit function provides independent assurance to the Audit Committee and the Board in relation to adherence by the Group to internal systems and controls, procedures and policies and second line risk oversight.

The internal audit function is outsourced, currently to KPMG LLP ("KPMG"), and reports independently to the audit committee.

Stress testing

The Group undertakes a number of stress tests as part of its ICAAP and Internal Liquidity Adequacy Assessment Process ("ILAAP") and uses the results of these to assess primarily capital and liquidity requirements. Stress testing informs the Group of the adequacy of its capital and liquidity resources and its capability to protect against adverse impacts from stress events.

Risk Management (continued)

Our approach to risk management (continued)

Stress testing (continued)

As part of the Group's obligations under the general stress and scenario testing rules (as described in the PRA Rulebook), capital stress tests are carried out regularly and annually as part of the ICAAP process which considers, quantifies and analyses all risks under a range of stress conditions and assesses the relative adequacy of capital. This includes a projection of capital requirements and resources over a three year horizon, taking account of the business plan and the impact of chosen stress scenarios.

Liquidity is stressed comprehensively as part of the annual preparation of the ILAAP which reviews, considers and sets out liquidity adequacy against a range of market and firm-specific liquidity stress events. In addition, liquidity is stressed dynamically and reported and reviewed formally weekly.

Outside of the ICAAP and ILAAP processes, stresses of both capital and liquidity are regularly separately run against idiosyncratic and market-wide scenarios. The preparation for the implementation of IFRS 9 has required enhancements to the Group's approach to credit stress testing and provides sophisticated and wide-ranging monthly analysis of multiple economic scenarios.

The Group also carefully considered and prepared for different scenarios likely to result from the new bank capital framework to be introduced by the BCBS. This is of strategic importance to Charter Court for a potential transition to an Internal Ratings Based approach.

Priorities for 2018

The main goal for 2018 is to take a forward looking view and continue to maintain the high standards of insight, risk management and reporting to enable Charter Court to realise its business plan within prudent risk management parameters.

The Risk team will continue to closely monitor and assess the external environment, regulatory changes and developments seeking to build on its understanding of potential adverse effects resulting from emerging and changing risks such as IT risks and cybercrime.

Close monitoring of the regulatory landscape is also a priority, particularly that which might affect operations and capital requirements, competitive trends in mortgage lending and retail savings markets and probable changes to the wider macro-economy following the UK's decision to leave the EU.

The Group has key projects working on the implementation of general data protection regulation and changes in its first charge regulated lending business. Charter Court will also continue to enhance its approach to assisting customers with potential vulnerabilities and mortgage customers who are on the 'cusp' of financial difficulty.

Preparation for adoption of IFRS 9 with effect from 1 January 2018 involved the development of sophisticated credit risk models and a scorecard to accurately assess and report on expected credit losses ("ECL") arising from the mortgage book in line with the business plan, balance sheet growth and asset class mix.

The Group was able to utilise and build naturally upon the existing credit scoring models and its established analytical and reporting expertise to develop both an IFRS 9 ECL calculation methodology and to effectively provide a 'first generation' IRB scorecard. This was augmented by the IFRS 9 reporting, control and governance structure and seen as a significant first step as preparation for the IRB programme; further development of the scorecards will continue in earnest in 2018 as the business pursues its IRB programme.

Principal risks

This section describes material existing and emerging risks which the Board believes could significantly impact delivery of the Corporate Plan.

Business risk

Risk	Monitoring & Control	Emerging Risks
Business risk The risk that Charter Court's business plan is not delivered due to selection and actioning of strategy, and/or a lack of responsiveness to changes in the internal or external environments.	• Quarterly financial re-forecasts undertaken (including revised capital and liquidity stress scenarios to support financial re-forecast) • CRO provides a quarterly economic environment report to Board Risk Committee with updated Corporate Risk Register and list of 'top and emerging' risks • Managing risk is intrinsically linked to the corporate planning and stress testing processes • Regular provision of consolidated business performance and risk reporting data to the Board Risk Committee and the Board	• Changes in the UK Economy and its mortgages and savings markets • Increased competition from incumbents and new entrants • Decision to leave EU • Potential for a property price bubble in parts of London and the South East • New technological innovations in mortgages and savings markets
Risk appetite **The Group only offers mortgages in the UK and does not currently have an appetite for extending activities into other business or geographic areas.**		

Risk exposure

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.

Credit risk

Risk	Monitoring & Control	Emerging Risks
Credit risk 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.	**Retail Credit Risk** • Monthly reviews by Credit Management Committee (overseen by Executive Risk Management and Board Risk Committees) • Continuous monitoring of actual exposure • Group's origination process consists of prescriptive, automated filtering of decisions and robust manual underwriting assessment • Significant levels of both first and second Line Quality Assurance work undertaken to ensure Credit Risk is written in accordance with risk appetite and prevailing policies • Dedicated Financial Crime team to ensure deterrence of and protection from fraud and money laundering risks • CRO reviews all cases with an exposure above £750,000 (monthly)	• Potential for a property price bubble in parts of London and the South East • Increased competitor activity and tightening of margins leading to pressure to widen criteria • Ongoing political uncertainty in the UK – including the pending Brexit Increasing levels of unsecured borrowing

Principal risks (continued)

Credit risk (continued)

Risk	Monitoring & Control	Emerging Risks
	Wholesale Credit Risk • Treasury team assesses the level of credit risk from holdings with individual counterparties with limits set for each counterparty • Exposure overseen by the Assets and Liabilities Committee • Cash balances held at Central Banks and other highly rated banks • Treasury counterparties subject to Board approval and must meet minimum external credit ratings • Exposures to single counterparties monitored on an ongoing basis (overseen weekly by Liquidity Working Group)	

Risk appetite

Credit risk arises from the Group's financial assets consisting of investments in debt securities, customer loans and receivables, derivative financial instruments, trade and other receivables and cash and cash equivalents and comprises:

Retail Credit Risk - The Group has set an overall lifetime loss limit on its mortgage portfolio, although in practice, it aims to operate well within that limit. The Group aims to maintain a balanced portfolio and avoid excess concentration risk in any particular geographic area.

Wholesale Credit Risk – this is incorporated within the Financial Risk Management Policy and accommodates the Group's cash balance holdings at central banks and investments in high quality assets, such as residential mortgage-backed securities, which meet minimum rating requirements. The total investments in the RMBS of any one counterparty is subject to a limit based on the counterparty's credit rating and individual investments must have a minimum credit rating.

Risk exposure

The majority of the Group's buy-to-let, specialist residential and bridging finance is secured by first charge on residential property and relates primarily to prime, complex prime and near-prime credit which to a limited extent, gives exposures to borrowers with a degree of impaired credit.

The Group's second charge lending is secured by second charges on residential property where the existing first charge typically secures a mortgage at a low loan to value ("LTV").

Counterparty risk

There is a minimum counterparty risk rating for wholesale funding and limits on maximum allowable exposures are imposed.

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

Class	As at 31 December 2017 £m	As at 31 December 2016 £m
Investment in debt securities	78.4	119.5
Customer loans and receivables	5,364.2	3,807.9
Derivative financial instruments	11.9	7.1
Trade and other receivables	4.6	2.5
Cash and cash equivalents	966.8	214.0
Other assets held at fair value	0.2	0.2
Potential exposure to credit risk	6,426.1	4,151.2

The Group's investments, derivatives and cash counterparties are primarily large financial institutions and there is no significant history of credit losses and no impairment provisions have been made.

Principal risks (continued)

Credit risk (continued)

Analysis of loans by Loan to Value (LTV)

Current LTV	As at 31 December 2017 £m	As at 31 December 2016 £m
Buy-to-let		
< 50%	89.9	64.6
50 – 59.99%	193.8	137.2
60 – 69.99%	512.6	366.6
70 – 79.99%	2,098.7	1,382.3
80 – 89.99%	356.9	225.0
>= 90%	-	-
	3,251.9	2,175.7
Residential		
< 50%	176.5	136.4
50 – 59.99%	159.2	114.7
60 – 69.99%	295.1	220.3
70 – 79.99%	706.3	457.8
80 – 89.99%	400.4	363.7
>= 90%	7.5	-
	1,745.0	1,292.9
Short term lending		
< 50%	101.7	106.6
50 – 59.99%	43.5	42.4
60 – 69.99%	62.4	49.1
70 – 79.99%	8.4	7.6
80 – 89.99%	2.9	0.1
>= 90%	-	-
	218.9	205.8
Second charge lending		
< 50%	29.6	27.1
50 – 59.99%	32.8	29.4
60 – 69.99%	54.7	50.3
70 – 79.99%	42.8	35.5
80 – 89.99%	9.5	6.3
>= 90%	-	-
	169.4	148.6
Total		
< 50%	397.7	334.7
50 – 59.99%	429.3	323.7
60 – 69.99%	924.8	686.3
70 – 79.99%	2,856.2	1,883.2
80 – 89.99%	769.7	595.1
>= 90%	7.5	-
	5,385.2	3,823.0

The analysis by LTV is based on the principal amount of the loans, which does not agree to the Consolidated Statement of Financial Position as it excludes accounting adjustments, such as EIR adjustments, mortgage fair value hedge adjustments and provision for loan impairments.

At 31 December 2017, the average loan to value percentage of underlying mortgage assets to which the loans relate was 70% (2016: 70%) and £0.4 million (2016: £0.3 million) of the total balance represented arrears (amounts quoted being the actual amount in arrears).

Principal risks (continued)

Credit risk (continued)

At 31 December 2017, the estimated value of property collateral held against residential mortgages was £9,887.9 million (2016: £7,394.3 million). Collateral values are determined using an indexed valuation based on value at origination, unless there is an expectation that the security will be realised, in which case an independent appraised value is used. Collateral values are not capped at the value of the underlying loan. The collateral cannot usually be sold unless it is in possession. At 31 December 2017, there were 3 properties in possession (2016: one) with a value of £0.3 million (2016: £0.1 million).

Forbearance

The Group offers borrowers in financial difficulties a range of forbearance options, including capitalisation of arrears, temporary interest only concessions, payment holidays and term extensions. Term extensions are available on all loans but typically are applicable to short term loans and generally for no more than three months; the period of time is dependent upon the individual circumstances. These are granted on a discretionary basis.

Forbearance is considered to be an indicator that a loan may be impaired and such loans are allocated a higher probability of default in the Group's loan impairment provisioning.

The table below shows loans subject to active forbearance strategies:

	Transfers to interest only	Payment holiday	Term extensions	Arrangements	Total	
At 31 December 2017	**£m**	**£m**	**£m**	**£m**	**£m**	**% of loan book**
Current	2.1	4.1	19.1	14.8	40.1	0.75
Past due up to 3 months	0.2	0.2	1.2	5.8	7.4	0.14
Past due from 3 months up to 6 months	-	-	0.6	0.7	1.3	0.02
Past due from 6 months up to 12 months	-	-	-	0.2	0.2	0.00
Past due over 12 months	-	-	-	0.5	0.5	0.01
	2.3	4.3	20.9	22.0	49.5	0.92
At 31 December 2016						
Current	1.3	1.2	15	10.9	28.4	0.75
Past due up to 3 months	-	-	1.1	2.5	3.6	0.09
Past due from 3 months up to 6 months	-	-	0.3	0.3	0.6	0.02
	1.3	1.2	16.4	13.7	32.6	0.86

Principal risks (continued)

Treasury risk

<table>
<tr><th>Risk</th><th>Monitoring & Control</th><th>Emerging Risks</th></tr>
<tr><td>Treasury risk, comprising:

Liquidity risk - the risk that the Group fails to meet its financial obligations as they fall due.

Funding risk - the adverse impact of higher funding costs and/or lack of available funds on the Group's cash flow.

Interest Rate risk - the risk that movement in interest rates adversely impacts net interest income and capital if inadequate hedging of interest rate risk is in place;

Basis risk - when financing an asset with a liability which re-prices from a different interest rate reference point, such as BBR and LIBOR

Wholesale Credit risk – as described under Credit Risk above.</td><td>• Liquidity and funding risks managed by Treasury in line with Group policies, risk appetites, and regulatory guidance
• Liquidity, funding, interest rate and market risks overseen monthly by Assets and Liabilities and Board Risk committees
• ILBR established for its operational level of required liquidity, ILBR is a stronger measure than the industry standard Liquidity Coverage Ratio measure
• Frequent stress testing performed
• Annual ILAAP conducted and approved by the Board
• Interest rate risk managed by maintaining floating rate liabilities and matching those with floating rate assets, and hedging fixed rate assets and liabilities through the use of interest rate swaps and interest rate options (caps) purchased from large financial institutions with strong credit ratings.</td><td>• Impact of the closure of the Term Funding Scheme
• Potential adverse impact of Brexit (and Structural Reform) on the UK
• Increased competition in mortgages and savings market
• Ongoing regulatory change (e.g. to the PRA's Pillar 2 liquidity framework)
• Impact of Open Banking and technological innovation on customer behaviour.</td></tr>
<tr><td colspan="3">Risk appetite
The Group's Liquidity Risk Appetite Statement is consistent with the PRA's Overall Liquidity Adequacy Rule.
The credit and market risk of the Liquid Asset Buffer is minimal as it is limited to balances with the Bank of England or short-dated government debt securities.

The Group aims to hold sufficient quantity and quality of liquid assets to ensure that all liabilities will be met when they fall due under normal market conditions and under the most severe of Charter Court's liquidity stress tests.
The Group does not seek to take a significant interest rate position and is exposed to interest rate risk only as a consequence of the provision of its financial services products. Interest rate risk is managed to ensure that the level of risk from shifts in the yield curve does not exceed a maximum percentage of capital resources or that earnings at risk do not exceed a specified percentage of projected earnings and CET1 capital in the following 12 months. The use of derivatives is designed to reduce this risk.</td></tr>
</table>

Risk exposure

The main funding risk is 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 Group has developed a successful retention programme for customers with maturing fixed term bonds, and the Group structures its retail deposit products and production mix so as to provide maximum foresight on customer withdrawals. The Group also considers utilisation of secured funding and other wholesale funding (dependent on market conditions), which, provide longer term or matched funding for the assets.

Although the Group has a significant proportion of customer deposits which mature within a 12-month period, it has a proven track record of maintaining, and when desired, increasing customer balances as they mature. The Group has established a framework to ensure that the profile of its customer maturities is spread out to ensure there are no 'cliff' events. This is overseen by the Liquidity Working Group on a weekly basis and ALCO on a monthly basis. As such, the Group is comfortable with this customer deposit profile and in its capabilities to continue to grow, enhance and diversify its retail savings proposition.

Furthermore, 97% of customer deposits are protected under the Financial Services Compensation Scheme.

Principal risks (continued)

Risk exposure (continued)

The contractual maturity analysis of the Group's liabilities is summarised below:

Contractual maturity analysis	Not more than 3 months £m	More than 3 months but not more than one year £m	More than one year but not more than 5 years £m	More than 5 years £m	Carrying value per balance sheet £m
As at 31 December 2017					
Trade and other payables	15.2	-	-	-	15.2
Corporation tax payable	-	17.0	-	-	17.0
Deposits from banks	1.0	4.7	997.8	-	1,003.5
Deposits from customers	1,294.3	2,393.3	732.4	-	4,420.0
Derivative financial instruments	6.5	-	-	-	6.5
Debt securities in issue	0.5	41.5	585.4	-	627.4
As at 31 December 2016					
Trade and other payables	8.2	-	-	-	8.2
Corporation tax payable	-	5.3	-	-	5.3
Deposits from banks	20.0	-	20.0	-	40.0
Deposits from customers	392.7	2,240.4	799.5	-	3,432.6
Derivative financial instruments	8.3	-	-	-	8.3
Debt securities in issue	0.4	-	425.7	-	426.1

The above table includes all debt securities in issue being redeemed on their contractual call option dates. The 2016 analysis has been revised to reflect this.

The future contractual undiscounted cash flows including interest of the above liabilities are shown below.

Future contractual undiscounted cash flows including interest	Not more than 3 months £m	More than 3 months but not more than one year £m	More than one year but not more than 5 years £m	More than 5 years £m	Total cash flows £m
As at 31 December 2017					
Trade and other payables	15.2	-	-	-	15.2
Corporation tax payable	-	17.0	-	-	17.0
Deposits from banks	1.2	8.4	1,010.4	-	1,020.0
Deposits from customers	1,303.5	2,415.2	750.2	-	4,468.9
Derivative financial instruments	1.8	4.7	17.2	0.8	24.5
Debt securities in issue	2.3	48.6	598.7	-	649.6
As at 31 December 2016					
Trade and other payables	8.2	-	-	-	8.2
Corporation tax payable	-	5.3	-	-	5.3
Deposits from banks	20.0	-	20.2	-	40.2
Deposits from customers	398.4	2,259.1	817.9	-	3,475.4
Derivative financial instruments	1.7	3.9	7.2	0.6	13.4
Debt securities in issue	1.7	5.1	438.8	-	445.6

Principal risks (continued)

Risk exposure (continued)

Interest rate sensitivity analysis

In measuring the impact on the Group's position at the year end, account is taken of the Group's assets, liabilities and derivatives and their maturity and repricing arrangements. Account is also taken of pipeline and repayments. The impact on the expected profitability of the Group in the next twelve months of a 0.5% parallel shift in interest rates prevalent at each Consolidated Statement of Financial Position date is set out below.

	As at 31 December 2017 £m	As at 31 December 2016 £m
+ 0.5%	5.4	-
- 0.5%	(5.4)	0.1

Operational risk

Risk	Monitoring & Control	Emerging Risks
Operational risk The risk of loss resulting from inadequate or failed internal processes, human factors or external events where the root cause is not due to credit or market risks. It includes information technology, information security, change management, outsourcing, tax, legal, people and financial control risks.	• Use of policies and procedures, recruitment and training, change management procedures, managerial oversight and a Risk Control Self-Assessment (RCSA) process • Maintenance of three lines of defence • Internal audit programme developed with KPMG to focus on key risk areas • RCSA framework established within first line of defence • ICAAP with detailed analysis of operational risk losses • Reinforced IT resource due to cybercrime threat and invested in: cybercrime detection software, expanded penetration testing / reporting, external monitoring tools • Attempted attacks or suspicious activity reported to Board Risk Committee with research undertaken to understand tactics	• Increase of financial crime, fraud and cybercrime in the financial services industry • Poor service delivery by third party supplier and reputational damage, as well as financial losses and reduced ability to raise retail deposits
Risk appetite **The Group has a very low appetite for operational risk and has a policy and control environment which aims to restrict losses arising from operational risk breaches across the business in any financial year.**		

Risk exposure

The Group is exposed to the typical operational risks in a retail financial services business such as failed internal processes and human error. In particular, the Group has an exposure to operational risks in its retail savings business which is outsourced to a third-party supplier.

The total operational risk exposure as at 31 December 2017 was well within the Board agreed risk appetite.

Principal risks (continued)

Regulatory risk

Risk	Monitoring & Control	Emerging Risks
Regulatory risk, comprising: **Conduct risk** Arises from a failure to treat customers fairly or the failure to deliver an appropriate outcome for them. **Prudential risk** Arises from a failure to maintain sufficient levels of capital and liquidity and includes the potential impact a firm could have on the financial system, its proximity to failure and the context in which the firm operates.	• Established frameworks supported by policies and standards in key areas • Regular horizon scanning for regulatory change and seeks to ensure it is prepared • Engages proactively with the PRA and FCA, and undertakes impact analyses to gauge the effect of regulatory changes • Compliance monitored by the compliance and prudential risk teams • Regulatory risk matters reported to the Assets and Liabilities Committee ("ALCO"), Operational Risk Management and Conduct Risk Management Committees, and overseen by the Risk Management Committee and the Board Risk Committee.	• Impact of General Data Protection Regulation ("GDPR") • Increasing focus of the FCA on Vulnerable Customers • Impact of the FCA reviews of Outsourcing, Second Charge Lending and Retail Banking Business Models • Developments from the BCBS particularly in relation to changes in risk weightings and associated regulatory capital requirements • Uncertainty of achieving an IRB approach waiver from the PRA
Risk appetite **The Group has a very low appetite for conduct risk breaches and a policy which aims to restrict losses arising from conduct risk breaches across the business in any financial year. The Group's approach is to treat all customers fairly, whether or not the individual product is regulated by the FCA, in order to maintain a reputation as a fair financial services provider consistent with the statutory objectives of the FCA.** **The Group aims to hold sufficient quantity and quality of liquid assets to ensure that all liabilities will be met when they fall due under normal market conditions and under the most severe of Charter Court's liquidity stress tests. The Group seeks to maintain an appropriate level of capital above the minimum Individual Capital Guidance set by the PRA plus an agreed Capital Planning Buffer.**		

Risk exposure

The Group is exposed to the typical conduct risks in a retail mortgages and savings business but mitigates those risks by offering a simple range of both mortgage and savings products. In addition, the business is wholly-intermediated in relation to mortgages (whereby the risk of poor advice sits with the intermediary not Charter Court) and only offers its savings products through an on-line 'execution-only' channel. There were no losses arising from conduct risks during 2017.

Like all regulated entities, the Group is exposed to regulatory risks, as summarised above, but also to regulatory change risk. This risk occurs when the relevant regulator changes or revises the rules of a given market, emanating either from domestic (UK-centric) revisions or broader changes promoted by Basel or the EU which are then adopted for implementation by local regulators. Such changes can have significant impacts on lending products, underwriting activities and standards and the associated cost base or market opportunity.

Charter Court prides itself on maintaining a closely engaged relationship with the PRA and increasingly the FCA and makes as a priority ongoing monitoring of the regulatory landscape and indeed the oversight of successful implementation of new regulatory rules and standards.

In Q4 2017, the FCA undertook a Thematic Review as to how firms were applying its Responsible Lending Rules in second charge lending; it remains to be seen how the outcome of the FCA's review impacts the second charge market.

The Buy-to-Let sector has seen significant regulatory change in recent years and it remains possible that regulators make further changes or a revision of rules to the detriment of CCFS' markets.

Prudential risk exposures are considered under Liquidity and Funding above.

Other risks

The risk factors described below represent those other risks that the Group currently considers to be material.

Risk Factor – Global economy
The Group's business and financial performance have been and will continue to be affected by general economic conditions in the UK and adverse developments in the UK or global financial markets could have a detrimental impact on its earnings and profitability.

Risk Factor – UK macro-economy and housing market
The Group's business and financial performance have been and will continue to be affected by the economic condition of its customers and of the UK housing market. Pressures on household incomes may lead to an increase in arrears in the Group's residential mortgage portfolios, and an associated increase in provision for loan impairments. High levels of consumer debt could also impact affordability assessments and other factors in underwriting decisions and may contribute to reduced willingness by lenders to lend to individuals.

Risk Factor – Competition
Competition in the UK mortgage and retail savings markets may adversely affect the Group's operations.

Risk Factor – Cybercrime, Fraud
The Group may be subject to privacy or data protection failures, cybercrime and fraudulent activity. The Group has implemented, and manages, on an ongoing basis a number of robust policies and procedures relating to data protection and the prevention of cyber-theft, however a residual risk still remains.

Risk Factor – IT failure
The Group is dependent on its IT systems, including those of its outsourced providers which may fail or be subject to disruption.

Risk Factor – Key employee dependency
The Group is reliant on a small number of key employees, within its senior management team and the wider business, who are central to the Group's approach to lending in its specialist markets. Intense competition in the financial services industry for skilled and/or qualified personnel further accentuates this risk.

Risk Factor - Outsourcing
The Group relies on third parties for a number of its key processes and functions, with a particular reliance on a single third-party provider for a number of key services in relation to the Group's online retail savings account business.

Risk Factor – Regulatory risks
The Group's business is subject to risks relating to changes in Government policy and applicable regulations affecting the UK housing market and related matters.

Risk Factor – 'Brexit'
Regulatory and other changes resulting from the UK's exit from the EU could impact the Group's results. This is in part due to uncertainty in relation to the eventual outcome of the negotiations and in part due to a large proportion of the regulatory regime applicable to the Group being derived from EU directives and regulations – the UK exiting the EU could materially change the regulatory framework applicable to the Group's operations.

Directors' responsibilities statement

This statement is given pursuant to Rule 4 of the Disclosure Guidance and Transparency Rules.
It is given by each of the directors as at the date of this report, namely:

The Board:

Chairman	Executive directors	Non-executive directors
Sir Malcolm Williamson	Ian Lonergan	Philip Jenks
	Sebastien Maloney	Noël Harwerth
	Peter Elcock	Ian Ward
		Tim Brooke
		Rajan Kapoor

To the best of each director's knowledge:

a) the financial information, prepared in accordance with the IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

b) the information contained in this report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

Ian Martin Lonergan	Sebastien Maloney
Chief Executive Officer	Chief Financial Officer
19 March 2018	19 March 2018

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Interest income and similar income	6	211.1	143.8
Interest expense and similar charges	7	(67.0)	(56.5)
Net interest income		144.1	87.3
Non-interest income	8	8.5	6.2
Gain on sale of loans		17.7	-
Net loss from derivative financial instruments	9	(0.1)	(0.2)
Total income (net)		170.2	93.3
Administrative expenses		(58.0)	(44.5)
Provision for loan impairments – net (charge) / release		(0.5)	0.1
Profit before tax		111.7	48.9
Tax charge	10	(30.4)	(11.6)
Profit for the year		81.3	37.3
Other comprehensive income for the year		-	-
Profit and total comprehensive income for the year attributable to equity holders of the Parent Company		81.3	37.3
Earnings per share (pence per share)			
Basic	11	35.0	16.8
Diluted	11	34.9	16.8

All items dealt with in arriving at the profit before tax, the profit for the financial year, and the preceding financial year, relate to continuing operations.

Charter Court Financial Services Group plc

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017	2016 Restated*	2015 Restated*
		£m	£m	£m
Assets				
Cash and cash equivalents		966.8	214.0	537.7
Investment in debt securities	12	78.4	119.5	114.3
Customer loans and receivables	13	5,364.2	3,807.9	1,945.4
Fair value adjustment for hedged risk	13	(6.2)	4.4	1.7
Derivative financial instruments	14	11.9	7.1	1.1
Other assets held at fair value		0.2	0.2	0.3
Trade and other receivables		4.6	2.5	2.6
Deferred tax asset		2.2	0.2	0.2
Property, fixtures and equipment		0.9	0.9	0.9
Intangible assets		1.4	0.6	0.4
Total assets		6,424.4	4,157.3	2,604.6
Liabilities				
Deposits from banks	15	1,003.5	40.0	60.1
Deposits from customers	16	4,420.0	3,432.6	1,562.1
Fair value adjustment for hedged risk	16	(0.2)	3.3	0.4
Debt securities in issue	17	627.4	426.1	804.5
Derivative financial instruments	14	6.5	8.3	2.3
Trade and other payables		15.2	8.2	8.0
Corporation tax payable		17.0	5.3	1.2
Total liabilities		6,089.4	3,923.8	2,438.6
Net assets		335.0	233.5	166.0
Equity				
Share capital	19	2.4	-	-
Share premium	20	19.0	195.1	165.0
Retained earnings	21	313.6	38.3	1.0
Equity-settled employee benefits reserve		-	0.1	-
Equity attributable to equity holders of the Parent Company and total equity		335.0	233.5	166.0

**See note 2 basis of preparation*

Approved by the Board of Directors on 19 March 2018. They were signed on its behalf by:

Ian Martin Lonergan — Chief Executive Officer

Sebastien Maloney — Chief Financial Officer

Company number: 06712054

Charter Court Financial Services Group plc

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

Note	Share capital 19 £m	Share premium 20 £m	Retained earnings 21 £m	Equity-settled employee benefits reserve £m	Total £m
At 1 January 2016	-	165.0	1.0	-	166.0
Share issue	-	30.1	-	-	30.1
Profit and total comprehensive income for the year	-	-	37.3	-	37.3
Recognition of share-based payments	-	-	-	0.1	0.1
At 31 December 2016	-	195.1	38.3	0.1	233.5
Cancellation of share premium	-	(195.1)	195.1	-	-
Bonus Issue	3.0	-	(3.0)	-	-
Cancellation of deferred shares	(0.7)	-	0.7	-	-
Share issue	0.1	19.9	-	-	20.0
Share issue costs	-	(0.9)	-	-	(0.9)
Profit and total comprehensive income for the year	-	-	81.3	-	81.3
Recognition of share based payments	-	-	0.4	0.7	1.1
Transfer of equity-settled employee benefits reserve	-	-	0.8	(0.8)	-
At 31 December 2017	2.4	19.0	313.6	-	335.0

Charter Court Financial Services Group plc

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Net cash generated by operating activities	23	189.6	30.8
Purchases of property, fixtures and equipment		(0.4)	(0.5)
Expenditure on product system development and software		(1.0)	(0.5)
Proceeds from sale of loans		300.0	-
Purchases of debt securities	12	(44.7)	(19.5)
Disposals and redemptions of debt securities		88.9	14.3
Net cash generated/(utilised) by investing activities		342.8	(6.2)
Proceeds on issue of debt securities		394.4	0.5
Costs associated with issue of debt securities		(1.5)	-
Repayment of debt securities		(191.6)	(378.9)
Proceeds from the issue of shares		20.0	30.1
Share issue costs		(0.9)	-
Net cash generated by/(utilised by) financing activities		220.4	(348.3)
Net increase/(decrease) in cash and cash equivalents		752.8	(323.7)
Cash and cash equivalents at beginning of the year		214.0	537.7
Cash and cash equivalents at end of the year		966.8	214.0

At 31 December 2017 cash and cash equivalents includes £79.9 million (2016: £68.2 million) of restricted cash.

1. General information

The financial information set out in this announcement does not constitute the Group's statutory accounts for the years ended 31 December 2015, 31 December 2016 and 31 December 2017. Statutory accounts for 31 December 2015 and 31 December 2016 have been delivered to Companies House, and those for 2017 will be delivered in due course. The Group's auditor has reported on the financial statements for all periods and delivered unmodified audit opinions in each case.

The financial statements for the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), and are presented in pounds sterling. The IFRS, as adopted by the EU, applied for all periods herein presented are those that are effective for accounting periods beginning on or after 1 January 2017.

Charter Court Financial Services Group plc (the "Company") is a company incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006 with company number 06712054. The address of the registered office is 2 Charter Court, Broadlands, Wolverhampton, West Midlands, WV10 6TD. The Company is a public company limited by shares. It was admitted to listing on the London Stock Exchange on 4 October 2017.

2. Basis of preparation

The presentation of the Consolidated Statement of Financial Position (on page 33) has been amended from the format previously reported in the audited statutory consolidated financial statements for the year ended 31 December 2016. The revised presentation removes the distinction between current and non-current assets and liabilities and instead presents assets and liabilities in descending order of liquidity. This format is in line with IAS 1 Presentation of Financial Statements, as it applies to certain financial institutions which do not have a clearly defined operating cycle. Also, the fair value adjustment for hedged risk related to both customer loans and receivables and deposits from customers has now been disclosed separately in the Consolidated Statement of Financial Position and corporation tax payable is disclosed separately from trade and other payables in the Consolidated Statement of Financial Position.

The accounting policies are as disclosed in the 2016 audited accounts and there has been no change.

After considering the Group's current financial condition, assessing future forecasts and the principal risks and uncertainties, the Directors have a reasonable expectation that the Group 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 financial statements.

3. International financial reporting standards issued but not yet adopted which are applicable to the Group

The following financial reporting standards were in issue but have not been applied in the consolidated financial statements, as they were not yet effective on 31 December 2017 (and in some cases have not yet been adopted by the EU):

Effective for accounting periods beginning on or after 1 January 2018:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 2 (amendments)	Classification and measurement of share-based payment transactions

Effective for accounting periods beginning on or after 1 January 2019:

IFRS 16	Leases (applies to accounting periods beginning on or after 1 January 2019)

IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 16 will require certain operating leases to be recognised on the Consolidated Statement of Financial Position. More information on these two new standards is provided below. The impacts of IFRS 15 and IFRS 2 (amendments) are not expected to be material.

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 Group's financial statements for the year ended 31 December 2018. The new standard has three components, classification and measurement, impairment, hedge accounting and will see significant changes from existing requirements. The Group has elected not to restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7.

Impairment

IFRS 9 introduces a new impairment model for financial instruments which will require entities to recognise expected credit losses based on unbiased forward-looking information. This replaces the existing incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and measures the loss at the most probable outcome.

Impairment: Estimated impact on loan loss allowance as at 1 January 2018

The estimated impairment allowance measured in accordance with the IFRS 9 expected loss model is £1.7 million, an increase of £0.7 million, 70%, compared with £1.0 million closing impairment allowance as at 31 December 2017 measured in accordance with the IAS 39 incurred loss model.

3. International financial reporting standards issued but not yet adopted which are applicable to the Group (continued)

IFRS 15 Revenue from Contracts with Customers

The Group does not expect the new standard to have a material effect.

IFRS 16 Leases

The Group is currently assessing the new standard but due to the short term nature of the Company's leases (less than ten years) it does not expect the impact to be material.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, 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.

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 Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Derecognition of financial assets

The primary management judgement around the derecognition of financial assets is in determining the extent to which the Group retains risks and rewards in relation to the residual cash flows after the secured debt has been settled. Where the residual rights to the cash flows are sold to a third party the criteria for derecognition is met.

For all other securitisations, the residual rights to the cash flows are retained and the related customer loans and receivables continue to be recognised in the Group's Consolidated Statement of Financial Position, see note 17 for more information on the Group's securitisation arrangements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Consolidated 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.

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

Application of the EIR method

In order to determine the EIR applicable to each loan an estimate must be made of the life of the loan and the cash flows attributable to it. A critical assumption in the EIR calculation is the expected life of the Group's loan products, therefore, as this determines the assumed period over which customers may be paying various differentiated interest rates and determines the EIR amortisation profile of the deal costs incurred in completing securitisations. The assumptions on expected life are based on the Group's historical experience of similar products and current market analysis. These assumptions are monitored to ensure their ongoing appropriateness. Significant judgment is applied in determining the EIR due to uncertainty in the timing and amounts of future cash flows. As a result, the expected life of the instrument may not equal its contractual life.

5. Segment information

The Group's activities are all UK based therefore no geographical segmentation is reported. The Group's reportable segments are operating units engaged in providing different products or services and whose operating results and overall performance are regularly reviewed by the entity's Chief Operating Decision Maker, the Board of Directors.

The Group's business is organised into the following principal reportable segments:

- Buy-to-let ("BTL") lending: Long term first charge loans to landlords;
- Residential lending ("Residential"): Long term first charge loans to owner-occupiers;
- Short term lending ("STL"): Short term bridging finance to owner-occupiers, landlords and property developers;
- Second charge lending ("SCL"): Long term second charge loans; and
- Other: The central functions of the Group, including treasury and third party mortgage servicing. Other also includes the results of the Bridestone portfolio acquired in 2017 (see note 24) plus, in 2017, income from the sale of the PMF 2017-1B securitisation.

Interest expense is allocated in proportion to the average balances of the interest-earning segment assets during the year.

The Group does not allocate administrative expenses by segment as the Group's operations are primarily split by function (origination, servicing and central) rather than by segment.

Segment profit or loss is total net income less provision for loan impairment charges. It is reconciled to the income statement in the tables below.

Assets allocated to the originated lending related segments are customer loans and receivables balances only. Cash and cash equivalents, investments in debt securities and Bridestone loans and receivables (£24.1 million) acquired during the year ended 31 December 2017 are allocated to the "Other" segment. Remaining asset balances (which includes intangible assets, tangible fixed assets, deferred tax assets, trade and other receivables, other assets and derivatives) and all liability balances are not allocated to any reporting segment.

5. Segment information (continued)

Year ended 31 December 2017	BTL	Resid-ential	STL	SCL	Other	Total
			£m			
Interest receivable and similar income	106.3	69.9	19.4	8.1	7.4	211.1
Interest payable and similar charges	(36.5)	(20.7)	(3.0)	(2.2)	(4.6)	(67.0)
Net interest income	69.8	49.2	16.4	5.9	2.8	144.1
Fees and commissions income	1.3	2.0	0.2	0.2	4.8	8.5
Gain on sale of loans	-	-	-	-	17.7	17.7
Net loss from derivatives	-	-	-	-	(0.1)	(0.1)
Provision for loan impairments – net (charge) / release	(0.4)	-	-	(0.1)	-	(0.5)
Segment profit	70.7	51.2	16.6	6.0	25.2	169.7
Administrative expenses						(58.0)
Profit before tax						111.7
Tax charge						(30.4)
Profit after tax						81.3
Segment assets	3,232.2	1,718.2	218.9	170.8	1,069.3	6,409.4
Unallocated assets						15.0
						6,424.4

Year ended 31 December 2016	BTL	Resid-ential	STL	SCL	Other	Total
			£m			
Interest receivable and similar income	63.5	50.4	18.1	6.2	5.6	143.8
Interest payable and similar charges	(27.8)	(18.7)	(3.7)	(2.1)	(4.2)	(56.5)
Net interest income	35.7	31.7	14.4	4.1	1.4	87.3
Fees and commissions income	1.3	1.8	0.2	-	2.9	6.2
Net loss from derivatives	-	-	-	-	(0.2)	(0.2)
Provision for loan impairments – net (charge) / release	-	(0.1)	0.2	-	-	0.1
Segment profit	37.0	33.4	14.8	4.1	4.1	93.4
Administrative expenses						(44.5)
Profit before tax						48.9
Tax charge						(11.6)
Profit after tax						37.3
Segment assets	2,161.4	1,290.7	205.8	150.0	333.5	4,141.4
Unallocated assets						15.9
						4,157.3

6. Interest income and similar income

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Interest on customer loans and receivables	214.1	143.0
Interest and other income on debt securities	3.2	4.0
Interest and other income on liquid assets	2.0	1.6
Net expense on derivative financial instruments designated as hedging instruments	(8.2)	(4.8)
	211.1	143.8

7. Interest expense and similar charges

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Interest expense on deposits and other borrowings	63.3	46.9
Interest expense on asset backed loan notes	7.5	12.2
Net income on derivative financial instruments designated as hedging instruments	(3.8)	(2.6)
	67.0	56.5

8. Non-interest income

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Sale of investment in debt securities	2.1	-
Revenue from services relating to:		
Mortgage administration	2.5	2.9
Mortgage origination	3.9	3.3
	8.5	6.2

9. Net loss from derivative financial instruments

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Macro hedging:		
Gain on derivatives designated as fair value hedges	6.8	0.1
Loss in fair value of hedged items attributable to hedged risk	(6.8)	(0.1)
	-	-
Non-hedging:		
Net loss on disposal of interest rate swaps	(0.1)	(0.2)
	(0.1)	(0.2)

10. Tax

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Current tax:		
Current tax on profits for the year	24.8	10.1
Surcharge on bank profits for the year	7.6	1.6
Adjustment in respect of prior periods	-	(0.1)
Total current tax charge	32.4	11.6
Deferred tax:		
Current year	(2.1)	(0.1)
Adjustments in respect of prior periods	0.1	0.1
Total deferred tax (credit)	(2.0)	-
Tax per Consolidated Statement of Comprehensive Income	30.4	11.6

The standard rate of tax for the year ended 31 December 2017 is 19.25% (2016: 20.00%). The tax charge for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

10. Tax (continued)

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Profit before tax:		
Continuing operations	111.7	48.9
Tax at the UK corporation tax rate of 19.25% (2016: 20.00%)	21.5	9.8
Banking surcharge	7.6	1.6
Expenses not deductible for tax purposes	1.2	0.2
Securitisation regulations	(0.1)	-
Adjustments in respect of prior periods	0.1	-
Effect of differences in tax rate	0.1	-
Tax charge for the year	30.4	11.6

The effective tax rate for the year ended 31 December 2017 is 27.23% (2016: 23.63%).

Change in tax rate

Reductions in the UK corporation tax rate from 21% to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and a further 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 each Consolidated Statement of Financial Position date has been calculated based on the enacted rate at the relevant date.

11. Earnings per share

Earnings per share (EPS) are based on the profit for the year and the number of ordinary shares in issue. Basic EPS are calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share take into account share options and awards which can be converted to ordinary shares.

	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the year (£million)	81.3	37.3
Weighted average number of ordinary shares of £0.01 each		
Basic	232,536,247	222,800,660
Dilutive effects	656,514	110,851
Diluted	233,192,761	222,911,511
Per share amount (pence)		
Basic	35.0	16.8
Diluted	34.9	16.8

The Group reorganised its share capital during the year in preparation for the IPO, as disclosed in note 19. As there were no changes in equity as a result of the reorganisation, earnings per share for all periods have been prepared on the basis of the new structure after the reorganisation, in accordance with IAS 33.

12. Investment in debt securities

	As at 31 December 2017 £m	As at 31 December 2016 £m
Held to maturity debt securities	78.4	119.5
	78.4	119.5

The contractual maturity of the above balance is greater than one year.

Movements in the debt securities held during the year were:

	Available for sale £m	Held to maturity £m	Total £m
At 1 January 2016	2.0	112.3	114.3
Additions	-	19.5	19.5
Disposals and redemptions	(2.0)	(13.4)	(15.4)
EIR adjustment	-	1.1	1.1
Accrued interest	-	-	-
At 31 December 2016	-	119.5	119.5
Additions	-	44.7	44.7
Disposals and redemptions	-	(86.7)	(86.7)
EIR adjustment	-	1.0	1.0
Accrued interest	-	(0.1)	(0.1)
At 31 December 2017	-	78.4	78.4

Disposals and redemptions relate to quarterly repayments of the mortgage backed debt securities in line with the repayments and redemption of the underlying mortgage portfolios, and to the sales of mortgage backed securities.

EIR adjustments relate to the accretion of differences between the purchase price and redemption price of held to maturity investments for items such as transaction costs.

13. Customer loans and receivables

	As at 31 December 2017 £m	As at 31 December 2016 £m
Residential mortgages	5,385.2	3,823.0
EIR adjustment	(20.0)	(14.6)
Provision for loan impairments	(1.0)	(0.5)
	5,364.2	3,807.9

13. Customer loans and receivables (continued)

Analysis of customer loans and receivables

Customer loans and receivables comprise residential mortgage loans. An analysis by type is set out below:

	As at 31 December 2017 £m	As at 31 December 2016 £m
Buy-to-let	3,232.2	2,161.4
Residential lending	1,742.3	1,290.7
Short term lending	218.9	205.8
Second charge lending	170.8	150.0
	5,364.2	3,807.9

Residential and Buy-to-let mortgages are secured on residential property within the United Kingdom.

At 31 December 2017 included within customer loans and receivables is £211.7 million (2016 £199.4 million) of balances due within 12 months and £5,152.5 million (2016:£3,608.5 million) due after 12 months.

Mortgage loans have a contractual term of up to thirty five years. Borrowers may settle the loan at any point and in most cases settlement before the contractual date does take place. All borrowers are required to make monthly payments, except where interest is retained on origination and applied to the account as monthly payments would fall due.

Encumbered assets

The residential mortgage loans above pledged as collateral for liabilities are:

	Note	As at 31 December 2017 £m	As at 31 December 2016 £m
In respect of:			
Bank of England Term Funding Scheme (TFS)	15	1,326.1	26.6
Asset backed loan notes	17	654.0	444.0
		1,980.1	470.6

The Group's securitisation programme and use of the TFS results in certain assets being encumbered as collateral against such funding. Assets that are encumbered cannot be used for other purposes. As at 31 December 2017 the percentage of customer loans and receivables that are encumbered is 36.9% (2016: 12.4%).

13. Customer loans and receivables (continued)

Ageing of past due but not impaired customer loans and receivables

	As at 31 December 2017 £m	As at 31 December 2016 £m
1-30 days	34.6	18.7
31-60 days	7.1	6.0
61-89 days	4.1	2.2
	45.8	26.9

At 31 December 2017, an incurred but not reported collective provision of £0.6 million (2016: £0.5 million) is held relating to customer loans and receivables for which objective evidence of impairment had not been identified.

Ageing of past due and impaired customer loans and receivables

	As at 31 December 2017 £m	As at 31 December 2016 £m
1-30 days	0.4	-
90-120 days	2.1	1.3
> 120 days	4.0	1.0
	6.5	2.3

At 31 December 2017, there was a specific provision of £0.4 million (2016: £0.02 million) of impaired mortgage loan receivables. Mortgage loans which are not past due but considered to be impaired totalled £40.1 million (2016: £28.4 million) and a specific provision of £nil (2016: £nil) is held against these mortgages.

The Group uses internal application credit scoring models, which have been developed specifically for all first charge lending markets. For Second Charge lending, the Group uses the Risk Navigator score from the Credit Reference Agency, Equifax. Each scorecard predicts the likelihood of the applicant(s) reaching a cumulative arrears status of 3+ within 24 months of being credit scored. Based on the credit scoring models there are no concerns over the credit quality of the loans.

13. Customer loans and receivables (continued)

Residential mortgages

The movements in the Group's residential mortgages in the year were:

	As at 31 December 2017 £m	As at 31 December 2016 £m
At the beginning of the year	3,807.9	1,945.4
Originations	2,737.3	2,496.8
Acquisition	26.0	-
EIR adjustments	(5.4)	(8.6)
Sales to third parties	(300.0)	-
Interest charged and other debits	209.0	141.0
Repayments and redemptions	(1,110.1)	(766.7)
Movement on provision for loan impairments	(0.5)	-
At the end of the year	5,364.2	3,807.9

Other debits include, primarily, administrative fees added to customer loans.

Impairment provisions on residential mortgages

Impairment provisions as at 31 December 2017 were £1.0 million (31 December 2016: £0.5 million) and comprise:

	As at 31 December 2017 £m	As at 31 December 2016 £m
Collective impairment provisions		
At the beginning of the year	0.5	0.3
Charge for the year	0.1	0.2
At the end of the year	0.6	0.5
Specific impairment provisions		
At the beginning of the year	-	0.3
Charge/(credit) for the year	0.4	(0.3)
At the end of the year	0.4	-
Total impairment provisions	1.0	0.5

13. Customer loans and receivables (continued)

Fair value adjustment for hedged risk ("FVAHR")

The Group has entered into interest rate swaps and caps that protect it from mismatches in interest rates between the portfolio of fixed rate mortgages and floating rate liabilities that are used to fund it. The net position of certain fixed rate mortgages and floating rate liabilities has been designated as the hedged item in this hedging relationship. Changes in the fair value of these swaps are offset by changes in the FVAHR of the fixed rate mortgages.

	As at 31 December 2017 £m	**As at 31 December 2016 £m**
Fair value adjustment for hedged risk	(6.2)	4.4

14. Derivative financial instruments

	Notional £m	**Positive fair value £m**	**Negative fair value £m**
Interest rate swaps at 31 December 2017			
Level 2 derivatives	6,484.5	11.9	(6.5)
Level 3 derivatives	1,206.7	-	-
	7,691.2	11.9	(6.5)
Interest rate swaps at 31 December 2016			
Level 2 derivatives	4,373.3	7.1	(8.0)
Level 3 derivatives	102.1	-	(0.3)
	4,475.4	7.1	(8.3)

The Group uses derivatives to hedge interest rate risk arising from mismatches between fixed and variable rate lending and deposits. The Group hedges the exposures arising from fixed rate lending and separately hedges the exposures arising from fixed rate deposits. The hedging activities are undertaken by the Group's treasury function using derivatives within parameters set by the Assets and Liabilities Committee.

Interest rate swap agreements with a notional value of £3,355.2 million as at 31 December 2017 (2016: £1,951.9 million), under which the Group pays a fixed rate of interest and receives an interest based on LIBOR, are used to hedge the exposure to changes in fair value of fixed rate mortgage assets as a result of changes in market interest rates. The notional value of these interest rate swaps is linked to the notional of the hedged mortgage assets and this resets each quarter.

Interest rate swap agreements with a notional value of £2,836.0 million as at 31 December 2017 (2016: £2,223.5 million), under which the Group receives a fixed rate of interest and pays an interest based on LIBOR, are used to hedge the exposure to changes in fair value of fixed rate deposits from customers as a result of changes in market interest rates. The notional value of these interest rate swaps is linked to the notional of the hedged deposits from customers.

14. Derivative financial instruments (continued)

As at 31 December 2017, the Group held interest rate options (caps) with a notional value of £300.0 million (2016: £300.0 million) with a fair value of £nil (31 December 2016: £nil) and held basis swaps with a notional value of £1,200.0 million (2016: £nil).

The caps and the majority of interest rate swaps are Level 2 fair value measurements, being derived from inputs which 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.

Basis swaps and certain balance guaranteed swaps within derivative liabilities are categorised as level 3. Balance guaranteed swaps are valued based on expected future cash flows using an assumed amortisation profile of the pool of mortgages up to the swap maturity date and predicted future LIBOR. The cash flows are discounted to present value using zero coupon rates.

There were no movements in the fair values of the basis swaps during the year. Movements in the fair values of level 3 balance guaranteed swaps were:

	As at 31 December 2017 £m	**As at 31 December 2016 £m**
Opening balance	(0.3)	(1.0)
Income	0.3	0.7
	-	(0.3)

15. Deposits from banks

	As at 31 December 2017 £m	**As at 31 December 2016 £m**
Collateral received on interest rate swap contracts	4.7	-
Sale and repurchase agreements	-	20.0
Bank of England Term Funding Scheme (TFS)	998.8	20.0
Total deposits	1,003.5	40.0

As at 31 December 2017, the carrying value of assets encumbered under sale and repurchase agreements is £nil (2016: £26.6 million).

As at 31 December 2017, the carrying value of assets pledged as collateral for the TFS is £1,326.1 million (2016: £26.6 million). Deposits from banks includes £1.0 million of accrued interest (2016: £nil).

As at 31 December 2017, all bank deposits are denominated in pounds sterling. As at 31 December 2016, all bank deposits are denominated in pounds sterling except for £0.1 million which was denominated in Euros.

At 31 December 2017 included within deposits from banks is £5.7 million (2016 £20.0 million) of balances due within 12 months and £997.8 million (2016:£20.0 million) due after 12 months.

16. Deposits from customers

Deposits from customers are retail deposits held by the Group 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.

	As at 31 December 2017 £m	As at 31 December 2016 £m
Amounts repayable		
On demand	526.6	69.0
In less than 3 months	767.7	323.7
In more than 3 months but less than 1 year	2,393.3	2,240.4
In more than 1 year but less than 2 years	569.3	715.8
In more than 2 years but less than 5 years	163.1	83.7
Total deposits	4,420.0	3,432.6

Fair value adjustment for hedged risk ("FVAHR")

The Group has entered into interest rate swaps that protect it from mismatches in interest rates between the portfolio of fixed rate customer deposits and the floating rate assets that are funded by it. The net position of certain fixed rate deposits from customers and floating rate liabilities has been designated as the hedged item in this hedging relationship. Changes in the fair value of these swaps are offset by changes in the FVAHR of the fixed rate customer deposits.

	As at 31 December 2017 £m	As at 31 December 2016 £m
Fair value adjustment for hedged risk	(0.2)	3.3

17. Debt securities in issue

	As at 31 December 2017 £m	As at 31 December 2016 £m
Asset backed loan notes	627.4	426.1
Amount due for settlement within 12 months	42.0	0.4
Amount due for settlement after 12 months	585.4	425.7
	627.4	426.1

All borrowings are payable in pounds sterling.

The asset backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are limited to the net principal received from borrowers in respect of underlying assets. The maturity date of the funds matches the maturity date of the underlying assets. It is likely that a large proportion of the underlying assets and therefore these notes will be repaid within five years. As at 31 December 2017, the carrying value of assets pledged as collateral for the Groups debt securities in issue is £654.0 million (2016: £444.0 million).

Asset backed loan notes may all be repurchased by the Group at any interest payment date on or after the call dates (see below), or at any interest payment date when the current balance of the mortgages outstanding is less than or equal to ten percent of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above LIBOR for three month pounds sterling deposits.

Notes are issued through eight funding vehicles.

	As at 31 December 2017 £m	As at 31 December 2016 £m
Buttermere Plc asset backed loan notes	-	0.5
PMF No. 1 asset backed loan notes	41.5	54.5
PMF 2014-1 asset backed loan notes	54.7	83.3
PMF 2014-2 asset backed loan notes	63.8	112.1
PMF 2015-1 asset backed loan notes	85.7	175.2
CCFS Warehouse No.1 asset backed loan notes	0.5	0.5
CMF 2017-1	281.1	-
CML Warehouse Number 1	100.1	-
	627.4	426.1

18. Financial guarantee

On 10 December 2015, Charter Court Financial Services Limited 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. Charter Court Financial Services Limited and CCFS Warehouse No. 1 plc are both consolidated subsidiaries of the Group, 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 2017, the fair value of the guarantee was £nil (31 December 2016: £nil). The guarantee has been terminated post year end.

19. Share capital

	As at 31 December 2017		As at 31 December 2016	
	Number	**£m**	**Number**	**£m**
Authorised, issued, called up and fully paid up:				
Shares of £0.001 each				
‘A1’ Class ordinary	-	-	873,365	-
‘A2’ Class ordinary	-	-	7,229	-
‘B’ Class ordinary	-	-	110,426	-
‘C’ Class ordinary	-	-	9,105	-
‘D’ Class ordinary	-	-	252,000	-
Shares of £0.00001 each				
‘E’ Class ordinary	-	-	55,657	-
‘F’ Class ordinary	-	-	100,000	-
‘G’ Class ordinary	-	-	100,000	-
Ordinary shares of £0.01 each	239,130,419	2.4	-	-
	239,130,419	2.4	1,507,782	-

The ordinary shares of £0.01 rank pari passu in all respects and rank in full for all dividends and other distributions declared, made or paid on the ordinary share capital of the Company.

20. Share premium

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
At 1 January	195.1	165.0
Premium arising on new issue of shares	19.0	30.1
Cancellation	(195.1)	-
At 31 December	19.0	195.1

On 27 June 2017, the Company passed a special resolution to cancel the entire share premium. Accordingly, the entire balance of the share premium account at that date was transferred to retained earnings.

As part of the IPO the Group issued 8,695,652 ordinary shares of £0.01 each at £2.30 per share, resulting in a share premium of £19.9 million which was partially offset by IPO costs of £0.9 million

The share premium in 2016 arose due to the issue of 50 A class shares in August 2016 for consideration of £20.0 million, 25 A1 class shares in December 2016 for consideration of £10.0 million, 55,567 E class shares in November 2016 for consideration of £0.1 million, 100,000 F class shares in December 2016 for consideration of £0.01 million and 100,000 G class shares in December 2016 for consideration of £0.01 million.

21. Retained earnings

	As at 31 December 2017 £m	As at 31 December 2016 £m
At 1 January	38.3	1.0
Cancellation of share premium (see note 20)	195.1	-
Bonus issue	(3.0)	-
Cancellation of deferred shares	0.7	-
Profit for the year	81.3	37.3
Recognition of share-based payments	0.4	-
Transfer of equity-settled employee benefits reserve	0.8	-
At 31 December	313.6	38.3

22. Share based payments

Post-IPO share awards

Following the IPO, the Group established the following equity-settled employee share schemes under which shares or share options are granted to employees or directors subject to the terms of the schemes:

Performance Share Plan (PSP)
The PSP awards were granted to Executive Directors and all senior management and comprise nil cost options over ordinary shares based on business performance over a three year period. The awards are subject to certain market and non-market performance measures, 40% of the awards are subject to the Company's total shareholder return ("TSR") performance against the constituents of a TSR comparator group, 40% of the awards are subject to the Group's earnings per share ("EPS") growth over the EPS performance period which covers the two financial years commencing on 1 January 2018, and the remaining 20% of awards are subject to an internal balance scorecard risk measure. The awards will vest from the date on which the Group's audited annual accounts for the year ending 31 December 2019 are approved by the Board. The awards lapse 10 years following the date of grant and carry no dividend entitlement until the award has been exercised.

Free share awards under the PSP
All employees of the Group (other than the Executive team) who were employed and had not given notice as at 30 September 2017, have been awarded ordinary shares worth between £250 to £2,000 per individual, depending on length of service, for nil consideration. The award will vest on the first anniversary of the date of grant and is subject to the employee being employed on the vesting date but is not subject to any performance conditions or holding period. If the Company pays a dividend during the vesting period, each award will be increased by an amount equal to the aggregate value of such dividend.

Sharesave (SAYE) Scheme
The Sharesave scheme is open to all employees and allows them to save a fixed amount between £5 and £500 a month over three years. At the end of the three year saving period there is a 6 month exercise period during which scheme participants can use the funds saved to buy shares at the option price of £1.87 per share, which was determined at the start of the Sharesave scheme, or they can withdraw all their savings without buying any shares. A scheme participant can leave the Sharesave scheme at any time and have their savings returned. Scheme participants shall have no entitlement to any dividends paid during the savings period.

Deferred Bonus Plan (DBP)
The DBP will first apply to 2018 bonuses for those employees whose bonuses are over £100,000, and will defer 50% of participating employees' annual bonuses into ordinary shares in the form of an option to acquire ordinary shares for nil consideration. The period of deferral is typically up to 3 years, either vested as a single transaction at the end of the period or in tranches during the period with no additional holding period for the award. Deferral of the awards is subject to a combination of business performance against objectives set within the Corporate Balanced Scorecard and the performance of the individual against those scorecard targets, the awards have a ten year exercise period from the date of grant.

22. Share based payments (continued)

The employee share-based payment charge for the year included in administrative expenses comprises:

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
PSP	0.2	-
Free share awards	0.1	-
Sharesave (SAYE)	0.1	-
	0.4	-

Pre-IPO share awards

The equity-settled employee benefits reserve relates to incentive growth shares granted by the Group to certain employees under a share based incentive plan during 2016.

	As at 31 December 2017 £m	As at 31 December 2016 £m
At 1 January	0.1	-
Income statement: Charge arising on share based payments	0.7	0.1
Transferred to retained earnings	(0.8)	-
At 31 December	-	0.1

23. Net cash flows from operating activities

	Note	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Profit before tax		111.7	48.9
Non-cash items			
Provision for loan impairments	13	0.5	(0.1)
Depreciation of property, fixtures and equipment		0.4	0.5
Amortisation of intangible assets		0.2	0.3
Gain on sale of investment in debt securities	8	(2.1)	-
EIR adjustment		4.4	8.6
Movement in fair value hedge		7.1	(2.7)
Recognition of equity-settled employee benefits payments		1.1	0.1
Operating cash flows before movements in working capital		123.3	55.6
Movement in derivatives		(6.6)	-
Increase in receivables		(2.1)	-
Increase in residential mortgages		(1,862.2)	(1,871.0)
Increase in payables		7.0	0.2
Increase in retail deposits		987.4	1,873.4
Increase/(decrease) in deposits from banks		963.5	(20.1)
Cash generated by operations		210.3	38.1
Tax paid		(20.7)	(7.3)
Net cash generated by operating activities		189.6	30.8

24. Related party transactions

Until 4 October 2017, the joint controlling parties of Charter Court Financial Services Group plc 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. On this date, the controlling parties sold a proportion of their shareholding such that they no longer had a controlling interest in the Group's issued share capital and voting rights. In addition, the controlling parties entered into a relationship agreement with the Group. As a result, from 4 October 2017, Elliott International L.P. and Elliott Associates L.P. are no longer controlling parties of the Group.

There were no loans from the related parties as at 31 December 2017. The loan of £0.5 million outstanding at 31 December 2016 was repaid during the year.

Elliott International L.P. and Elliott Associates L.P. are the controlling entities of Bridestone Financing Plc, which sold its mortgage portfolio to the Group during 2017, at a price of £26.1 million. The price represents a discount to the book value of the underlying mortgages, based on estimated future cash flows from the portfolio and the Group's target for returns from capital employed. On this basis the directors consider the transaction to be at arm's length. The Group recognised the mortgage assets in its Consolidated Statement of Financial Position from 12 January 2017. No income was received from Bridestone Financing Plc during the year (2016: £0.1 million mortgage administration fees and £0.1 million legal title income).

Elliott International L.P. and Elliott Associates L.P. are the controlling entities of Wakefield Investments Limited and Middleton International Limited, which purchased the Z notes and residual certificates of PMF 2017-1B. The transaction which the directors consider to be at arm's length was completed on 28 April 2017.

25. Post balance sheet event

The Group sold its residual interest in Charter Mortgage Funding 2017-1 Plc to a third party during January 2018 for a gain of £15.0m.

The Group closed a mortgage securitisation, Precise Mortgage Funding 2018-1B Plc, on 23 January 2018. Precise Mortgage Funding 2018-1B Plc, which will be treated as a consolidated subsidiary, issued £246.1 million of pounds sterling mortgage backed floating rate notes at par, secured on £246.1 million of fixed and variable rate mortgages. In addition, the Group retained £nil of unrated and subordinated notes in the securitisation.

Alternative performance measures

This financial report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use, where relevant, and a glossary indicating the APMs we use, an explanation of how they are calculated and why we use them.

A. 2017 financial highlights

The Group has incurred costs on the IPO during 2016 and 2017 and on a project to sell the Group to private bidders during 2015 and 2016. These costs, included within administrative expenses, are not considered to be part of the underlying administrative expenses of the Group as they relate to a very specific one-off activity. Underlying KPIs exclude these costs.

All ratios have been calculated using unrounded data.

	2015 £m	2016 £m	2017 £m
Profit before tax			
Statutory profit before tax	27.1	48.9	111.7
IPO costs	-	0.1	4.9
Private sale costs	1.2	1.1	0.1
Underlying profit before tax	28.3	50.1	116.7
Return on Equity			
Statutory profit after tax (i)	21.4	37.3	81.3
IPO costs	-	0.1	4.9
Private sale costs	1.2	1.1	0.1
Underlying profit after tax (ii)	22.6	38.5	86.3
Opening equity	(20.4)	166.0	233.5
Add back:			
Share issue on 6 January 2015*	165.0	n/a	n/a
Opening equity for RoE	144.6	166.0	233.5
Closing equity	166.0	233.5	335.0
Average equity for RoE (2 point average**) (iii)	155.3	199.8	284.3
Statutory RoE (i)/(iii)	13.8%	18.7%	28.6%
Underlying RoE (ii)/(iii)	14.6%	19.3%	30.4%
Net interest margin			
Net interest income (i)	44.9	87.3	144.1
Average customer loans and receivables (13 point average***) (ii)	1,385.6	2,831.7	4,520.5
Net interest margin (i)/(ii)	3.24%	3.08%	3.19%

Alternative performance measures (continued)

	2015 £m	2016 £m	2017 £m
Cost Income Ratio			
Statutory administrative expenses (i)	31.7	44.5	58.0
IPO costs	-	(0.1)	(4.9)
Private sale costs	(1.2)	(1.1)	(0.1)
Underlying administrative expenses (ii)	30.5	43.3	53.0
Statutory total income (iii)	59.3	93.3	170.2
Statutory cost income ratio (i)/(iii)	53.4%	47.6%	34.1%
Underlying cost income ratio (ii)/(iii)	51.4%	46.4%	31.2%
Cost of Risk			
Provision for loan impairments – net (charge) / release (i)	(0.5)	0.1	(0.5)
Average customer loans and receivables (13 point average***) (ii)	1,385.6	2,831.7	4,520.5
Cost of risk (i)/(ii)	0.034%	-0.002%	0.011%

* The 2015 opening equity of £ (20.4) million has been adjusted for the £165.0 million share issue in the first week of the year so that a meaningful average equity for the year could be calculated.

**The average equity for RoE is calculated as the sum of the opening and closing equity for RoE for the year divided by two.

*** The average customer loans and receivables balances is calculated as the sum of the opening and closing balances for the year and the balances at each month end during the year divided by 13.

Alternative performance measures (continued)

B. Other financial APMs

	2016 £m	2017 £m
Percentage of loan book in arrears of three months of more		
This APM is a measure of the amount of arrears in the mortgage portfolio and is an indicator of the quality of the Group's mortgage portfolio.		
Past due and impaired customer loans and receivables in arrears of three months or more (note 13)		
90-120 days	1.3	2.1
> 120 days	1.0	4.0
Total in arrears of three months or more (i)	2.3	6.1
Customer loans and receivables (ii)	3,807.9	5,364.2
Percentage of loan book in arrears of three months or more (i) / (ii)	0.1%	0.1%
Percentage Increase in mortgage originations		
This APM demonstrates the growth in the Group's mortgage origination activity.		
Customer loans and receivables originations (note 13)	2,496.8	2,737.3
Increase (2017 originations less 2016 originations)		240.5
Percentage increase (Increase / 2016 originations)		9.6%
Percentage loan book growth		
This APM demonstrates the growth in the Group's mortgage portfolio.		
Opening balance of customer loans and receivables (note 13)	1,945.4	3,807.9
Closing balance of customer loans and receivables (note 13)	3,807.9	5,364.2
Increase	1,862.5	1,556.3
Percentage increase	48.9%	40.9%
Loan deposit ratio		
This APM is used in assessing the Group's liquidity.		
Customer loans and receivables (note 13)	3,807.9	5,364.2
Deposits from customers (note 16)	3,432.6	4,420.0
Loan deposit ratio	110.9%	121.4%
Originations by segment		
This APM shows the level of mortgage origination activity by segment		
BTL originations	1,452.3	1,592.1
Residential originations	663.2	770.6
Bridging loans originations	286.5	314.2
Second charge loans originations	94.8	60.4
Total originations (note 13)	2,496.8	2,737.3

Alternative performance measures (continued)

B. Other financial APM (continued)

	2016 £m	2017 £m
Cost of funds		
This APM measures the average interest rate payable on all funding and is an indicator of the efficiency with which the Group sources funding.		
Interest expense and similar charges (note 7) (i)	56.5	67.0
Average funding (13 point average) (ii)	3,295.5	5,116.5
Cost of funds (i) / (ii)	1.7%	1.3%

[*] The average funding is calculated as the sum of deposits from banks, deposits from customers and debt securities in issue opening and closing balances for the year and the balances at each month end during the year divided by 13.

C. Non-financial APMs

The APMs below have no close equivalent statutory measure.

APM	Definition and purpose
Number of intermediaries registered with the Group	Measure of the size of the mortgage distribution network
Average time to decision in principle	Time taken from receiving enquiry from broker to initial accept/decline decision. Indicates efficiency of the underwriting process
Number or value of securitisation transactions completed	Measure of the level of securitisation activity undertaken by the Group.
Value of mortgages analysed since 2008	Measure of the activities undertaken by Exact. It includes the value of mortgage portfolios priced for third parties, the value of mortgage portfolios administered on behalf of third parties and the value of mortgages on which other credit analysis has been carried out for third parties.
Net Promoter Score	This is an externally collated customer loyalty metric that measures loyalty between a Provider, who in this context is the Group, and a consumer.
Losses since inception	Measure of actual losses incurred on repossession of mortgage security, this is an indicator of the quality of the Group's loan underwriting and administration.

D. Regulatory APMs

The APMs below have no close equivalent statutory measure.

APM	Definition and purpose
Common Equity Tier 1 capital ratio	Common equity tier 1 capital divided by risk-weighted assets. This is a measure of the amount of capital that the Group holds as a percentage of its risk weighted assets.
Leverage ratio	A regulatory standard ratio proposed by the Basel III as a supplementary measure to the risk based capital requirements. It is calculated by dividing Tier 1 capital resources by a defined measure of on- and off-balance sheet items plus derivatives and is intended to constrain the build-up of excess leverage in the banking sector.