Charter Court Financial Services Group plc

14 March 2019

Preliminary results for the year ended 31 December 2018

Pre-tax profit up 42% and dividend pay-out ratio increased to 25% on strong loan book growth and continuing efficiency

Charter Court announces another strong year of profitable growth in 2018, meeting or exceeding all guidance and targets for the year. Loan book growth of over 24% to £6.7 billion on higher originations of £2.8 billion reflected continuing strong demand for our specialist mortgage propositions. We grew pre-tax profit by over 40% to £158.2 million on substantially higher net interest income and further improvement to our cost income ratio to below 30%, as we continued to leverage the high scalability and efficiency of our operating platform, our dynamic funding strategy and maintained our market-leading cost of risk. On the basis of this strong performance, the Board has increased the dividend pay-out ratio to 25% of retained profit for the year.

Financial highlights[1]

	2018	**2017**
Profit before tax	£158.2m	£111.7m
Profit after tax	£120.8m	£81.3m
Net interest margin	3.08%	3.19%
Loan book	£6.7bn	£5.4bn
Mortgage originations	£2.8bn	£2.7bn
Retail deposits	£5.1bn	£4.4bn
Cost income ratio	28.7%	34.1%
Cost of risk	0.036%	0.011%
Cost of funds	1.5%	1.3%
Return on equity	30.8%	28.6%
CET1 ratio	15.7%	15.6%
Earnings per share		
basic	50.5p	35.0p
diluted	50.1p	34.9p
Inaugural total dividend per share	12.7p	-

[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.
The Group incurred costs on the IPO during 2017. These costs, included within administrative expenses, are not considered to be part of the adjusted administrative expenses of the Group as they relate to a very specific one-off activity. In 2017, the adjusted cost income ratio of 31.2% and the adjusted return on equity of 30.4% exclude these costs. See Appendix: Alternative Performance Measures.
The Group has adopted IFRS 9 & IFRS 15 in 2018 and, as permitted by these standards, has chosen not to restate comparatives. Therefore all 2017 comparative figures are presented on an IAS 39 and IAS 18 basis.

High quality balance sheet growth

- 24.2% loan book growth (2017: 40.9%) driven by increased origination volumes on strong demand for our specialist buy to let and residential product ranges

Disciplined risk management

- Market-leading 0.036% cost of risk (2017: 0.011%) maintained through continued strong credit performance driven by proprietary risk management and underwriting systems

Optimisation of funding mix

- Optimal cost of funds maintained through successful implementation of dynamic funding strategy across retail and wholesale sources
- Retail savings deposit base up by 15.3% to £5.1 billion (2017: £4.4 billion) supported by incremental new savings channels
- Established new partnerships with Hargreaves Lansdown and Flagstone Wealth that provide access to pooled funding channels
- Successful execution of three securitisations totaling £906.1 million (2017: £597.3 million)

Strong profitability generating enhanced returns

- Robust net interest margin of 3.08% (2017: 3.19%) maintained, in line with guidance, and net interest income up 25.3% to £180.5 million (2017: £144.1 million), driven by strong origination volumes and an optimised funding strategy
- Profit before tax up 41.6% to £158.2 million (2017: £111.7 million) reflecting the significant increase in net interest income and higher gains on structural asset sales of £36.4 million (2017: £17.7 million)
- Improvement in return on equity to 30.8% (adjusted: 30.8%) (2017: 28.6% (adjusted: 30.4%))

Increasing operational efficiency

- Cost income ratio reduced to 28.7% (adjusted 28.7%) (2017: 34.1% (adjusted: 31.2%)) reflecting efficiency and high scalability of our platform

Enhanced inaugural dividend payout

- Final dividend of 9.9 pence per share makes an inaugural total dividend for 2018 of 12.7 pence per share, a dividend payout ratio of 25% for the year, ten percentage points higher than initially proposed. In determining the level of dividend in any year the Directors assess that the Group is still able to meet its regulatory capital and liquidity requirements after dividends are paid.

Leading employer

- Top 10 best place to work for third year running and highest placed bank in the 'mid' sized business category in the Sunday Times 'Top 100 companies to work for' in 2018

Ian Lonergan, CEO of Charter Court, said:

"In our first full year as a listed company, we again continued to meet or exceed all our guidance and targets as we demonstrated the capability of our specialist lending platform to drive significant growth from the increasing sophistication and professionalisation of demand in our chosen buy to let and specialist residential mortgage markets.

"We continued to build our high quality balance sheet, growing our loan book more than 24% to £6.7 billion on increased originations of £2.8 billion, as we extended our range of specialist products and further enhanced our intermediary service standards. Alongside significantly increased uptake of our Limited Company and HMO buy to let mortgages, we introduced new specialist products to meet increasing buy to let mortgage demand for Multi Unit buildings, holiday rental properties and refurbishment projects.

"Our market leading Cost of Risk of less than four basis points, with a three-months-or-more arrears rate of just 0.2%, reflects the continuing quality of our loan book and the centrality of our risk management systems to our business model.

"As importantly, we optimised our funding costs throughout the year by continuing to leverage our agility in calibrating our retail-wholesale funding mix to prevailing market conditions, contributing to a robust net interest margin of 3.08%. We grew our retail deposit base to £5.1 billion in the year, extending our reach across new retail funding sources through the successful launches of our new postal account and pooled funding channels via the Hargreaves Lansdown and Flagstone Wealth platforms. In parallel, we took advantage of wholesale market opportunities as they arose in the year to securitise £906.1 million of our lending at attractive rates.

"We further reduced our cost income ratio to 28.7%, demonstrating the efficiency and scalability of our operating platform. Against strong net interest income growth of 25.3% to £180.5 million and higher gains on structural asset sales of £36.4 million in the year, we grew pre-tax profit by 41.6% to £158.2 million, profit after tax by 48.6% to £120.8 million and lifted our return on equity to 30.8%.

"Reflecting this strong performance, the Board has proposed a final dividend of 9.9 pence per share, bringing the total 2018 dividend to 12.7 pence per share, which represents an inaugural payout ratio of 25%, ten percentage points higher than initially proposed at the time of our IPO in 2017.

"With a resulting CET1 Ratio of 15.7%, against 15.6% last year, we continue to generate significant capital and remain strongly positioned for future growth in our specialist markets."

Outlook

Given the prevailing uncertainty in the wider economy we are closely monitoring macroeconomic developments for any events that could impact our chosen specialist mortgage markets. We believe that the ongoing economic uncertainty creates challenges and opportunities and we are well positioned to respond to events and capitalise on changes in our markets. We remain focused on asset classes where we have significant experience and expertise, with a resilient business model purpose built to exploit structural drivers in these areas.

We continuously monitor wholesale funding markets for securitisation opportunities and will execute funding transactions or sell additional residual positions in our securitisations when market conditions are advantageous.

Charter Court has a robust pipeline going into 2019 and has made a positive start to the year. In line with our strategy, we remain focused on delivering strong loan book growth, whilst maintaining high levels of efficiency and a low cost of risk.

On 9 March 2019 the Board announced that it was considering a possible all-share combination of Charter Court and OneSavings Bank PLC ("OSB"). The Board believes that the possible combination creates a highly compelling opportunity to:

- create a leading specialist mortgage lender in the UK with greater scale and resources to deploy on growth opportunities;
- leverage complementary strengths to create a comprehensive and diversified platform across product capabilities, brands and team cultures;
- leverage complementary underwriting capabilities to enhance the customer proposition;
- establish a well-balanced, resilient and diversified retail-wholesale funding platform;
- maintain two leading, independent broker distribution platforms to create an enhanced proposition to the broker community; and
- maintain operational centres of excellence to drive service levels and platform efficiency.

Subject to the successful outcome of ongoing discussions, the boards of Charter Court and OneSavings Bank plc expect to recommend the possible combination to their respective shareholders.

The proposed combination is subject to shareholder approval, agreement of the terms and conditions of the possible combination and approval from the relevant UK regulatory authorities. The forward looking statements contained within this preliminary results report take no account of the possible transaction and this statement has therefore been prepared on a stand-alone basis.

Enquiries:

Analysts and investors

Charter Court Sebastien Maloney, Chief Financial Officer	019 0262 5929
Citigate Dewe Rogerson Sandra Novakov Michael Russell	020 7638 9571

Media

Citigate Dewe Rogerson Andrew Hey Caroline Merrell	020 7638 9571

Analyst and investor presentation

A presentation for analysts and investors will be held at 9:30a.m. on 14 March 2019 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED.

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 and its subsidiaries (together “Charter Court” or “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 2018, our total mortgage balances stood at £6.7 billion generated through our relationships with more than 23,000 intermediaries nationwide, whilst Charter Savings Bank had attracted £5.1 billion in retail deposits at the same date from over 140,000 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

Charter Court is strategically positioned to capture demand in growth segments of the UK mortgage market suited to businesses with specialist operating models and propositions. The structural tailwinds that support our key specialist mortgage markets remain strong and we capitalised on these trends to deliver another solid performance in 2018.

High quality balance sheet growth

We maintained our prudent approach to lending during 2018 drawing upon our expertise in credit analysis and the strength of our automated underwriting platform to preserve the high quality of our balance sheet.

Charter Court's loan book grew by 24.2% in 2018 to £6.7 billion, as we generated more than £2.8 billion in new mortgage originations. Buy to let lending was particularly strong during the year reflecting the growing specialisation and professionalisation of the market. Specialist residential and bridging loans also contributed to strong overall performance.

Our resilient lending performance was underpinned by a focus on further development of our product and customer propositions. We enhanced our core mortgage proposition, most notably with the launch of a Refurbishment buy to let product which allows a landlord to buy an auction property, refurbish and then fund on a long term buy to let, bringing benefits to both intermediary and the professional landlord. Additionally, we have continued to deliver service enhancements such as our Intermediary Sales Consultant team. This team provides both proactive and reactive telephone-based pre application support to our intermediaries, enhancing the sales activity by our field-based Business Development Manager team.

Charter Court's funding model provides the flexibility and optionality to achieve the optimal balance between retail and wholesale funding, depending on market conditions. In 2018, retail savings continued to play a vital role in optimising Charter Court's funding strategy. We further diversified the Group's savings proposition through the addition of two new funding channels. We established partnerships with Hargreaves Lansdown and Flagstone Wealth that provide access to 'pooled deposits'. Meanwhile, Charter Savings Bank diversified its capabilities, evolving from an online-only proposition to also offer accounts via a newly developed postal channel to a broader, under-served customer base.

Robust financial performance

Our strong performance in 2018 is reflected in the 41.6% year-on-year increase in profit before tax to £158.2 million (2017: £111.7 million), driven primarily by the significant increase in our net interest income as we maintained a robust net interest margin and delivered gains through the structured asset sales. Profit after tax for 2018 rose to £120.8 million, from £81.3 million a year earlier.

Our extensive experience in specialist mortgage risk evaluation and disciplined approach to risk management enabled us to maintain our sector leading low cost of risk which came to just 0.036% in 2018 (2017: 0.011%), with only 0.2% of the total loan book three months or more in arrears at year end (2017: 0.1%).

Return on equity increased to 30.8% in 2018 from 28.6% in 2017, as result of the increase in profit after tax.

Investment in risk management

Charter Court's rigorous approach to risk management remains central to our business and our corporate culture. Our risk management function serves as the platform which underpins our lending, facilitating our balance sheet growth while maintaining the high credit quality of our loan book.

We continued to invest in our risk management team during the year, deepening our knowledge and enhancing our expertise. We maintained our programme of operational enhancements in risk management, with further investment to improve our cyber resilience. We also continued with our preparations for the adoption of the Internal Ratings Based approach ("IRB") to capital requirements for credit risk. This approach is consistent with our analytical and sophisticated approach to credit risk management and will bring important risk, business and capital allocation benefits. This work will continue into 2019.

Ian Lonergan

Chief Executive Officer

Financial review

Group highlights

Charter Court's strong performance in 2018 is reflected in the significant improvement in the Group's profitability and continued balance sheet growth.

Balance sheet - key items (£m)	**2018**	**2017**	**% change**
Customer loans and receivables	6,661.5	5,364.2	24.2
Cash and cash equivalents	981.2	966.8	1.5
Deposits from banks	1,214.8	1,003.5	21.1
Deposits from customers	5,094.5	4,420.0	15.3
Debt securities in issue	972.9	627.4	55.1
Equity attributable to equity holders of the parent and total equity	450.3	335.0	34.4

Loan book growth of 24.2% including structured asset sales

Charter Court's loan book grew by £1.3 billion, 24.2% year-on-year in 2018 to £6.7 billion (2017: £1.6 billion, 40.9%, £5.4 billion), with strong operational performance underpinned by a demand for specialist mortgage lending products of the type the Group offers. Excluding the impact of structured asset sales, loan book growth would have been £1.9 billion or 34.7%[2] in 2018 (2017: £1.9 billion, 48.7%).

Performance across all segments was supported by continued proactive new product development, efficient management of mortgage applications, as well as further enhancements to distribution and service standards.

Continuous optimisation of funding mix

Throughout 2018, Charter Court leveraged its dynamic funding strategy to maintain an optimal funding mix while prudently managing funding and liquidity risks.

In addition to growing our retail deposit customer base by 15.3% to £5.1 billion (2017: £4.4 billion), we continued to benefit from access to wholesale funding through securitisations, short-term repo lines and warehouse facilities.

We executed three securitisation transactions with a combined value of £906.1 million (2017: £597.3 million) and took advantage of favourable market conditions to sell the residual certificates in two transactions to third party investors for an aggregate gain of £36.4 million (2017: £17.7 million).

In combination with drawdowns of Bank of England TFS and warehouse facilities, these activities allowed us to further extend the weighted average life of our liabilities. Consequently, the Group's loan to deposit ratio has increased to 130.8% (2017: 121.4%).

[2] See Appendix: Alternative Performance Measures

Income statement – key items (£m)	2018	2017	% change
Net interest income	180.5	144.1	25.3
Gain on sale of loans	36.4	17.7	105.6
Other income[3]	8.0	8.4	(4.8)
Total income	224.9	170.2	32.1
Administrative expenses	(64.6)	(58.0)	11.4
Impairment charge[4]	(2.1)	(0.5)	320.0
Profit before tax	158.2	111.7	41.6
Tax	(37.4)	(30.4)	23.0
Profit after tax	120.8	81.3	48.6

Profit after tax up 48.6%
Strong performance across all aspects of our business enabled us to significantly increase our profit before tax to £158.2 million in 2018 (2017: £111.7 million). This is attributable to the stronger growth in net interest income and gains on the structured asset sales.

The effective tax rate for the year was 23.7% (2017: 27.2%) reflecting reductions in the rate of UK corporation tax, disallowable costs that arose in 2017 due to the IPO, and increased activity in Group companies not subject to the banking surcharge.

Profit after tax for the year ended 31 December 2018 was up 48.6% year-on-year to £120.8 million (2017: £81.3 million); after adjusting for £5.0 million of IPO costs incurred in 2017, profit after tax was up 40%, from £86.3 million in 2017. This represents a return on equity of 30.8% up from 28.6% in 2017 (adjusted return on equity in 2017 of 30.4%).

Total income up 32.1%
Our interest income and similar income increased by 30.5% to £275.5 million (2017: £211.1 million), mainly due to the continued expansion of the mortgage origination business.

Interest expense and similar charges increased by 41.8% percent to £95.0 million in 2018 (2017: £67.0 million), as funding increased in line with growth in the mortgage loan book.

The Group's net interest income increased by 25.3% to £180.5 million (2017: £144.1 million). Net interest margin in 2018 was 3.08% (2017: 3.19%), reflecting competitive pressures in the markets in which we operate and is consistent with our medium-term target of over 3%.

Our total income for the period increased by 32.1% to £224.9 million (2017: £170.2 million).

Sector-leading cost of risk maintained
Despite significant loan book growth, Charter Court maintained a strong credit performance across its lending portfolio throughout the year. As a result of continued focus on credit quality, disciplined risk management and extensive experience in specialist mortgage risk assessment, only 0.2% of the Group's loan book was 3 months or greater in arrears at 31 December 2018 (2017: 0.1%). This is reflected in the Group's low cost of risk on an IFRS 9 basis of 0.036% for 2018 (2017: 0.011% on an IAS 39 basis).

---

[3] Other income includes non-interest income and net loss from derivative financial instruments
[4] 2018 impairment charge on an IFRS 9 basis, 2017 on an IAS 39 basis.

Cost income ratio below 30%

Administrative expenses increased by 11.4% year-on-year to £64.6 million in 2018 (2017: £58.0 million), and by 17.5% after adjusting for £5.0 million of IPO costs incurred in 2017, principally as a result of the continued growth of the mortgage origination business and wider business support functions, such as Finance, Risk and IT. The average number of staff increased during the year to 577 (2017: 462).

The cost income ratio decreased from 34.1% in 2017 (31.2% in 2017 after adjusting for IPO costs incurred) to 28.7% in 2018, below the Group's medium-term target of low 30s (%). This achievement reflects strong growth in income, the scalability of our operations and the benefits of our high operating leverage as our balance sheet continues to grow.

Capital and regulatory KPIs - key items (£m)	**2018**	**2017**	**% change**
Liquid assets	1,022.8	960.9	6.4
Equity attributable to equity holders of the parent and total equity	450.2	335.0	34.4
Total Regulatory Capital	423.2	332.0	27.5
Risk-weighted assets	2,697.7	2,118.9	27.3
Total Pillar 1 capital resources requirement at 8%	215.8	169.5	27.3
Common equity tier 1 capital ratio (%)	15.7	15.6	0.6
Total tier 1 capital ratio (%)	15.7	15.6	0.6
Leverage ratio (%)	5.4	5.1	5.9

Prudent liquidity management

The Bank has an Internal Liquidity Buffer Requirement ("ILBR") which is calibrated to ensure assets of high credit and liquidity quality are held on balance sheet which exceed 60 days net cash outflows without recourse to management actions. This is by definition in excess of minimum regulatory requirements for liquid asset coverage of 30 days net outflows. Idiosyncratic and whole of market stress testing of business plans is periodically undertaken to ensure that there are no significant risks that liabilities cannot be met as they fall due. Over and above ILBR, recourse to contingent liquidity is maintained to survive 90 days under a severe but plausible stress after consideration of reasonable management actions. For liquidity management purposes, on balance sheet liquid assets are measured at their realisable liquidity value which may be a discount to carrying value and/or market value.

To reduce the impact of customer option risk in its calibration of ILBR, Charter Court predominantly offers term deposits and notice accounts. These products have more predictable liquidity profiles and at 31 December 2018 represent 87.4% (2017: 88.0%) of all retail savings account balances.

At 31 December 2018 the Group held £823.8 million (2017: £848.0 million) of Bank of England reserve account balances, £123.0 million (2017: £78.4 million) of RMBS qualifying as Bank of England Level 3 collateral, and £76.0 million (2017: £34.5 million) of callable balances with tier 1 UK banking institutions.

Resilience reinforced by robust capitalisation

With a strong CET1 ratio of 15.7% at 31 December 2018 (2017: 15.6%) and a leverage ratio of 5.4%, comfortably above the Bank of England requirement of 3.25%, Charter Court remains well capitalised.

In June 2018, the Group received from the Prudential Regulatory Authority notification of its total capital requirement ("TCR") which is as follows:

Consolidated – a minimum amount of capital of 10.58% of risk-weighted assets ("RWAs") with no fixed add-on.

Individual – a minimum amount of capital of 10.65% of RWAs with no fixed add-on.

Continued preparations for the adoption of IRB have led to the implementation of further enhancements to the Group's credit risk management framework. As the IRB programme develops, we expect more improvements to credit risk management such as better risk profiling, more accurate differentiation of counterparty risk and enhanced portfolio monitoring and control capacity.

The capital position of the Group at 31 December 2018 is set out in note 26 to this announcement.

Business review by segment

Lending

Continued growth in specialist mortgage origination

Highlights

- New originations £2.8 billion (2017: £2.7 billion).
- Loan book up by 24.2% to £6.7 billion (2017: £5.4 billion).
- Net interest income of £180.5 million (2017: £141.3 million).
- Profit contribution up 26.6% to £183.0 million (2017: £144.5 million).

Profit by lending segment

Year ended 31 December 2018	**Buy to let £m**	**Residential £m**	**Bridging[5] £m**	**Second charge lending £m**	**Total £m**
Net interest income	104.6	54.5	15.0	6.4	180.5
Fees and commissions income	1.9	2.2	0.2	0.3	4.6
Provision for loan impairments	(0.8)	(1.1)	-	(0.2)	(2.1)
Profit contribution	105.7	55.6	15.2	6.5	183.0
Year ended 31 December 2017					
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
Provision for loan impairments	(0.4)	-	-	(0.1)	(0.5)
Profit contribution	70.7	51.2	16.6	6.0	144.5

Provision for loan impairments in 2017 are not restated under IFRS 9. Profit contribution is equal to segment profit as per note 6 to this announcement

.

[5] The Bridging segment was previously known as the short term lending segment.

Business review by segment

Lending

Buy to let

Highlights

- New originations of £1.6 billion (2017: £1.6 billion).
- Loan book up 39.4% to £4.5 billion (2017: £3.2 billion).
- Net interest income of £104.6 million (2017: £69.8 million).
- Profit contribution up 49.5% to £105.7 million (2017: £70.7 million).

The buy to let market remained resilient in 2018 with a 1.1% increase in overall volumes to £37.1 billion in the 12 months to December 2018 albeit with a shift away from purchases (down 15.1% year-on-year) to re-mortgaging. The fundamental drivers underpinning the segment remain strong with a lack of housing stock available for purchase and challenges around affordability both contributing to persistent tenant demand in the rental sector.

Market research by BVA BDRC (one of the UK's leading research agencies) suggests that landlords are gaining a better understanding of the potential benefits of using a limited company structure, particularly those with large property portfolios. As a result, and due to its focus on professional landlords, Charter Court has seen an increase in purchase activity, up by 13.7% year-on-year.

In this context, Charter Court met all of it is buy to let targets for 2018 with new originations of £1.6 billion. Mortgage balances increased by 39.4% year-on-year to £4.5 billion. Having strategically positioned the business ahead of 2017’s regulatory changes, Charter Court saw significant uptake of its specialist buy to let mortgage products including limited company (year-on-year increase 34.6%) and Houses of Multiple Occupation (“HMO”) (year-on-year increase 60.5%).

The Group continued to expand its specialist buy to let proposition in 2018, launching new products to support Multi Unit properties, Holiday Lets and property refurbishment activities as buy to let investors increasingly sought products that maximise rental yields. This approach has insulated Charter Court from some of the more severe margin compression seen in the wider buy to let remortgage market.

Buy to let mortgages represent 68% of Charter Court’s total loan book (2017: 60%).

Business review by segment

Lending

Residential

Highlights

- New originations of £0.8 billion (2017: £0.8 billion).
- Loan book down 0.9% to £1.7 billion[6] (2017: £1.7 billion).
- Net interest income of £54.5 million (2017: £49.2 million).
- Profit contribution up 8.6% to £55.6 million (2017: £51.2 million).

Charter Court continued to capitalise on its strong automated credit assessment ability to deliver controlled growth in residential lending volumes and market share in the relatively stable residential mortgages market. According to the Q3 2018 BDRC Mercury report it remains the no.1 lender for brokers looking to serve customers with minor credit rating imperfections, making it front of mind for specialist residential cases.

In 2018 the UK residential mortgage market saw steady growth of 5.6% year-on-year. In the same period Charter Court's residential mortgage lending increased by 7.7% (year-on-year) with both purchase (up 8.0% year-on-year) and re-mortgage (up 6.8% year-on-year) increasing.

The Group added an interest only proposition to its product range which will allow it to consider other specialist residential lending schemes such as Lending into Retirement. During 2018 Precise Mortgages specialist residential schemes (Help to buy, Right to buy and Debt Management Plan ranges) grew by 22.1% year-on-year accounting for 40.8% (2017: 36.0%) of residential lending. A series of developments are planned for 2019 to further enhance the Group's residential proposition.

Specialist residential mortgages represent 26% of Charter Court's total loan book (2017: 33%).

Bridging

Highlights

- New originations £321.8 million (2017: £314.2 million).
- Loan book up 11.5% to £244.1 million (2017: £218.9 million).
- Net interest income of £15.0 million (2017: £16.4 million).
- Profit contribution down 8.4% to £15.2 million (2017: £16.6 million).

During 2018, bridging loans increased by 11.5% year-on-year to £244.1 million, with new originations of £321.8 million. This growth was achieved whilst maintaining our strong credit risk performance.

Despite increased competition in its core bridging market, throughout 2018 Charter Court maintained its focus on high quality, low risk bridging finance.

During the first quarter of 2018, the Group took the opportunity to restructure its product range and introduce product enhancements to successfully drive renewed growth which delivered notably increased applications levels in the remainder of 2018 and a strong pipeline going into 2019.

---

[6] Excluding the impact of structured asset sales, residential mortgage loan book amounted to £2.3 billion (see Appendix: Alternative Performance Measures)

This trend was supported by the widening and deepening of Charter Court's distribution channels, gained through the restructuring of the sales team, providing the Group access to a larger potential market.

Bridging loans represent 3% of Charter Court's total loan book (2017: 4%).

Second charge lending

Highlights

- New originations of £56.9 million (2017: £60.0 million).
- Loan book up 7.7% to £183.9 million (2017: £170.8 million).
- Net interest income of £6.4 million (2017: £5.9 million).
- Profit contribution up 8.3% to £6.5 million (2017: £6.0 million).

During 2018, Charter Court maintained its focus on high quality prudent underwriting at appropriate margins, prioritising quality over volume of loans.

As a result, originations declined to £56.9 million, however the loan book increased by 7.7% to £183.9 million and net interest income grew from £5.9 million to £6.4 million in 2018.

Second charge loans represent 3% of Charter Court's total loan book (2017: 3%).

Enhancing broker distribution and service standards to maximise efficiency

Across the Group's lending business, the 'Broker Journey' project continued to deliver significant improvements to our service proposition. The project has now been active for two years and broker service standards continue to materially improve. In 2018 Charter Court undertook a range of incremental changes to drive improvements to brokers' service. These included the delivery of an Online Criteria Guide covering all lending segments, allowing brokers to search key criteria across all product lines, and the launch of a weekly blog with tips on how to improve case submission. 2018 also saw the establishment of a new Intermediary Sales Consultant team who provide telephone-based sales support to brokers looking to place business with Precise Mortgages. All of these changes are geared towards generating incremental lending growth by ensuring Charter Court is the first choice for intermediaries.

Business review by segment

Funding

Charter Court continued to implement its dynamic funding strategy in 2018, taking advantage of changing market conditions to balance funding sources and deliver an optimal cost of funds.

Retail deposits

Growing and diversifying our retail deposit base

Highlights

- Customer balances up 15.3% to £5.1 billion (2017: £4.4 billion).
- Successful launch of a new postal channel to provide accounts to a much underserved, traditional customer base.
- Successful launch of pooled funding channels via Hargreaves Lansdown and Flagstone Wealth platforms.

Strong growth in retail deposits

Charter Court's retail deposits demonstrated robust growth in 2018 as customer balances grew from £4.4 billion in 2017 to £5.1 billion as of 31 December 2018.

The Group continued to price its retail savings products tactically throughout 2018 to ensure these appeared at the top end of "best buy" tables when most efficient and effective. At the end of 2018, the Group had 116,583 savings customers (2017: 102,394), operating 146,519 savings accounts (2017: 122,825), with an average balance per account of £33,700 (2017: £36,000). The significant weighting of savings deposited with the Group towards longer term and notice-based products continued to provide relative stability of funds.

In line with its dynamic funding strategy, the Group continued to diversify its retail funding sources during 2018. During the third quarter of 2018, Charter Court began offering fixed rate products on both the Hargreaves Lansdown Active Savings and Flagstone Wealth platforms, providing access to pooled retail funds and further diversifying the Group's funding sources. This enhances operational efficiency, as it is more cost effective than managing and processing individual applications, while its customer base tends to be less rate sensitive. Charter Court intends to continue the rollout to other platforms in 2019, enabling the funding channel to achieve the potential for significant scale. The Group also launched a postal channel for its retail savings business in 2018, to capture appetite from savers who may be less technology savvy or who lack confidence in online banking. It is likely that this base of underserved customers will be less price-sensitive and will have higher levels of retention.

Charter Court continued to benefit from high levels of customer satisfaction and growing recognition from media coverage and awards. This was evident in the strong performance that was delivered as the Group's focus shifted from acquisition to retention.

Charter Court's savings business won six industry awards throughout 2018, including the Moneyfacts Consumer Award for Online Savings Provider of the Year for a record third successive year, a further endorsement of its proposition and service standards.

Wholesale funding

Capitalising on favourable market conditions

Highlights

- Three securitisation transactions concluded with a combined value of £906.1 million (2017: £597.3 million).
- Sale of economic interest in two securitisations resulting in an aggregate gain of £36.4 million (2017: £17.7 million).
- Second warehouse facility successfully closed, providing £250.0 million of additional contingent total senior funding to the Group.
- Continued access to Bank of England funding facilities, with £150.0 million of final drawings from the Term Funding Scheme in 2018.

Securitisation remains a key strategic funding source for the Group, with more than £3.0 billion of issuance since December 2013. As well as providing cost efficient funding Charter Court uses securitisations to accelerate organic capital generation through the sale of residual positions.

More generally, the Group's strategy is to be dynamic versus deterministic in its approach to wholesale funding, enabling it to maximise the opportunity of a strong market with repeat issuances, and utilise other options when the market is unfavourable.

2018 both exemplified and validated that strategy. The Group had an exceptionally productive first half of the year, taking full advantage of strong markets to complete issuances totalling more than £900.0 million. These transactions priced at spreads narrower than those previously achieved by the Group, with new benchmarks set for both the buy to let ("PMF") and residential ("CMF") RMBS programmes. On a combined basis, the overall day-1 cost of funds across the £906.1 million of mortgage collateralised notes placed was 3-month LIBOR plus 69bps.

In the second half, with pricing in UK RMBS markets notably poorer, the Group stayed out of the market altogether, and pursued other, more cost effective funding options.

The optimal timing of the three transactions executed in 2018 reflects Charter Court's deep understanding of credit markets, the dynamism of its funding strategy, as well as its excellent and timely execution capabilities.

In line with its strategy, the Group also took advantage of a strong residuals market, selling the residual certificates in its CMF 2017-1 and CMF 2018-1 transactions to third party investors in January and June respectively. The sales build upon Charter Court's track record of structured asset sales, enabling the derecognition of the associated underlying mortgage assets and generating a combined gain on sale of £36.4 million.

A highlight of 2018 was the closing of the CMF 2018-1 transaction in June 2018, which securitised £285.5 million prime residential mortgages originated by the Group. It followed on from the Group's inaugural CMF deal of July 2017 and achieved the Group's narrowest spread to date. Pricing the senior note with a margin of just LIBOR plus 47bps, the transaction has an overall weighted average day 1 cost of funds across the mortgage collateralised notes placed of 3-month LIBOR plus 55bps. Simultaneously, the Group went on to agree the sale of the residual positions in this transaction, resulting in a gain on sale of £21.3 million and representing a premium of 7.5% over the current balance of the sold mortgage assets.

The Group was equally successful in its buy to let securitisation activities, where it closed two further PMF deals, and in the process achieved a record tight post crisis senior margin for a publicly placed sterling buy to let transaction of 3-month LIBOR plus 65bps for its £246.1 million PMF 2018-1B deal, It followed that up in March with the larger and longer duration PMF 2018-2B transaction, which securitised £374.5 million of buy to let mortgage assets with a senior spread of 3-month LIBOR plus 68bps. Day 1 cost of funds, across the mortgage collateralised notes was 3-month LIBOR plus 74bps for the PMF 2018-1B deal and 77bps for the PMF 2018-2B deal.

During the year, the Group was also able to extend the maturity of its existing non-bank warehouse line. The line provides committed senior finance of up to £350.0 million against both prime residential and buy to let mortgage assets. It also agreed terms and subsequently closed a second warehouse line, providing a further £250.0 million of senior funding capacity for the Group. Both warehouses are priced with attractive senior note margins, reflecting the strength with which funding counterparties view the Group's asset credit performance as well as its wholesale market capabilities.

Term Funding Scheme

The Group utilised its large TFS quota to draw down further amounts under the scheme prior to its closing in February (taking total outstanding drawings to £1,147.8 million), as well also to repay and redraw the majority of its existing 2017 drawings. Each drawing has a maturity of four years from the date upon which it was drawn, and therefore by repaying and redrawing existing drawdowns in this way, the Group was effectively able to reset the maturity date of the majority of its TFS liabilities out to February 2022, maximising the optionality and economic benefit of the scheme to the Group. Following the closure of TFS, the Group retains the ability to access alternative central bank funding facilities, in particular through the Bank of England's Indexed Long-Term Repo ("ILTR") auctions.

RISK MANAGEMENT

Our approach to risk management

Charter Court has developed a comprehensive risk appetite framework which adopts the Financial Stability Board's principles and is fully embedded and operationalised across the business.

Based on the business and financial plan, this framework enables the Board to set and own risk appetite and the associated appetite limits which are 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 the relevant 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.

The business operated within all Board risk appetite limits and management framework at all times during 2018.

Effective risk management framework

Charter Court has a clearly understood, well-structured and mature risk management framework which was the subject of further investment and strengthening in 2018. Reflecting shareholder objectives, the external environment and regulatory regime, 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 the Board risk committee and supported by the executive risk management committee and individual risk committees and risk working groups ensures that there is an ongoing focus on effective risk management to facilitate strong support for compliance with policies, business performance, 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 independent and fully 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 Enterprise Risk Management Framework is that the risk team leaders chair their own risk committees – Credit Management Committee, Operational Risk Management Committee and Conduct Risk Management Committee. 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. Surveys for all risk committees were undertaken in 2017 and all were confirmed as effective and operating well.

Rigorous risk governance and control

Charter Court has adopted a 'three lines of defence' organisational design 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 regulatory and internal policy perspectives.

First line of defence

The first line of defence is provided by the operational business lines and staff, which include customer facing roles, those that are responsible for product development and distribution, and management of the 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. A risk control self-assessment ("RCSA") framework, owned centrally by the risk management function but used proactively throughout the business is fully operational in all business areas and embedded into day-to-day operations. Associated outputs and management information are reviewed monthly by the Operational Risk Management Committee.

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 independent internal audit function, which is responsible for 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").

Stress testing

Approach and application

The Group undertakes a number of stress tests as part of its Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP").

Stress testing represents a useful risk and management tool to inform the adequacy and planning of the Group's capital and liquidity resources and its capability to protect against adverse impacts from stress events.

Capital

As part of the Group's obligations under the general stress and scenario testing rules (as described in the PRA Rulebook), specific capital stress tests are carried out annually through 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

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 on a weekly basis.

Regular operations

Outside of the ICAAP and ILAAP processes, stresses of both capital and liquidity are regularly separately run against idiosyncratic and market-wide scenarios.

As part of IFRS 9 implementation, the Group has made enhancements to its approach to credit stress testing which now provides sophisticated and wide-ranging monthly analysis of multiple economic scenarios.

The Assets and Liabilities Committee ("ALCO") review capital planning scenarios that reflect volume and arrears stresses.

Priorities for 2019

The primary objective for 2019 is to maintain the highest standards of risk management that the Group sets itself and that are a core feature of Charter Court's thinking, culture and business model.

The function seeks to take a forward-looking view and continue to maintain rigorous insight, risk management and reporting to enable the business to realise its corporate plan, including operational and financial objectives, within prudent risk management parameters.

The Risk team will continue to closely monitor and assess the external environment, regulatory changes and developments and continue to build its understanding of potential adverse effects resulting from emerging and changing risks such as IT risks, cybercrime and the broader macro economy, including those arising from the UK's decision to leave the European Union on 29 March 2019.

Close monitoring of the regulatory landscape remains a key priority, particularly with respect to developments that might affect operations and capital and funding requirements, Charter Court's business model, competitive trends in mortgage lending and retail savings markets.

The IRB programme is a key strategic project which is expected to bring important credit risk management and capital benefits. As such, Charter Court will continue earnestly with its IRB project, the build of new scorecards and development of existing models, complete plans for mobilisation and application of IRB across the business and completion of all work to prepare for the application to the PRA.

Principal risks

This section describes material existing and emerging risks which the Board believes could materially impact delivery of the Corporate Plan. The material existing risks are considered generic to UK financial services firms operating in the current environment. As a result of uncertainty due to Brexit and the impact on operational risk because of greater staff numbers, premises and the ongoing cyber-crime threat, all risks are deemed to have increased in the last twelve months and are expected to remain volatile until the political and economic situation becomes clearer.

Business risk

Perhaps the biggest risk to the Group and other financial services firms is business risk emanating from adverse macro-economic conditions as a result of an unfavourable outcome of Britain's exit from the European Union.

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 the EU. • Potential for a property price bubble in parts of London and the South East. • New technological innovations in mortgages and savings markets. • New regulation or regulatory guidance impacting the operation of the 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

The Group is monitoring developments in order 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

Although all retail credit risk exposure is secured by UK property, there remains the possibility of increased credit losses from increased defaults and lower house price values as a result of an economic downturn as referred to under 'business risk'. Additionally, there could be related stress amongst European banks and investment firms to which the Group has wholesale treasury counterparty exposures, albeit funds are placed with only the highest rated entities.

<table>
<tr><th>Risk</th><th>Monitoring & Control</th><th>Emerging Risks</th></tr>
<tr><td>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.</td><td>Retail Credit Risk
• Monthly reviews by Credit Management Committee (overseen by Executive Risk Management and Board Risk Committees).
• Continuous monitoring of actual exposure.
• The 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 in accordance with risk appetite and prevailing policies.
• Receipt of monthly Experian feed enables tracking of customers' wider financial circumstances beyond the CCFS mortgage conduct.
• 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).

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 ALCO.
• 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).</td><td>• 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 exit from the European Union.
• Increasing levels of unsecured borrowing.</td></tr>
<tr><td colspan="3">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. RMBS investments are normally held to maturity.</td></tr>
</table>

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 LTV.

Counterparty risk

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

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is set out below:

Class	As at 31 December 2018 £m	As at 31 December 2017 £m
Investment in debt securities	123.0	78.4
Customer loans and receivables	6,661.5	5,364.2
Derivative financial instruments	17.1	11.9
Trade and other receivables	5.9	4.6
Cash and cash equivalents	981.2	966.8
Other assets held at fair value	0.1	0.2
Loan commitments	577.8	549.8
Potential exposure to credit risk	8,366.6	6,975.9

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

Analysis of loans by Loan to Value (LTV)

Current LTV	As at 31 December 2018 £m	As at 31 December 2017 £m
Buy to let		
< 50%	119.9	89.9
50 - < 60%	237.8	193.8
60 - < 70%	651.2	512.6
70 - < 80%	2,928.8	2,098.7
80 - < 90%	589.3	356.9
>= 90%	-	-
	4,527.0	3,251.9
Residential		
< 50%	168.1	176.5
50 - < 60%	160.2	159.2
60 - < 70%	275.7	295.1
70 - < 80%	751.0	706.3
80 - < 90%	366.4	400.4
>= 90%	7.3	7.5
	1,728.7	1,745.0
Bridging		
< 50%	114.8	101.7
50 - < 60%	39.0	43.5
60 - < 70%	69.6	62.4
70 - < 80%	17.8	8.4
80 - < 90%	1.8	2.9
>= 90%	1.1	-
	244.1	218.9
Second charge lending		
< 50%	30.2	29.6
50 - < 60%	34.6	32.8
60 - < 70%	57.2	54.7
70 - < 80%	45.5	42.8
80 - < 90%	15.2	9.5
>= 90%	-	-
	182.7	169.4
Total		
< 50%	433.0	397.7
50 - < 60%	471.6	429.3
60 - < 70%	1,053.7	924.8
70 - < 80%	3,743.1	2,856.2
80 - < 90%	972.7	769.7
>= 90%	8.4	7.5
	6,682.5	5,385.2

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 impairment provisions

As at 31 December 2018, the average loan to value percentage of underlying mortgage assets to which the loans relate was 71.0% (2017: 70.4%) and £1.1 million (2017: £0.4 million) of the total balance represented arrears (amounts quoted being the actual amount in arrears).

At 31 December 2018, the estimated value of property collateral held against residential mortgages was £11,718.2 million (2017: £9,887.9 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 2018, there were six properties in possession (2017: three) with a value of £1.3 million (2017: £0.3 million).

Analysis of loans by region

A geographical analysis of the Group's originated customer loans and receivables by region is set out in the table below.

As at 31 December 2018	**Buy to let**	**Residential**	**Bridging**	**Second charge lending**	**Total**
Greater London	48.6%	8.6%	20.5%	35.2%	37.0%
South East and East Anglia	22.3%	29.5%	35.5%	36.5%	25.0%
South West	5.6%	9.5%	13.1%	7.0%	6.9%
Midlands	9.0%	18.0%	11.9%	7.8%	11.4%
North	11.3%	26.3%	13.5%	11.4%	15.2%
Wales	1.8%	4.1%	2.8%	2.1%	2.4%
Scotland	1.4%	4.0%	2.7%	-	2.1%
	100.0%	100.0%	100.0%	100.0%	100.0%

As at 31 December 2017	**Buy to let**	**Residential**	**Bridging**	**Second charge lending**	**Total**
Greater London	52.7%	11.0%	31.6%	38.2%	38.0%
South East and East Anglia	22.2%	30.8%	34.5%	35.7%	25.9%
South West	5.5%	9.4%	11.0%	6.7%	7.0%
Midlands	7.6%	16.9%	8.2%	7.4%	10.6%
North	9.3%	24.0%	11.6%	10.0%	14.1%
Wales	1.5%	3.8%	1.4%	2.0%	2.3%
Scotland	1.2%	4.1%	1.7%	-	2.1%
	100.0%	100.0%	100.0%	100.0%	100.0%

Forbearance

The Group may grant concessions, in accordance with its forbearance policy, to customers who are experiencing financial difficulties and unable to meet their financial obligations to the Group. In accordance with the European Banking Authority guidelines for financial reporting ("FINREP") under the Capital Requirement Regulations a concession may be either of the following:

- a modification of the previous terms and conditions of a contract that the debtor is considered unable to comply with due to its financial difficulties ('troubled debt') resulting in insufficient debt service ability and that would not have been granted had the debtor not been experiencing financial difficulties;
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been experiencing financial difficulties.

The Group has used the FSA FG11/15 guidance "Forbearance and Impairment Provisions - Mortgages" and the EBA's guidance EBA/GL/2018/06 "Guidelines on Management of Non-performing and Forborne Exposures" to identify forbearance measures. Forbearance measures used by the Group include:

- Payment Holidays
- Term Extensions
- Temporary Transfers to Interest Only
- Arrangements To Pay Arrears Balances
- Promise to Pay or Lump Sums
- Concessional Payments
- Capitalisation of Arrears

Under FINREP loans which are granted forbearance measures shall only be discontinued from forbearance reporting once certain conditions have been met. This includes a minimum two year probationary period from the initial forbearance grant if a loan was performing at that time. The Group reports non-performing loans granted forbearance as forborne loans for a minimum of three years. This comprises a minimum 12 months' probation period on non-performing status from the date forbearance is granted, plus another two years' probation once the loan returns to performing status.

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 modifications of contractual cash flows on customer loans and receivables and the effect of such modifications on the measurement of expected credit losses is not material.

The tables below set out the positon on forborne loans at 31 December after application of the FINREP rules on probation.

At 31 December 2018

	Mortgages subject to forbearance measures						
				Past due			
	Current balance £m	% of portfolio	Current £m	< 3 months £m	3 – 6 months £m	6 – 12 months £m	>12 months £m
Payment holiday	17.7	0.26	15.1	2.5	0.1	-	-
Term extensions	17.1	0.25	12.9	2.7	0.7	0.8	-
Transfers to interest only	5.7	0.09	4.3	0.9	0.1	0.4	-
Arrangements to pay	57.1	0.85	23.7	25.5	4.9	2.2	0.8
Promise to pay lump some	69.9	1.05	47.6	20.1	1.6	0.6	-
Other	1.2	0.02	0.3	0.7	0.1	0.1	-
Total	168.7	2.52	103.9	52.4	7.5	4.1	0.8
Of which subject to active forbearance strategies	46.2	0.69	31.6	10.5	2.2	1.6	0.3

At 31 December 2017

	Mortgages subject to forbearance measures						
				Past due			
	Current balance £m	% of portfolio	Current £m	< 3 months £m	3 – 6 months £m	6 – 12 months £m	>12 months £m
Payment holiday	11.1	0.21	9.9	1.2	-	-	-
Term extensions	15.5	0.29	14.1	0.8	0.6	-	-
Transfers to interest only	4.2	0.08	3.8	0.2	0.2	-	-
Arrangements to pay	32.8	0.61	13.7	15.7	2.7	0.2	0.5
Promise to pay lump some	51.5	0.96	37.6	13.1	0.7	0.1	-
Other	1.1	0.02	0.9	0.2	-	-	-
Total	116.2	2.17	80.0	31.2	4.2	0.3	0.5
Of which subject to active forbearance strategies	49.5	0.92	40.1	7.4	1.3	0.2	0.5

Impairment

IFRS 9 Financial instruments has introduced a new impairment model for financial instruments which requires the Group to recognise expected credit losses based on unbiased forward-looking information. The impairment model applies to all financial assets at amortised cost, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

The measurement of expected loss involves increased complexity and judgement including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

The expected loss model has resulted in an increase in the total level of impairment allowances, since all financial assets are assessed for at least a 12-month expected credit losses and the population of financial assets to which lifetime expected credit losses are applied is larger than the population to which the previous incurred loss model applied.

The Group's risk appetite and risk management strategy has not changed as a result of the new accounting standard.

Impairment: Key concepts and management judgements

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions. Key concepts and management judgements include:

a) Determining whether a significant increase in credit risk since initial recognition has occurred

IFRS 9 requires the recognition of the expected credit losses from default events expected within 12 months of the reporting date if credit risk has not significantly increased since initial recognition (Stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (Stage 2) or which are credit impaired (Stage 3).

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience, early warning indicators and expert credit risk assessment. The approach to identifying significant increases in credit risk is consistent across the Group's products and includes forbearance indicators such as those listed in the forbearance disclosure table above and impairment indicators such as being in arrears by less than three payments. In addition, the Group considers that significant increase in credit risk occurs when the borrower is more than 30 days past due on their contractual payments.

Assets subject to active forbearance measures are always classified as at least in Stage 2.

Exposures are moved back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk. An instrument must remain in Stage 2 for at least three months before it can be classified as Stage 1.

Except for certain investments in debt securities, the Group has not relied on the low credit risk exemption in IFRS 9.

While management consider these areas to be the key judgements within IFRS 9, they are not material and therefore have not been disclosed in note 5 to the Preliminary announcement.

Impairment: Key concepts and management judgements (continued)

b) Definition of default and credit impaired assets

The Group defines a financial instrument as in default, when it meets one or more of the following criteria:

Quantitative criteria: The borrower is more than 90 days past due on their contractual payments.

Qualitative criteria: The borrower is less than 90 days past due on their contractual payments but is judged to be unlikely to pay, in circumstances such as bankruptcy or a borrower being deceased.

The above criteria are applied to all financial instruments held by the Group, with the exception of bridging loans, and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the probability of default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") throughout the Group's expected credit loss calculations. The definition of default for bridging loans are different to other financial instruments. Bridging loans have an initial period where no payments are due. The default definition applied to bridging loans is that they are classified as Stage 3 when the initial period has ended and payments become due and they are at least three payments in arrears.

An instrument is not considered to be in default (i.e. to have cured) when it no longer meets any of the default criterion. Such an instrument ceases to be classified as Stage 3 but remains in Stage 2 for at least three months before it can be classified as Stage 1.

c) Forward-looking information

The calculation of expected credit losses incorporates the use of forward-looking information. The Group has obtained external analysis or performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

The economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement is also been applied in this process. Forecasts of these economic variables (the 'base economic scenario') are sourced externally and provide the best estimate view of the economy over at least the next five years.

The impact of these economic variables on the PD, EAD and LGD has been determined through statistical analysis to understand how the changes in these variables historically have affected default rates and the components of LGD and EAD. This has been achieved through wider market analysis sourced by the bank and internal analysis of the bank's portfolios.

Impairment: Key concepts and management judgements (continued)

The forward looking scenarios are reviewed regularly as part of a working group, with the selection of scenarios and the scenario weightings at of 31 December 2018 remaining consistent since the date of transition to the expected loss model on 1 January 2018. The following is a summary of the scenarios adopted as at 31 December 2018.

Scenario	Description	Weighting
Upside	Scenario defined based on strong near term growth. This is principally based on a favourable separation from the EU, which has the effect of increasing housing stock prices and household wealth.	15%
Base Case	Scenario defined based on a slow, but positive economic trajectory through the Brexit negotiations and separation.	70%
Downside 1	Scenario defined based on a deep recession affecting the UK. This is principally based on the UK failing to reach a trade deal resulting in a 'hard Brexit' or 'no deal this assumes higher interest rates and a negative impact on growth, house prices and unemployment.	10%
Downside 2	Scenario is defined based on a stress to the market, aligned to central bank stress testing scenario.	5%

The Group uses forecasts of HPI, Unemployment, GDP and interest rates as part of the provisioning process. These forecasts are provided by an external economics firm and are reviewed regularly by the Group's management. The base case economic forecast reflects the uncertainty around Brexit with a subdued growth over the near term, which results in slightly higher unemployment year on year, restrained house price growth and modest increases in interest rates. The economic forecasts directly affect the expected probability of an account defaulting and the loss severity should an account default and the base case is considered together with an upside, a downside and a stress scenario.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The assessment of significant increases in credit risk takes forward looking macroeconomic data into account through a management judgement process.

d) Modelling techniques

Expected credit losses are determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an expected credit loss for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the expected credit loss calculation is the original effective interest rate. This calculation is undertaken for each of the selected economic scenarios and probability weighted to produce the final loss allowance.

The committed mortgage pipeline follows the same methodology with the addition of an assumed time to completion and completion rate coefficient.

Impairment: Impact on loan loss allowance as at 1 January 2018

The impairment allowance at 1 January 2018, measured in accordance with the expected loss model, was £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. The £0.7 million related to loans and receivables and there was an immaterial amount relating to loan commitments and guarantees. The movements in the impairment allowance during 2018 are disclosed in note 15 to the Preliminary announcement.

Impairment: Loan loss allowance as at 31 December 2018

The impairment allowance at 31 December 2018 has been calculated as set out below.

	Expected credit loss provision calculated for each scenario £m	Weighting	Weighted expected credit loss provision for each scenario £m
Scenarios as at 31 December 2018			
Upside	0.5	15%	0.1
Base Case	1.0	70%	0.7
Downside 1	4.7	10%	0.4
Downside 2	11.9	5%	0.6
Total weighted provisions			1.8
Overlays:			
Additional stage 3 provisions on individual loans			0.3
Additional Brexit overlay			1.5
Total provision at 31 December 2018			3.6

In addition to the modelled provision, management review all stage 3 provisions on individually impaired loans along with the collections team responsible for the recovery of those loans. Where appropriate the modelled provisions are revised in line with their assessments of the probability of recovery of each loan. Accordingly, an additional provision of £0.3 million (2017: £0.3 million) has been recognised which is disclosed as additional stage 3 provisions on individual loans within the above table.

At 31 December 2018, management considered that the current suite of scenarios did not adequately reflect the economic and political risk from Brexit. The political position was that there was a recent challenge to the Prime Minister’s leadership principally because the UK Parliament could not support the deal that had been agreed with the EU. Also, the Group’s external economic scenario provider had recently improved the outlook of the suite of scenarios, which was deemed too optimistic and premature.

To take account of this it was concluded that an overlay to the modelled provision, based on conservative Brexit outcomes was required. In order to do so a set of additional, Brexit specific scenarios were sourced, with a full probability weighted set of provision calculations run a Hard Brexit scenario and a No Deal Brexit scenario. The midpoint of these scenarios runs was taken as an overlay, which resulted in additional £1.5 million provision. The Brexit overlay has been reviewed by management, including review of the methodology, justification and quantum, and confirmed at Audit Committee. In accordance with standard governance, the economic position, scenario selection and impact of the Brexit decision will continue to be monitored by management.

The table below discloses the gross carry amount of residential mortgages held at amortised cost as at 31 December 2018 and 1 January 2018 by credit risk rating grades. Grades have been determined using bespoke internal credit risk rating methodology. The balance weighted PD is the average PD within each credit risk weighting grade.

As at 31 December 2018

Risk Band	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Balance Weighted PD
Gross balances					
Excellent quality	3,163.8	22.9	-	3,186.7	0.3%
Good quality	2,940.9	163.8	-	3,104.7	1.1%
Satisfactory quality	147.3	70.1	-	217.4	5.2%
Lower quality	56.6	79.5	-	136.1	11.6%
Impaired	-	-	16.1	16.1	-
	6,308.6	336.3	16.1	6,661.0	
Impairment provisions	1.3	1.5	0.8	3.6	
Coverage ratio	0.02%	0.45%	4.97%	0.05%	

As at 1 January 2018

Risk Band	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Balance Weighted PD
Gross balances					
Excellent quality	2,588.5	14.4	-	2,602.9	0.5%
Good quality	2,392.4	87.0	-	2,479.4	1.5%
Satisfactory quality	137.8	30.7	-	168.5	5.8%
Lower quality	65.0	39.6	-	104.6	11.8%
Impaired	-	-	5.7	5.7	-
	5,183.7	171.7	5.7	5,361.1	
Impairment provisions	0.9	0.4	0.4	1.7	
Coverage ratio	0.02%	0.23%	7.02%	0.03%	

Treasury risk

Treasury risk arises from a range of varying risk types as summarised below. Uncertainty in the markets as a result of stressed conditions arising from Brexit could result in such risks becoming higher or more volatile.

The majority of Treasury Wholesale Credit exposure is to the Bank of England, although the Group also has exposures to wholesale counterparties through Correspondent Banking relationships and through derivatives transacted to hedge interest rate risk. Derivatives are transacted only with the highest rated counterparties and are subject to ISDA and CSA agreements. Wholesale credit risk exposures associated with derivatives is virtually eliminated through regular exchange of collateral which is monitored by the appropriate risk committees.

Cash exposures within securitisation structures are managed in line with prescriptive investment criteria and, again, only placed with highly rated institutions or AAA rated liquidity funds.

Monitoring of the ongoing creditworthiness of counterparties is performed regularly and independently by the risk function using market information including credit ratings, equity prices, Credit default swap ("CDS") spreads etc. The impact of any deterioration on credit profile and its impact is routinely considered. Management information on Wholesale Credit exposures is presented to ALCO, Board Risk Committee and the Board.

Risk	Monitoring & Control	Emerging Risks
Treasury risk, comprising: **Liquidity risk - t**he risk that the Group does not have sufficient liquid resources 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.	• 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 Asset and Liability 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.	• 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. • Volatility of securitisation markets due to Brexit uncertainty.
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 assets in the Liquid Asset Buffer is minimal as the assets are 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 CCFS' liquidity stress tests.** **The Group does not seek to take interest rate positions 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.**		

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. Charter Court 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 Charter Court 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, Charter Court is comfortable with this customer deposit profile and in its capabilities to continue to grow, enhance and diversify its retail savings proposition.

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

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 2018					
Trade and other payables	24.2	-	-	-	24.2
Corporation tax payable	-	18.8	-	-	18.8
Deposits from banks	32.3	34.7	1,147.8	-	1,214.8
Deposits from customers	1,254.8	2,555.5	1,284.2	-	5,094.5
Derivative financial instruments	13.7	-	-	-	13.7
Debt securities in issue	15.1	315.9	641.9	-	972.9
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

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 2018					
Trade and other payables	24.2	-	-	-	24.2
Corporation tax payable	-	18.8	-	-	18.8
Deposits from banks	32.3	41.3	1,168.3	-	1,241.9
Deposits from customers	1,259.3	2,594.7	1,325.3	-	5,179.3
Derivative financial instruments	2.5	6.8	26.2	0.1	35.6
Debt securities in issue	18.6	327.6	670.3	-	1,016.5
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

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. Management consider that a 0.5% movement in interest rates is an appropriate notional movement to apply in assessing interest rate sensitivity over the next twelve months.

	As at 31 December 2018 £m	As at 31 December 2017 £m
+ 0.5%	7.8	5.4
- 0.5%	(7.9)	(5.4)

Operational risk

Expansion of the Group and growth in employee numbers and premises coupled with ever-increasing cyber and IT risks bring a higher operational risk profile which requires greater monitoring and control.

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 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 cyber-crime threat and invested in: cyber-crime detection software, expanded penetration testing / reporting and 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 2018 was well within the Board agreed risk appetite.

Regulatory risk

The Group monitors closely changes in the regulatory landscape and prioritises compliance with prudential and conduct risk requirements, reporting and control standards.

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 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, mortgage prisoners, price discrimination and unfair contract terms. • Ongoing 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

Charter Court is exposed to the typical conduct risks in a retail mortgages and savings business but mitigates those risks by offering a simple range of 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.

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 UK regulators. Such changes can have significant impacts on lending products, underwriting activities and standards and the associated cost base or market opportunity.

Charter Court maintains a closely engaged relationship with the PRA and increasingly the FCA and proactively monitors the regulatory landscape.

In 2018, the FCA undertook a number of sectoral thematic reviews focused on outsourcing management and controls, cybercrime protection and IT resilience, and retail banking business models which involved the Group, with no material actions required.

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 Charter Court's markets.

Prudential risk exposures are considered under Liquidity and Funding above.

Risk factors

The risk factors described below represent those other and emerging risks which are currently considered to be material to the Group. All of the below are included on the firm's risk register which includes ongoing reassessments, management actions and documentation of ongoing monitoring and control activities.

Risk factor – Global economy – generic, industry wide

The Group's business and financial performance have been and will continue to be affected by general economic conditions in the UK.

Implications: adverse developments in the UK or global financial markets could have a detrimental impact on its earnings and profitability.

Controls: whilst the Group has no control over events and economic impacts, it has increased capital and credit risk stress testing activity and augmented monitoring, control and reporting of the mortgage portfolio including emerging arrears.

Risk factor – UK macro-economy and housing market – generic, industry wide

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.

Implications: pressures on household incomes and unemployment may lead to an increase in arrears in the Group's residential mortgage portfolios, and an associated increase in impairment provisions; high levels of consumer debt could also impact affordability assessments and other factors in underwriting decisions and may contribute to reduced willingness to lend to individuals.

Controls: increased stress testing, credit risk modelling and robust underwriting controls are key mitigants.

Risk factor – 'Brexit' – generic, industry wide

Regulatory and other changes resulting from the UK's exit from the EU could impact the Group's results.

Implications: there remains uncertainty as to the eventual outcome of the negotiations which is having the effect of dampening investment and purchase activity; additionally, it is unclear currently which proportion of the regulatory regime applicable to the Group being derived from EU directives and regulations will remain post Brexit. The UK exiting the EU could materially change the regulatory framework applicable to the Group's operations.

Controls: no Brexit specific additional controls have yet been introduced, given uncertainty as to the ultimate outcome and unknown impact on the UK economy. However, this is under constant review and the Group is ready to promptly implement necessary controls should the need arise.

Risk factor – Competition – firm specific

Competition in the UK mortgage and retail savings markets from existing players and new entrants.

Implications: this may adversely affect the Group's operations or lead to pressures to change risk appetite by lowering underwriting standards, compromising on counterparty quality or partaking in higher LTV lending.

Controls: the Group's risk appetite remains unchanged. A Mortgage Indemnity Guarantee ("MIG") policy has been arranged to control and limit potential credit losses, should the Group undertake higher LTV lending, although there are no plans at present to pursue the same.

Risk factor – Cyber Crime, fraud – generic, industry wide

The Group may be subject to privacy or data protection failures, cybercrime and fraudulent activity.

Implications: customer service disruption leading to reputational damage; increased costs from necessary remedial work and losses arising from fraud.

Controls: the Group has introduced cyber and IT related controls into the RCSA framework, invested in infrastructure, and deployed preventative measures and additional expert staff plus enhanced capability in the risk team.

Risk factor – IT failure and operational resilience – generic, industry wide

The Group is dependent on its IT systems, including those of its outsourced providers.

Implications: these systems and applications may fail resulting in disruption to customers and suppliers and reputational damage.

Controls: the Group has significantly upgraded its servers and located these in a professionally managed, bespoke controlled secure UK site. Considerable investment has been made to improve operational resilience and independent risk oversight.

Risk factor – Key employee dependency – firm specific

The Group is reliant on a relatively small number of key employees, within its senior management team and the wider business, who are central to the Group's approach to operating in its specialist markets.

Implications: competition in the financial services industry for skilled and/or qualified and experienced personnel could result in departures of key people.

Controls: the firm has identified the key people, developed succession and contingency planning and put in place appropriate retention schemes and statutory two-way notice periods.

Risk factor - Outsourcing – firm specific

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.

Implications: failure of key service/function providers' systems and service could adversely affect the Group's customer service and business operations.

Controls: the Group has robust service level agreement ("SLA") documentation which is monitored and reported upon as well as close day to day monitoring and control of the operations of outsource partners, supplemented with reporting and MI and regular site visits, risk reporting and operating and risk committee oversight.

Risk factor – Regulatory risks – generic, industry wide

The Group's business is subject to risks relating to changes in Government policy and applicable regulations.

Implications: adverse impact on the business model or housing market.

Controls: the Group tracks closely industry developments and regulatory changes, has regular dialogue and meetings with the regulatory bodies which are documented along with a specific action tracker with timings. There is robust risk committee and Board committee oversight of changes and assurance reporting of adherence to regulatory timetables and associated actions.

Britain's exit from the European Union ("Brexit")

The impact of the UK's decision to leave the European Union remains uncertain.

Towards the end of 2018, the Prime Minister secured with the EU terms on which Britain would leave the Union. However, since that time, the negotiated deal has not been accepted by MPs and has been subject to much debate.

At 13 March 2019, there remains the possibility of a range of outcomes from an amended EU agreement being accepted by a majority of MPs and, therefore, the UK leaving the EU on 29 March 2019 as originally planned, a delay beyond 29 March, or possibly the UK exiting on 29 March with 'no deal'. A delay is viewed as the most likely option and a 'no deal' disorderly exit the most unlikely.

Business response

The Group has tracked closely all Brexit related developments. Given the inherent material uncertainty and the evolving situation, a cautious but pragmatic approach has been adopted. Consideration has been given ongoing to the potential risks associated with developments as they occur in the context of how savers and borrowers might be affected, the economic environment, the business model and the financial impact.

Consideration of risks

More particularly, consideration of the risks may be summarised as follows:

- Credit risk – analysis of the impact on mortgage affordability and house prices caused by adverse economic conditions arising. The loan book has been stressed extensively over a five-year horizon against a range of macro-economic assumptions, some severely adverse;
- IFRS 9 loss provisions – potential loss provisions have been modelled for a number of Brexit scenarios including 'no deal'; 'hard Brexit'; 'baseline'; 'soft Brexit'; 'no Brexit';
- Capital – credit losses and net interest income impacts have been considered including those associated with the Bank of England's widely publicised scenarios;
- Liquidity – the risks associated with adverse impacts on liquidity have been considered against discounting EU potential deposit opportunities;
- Treasury counterparty risk – as will be seen in the risk management section, the Group's policy is for a minimum A- rating. Market developments and focus on EU wholesale counterparties has been increased, including increased monitoring of exposures to highlight banks' share prices, CDS spreads, external market movements and potential volatility.

The conclusion from stress testing Brexit risks is that the business remains profitable is able to continue its planned growth and operate within risk appetite limits.

The Board considers the associated risks to have been properly considered and analysed and management will continue to monitor closely and report on the emerging situation.

In the meantime, the business remains focused on prudent growth in line with its business plan with no change in strategy or credit risk appetite.

Responsibility statement of the Directors on the annual report

The responsibility statement below has been prepared in connection with the Group's full annual report for the year ending 31 December 2018.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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;

- the strategic 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; and

- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

The responsibility statement was approved by the Board of Directors on 13 March 2019 and signed on its behalf by:

Ian Martin Lonergan	Sebastien Maloney
Chief Executive Officer	Chief Financial Officer

Charter Court Financial Services Group plc

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Interest income and similar income	7	275.5	211.1
Interest expense and similar charges	8	(95.0)	(67.0)
Net interest income		180.5	144.1
Non-interest income	9	8.0	8.5
Gain on sale of loans		36.4	17.7
Net loss from derivative financial instruments	10	-	(0.1)
Total income (net)		224.9	170.2
Administrative expenses		(64.6)	(58.0)
Provision for loan impairments – net charge	15	(2.1)	(0.5)
Profit before tax		158.2	111.7
Tax charge	11	(37.4)	(30.4)
Profit for the year		120.8	81.3
Other comprehensive income for the year		-	-
Profit and total comprehensive income for the year attributable to equity holders of the Parent Company		120.8	81.3
Earnings per share (pence per share)			
Basic	12	50.5	35.0
Diluted	12	50.1	34.9

All items dealt with in arriving at the profit before tax, the profit for the 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 2018

	Note	2018 £m	2017 £m
Assets			
Cash and cash equivalents		981.2	966.8
Investment in debt securities	14	123.0	78.4
Customer loans and receivables	15	6,661.5	5,364.2
Fair value adjustment for hedged risk	15	(9.9)	(6.2)
Derivative financial instruments	16	17.1	11.9
Other assets held at fair value		0.1	0.2
Trade and other receivables		5.9	4.6
Deferred tax asset		2.5	2.2
Property, fixtures and equipment		2.5	0.9
Intangible assets		2.6	1.4
Total assets		7,786.5	6,424.4
Liabilities			
Deposits from banks	17	1,214.8	1,003.5
Deposits from customers	18	5,094.5	4,420.0
Fair value adjustment for hedged risk	18	(2.7)	(0.2)
Debt securities in issue	19	972.9	627.4
Derivative financial instruments	16	13.7	6.5
Trade and other payables		24.2	15.2
Corporation tax payable		18.8	17.0
Total liabilities		7,336.2	6,089.4
Net assets		450.3	335.0
Equity			
Share capital	20	2.4	2.4
Share premium	21	19.0	19.0
Retained earnings	22	429.3	313.6
Own shares	23	(0.4)	-
Equity attributable to equity holders of the Parent Company and total equity		450.3	335.0

Notes 1 to 28 form an integral part of the Preliminary announcement.

The Preliminary announcement was approved by the Board of Directors on 13 March 2019. 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 2018

	Share capital	Share premium	Retained earnings	Equity-settled employee benefits reserve	Own shares	Total
Note	**20**	**21**	**22**		**23**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2017	-	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 (note 24)	-	-	0.4	0.7	-	1.1
Transfer of equity-settled employee benefits reserve	-	-	0.8	(0.8)	-	-
Balance at 31 December 2017 as originally presented	2.4	19.0	313.6	-	-	335.0
IFRS 9 adjustment to opening provision for loan impairments (note 3)	-	-	(0.7)	-	-	(0.7)
Restated total equity at 1 January 2018	2.4	19.0	312.9	-	-	334.3
Profit and total comprehensive income for the year	-	-	120.8	-	-	120.8
Interim dividend paid (note 13)	-	-	(6.7)	-	-	(6.7)
Deferred tax on transition to IFRS 9	-	-	0.2	-	-	0.2
Recognition of share-based payments (note 24)	-	-	2.1	-	-	2.1
Purchase of own shares	-	-	-	-	(0.4)	(0.4)
At 31 December 2018	2.4	19.0	429.3	-	(0.4)	450.3

Charter Court Financial Services Group plc

Consolidated statement of cash flows

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Net cash (utilised)/generated by operating activities	25	(850.0)	189.6
Purchases of property, fixtures and equipment		(2.1)	(0.4)
Expenditure on product system development and software		(1.5)	(1.0)
Proceeds from sale of customer loans and receivables		286.2	300.0
Purchases of investments in debt securities		(62.0)	(44.7)
Disposals and redemptions of investment in debt securities		17.5	88.9
Net cash generated by investing activities		238.1	342.8
Proceeds on issue of debt securities		1,275.5	394.4
Costs associated with issue of debt securities		(3.0)	(1.5)
Repayment of debt securities		(639.1)	(191.6)
Dividends paid		(6.7)	-
Purchase of own shares		(0.4)	-
Proceeds from the issue of shares		-	20.0
Share issue costs		-	(0.9)
Net cash generated financing activities		626.3	220.4
Net increase in cash and cash equivalents		14.4	752.8
Cash and cash equivalents at beginning of the year		966.8	214.0
Cash and cash equivalents at end of the year		981.2	966.8

At 31 December 2018 cash and cash equivalents includes £73.2 million (2017: £79.9 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 2017 and 31 December 2018. Statutory accounts for 31 December 2017 have been delivered to Companies House, and those for 2018 will be delivered in due course. The Group's auditor has reported on the financial statements for each period 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 2018.

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.

2. Basis of preparation

The Group's Consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and other assets held at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Preliminary announcement is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair vale but are not fair value, such as value in use in IAS 36.

The Preliminary announcement is presented in pounds sterling. The functional currency of the Company and its subsidiaries is pounds sterling, which is the currency of the primary economic environment in which the entities operate. There are currently no foreign operations within the Group.

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 and adopted for the first time in the year ended 31 December 2018

IFRS 9 Financial instruments is effective for the Group's Consolidated financial statements for the year ending 31 December 2018, changing the classification and measurement of financial assets and introducing a new impairment model for financial instruments which requires entities to recognise expected credit losses based on unbiased forward-looking information. The new impairment model replaces the 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 under IAS 39 'Financial Instruments: recognition and measurement'.Under IFRS 9, the Group is required to classify and measure financial assets according to the business model within which they are managed and their contractual cash flow characteristics. Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets are measured at fair value through other comprehensive income ("FVOCI") if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest. Other financial assets are measured at fair value through profit and loss ("FVTPL").

The Group has reviewed the business model within which each financial asset is managed.

The Group's customer loans and receivables are originated with the intention of holding these assets to maturity and collecting contractual cash flows ("held to collect"). However, management's business model assessment must take into account historical sales of mortgage portfolios to third parties and the likelihood that the Group might continue to take advantage of external sales opportunities. Management has concluded that the level of sales activity is not material in comparison to total customer loans and receivables and so the business model remains held to collect.

The Group's investment securities are acquired to generate interest income until maturity, with the explicit intention of not selling them before maturity, and so the business model is held to collect.

The Group has reviewed the contractual cash flows arising from each financial asset.

The contractual cash flows from the Group's customer loans and receivables and from its investment securities are solely payments of principal and interest, with the one exception of the contractual cash flows from a purchased portfolio of mortgage assets (see below).

The Group has therefore concluded that, except as set out below, the measurement of all non-derivative financial assets remains unchanged in the Group's Consolidated financial statements and they continue to be carried at amortised cost. The measurement of derivative financial assets also remains unchanged and they continue to be carried at FVTPL.

The Group has previously purchased portfolio of mortgage assets that may generate cash flows other than payments of principal and interest. Under IAS 39 the portfolio was carried at amortised cost, with a net carrying amount of £24.1 million at 31 December 2017. Under IFRS 9, the same portfolio is now carried at FVTPL. On transition to IFRS 9 the fair value of the portfolio was calculated as £24.1 million.

3. International financial reporting standards issued and adopted for the first time in the year ended 31 December 2018 (continued)

The opening impairment allowance as at 1 January 2018 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. The £0.7 million relates to loans and receivables and there is an immaterial amount relating to loan commitments and guarantees.

The Group has elected not to restate comparatives on initial application of IFRS 9 on 1 January 2018, and adjustments arising from changes have been recognised in opening equity.

The calculation of expected credit losses under IFRS 9 requires significant management judgements, estimates and assumptions. Key concepts and management judgements include:

- determining whether a significant increase in credit risk since initial recognition of an asset has occurred;
- defining default and at what point a financial asset becomes credit impaired;
- identifying the key economic variables impacting credit risk; and
- identifying and developing the appropriate modelling techniques.

For further details on the Group's approach to credit risk and impairment, see the Credit risk management section above.

The accounting policy for financial instruments has been revised following the first time application of IFRS 9 Financial instruments in 2018.

The Group has decided to continue to apply IAS 39 requirements in relation to hedge accounting, and comply with the amended IFRS 7 hedge accounting disclosure requirements.

Other changes to accounting standards in the current period, including the adoption of IFRS 15 Revenue from Contracts with Customers, had no material impact. The Group's main source of revenue is interest income which is outside of the scope of IFRS 15. The amount and timing of recognition of the Group's other non-interest income, primarily derived from administration of third party mortgage portfolios, mortgage origination fees not within scope of IFRS 9, is not materially affected by the introduction of IFRS 15.

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

The following financial reporting standards and interpretations were in issue but have not been applied in the Consolidated financial statements, as they were not yet effective on 31 December 2018 (and in some cases have not yet been adopted by the EU):

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

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to IFRS Standards 2015 – 2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
IFRIC 23	Uncertainty over Income Tax Treatments

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

The Directors do not expect that the adoption of the Standards and interpretation listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 16 Leases is effective for the Group's Consolidated financial statements for the year ending 31 December 2019. It introduces significant changes to lessee accounting removing the distinction between operating and finance leases. The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

– The right to obtain substantially all of the economic benefits from the use of an identified asset; and
– The right to direct the use of that asset.

The new definition in IFRS 16 does not change the scope of contracts that meet the definition of a lease for the Group or have a material impact on the Consolidated financial statements of the Group. IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off‑balance sheet.

On initial application of IFRS 16, for all leases the Group will:

a) Recognise right‑of‑use assets and lease liabilities in the Consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognise depreciation of right‑of‑use assets and interest on lease liabilities in the Consolidated statement of comprehensive income;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated cash flow statement.

On transition the Group will use an incremental borrowing rate as of the date of the initial application (1 January 2019) which incorporates the remaining lease term to calculate the lease liability, the right‑of‑use asset will be measured at an amount equal to the lease liability.

Lease payments are currently reported as an administrative expense. Under IFRS 16 interest expense on the lease liability will be presented as a finance cost and the depreciation charge for the right-of-use asset will be presented under administrative expenses. The expense profile of the Consolidated statement of comprehensive income will change, with a higher finance cost in earlier years of the lease.

Under IFRS 16, right‑of‑use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. For short‑term leases (lease term of 12 months or less), the Group will opt to recognise a lease expense on a straight‑line basis as permitted by IFRS 16.

On transition the Group will recognise a total lease liability of £8.5 million and a corresponding right‑of‑use asset of £8.5 million in respect of all leases. The impact on the Consolidated statement of comprehensive income of the Group is not material.

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

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.

Business Model

Application of the 'business model' requirements under IFRS 9 requires the Group to conclude on the business models that it operates and is a fundamental aspect in determining the classification of the Group's financial assets.

Management considered the manner in which the Group manages its financial assets by reference to how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and concluded that the Group operates a 'held to collect' business model, which means that the majority of the Group's assets are held at amortised cost. This conclusion was reached on the basis that the Group originates in order to collect contractual cash flows over the life of the originated instrument, and any asset sales which crystallise through residual certificate sales will occur infrequently. The Audit Committee also considered the business model assessment of IFRS 9 and agreed with management's assumption that the business model is 'held to collect'.

Due to the manner in which the Group securitises its financial assets, different business model conclusions have been reached within the separate financial statements Charter Court Financial Services Limited and Charter Mortgages Limited; the judgements considered and conclusions reached are disclosed within their separate financial statements.

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

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.

In January 2018, the residual rights to the cash flows from Charter Mortgage Funding 2017-1 Plc were sold by the Group to a third party and it was concluded that the criteria for derecognition were met. A gain on sale of £15.1 million was recognised.

In June 2018, the Group securitised £300.0 million of buy to let mortgages through the SPV, Charter Mortgage Funding 2018-1 Plc. As the residual rights to the cash flows were sold to a third party it was concluded that the criteria for derecognition were met. A gain on sale of £21.3 million was recognised.

In July 2018, the Group sold its residual certificate 1 (“RC1”) position in Precise Mortgage Funding 2018-2B Plc to a third party for a cash consideration of £14.1 million. The Group retained the residual certificate 2 (“RC2”) position and so it was concluded that the criteria for derecognition were not met and the Group continued to treat Precise Mortgage Funding 2018-2B Plc as a consolidated subsidiary in 2018. In January 2019 the Group sold its remaining interest in the company, see note 28 Post balance sheet events.

In November 2018, the Group sold Precise Mortgage Funding 2018-1B Plc’s RC1 position to a third party for a cash consideration of £7.1 million. The Group retained the RC2 position and so it was concluded that the criteria for derecognition were not met and the Group continued to treat Precise Mortgage Funding 2018-1B Plc as a consolidated subsidiary in 2018. In January 2019 the Group sold its remaining interest in the company, see note 28 Post balance sheet events.

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 19 for more information on the Group’s securitisation arrangements.

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

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.

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.

Estimates are based on historical data and are reviewed regularly. As a consequence of these reviews, in the year ended 31 December 2018 adjustments of £(2.0) million were made, decreasing net interest income and customer loans and receivables. In the year ended 31 December 2017 adjustments of £0.2 million were made, increasing net interest income and customer loans and receivables.

The Group considers that it is reasonably possible for expected lives to vary by six months from the estimates made in the EIR calculations. A change in the estimated expected lives, after taking account of the above adjustment, to extend or reduce the expected lives of the buy to let and residential mortgages by six months would have the following results. The effect of extending the expected lives would increase the cumulative profit before tax recognised as at 31 December 2018 by £12.5 million (2017: decrease by £0.6 million) and increase customer loans and receivables by £12.5 million (2017: decrease by £0.6 million). The effect of reducing the expected lives would decrease the cumulative profit before tax recognised as at 31 December 2018 by £12.6 million (2017: increase by £0.6 million) and decrease customer loans and receivables by £12.6 million (2017: increase by £0.6 million). The increase in the sensitivity to estimated expected lives of mortgage assets is primarily due to a change in product mix towards buy to let five year fixed rate products. This change has also extended the base case assessment of mortgage assets' estimated lives.

6. 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;
- Bridging: Short term bridging finance to owner-occupiers, landlords and property developers;
- Second charge lending ("SCL"): Long term second charge loans; and
- Other: Primarily income from structured asset sales, this also includes net income from the Group treasury and third party mortgage servicing functions and from the loan portfolio purchased in 2017.

Interest expense on debt securities in issue allocated in proportion to securitised buy to let and residential loans and remaining 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 Consolidated statement of comprehensive income 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 purchased loans and receivables 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.

6. Segment information (continued)

Year ended 31 December 2018	BTL	Resid-ential	Bridging	SCL	Other	Total
			£m			
Interest receivable and similar income	163.7	76.9	18.2	9.0	7.7	275.5
Interest payable and similar charges	(59.1)	(22.4)	(3.2)	(2.6)	(7.7)	(95.0)
Net interest income	104.6	54.5	15.0	6.4	-	180.5
Fees and commissions income	1.9	2.2	0.2	0.3	3.4	8.0
Gain on sale of loans	-	-	-	-	36.4	36.4
Net loss from derivatives	-	-	-	-	-	-
Provision for loan impairments – net charge	(0.8)	(1.1)	-	(0.2)	-	(2.1)
Segment profit	105.7	55.6	15.2	6.5	39.8	222.8
Administrative expenses						(64.6)
Profit before tax						158.2
Tax charge						(37.4)
Profit after tax						120.8
Segment assets	4,506.8	1,705.2	244.1	183.9	1,125.6	7,765.6
Unallocated assets						20.9
						7,786.5

Year ended 31 December 2017	BTL	Resid-ential	Bridging	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	(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

7. Interest income and similar income

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At amortised cost:		
Interest on customer loans and receivables	275.1	214.1
Interest and other income on debt securities	1.3	3.2
Interest and other income on liquid assets	5.6	2.0
	282.0	219.3
At fair value through profit or loss:		
Interest on customer loans and receivables	0.8	-
Net expense on derivative financial instruments designated as hedging instruments	(8.4)	(8.2)
Amortisation of fair value gain on swap cancellations	1.1	-
	(6.5)	(8.2)
	275.5	211.1

8. Interest expense and similar charges

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At amortised cost:		
Interest expense on deposits and other borrowings	80.3	63.3
Interest expense on debt securities in issue	15.7	7.5
	96.0	70.8
At fair value through profit or loss:		
Net income on derivative financial instruments designated as hedging instruments	(1.0)	(3.8)
	95.0	67.0

9. Non-interest income

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Sale of investment in debt securities	-	2.1
Fair value movements on Loans and receivables held at FVTPL	0.6	-
Revenue from services relating to:		
Mortgage administration	2.7	2.5
Mortgage origination	4.7	3.9
	8.0	8.5

10. Net loss from derivative financial instruments

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Macro hedging:		
Gain on derivatives designated as fair value hedges	2.1	6.8
Loss in fair value of hedged items attributable to hedged risk	(2.1)	(6.8)
	-	-
Non-hedging:		
Net loss on disposal of interest rate swaps	-	(0.1)
	-	(0.1)

Notes to the preliminary announcement (continued)

For the year ended 31 December 2018

11. Tax

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Current tax:		
Current tax on profits for the year	30.2	24.8
Surcharge on bank profits for the year	7.3	7.6
Total current tax charge	37.5	32.4
Deferred tax:		
Current year	(0.3)	(2.1)
Adjustments in respect of prior periods	-	0.1
Effect of rate changes	0.2	-
Total deferred tax credit	(0.1)	(2.0)
Tax per Consolidated statement of comprehensive income	37.4	30.4

The tax charge on the profit for the year ended 31 December 2018 was £37.4 million (2017: £30.4 million). The effective tax rate for the year ended 31 December 2018 was 23.65% (2017: 27.23%), reflecting a combination of a reduction in the rate of UK corporation tax and increased activity in Group companies not subject to the banking surcharge. A reconciliation of the expected tax charge based on the standard rate of tax for the year ended 31 December 2018 of 19.00% (2017: 19.25%) to the actual tax charge is set out below.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit before tax:		
Continuing operations	158.2	111.7
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	30.1	21.5
Banking surcharge	7.3	7.6
Expenses not deductible for tax purposes	0.2	1.2
Income not taxable	(0.4)	-
Securitisation regulations	-	(0.1)
Adjustments in respect of prior periods	-	0.1
Effect of differences in tax rate	0.2	0.1
Tax charge for the year	37.4	30.4

Change in tax rate

Reductions in the rate of UK corporation tax 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 Group'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.

12. 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 or loss in the financial year attributable to the equity holders of the parent 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 2018	**Year ended 31 December 2017**
Profit for the year (£ million)	120.8	81.3
Weighted average number of ordinary shares of £0.01 each		
Basic	239,137,913	232,536,247
Dilutive effects	2,014,633	656,514
Diluted	241,152,546	233,192,761
Per share amount (pence)		
Basic	50.5	35.0
Diluted	50.1	34.9

The Group reorganised its share capital during 2017. There were no changes in equity as a result of the reorganisation therefore 2017 earnings per share has been prepared on the basis of the new structure after the reorganisation, in accordance with IAS 33.

13. Dividends

During the year, the Group paid an interim dividend for the current year of £6.7 million (2017: £nil), 2.8 pence per share (2017: nil pence).

The Group's distributable reserves from which dividends can be paid comprise retained earnings of £429.3 million (2017: £313.6 million).

The Directors propose a final dividend of 9.9 pence per share (2017: nil pence) payable on 22 May 2019 with an ex-dividend date of 11 April 2019 and a record date of 12 April 2019. This dividend is not reflected in this Preliminary announcement as it is subject to approval by shareholders at the AGM on 15 May 2019. The final and interim dividend result in a total dividend for 2018 of 12.7 pence (2017: nil pence) per share.

14. Investment in debt securities

	As at 31 December 2018 £m	As at 31 December 2017 £m
Debt securities held at amortised cost	123.0	78.4

Investment in debt securities at 31 December 2017 were classified as Held to Maturity debt securities under IAS 39, they are now classified as held at amortised cost from 1 January 2018 as required under IFRS 9.

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

Movements in the debt securities held during the year were:

	As at 31 December 2018 £m	As at 31 December 2017 £m
At the beginning of the year	78.4	119.5
Additions	62.0	44.7
Disposals and redemptions	(17.6)	(86.7)
EIR adjustment	0.1	1.0
Accrued interest	0.1	(0.1)
At the end of the year	123.0	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 assets, 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.

The credit risk on debt securities held has not significantly increased since initial recognition and all debt securities held are categorised as stage 1. The expected credit loss provisions recognised against debt securities are not material.

15. Customer loans and receivables

	As at 31 December 2018 £m	As at 31 December 2017 £m
Gross residential mortgages held at amortised cost	6,661.0	5,385.2
EIR adjustment	(17.4)	(20.0)
Provision for loan impairments	(3.6)	(1.0)
Net residential mortgages held at amortised cost	6,640.0	5,364.2
Residential mortgages held at fair value	21.5	-
	6,661.5	5,364.2

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 2018 £m	As at 31 December 2017 £m
Buy to let	4,506.8	3,232.2
Residential lending	1,726.7	1,742.3
Bridging	244.1	218.9
Second charge lending	183.9	170.8
	6,661.5	5,364.2

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

At 31 December 2018 included within customer loans and receivables is £236.6 million (2017: £211.7 million) of balances due within twelve months and £6,424.9 million (2017: £5,152.5 million) due after twelve 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.

15. Customer loans and receivables (continued)

Residential mortgages held at amortised cost

The movements in the Group's residential mortgages in 2018 were:

	As at 31 December 2018 £m	As at 31 December 2017 £m
Net opening balance as originally presented	5,364.2	3,807.9
IFRS 9 adjustments to opening balance at 1 January 2018 (note 3)		
Provision for loan impairments	(0.7)	-
Reclassification to residential mortgages held at fair value	(24.1)	-
Restated balance at 1 January 2018	5,339.4	3,807.9
Originations	2,846.1	2,737.3
Acquisition	-	26.0
Sales to third parties	(563.8)	(300.0)
Repayments and redemptions	(1,242.2)	(1,110.1)
Interest charged and other debits	258.5	209.0
EIR adjustments	4.1	(5.4)
Movement on provision for loan impairments	(2.1)	(0.5)
At the end of the year	6,640.0	5,364.2

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

Encumbered assets

The gross residential mortgage loan balances pledged as collateral for liabilities are:

	Note	As at 31 December 2018 £m	As at 31 December 2017 £m
In respect of:			
Bank of England Term Funding Scheme ("TFS")	17	1,592.4	1,326.1
Sale and repurchase agreements	17	77.3	-
Debt securities in issue	19	980.8	654.0
		2,650.5	1,980.1

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 2018 the percentage of gross customer loans and receivables that are encumbered is 39.7% (2017: 36.9%).

15. Customer loans and receivables (continued)

Impairment provisions on residential mortgages

The Group recognises expected credit losses from default events expected within 12 months of the reporting date if credit risk has not significantly increased since initial recognition (Stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (Stage 2) or which are credit impaired (Stage 3).

The following table analyses balances as at 31 December 2018 by stage of impairment. This analysis is required under IFRS 9 and was not previously a requirement under IAS 39. The 2017 comparative is the restated balance after adjusting for opening IFRS 9 adjustments.

	Gross balances				EIR adjustments	Provision for loan impairments	Net balance
	Stage 1	Stage 2	Stage 3	Total			
	£m	£m	£m	£m	£m	£m	£m
Balance as at 31 December 2017 as originally presented*				5,385.2	(20.0)	(1.0)	5,364.2
IFRS 9 adjustment (note 3):							
Reclassification and adjustment to fair value				(24.1)	-	-	(24.1)
Loan impairments				-	-	(0.7)	(0.7)
At beginning of year	5,183.7	171.7	5.7	5,361.1	(20.0)	(1.7)	5,339.4
Originations	2,846.1	-	-	2,846.1	-	-	2,846.1
Sales to third parties	(562.5)	-	-	(562.5)	(1.5)	0.2	(563.8)
Transfers between stages	(129.4)	119.3	10.1	-	-	-	-
Repayments and redemptions	(1,219.8)	(21.5)	(0.9)	(1,242.2)	-	-	(1,242.2)
Interest charged and other debits	190.5	66.8	1.2	258.5	-	-	258.5
EIR adjustments	-	-	-	-	4.1	-	4.1
Loan impairments profit and loss net charge	-	-	-	-	-	(2.1)	(2.1)
	6,308.6	336.3	16.1	6,661.0	(17.4)	(3.6)	6,640.0

*Analysis of gross balances by stage implemented from 1 January 2018 as required under IFRS 9, not previously a requirement under IAS 39.

The Group does not have any financial assets that were purchased or originated credit impaired.

15. Customer loans and receivables (continued)

The table below shows the transitional adjustment from the impairment provision under IAS 39 to the impairment provision under IFRS 9.

	£m
Total impairment provisions at 31 December 2017 (under IAS 39)	1.0
IFRS 9 adjustment to opening provision for loan impairments	0.7
Total impairment provisions at 1 January 2018 (under IFRS 9)	1.7
Comprising:	
Stage 1	0.9
Stage 2	0.4
Stage 3	0.4
	1.7

Impairment provisions as at 31 December 2018 are £3.6 million (2017: £1.0 million) and comprise:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2018	0.9	0.4	0.4	1.7
Sale of customer loans and receivables	(0.2)	-	-	(0.2)
Charge for the period:				
Modelled provision	-	0.4	0.2	0.6
Brexit overlay	0.6	0.7	0.2	1.5
Total charge	0.6	1.1	0.4	2.1
At 31 December 2018	1.3	1.5	0.8	3.6
Expected credit losses coverage by stage				
At 31 December 2018	0.02%	0.45%	4.97%	0.05%
At 1 January 2018	0.02%	0.23%	7.02%	0.03%

A 31 December 2018 the stage 3 provision includes £0.3 million (at 1 January 2018: £0.3 million) which is an additional overlay in respect of management and collection team review of stage 3 provisions on individually impaired loans, where the modelled provisions are revised in line with their assessments of the probability of recovery of each loan.

15. Customer loans and receivables (continued)

The above table is prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard, comparatives set out in the tables below have not been restated. Refer to note 3 for further information.

	Year ended 31 December 2017 £m
Collective impairment provisions	
At 1 January 2017	0.5
Charge for the year	0.1
At 31 December 2017	0.6
Specific impairment provisions	
At 1 January 2017	-
Charge for the year	0.4
At 31 December 2017	0.4
Total impairment provisions	1.0

All financial assets that were written off during the reporting period are still subject to enforcement activity. The contractual amount outstanding on these assets was less than £0.1 million at 31 December 2018.

At 31 December 2018, the Group's mortgage loan commitments totalled £577.8 million (2017: £549.8 million). The expected credit loss provision held against these commitments is not material.

Ageing of past due but not impaired customer loans and receivables

	As at 31 December 2018 £m	As at 31 December 2017 £m
1-30 days	34.0	34.6
31-60 days	27.4	7.1
61-89 days	7.5	4.1
	68.9	45.8

At 31 December 2018, total stage 1 and stage 2 provision of £2.8 million (2017: £0.6 million, incurred collective provision) was held relating to customer loans and receivables for which objective evidence of impairment had not been identified.

15. Customer loans and receivables (continued)

Ageing of past due and impaired customer loans and receivables

	As at 31 December 2018 £m	As at 31 December 2017 £m
1-30 days	-	0.4
61-89 days	0.5	-
90-120 days	4.8	2.1
> 120 days	9.7	4.0
	15.0	6.5

At 31 December 2018, a stage 3 provision of £0.8 million (2017: £0.4 million, specific provision) is held relating to impaired mortgage loan receivables.

Residential mortgage portfolio held at fair value through profit and loss

The residential mortgage portfolio held at fair value is categorised as level 3. The fair value is based on expected future cash flows using an assumed amortisation profile of the pool of mortgages. The cash flows are discounted to present value using a risk adjusted rates. Movements in the residential mortgage portfolio held at FVTPL were:

	Year ended 31 December 2018 £m
Balance at 31 December 2017 as originally presented	-
IFRS 9 Reclassification from residential mortgages held at amortised cost	24.1
At 1 January 2018	24.1
Repayments and redemptions	(4.0)
Interest charged and other debits	0.8
Fair value gain included in non-interest income (note 9)	0.6
At 31 December 2018	21.5

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 2018 £m	As at 31 December 2017 £m
Fair value adjustment for hedged risk	(9.9)	(6.2)

16. Derivative financial instruments

	Notional £m	Positive fair value £m	Negative fair value £m
Interest rate swaps at 31 December 2018			
Level 2 derivatives	7,879.0	16.0	(12.4)
Level 3 derivatives	442.4	1.1	(1.3)
	8,321.4	17.1	(13.7)
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)

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 Asset and Liability Committee.

Interest rate swap agreements with a notional value of £4,632.9 million as at 31 December 2018 (2017: £3,355.2 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 £3,248.5 million as at 31 December 2018 (2017: £2,836.0 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.

As at 31 December 2018, the Group held no interest rate options (caps) (2017: notional value of £300.0 million and a fair value of £nil) and held basis swaps with a notional value of £440.0 million (2017: £1,200.0 million) with a fair value of £(0.2) million (2017: £nil).

16. Derivative financial instruments (continued)

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.

Movements in the fair values of Level 3 swaps were:

	Year ended 31 December 2018 £m	**Year ended 31 December 2017 £m**
At 1 January	-	(0.3)
Movements in the fair value: (charge)/credit to the Consolidated statement of comprehensive income	(0.2)	0.3
At 31 December	(0.2)	-

17. Deposits from banks

	As at 31 December 2018 £m	**As at 31 December 2017 £m**
Collateral received on interest rate swap contracts	4.6	4.7
Sale and repurchase agreements	60.2	-
Bank of England Term Funding Scheme (“TFS”)	1,150.0	998.8
Total deposits	1,214.8	1,003.5

As at 31 December 2018, the carrying value of customer loans and receivables encumbered under sale and repurchase agreements was £77.3 million (2017: £nil) (note 15).

As at 31 December 2018, the carrying value of customer loans and receivables pledged as collateral for the TFS was £1,592.4 million (2017: £1,326.1 million). Deposits from banks includes £2.2 million of accrued interest (2017: £1.0 million) (note 15).

As at 31 December 2018 and 31 December 2017, all bank deposits were denominated in pounds sterling.

At 31 December 2018 included within deposits from banks is £67.0 million (2017: £5.7 million) of balances due within twelve months and £1,147.8 million (2017: £997.8 million) due after twelve months.

18. 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 2018 £m	As at 31 December 2017 £m
Amounts repayable		
On demand	621.9	526.6
In less than 3 months	632.9	767.7
In more than 3 months but less than 1 year	2,555.5	2,393.3
In more than 1 year but less than 5 years	1,284.2	732.4
Total deposits	5,094.5	4,420.0

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 2018 £m	As at 31 December 2017 £m
Fair value adjustment for hedged risk	(2.7)	(0.2)

19. Debt securities in issue

	As at 31 December 2018 £m	As at 31 December 2017 £m
Asset backed loan notes at amortised cost	972.9	627.4
Amount due for settlement within 12 months	331.0	42.0
Amount due for settlement after 12 months	641.9	585.4
	972.9	627.4

All borrowings are payable in pounds sterling.

The contractual maturity of debt securities is disclosed in the Risk management section.

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 mortgage assets. The maturity date of the funds matches the maturity date of the underlying mortgage assets. It is likely that a large proportion of the underlying mortgage assets and therefore these notes will be repaid within five years. As at 31 December 2018, the carrying value of assets pledged as collateral for the Group's debt securities in issue was £980.8 million (2017: £654.0 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.

As at 31 December 2018, notes were issued through six funding vehicles.

	As at 31 December 2018 £m	As at 31 December 2017 £m
PMF No. 1 asset backed loan notes	-	41.5
PMF 2014-1 asset backed loan notes	36.7	54.7
PMF 2014-2 asset backed loan notes	45.5	63.8
PMF 2015-1 asset backed loan notes	59.3	85.7
CCFS Warehouse No.1 asset backed loan notes	-	0.5
CMF 2017-1 asset backed loan notes	-	281.1
CML Warehouse Number 1 loan facility	234.0	100.1
PMF 2018-1B asset backed loan notes	228.7	-
PMF 2018-2B asset backed loan notes	354.5	-
PMF 2018-1B residual certificate 1 note	3.8	-
PMF 2018-2B residual certificate 1 note	10.4	-
	972.9	627.4

19. Debt securities in issue (continued)

PMF 2014-1 Plc, PMF 2014-2 Plc, PMF 2015-1 Plc, PMF 2018-1B Plc and PMF 2018-2B Plc each include an option to repay, prior to final maturity, the then outstanding principal amounts at par on all of their notes on or after an earlier date (the call date). The outstanding PMF No. 1 Plc notes were repaid at par on their call date, 12 December 2018.

The Group sold the CMF 2017-1 Plc unrated and subordinated retained position in January 2018 and CMF 2017-1 Plc is no longer consolidated.

20. Share capital

	As at 31 December 2018		As at 31 December 2017	
	Number	**£m**	**Number**	**£m**
Authorised, issued, called up and fully paid up:				
Ordinary shares of £0.01 each	239,320,419	2.4	239,130,419	2.4

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.

During 2018, the Group issued 190,000 shares at par, £1,900, to the Group's Employee Benefit Trust to satisfy the free share awards under the Performance Share Plan (note 24).

21. Share premium

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At 1 January	19.0	195.1
Premium arising on new issue of shares	-	19.0
Cancellation	-	(195.1)
At 31 December	19.0	19.0

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.

22. Retained earnings

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At 1 January	313.6	38.3
IFRS 9 adjustment to opening provision for loan impairments (note 3)	(0.7)	-
Restated at 1 January	312.9	38.3
Cancellation of share premium (note 21)	-	195.1
Bonus issue	-	(3.0)
Cancellation of deferred shares	-	0.7
Profit for the year and total comprehensive income	120.8	81.3
Deferred tax	0.2	-
Recognition of share-based payments	2.1	0.4
Transfer of equity-settled employee benefits reserve	-	0.8
Interim dividend paid (note 13)	(6.7)	-
At 31 December	429.3	313.6

23. Own shares

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At 1 January	-	-
Shares subscribed for (note 20)	-	-
Shares purchased	0.4	-
At 31 December	0.4	-

At 31 December 2018, the Employee Benefit Trust held 157,626 ordinary shares (2017: none) with a nominal value of £1,576.26 (2017: £nil) and a market value of £394,065 (2017: £nil). The dividends on all of these shares have been waived.

The shares purchased by the Employee Benefit Trust were acquired from employees exercising their Free share awards under the Performance Share Plan.

These shares are held in trust for the benefit of employees exercising their options under the Group's share option schemes. The trustees' costs are included in the operating expenses of the Group.

24. Share-based payments (continued)

The Group has 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")

PSP awards are granted to Executive Directors and 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 of up to three financial years and the remaining 20% of awards are subject to an internal balanced scorecard risk measure.

PSP awards were granted on 4 October 2017 ("PSP 2017") and 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.

PSP awards were granted on 26 March 2018 ("PSP 2018") and will vest from the date on which the Group's audited annual accounts for the year ending 31 December 2020 are approved by the Board.

Each award lapses ten years following the date of grant and carries 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, were awarded ordinary shares worth between £250 to £2,000 per individual, depending on length of service, for nil consideration. The award vested on 4 October 2018, the first anniversary of the date of grant, subject to the employee being employed on the vesting date but was not subject to any performance conditions or holding period. The Company paid a dividend during the vesting period and each award was increased by an amount equal to the aggregate value of the dividend.

Sharesave (SAYE) Schemes

The Sharesave schemes are 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 six month exercise period during which scheme participants can use the funds saved to buy shares at the option price determined at the start of the Sharesave scheme, or they can withdraw all their savings without buying any shares. A scheme participant can leave a Sharesave scheme at any time and have their savings returned. Scheme participants have no entitlement to any dividends paid during the savings period and may only save a maximum of £500 per month in total across all Sharesave schemes.

Employees were offered the opportunity to enter the 2017 Sharesave scheme in October 2017. At the end of the three year savings period, participating employees will have the opportunity to acquire ordinary shares at an option price of £1.87 per share.

24. Share-based payments (continued)

Employees were offered an opportunity to enter the 2018 Sharesave scheme in October 2018. At the end of the three year savings period, participating employees will have the opportunity to acquire ordinary shares at an option price of £2.80 per share.

Deferred Bonus Plan ("DBP")

The DBP applied to 2018 bonuses for those employees whose bonuses are over £100,000, and defer 50% of participating employees' annual bonus 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.

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

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
PSP	1.1	0.2
Free share awards	0.3	0.1
Sharesave (SAYE)	0.3	0.1
DBP	0.4	-
Pre-IPO share awards	-	0.7
	2.1	1.1

Notes to the preliminary announcement (continued)

For the year ended 31 December 2018

25. Net cash flows from operating activities

		Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit before tax		158.2	111.7
Non-cash items			
Provision for loan impairments	15	2.1	0.5
Depreciation of property, fixtures and equipment		0.5	0.4
Amortisation of intangible assets		0.3	0.2
Gain on sale of investment in debt securities		-	(2.1)
EIR adjustment on customer loans and receivables		(4.1)	5.4
EIR adjustment on investment in debt securities		(0.1)	(1.0)
EIR adjustment on debt securities in issue		(7.0)	-
Write off of unamortised deal costs on sale of loans		1.5	-
Movement in fair value hedge		1.2	7.1
Fair value movement in residential mortgages held at fair value		(0.6)	-
Movement in other assets held at fair value		0.1	-
Recognition of equity-settled employee benefits payments		2.1	1.1
Operating cash flows before movements in working capital		154.2	123.3
Movement in derivatives		2.0	(6.6)
Increase in receivables		(1.3)	(2.1)
Increase in residential mortgages		(1,581.6)	(1,862.2)
Decrease in debt securities in issue		(282.4)	-
Increase in payables		9.0	7.0
Increase in retail deposits		674.5	987.4
Increase in deposits from banks		211.3	963.5
Cash (utilised)/generated by operations		(814.3)	210.3
Tax paid		(35.7)	(20.7)
Net cash (utilised)/generated by operating activities		(850.0)	189.6

26. Capital risk management

The Group manages its capital to ensure that entities in the Group have sufficient capital resources to continue as going concerns while optimising the return to stakeholders through the balance of its capital resources. The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated statement of financial position.

The Group conducts an ICAAP, which is approved by the Board of Directors. The current version was approved in October 2017. The ICAAP is used to assess the Group's capital adequacy and determine the levels of capital required to support the current and future risks in the business derived from its five-year corporate plan.

CRD IV introduced the concept of a leverage ratio requirement, a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The UK Leverage Ratio Framework is applicable to firms with over £50 billion of retail deposits.

The Group is supervised by the PRA who review the capital adequacy, compliance with regulatory requirements and the ICAAP as part of its Supervisory Review and Evaluation Process ("SREP"). The PRA issues guidance total capital requirement which specifies the level of regulatory capital which the Group is required to hold relative to its risk-weighted assets as well as capital buffers.

The Group regulatory capital is reviewed on a monthly basis by the Board of Directors and the Assets and Liabilities Committee on both a current and forward looking basis. The future regulatory capital requirements are also considered as part of the Group's forecasting and strategic planning process.

26. Capital risk management (continued)

The following table shows the regulatory capital resources of the Group:

	As at 31 December 2018 £m	As at 31 December 2017 £m
Share capital	2.4	2.4
Retained earnings	429.3	313.6
Proposed final dividend	(23.6)	-
Own shares	(0.4)	-
Share premium	19.0	19.0
Deferred tax asset	(2.5)	(2.2)
Intangible assets	(2.6)	(1.4)
IFRS 9 transitional add back	1.6	-
Total tier 1 capital	423.2	331.4
Collective impairment allowance	-	0.6
Total tier 2 capital	-	0.6
Total regulatory capital	423.2	332.0
Risk-weighted assets	2,697.7	2,118.9

The Group's minimum CRD IV Pillar 1 capital requirement at 8% is calculated as the sum of credit risk and operational risk requirements. The following table shows the Group's minimum Pillar 1 requirement at the year end.

	As at 31 December 2018 £m	As at 31 December 2017 £m
Credit risk	201.1	161.4
Operational risk	14.7	8.1
Total Pillar 1 capital resources requirement at 8%	215.8	169.5
Common equity tier 1 capital ratio	15.7%	15.6%
Total tier 1 capital ratio	15.7%	15.6%
Leverage ratio	5.4%	5.1%

27. Related party transactions

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

	Highest paid Director £m	Total key management personnel £m
Year ended 31 December 2018		
Short-term employee benefits	1.3	2.9
Long-term employee benefits	0.4	0.8
Share-based payment	0.7	1.6
Post-employment benefit	-	-
	2.4	5.3
Year ended 31 December 2017		
Short-term employee benefits	1.5	3.4
Share based payment	0.1	0.2
Post-employment benefit	-	0.1
	1.6	3.7

During the year ended 31 December 2018 fees of £0.9 million (2017: £1.2 million) were paid to Non-Executive Directors for services provided to the Group.

28. Post balance sheet events

On 9 March 2019, the Board announced that it was in advanced discussions with OSB regarding a possible all-share combination of Charter Court and OSB. Under the proposed terms, OSB would acquire all the issued and to be issued ordinary share capital of Charter Court. The proposed combination is subject to the agreement of terms and conditions, approval by Charter Court and OSB shareholders and requisite regulatory approvals.

The Group sold its residual interest in Precise Mortgage Funding 2018-1B plc to a third party during January 2019 for a gain on sale of £10.2 million.

The Group sold its residual interest in Precise Mortgage Funding 2018-2B plc to a third party during January 2019 for a gain on sale of £20.1 million.

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, a glossary indicating the APMs we use, an explanation of how they are calculated and why we use them.

A. 2018 highlights

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

All ratios have been calculated using unrounded data.

	2018 £m	2017 £m
Profit before tax		
Statutory profit before tax	158.2	111.7
IPO costs	-	4.9
Private sale costs	-	0.1
Adjusted profit before tax	158.2	116.7
Return on Equity		
Statutory profit after tax (i)	120.8	81.3
IPO costs	-	4.9
Private sale costs	-	0.1
Adjusted profit after tax (ii)	120.8	86.3
Opening equity	335.0	233.5
Closing equity	450.3	335.0
Average equity (2 point average*) (iii)	392.6	284.3
Statutory RoE (i) / (iii)	30.8%	28.6%
Adjusted RoE (ii) / (iii)	30.8%	30.4%
Net interest margin		
Net interest income (i)	180.5	144.1
Average customer loans and receivables (13 point average**) (ii)	5,862.2	4,520.5
Net interest margin (i) / (ii)	3.08%	3.19%

Alternative performance measures (continued)

	2018 £m	2017 £m
Cost Income Ratio		
Statutory administrative expenses (i)	64.6	58.0
IPO costs	-	(4.9)
Private sale costs	-	(0.1)
Adjusted administrative expenses (ii)	64.6	53.0
Statutory total income (iii)	224.9	170.2
Statutory cost income ratio (i) / (iii)	28.7%	34.1%
Adjusted cost income ratio (ii) / (iii)	28.7%	31.2%
Cost of Risk		
Provision for loan impairments – net charge (i)	(2.1)	(0.5)
Average customer loans and receivables (13 point average**) (ii)	5,862.2	4,520.5
Cost of risk (i) / (ii)	0.036%	0.011%

*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

	As at 31 December 2018 £m	As at 31 December 2017 £m
Percentage of loan book in arrears		
These APMs are a measure of the amount of arrears in the mortgage portfolio and an indicator of the quality of the Group's mortgage portfolio.		
Customer loans and receivables in arrears of one month or more		
Past due but not impaired		
31-60 days	27.4	7.1
61-89 days	7.5	4.1
Past due and impaired		
61-89 days	0.5	-
90-120 days	4.8	2.1
> 120 days	9.7	4.0
Total in arrears of one month or more (i)	49.9	17.3
Past due and impaired customer loans and receivables in arrears of three months or more		
90-120 days	4.8	2.1
> 120 days	9.7	4.0
Total in arrears of three months or more (ii)	14.5	6.1
Customer loans and receivables (iii) (note 15)	6,661.5	5,364.2
Percentage of loan book in arrears of one month or more (i) / (iii)	0.7%	0.3%
Percentage of loan book in arrears of three months or more (ii) / (iii)	0.2%	0.1%
Loan deposit ratio		
This APM is used in assessing the Group's liquidity.		
Customer loans and receivables (note 15)	6,661.5	5,364.2
Deposits from customers (note 18)	5,094.5	4,420.0
Loan deposit ratio	130.8%	121.4%

Alternative performance measures (continued)

B. Other financial APMs (continued)

	As at 31 December 2018 £m	As at 31 December 2017 £m
Percentage increase in mortgage originations (year-on-year)		
This APM demonstrates the growth in the Group's mortgage origination activity.		
Customer loans and receivables originations		
Prior period	2,737.3	2,496.8
Current period	2,846.1	2,737.3
Increase (Current period originations less prior period originations)	108.8	240.5
Percentage increase (increase / prior period originations)	4.0%	9.6%
Percentage loan book growth (year-on-year)		
This APM demonstrates the growth in the Group's mortgage portfolio.		
Opening balance of customer loans and receivables (i)	5,364.2	3,807.9
Closing balance of customer loans and receivables	6,661.5	5,364.2
Increase (ii)	1,297.3	1,556.3
Add back:		
Asset sales in the period	562.5	300.0
Increase including asset sales (iii)	1,859.8	1,856.3
Percentage increase (ii) / (i)	24.2%	40.9%
Adjusted percentage increase after adding back asset sales (iii) / (i)	34.7%	48.7%
Percentage residential loan book growth since year end		
This APM demonstrates the adjusted growth in the Group's residential mortgage portfolio in 2018.		
Opening balance of residential lending (i)	1,742.3	1,290.7
Closing balance of residential lending	1,726.7	1,742.3
(Decrease) / increase (ii)	(15.6)	451.6
Add back:		
Asset sales in the period	562.5	-
Increase including asset sales (iii)	546.9	451.6
Closing balance of residential lending including asset sales	2,289.2	1,742.3
Percentage (decrease) / increase (ii) / (i)	(0.9)%	35.0%
Adjusted percentage increase (iii) / (i)	31.4%	35.0%

Alternative performance measures (continued)

B. Other financial APMs (continued)

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Originations by segment		
This APM shows the level of mortgage origination activity by segment		
BTL originations	1,642.1	1,592.1
Residential originations	825.3	770.6
Bridging loans originations	321.8	314.2
Second charge loans originations	56.9	60.4
Total originations (note 15)	2,846.1	2,737.3
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 (i)	95.0	67.0
Average funding (monthly average)* (ii)	6,443.6	5,116.5
Cost of funds (i) / (ii)	1.47%	1.31%

* The average funding is calculated as the sum of deposits from banks, deposits from customers, debt securities in issue and other funding facilities 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.

Alternative performance measures (continued)

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.

Shareholder information

Annual General Meeting

The annual general meeting ("AGM") will be held on Wednesday, 15 May 2019 at 11am at the offices of Linklaters, 1 Silk Street, London, EC2Y 8HQ. The Notice of Meeting and all other details for the AGM are available at www.chartercourtfs.co.uk (our website).

Communications

Information about the Group, including details of the current share price, is available on our website, www.chartercourtfs.co.uk.

Investor Relations

Private investors with queries relating to their shareholding should contact our registrar. You can find details of our registrar below.

Institutional investors can contact CitigateDeweRogerson on 020 7638 9571.

Financial reports

The Group's financial reports are available on our website www.chartercourtfs.co.uk. A summary of reports is listed in the Important Dates section below.

Important Dates

		Available format			
Financial Calendar Dates	**Description**	**Online**	**Email**	**RNS**	**Paper**
14 March 2019	Preliminary announcement of 2018 financial results	✓		✓	
14 May 2019	First quarter trading update	✓		✓	
3 September 2019	Half year 2019 financial results	✓		✓	
12 November 2019	Third quarter trading update	✓		✓	

On 22 May 2019, a final dividend will be paid to shareholders on the register on the record date of 12 April 2019.

Registrar

Our register of members is maintained by Equiniti Limited. You can contact Equiniti as follows:

By post:
Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

By telephone:
0371 384 2030 or +44 121 415 7047 (if calling from outside the UK).
Lines open 8.30am to 5.30pm (UK time) Monday to Friday (excluding public holidays in England and Wales).

By email:
Secure enquiries can be submitted via email at: help.shareview.co.uk

The registrar also provides services to help you manage your shares online which you may find useful. For more information visit www.shareview.co.uk.

Whichever way you choose to communicate with our registrar, you will need to provide your full name, address and your 8 or 11 digit shareholder reference which can be found on your share certificate or proxy card.

Shareholder information

Share Certificates

Your share certificate is a valuable document. If your share certificate is lost or stolen you should contact our registrar immediately to prevent it being used fraudulently. Visit www.shareview.co.uk for contact details and information regarding the process and costs.

Share fraud warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

The FCA provides guidance on how to avoid scams at: www.fca.org.uk/consumers/protect-yourself-scams.

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

You should also contact the Police as soon as possible - particularly if you have already paid money to share fraudsters via Action Fraud on 0300 123 2040.