Charter Court
Financial Services Group plc

The specialist mortgage bank

Annual Report and Accounts 2018

Contents

Important information

On 9 March 2019, the Board of Directors of Charter Court Financial Services Group plc ("Charter Court") and OneSavings Bank ("OSB") announced that they are in advanced discussions regarding a possible all-share combination of the two companies.

Under the proposed terms, OSB would acquire all the issued and to be issued ordinary share capital of Charter Court. On this basis, on completion of the possible combination, OSB shareholders would hold approximately 55% of the combined group and Charter Court shareholders would hold approximately 45%.

Subject to the successful outcome of ongoing discussions, the Boards of Charter Court and OSB expect to recommend the possible combinations to their respective shareholders.

The possible combination remains subject to requisite regulatory approvals including the approval of the Prudential Regulation Authority, approval by Charter Court and OSB shareholders, as well as other customary terms and conditions.

www.chartercourtfs.co.uk

Forward-looking statements

This Annual Report 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 Charter Court's 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 Annual Report. 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 Annual Report that may occur due to any change in its expectations or to reflect events or circumstances after the date of this Annual Report. Undue reliance should not be placed on any forward-looking statement.

Business overview

Who we are

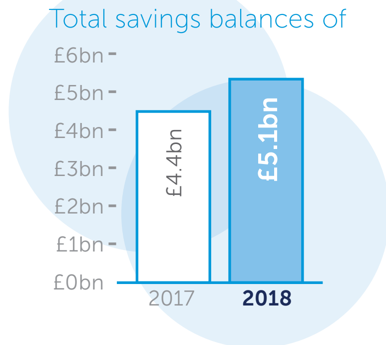
Charter Court Financial Services Group plc and its subsidiaries (together "Charter Court" or the "Group") is the UK's leading specialist mortgage lender[1], purpose built to meet increasing customer demand for specialist mortgages, attractive savings products, exceptional value and great service.

We operate through our three complementary brands.

Charter Savings Bank

Charter Savings Bank ("CSB") is our multi-award-winning online bank which provides a range of competitive savings products via its website.

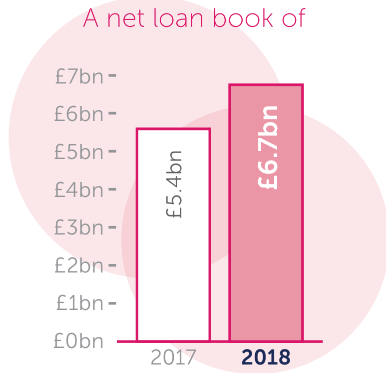
For more information see pages 23 to 24.



Precise Mortgages

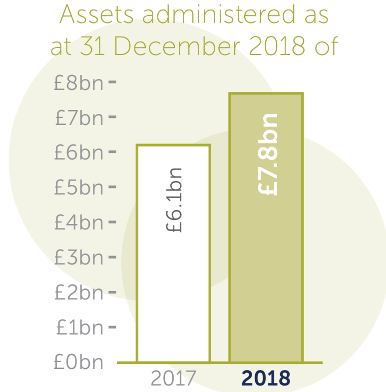
Precise Mortgages ("Precise") provides residential and buy to let mortgages, along with bridging and second charge loans to borrowers.

For more information see pages 19 to 22.



Exact Mortgage Experts

Exact Mortgage Experts ("Exact") administers mortgages originated by Precise Mortgages and selected third parties.



Strategic report
Corporate governance
Financial statements
Appendices

1 Based on the volume of mortgages generated in 2018 in the core markets in which it operates.

How we got here

2008

Launched by current management team with investment from Elliott International, L.P. and Elliott Associates, L.P.

Founded by many of its current management team, Charter Court embarked on an exciting journey to become one of the UK's leading specialist mortgage banks. In the depths of the financial crisis, with the UK economy and its mortgage market shrouded in uncertainty, the initial focus of the team was mortgage credit analysis and collections. Charter Court was soon employed by some of the world's most sophisticated financial institutions - including hedge funds, private equity firms, investment banks, and building societies - to provide due diligence services on loan books and an in-depth understanding of UK mortgage assets.

2009

First post-crisis authorised mortgage administrator

Charter Court became the first post-crisis business to obtain authorisation from the Financial Services Authority ("FSA") to conduct regulated mortgage administration activities, and obtained a Consumer Credit Act ("CCA") licence from the Office of Fair Trading for debt administration. This allowed Charter Court to start managing loans on behalf of other institutions. During this period, mortgage servicing systems were built, and loans managed increased steadily, while cumulative credit analysis grew to over £4.1 billion. This bedrock of experience gave Charter Court the operating knowledge and infrastructure of a larger mortgage lender.

2010

Lending commences

Charter Court was the first non-bank to achieve FSA authorisation as mortgage lender post-crisis. The Group began lending in 2010 and the year also marked the completion of Charter Court's first buy to let loan. On the servicing side, in May 2010, Charter Court boarded its first special servicing portfolio for a major investment bank.

2011

Bridging lending

Having identified a further opportunity in the market, Charter Court extended its lending footprint by offering bridging lending.

2012

Lending growth

Charter Court increased its mortgage lending. Cumulative credit analysis passed £6 billion whilst cumulative assets under administration passed £1 billion. Fitch Ratings also granted the Group its first rating for special servicing at RSS3.

2013

Second charge loans launched

Charter Court issued its first residential mortgage-backed security ("RMBS") in December 2013. The success of the first transaction paved the way for seven subsequent securitisations by the end of 2017, establishing Charter Court as one of the leading securitising entities in the UK. This provided the Group with a strong funding base, enabling further growth in lending. Subsequently, Charter Court launched the first public residential mortgage-backed security from a new post credit crisis issuer and started to offer second charge lending. Charter Court's capability in mortgage servicing was recognised when Fitch Ratings granted the Group an upgrade for special servicing to RSS2-, and its first rating for primary servicing of RPS3+.

2014

Charter Court's total public securitisation issuance reached £600 million

With its second and third securitisations closed, Charter Court's total public issuance reached £600 million. During the year, the Group commenced its application for a UK banking licence and opened a second office in Wolverhampton, paving the way for further expansion.

2015

Banking licence awarded and Charter Savings Bank launched

Charter Court's funding capability and sustainability of the platform received a significant boost after the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") granted the Group a banking licence, paving the way for the launch of Charter Savings Bank ("CSB"). Three further securitisation transactions brought total issuance to £1.2 billion. Charter Court took advantage of favourable market conditions to sell its residual certificates in one of those securitisation vehicles, delivering a pre-tax gain of £10.0 million. In April 2015, Charter Court's Fitch primary servicing rating was upgraded to RPS2-, while it also maintained its special servicer rating of RSS2-. In the first year of operation, CSB's retail savings deposits surpassed £1 billion. Supported by its enlarged funding base, Charter Court achieved cumulative mortgage originations of over £2 billion.

2016

Accelerating growth and recognition

Charter Court achieved one of the highest growth rates in total mortgage originations (56%) among its specialist bank peer group[1], increasing total net lending by 96% to £3.8 billion. Continued pursuit of a diverse funding strategy led to a further increase in retail deposits to over £3.4 billion. Charter Court's reputation for mortgage servicing in the UK was reinforced by the Fitch Ratings upgrade of the Group's primary servicer operation rating to RPS2. Charter Court achieved tenth place in The Sunday Times 100 Best Companies to Work For rankings.

2017

Successful IPO and listing as cumulative originations exceed £8.1 billion

Charter Court successfully completed a premium listing on the Main Market of the London Stock Exchange on 4 October 2017. The success of the Initial Public Offering ("IPO") was a clear endorsement of Charter Court's business, track record, strategy and prospects. It also marked the next exciting stage of the Group's development. Just two months after securing third place in The Sunday Times "100 Best Companies to Work For" rankings in March 2017, Charter Court was recognised as one of the UK's most inspiring companies in London Stock Exchange Group's "1,000 Companies to Inspire Britain 2017" report.

2018

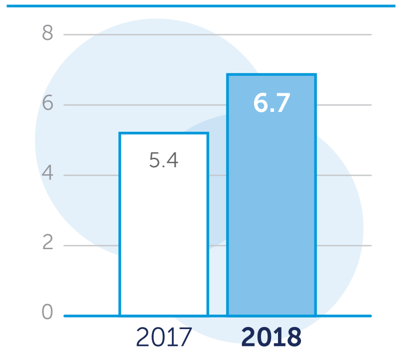
Delivering on IPO promises

Charter Court is currently delivering or exceeding all its targets set at the time of the Group's IPO. The Group entered the FTSE 250 in March 2018. Robust demand for the Group's specialist lending proposition led to continued growth of mortgage balances to £6.7 billion whilst prudent risk management allowed Charter Court to maintain a sector-leading cost of risk. The Group took advantage of favourable market conditions to execute a number of securitisation transactions, with issuance totalling £906.1 million for the year.

1 Specialist bank peer group includes: Aldermore Bank plc, OneSavings Bank plc, Paragon Banking Group plc, Shawbrook Group plc.

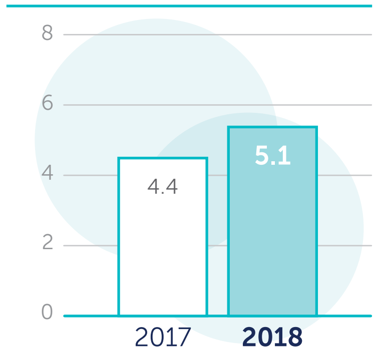
2018 highlights[1]

Customer loans and receivables (£bn)



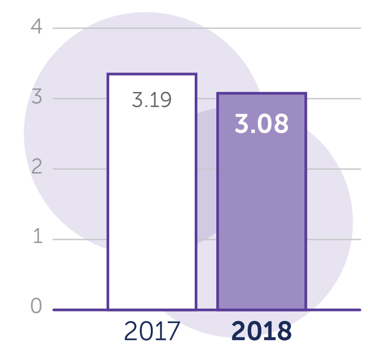
£6.7bn

Deposits from customers (£bn)



£5.1bn

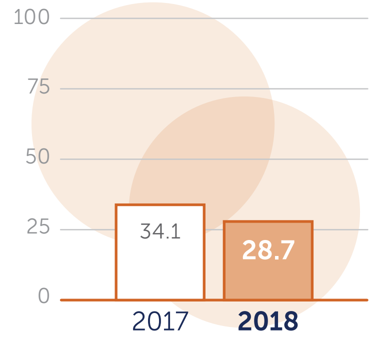
Net interest margin (%)



3.08%

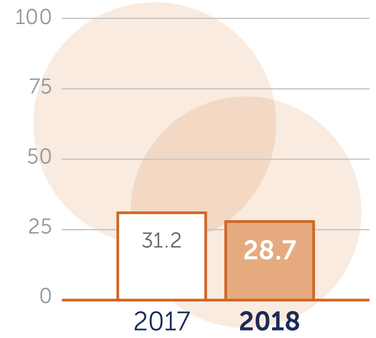
Cost income ratio (%)

Statutory



28.7%

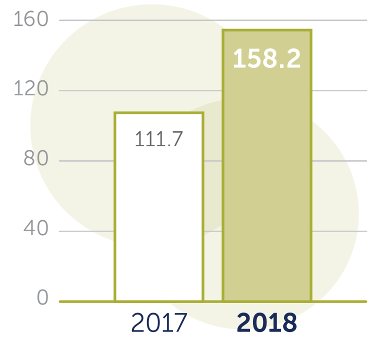
Adjusted



28.7%

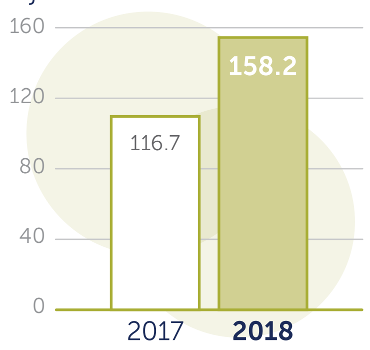
Profit before tax (£m)

Statutory



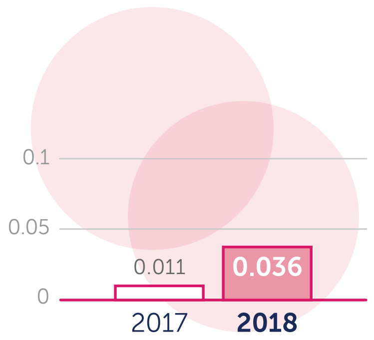
£158.2m

Adjusted



£158.2m

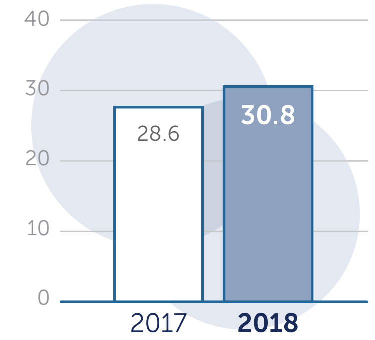
Cost of risk (%)



0.036%

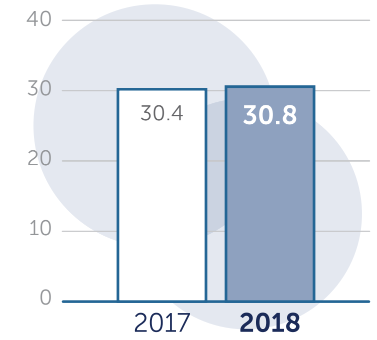
Return on equity (%)

Statutory



30.8%

Adjusted



30.8%

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. Adjusted KPIs 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.

Chairman's statement

Sir Malcolm Williamson - Chairman

> Despite heightened political and macroeconomic uncertainty due to the negotiations over the impending withdrawal of the United Kingdom from the European Union, Charter Court's robust performance in 2018 demonstrates that the business remains resilient and able to deliver value for all our stakeholders.

Delivering a resilient performance in an uncertain landscape

I am delighted to welcome you to Charter Court's Annual Report for 2018. This year brought some welcome relief from the introduction of significant new regulatory changes seen in our industry over recent years. However, there is no doubt that business confidence and economic growth in the UK has suffered throughout the year as negotiations with the EU progressed. Our thoughts on Brexit and the impact it could have on the Group can be found on page 45.

Despite the impact of increased uncertainty on the housing market in general, successful execution of the Group's focused growth strategy - underpinned by its strong capitalisation and competitive advantages - led to continued delivery in both our lending and funding business segments during 2018.

Optimising our corporate governance framework

In line with our commitment to delivering the highest standards of corporate governance, during 2018 we took action to further optimise our governance framework. As part of this process, we established a Stakeholder Committee to ensure appropriate stakeholder involvement in our governance and to inform strategic direction.

We also made several changes to Board committee leadership to reinforce the independence of each committee and enhance their effectiveness. As a result, as of 5 March 2019, I have taken over as Chairman of the Nomination Committee from Ian Ward, who has accepted the position of Chairman of our newly-formed Stakeholder Committee.

During the year, we published our targets for increasing diversity as part of our support for HM Treasury's Women in Finance Charter and calculated our gender pay gap under the new government rules for the first time. Looking ahead, I am committed to ensuring that the Board has the right balance of skills and experience to meet the challenges and opportunities ahead.

▶ For more information see Corporate governance on pages 58 to 107.

Going the extra mile

Having the right people in the right position at every level across the Group is key to delivering our growth strategy. We expect our newly-formed Stakeholder Committee to be instrumental in encouraging everyone at Charter Court to participate in defining our strategic direction and to go the extra mile in delivering the best products and service to our customers.

To ensure our people have the right environment for success, we not only continue to offer excellent development opportunities but, following the expansion of our Wolverhampton offices, now have an enlarged and inspiring space in which to work.

Our high ranking in The Sunday Times Top 100 Companies to Work For 2018 reflects our strong culture, which is supported by the Board and executive management.

▶ For more information see Corporate responsibility on pages 48 to 57.

Rewarding our shareholders

In recognition of the Group's strong performance in its first full year as a listed company and the Board's confidence in its future prospects, the Board is proposing a final dividend of 9.9 pence per share, which together with the interim dividend of 2.8 pence per share paid on 4 October 2018 brings the total ordinary dividend for the year to 12.7 pence per share. This represents a pay-out ratio of 25% of profit after tax for 2018, ten percentage points higher than proposed at the time of the IPO. 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. The Board intends to maintain its progressive dividend policy objective going forward. In 2018 the interim dividend was one third of 25% of profit after tax for 2017. Going forward the interim dividend each year will be set at one third of the prior year's total dividend.

Looking ahead

Charter Court's business model combines deep credit risk know-how and proprietary analytics, an extensive intermediary network, a scalable, bespoke operating platform and a sophisticated, flexible and dynamic funding capability. These capabilities underpin the Group's ability to navigate and adapt to uncertainty. This has always been, and continues to be, a significant strength.

With that strong foundation, the Board believes that Charter Court is well positioned to capitalise on the continued demand for the Group's specialist lending proposition to deliver sustainable returns for its shareholders, in spite of challenges that economic and political developments may bring in the near term.

Our continuing success remains dependent on the quality, dedication and commitment of our people, and the ongoing strength of our customer, intermediary and shareholder relationships. We look forward to working with all our stakeholders, as we continue to build our business together.

Potential business combination

On 9 March 2019 the Board announced that it was considering a possible all-share combination of Charter Court and OneSavings Bank ("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 OSB expect to recommend the possible combinations to their respective shareholders.

Sir Malcolm Williamson
Chairman

Strategic report
Corporate governance
Financial statements
Appendices

Chief Executive Officer's review

Ian Lonergan - Chief Executive Officer (CEO)

A strong performance across both our lending and funding operations is helping us to continue to meet or exceed all of the targets set out at the time of our IPO.

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 of 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 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.

▶ Further detail regarding our funding activities is available on pages 23 to 26.

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 a 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 and we expect the project to be completed to expected timescales.

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.

Ian Lonergan
Chief Executive Officer

Our business model

Our business model is to target specialist mortgage lending markets that are underserved by others, with highly-skilled expert staff, supported by bespoke systems, delivering tailored products through the mortgage intermediary market. How we deliver our strategy, our approach to lending, our approach to funding and strategic targets are set out below.

How we deliver our strategy

We operate in selected specialist mortgage markets where we can deploy our deep credit knowledge	We have an efficient and scalable, bespoke operating platform	We aim to deliver strong growth and sustainable returns to our shareholders
£6.7bn mortgage balances	28.7% cost income ratio	30.8% return on equity
£7.8bn assets administered		25% dividend pay-out ratio for 2018

We deliver a quality service and product proposition tailored to mortgage brokers and their customers	We deploy consistent underwriting decisions to effectively mitigate credit risk	We have a dynamic and sophisticated funding strategy
#1 UK's leading specialist mortgage lender	£62,000 aggregate losses on mortgage lending since inception	£5.1bn retail deposits
23,000 intermediaries registered with the Group	0.2% of the total loan book in arrears of three months or more	11 securitisation transactions since 2013
8 minutes average time to Decision in Principle	0.036% cost of risk of total portfolio in 2018	£150m drawn from the Bank of England's funding schemes in 2018

Our approach to lending

Target attractive, underserved secured lending markets
Through the Precise Mortgages brand, the Group targets specialist mortgage lending markets that are underserved by large and medium-sized UK retail banks and building societies, and are underpinned by positive long-term market dynamics. We continually evaluate growth prospects in our target markets and assess opportunities to move into new specialist sub-sectors within these product lines, where margins are attractive and lending is sustainable within the Group's conservative risk appetite. Charter Court's relatively small share of the broader mortgage lending market, combined with our agility, offers considerable opportunities for future growth.

Leverage our deep credit expertise and extensive product knowledge to achieve market leadership
Precise Mortgages is led by experienced industry professionals and is supported by highly skilled teams with experience and insight spanning the entire mortgage lifecycle. Charter Court has developed this deep credit know-how through Exact's proprietary data analytics. Precise Mortgages draws on this expertise to adapt quickly to changing market conditions, identifying niche lending opportunities and tailoring its product offering accordingly.

Employ our automated underwriting platform to efficiently maintain rigorous credit standards
Precise Mortgages uses a bespoke, automated decision-making platform to manage mortgage applications, delivering a rapid decision in principle, based on our rigorous, codified lending policy rules and credit scores. The platform is underpinned by our extensive underwriting expertise, which enables us to identify new niches and determine appropriate lending parameters. The platform enables Precise Mortgages to react quickly to non-standard mortgage requests which are common in our target markets, while ensuring consistent underwriting within the Group's risk appetite. Our quick response time helps us to compete for the 'first look' at credit opportunities, while our robust manual verification process further strengthens our disciplined approach to credit risk.

Utilise our strong intermediary network to achieve rapid, widespread distribution
Precise Mortgages distributes products through the mortgage intermediary market, leveraging management's strong relationships with the UK's largest distributors and intermediaries. The Group's 24/7 digital decision-making platform, combined with the expertise of its underwriting team provide a responsive and personalised service to these intermediaries, supporting strong origination volumes.

Our approach to funding

Charter Court's dynamic, diversified and sophisticated funding strategy is designed to optimise its cost of funds and improve margins while prudently managing funding and liquidity risks.

Maintain our established retail savings business as a predictable source of funding
Charter Court's retail savings business, Charter Savings Bank, serves as a key foundation of the Group, providing a stable platform for its lending activities. CSB aims to maintain and develop its award-winning business, by further diversifying its product offering to access new funding pools and continuing to offer competitive new savings products in its existing product lines. Operating with an agile, nimble approach CSB can respond quickly to the funding requirements of the business, providing advantageous cost of funds.

Pursue wholesale funding markets opportunistically to deliver optimal cost of funds
Charter Court utilises its securitisation platform as a means of providing the Group with low cost, term duration funding, enabling it to rebalance the weighted average life of the Group's liabilities away from shorter duration retail funding, and thereby optimise its funding mix. The Group recognises the cyclical nature of capital markets funding and therefore utilises it opportunistically, taking advantage where strong market conditions are present, as was the case in the first half of 2018, and passing when the conditions are less favourable.

Charter Court has been a programmatic issuer of high quality residential mortgage-backed securities through the Precise Mortgage Funding and Charter Mortgage Funding franchises since 2013. By the end of 2018, the Group had completed a total of 11 securitisations since 2013 worth over £3 billion and has proven its ability to utilise RMBS as a means of generating significant funding and capital.

Charter Court also maintains warehouse funding capacity through two tier 1 investment banks. These facilities act as a bridge to RMBS funding, helping the Group to maximise the efficiency of its liquidity position through the transition from retail deposit to securitisation funding.

Charter Court also engages in transactions which result in the full derecognition of the underlying mortgage assets, through the sale of residual positions in its securitisation vehicles. When capital markets are particularly strong, there may be opportunities to sell residual positions above the Group's internal view of the level of their value. Alternatively, if Charter Court requires additional capital for other uses, a sale of residual positions can quickly and efficiently provide this capital. Not only is a gain on sale generated through such a transaction, but derecognition of the underlying mortgage assets and associated risk-weighted assets provides capital resources to support lending growth.

Strategic targets

Charter Court aims to deliver high quality growth and sustainable and attractive risk-adjusted returns. The Group attempts to accomplish its aims by maintaining balance and delivering success across its key goals:

Origination

Deliver sustainable balance sheet growth

KPIs	Medium term target	Delivery in 2018
Originations	Stable	£2.8 billion (2017: £2.7 billion)
Loan book growth	>20%[1]	24.2% (2017: 40.9%)

Risk management

Maintain disciplined risk management

KPIs	Medium term target	Delivery in 2018
Cost of risk	Sector leading through the cycle	0.036% (2017: 0.011%)
CET1	Minimum 13%	15.7% (2017: 15.6%)

Profitability

Maintain high levels of operating efficiency

KPIs	Medium term target	Delivery in 2018
Cost income ratio	Low 30s (%)	28.7% (2017: 34.1%, adjusted 31.2%[2])
Net interest margin	Above 3%	3.08% (2017: 3.19%)

Shareholders

Deliver shareholder value

KPIs	Medium term target	Delivery in 2018
Return on equity	Mid 20s (%)	30.8% (2017: 28.6%, adjusted 30.4%[2])
Dividend pay-out	Minimum 25% pay-out ratio and progressive	25% (2017: nil)

In addition to the financial targets above, the Group aims to develop two key non-financial goals:

Customer loyalty

We aim to deliver a quality service and product proposition to mortgage brokers and their customers and to retail depositors.

Leading employer

The Group also aims to maintain its status as a leading employer, with low staff turnover and high staff engagement. The Group measures this by monitoring attrition rates, absence rates and training hours achieved and by asking employees to complete The Sunday Times Top 100 Companies to Work For survey each year. In 2018 we were ranked as the sixth best place to work in the 'mid' sized business category (2017: third) and were the highest placed bank for a second year.

1 Excluding derecognition through asset sales, see Appendix: Alternative Performance Measures
2 See Appendix: Alternative Performance Measures

Chief Financial Officer's review

> Through resilient balance sheet growth and successful implementation of our dynamic funding strategy, we continue to deliver consistently high returns to our shareholders.

Sebastien Maloney - Chief Financial Officer (CFO)

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

For Financial statements, see page 108.

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, 34.7%[1] 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%).

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[2]	**8.0**	8.4	(4.8)
Total income	**224.9**	170.2	32.1
Administrative expenses	**(64.6)**	(58.0)	11.4
Impairment charge[3]	**(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 40.0% 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% 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).

1 See Appendix: Alternative Performance Measures

2 Other income includes non-interest income and net loss from derivative financial instruments

3 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	**450.3**	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 43 to the Consolidated financial statements.

Sebastien Maloney
Chief Financial Officer
13 March 2019

Business review by segment
Lending

Alan Cleary - Managing Director, Precise Mortgages

We utilised our strong credit expertise to deliver prudent lending growth in 2018 and develop attractive new products. Through a relentless focus on distribution and service standards, we continued to maximise efficiency and retain our position as the UK's leading specialist mortgage lender.

Precise Mortgages

Continued growth in specialist mortgage origination

Highlights

- New originations of £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).
- Precise Mortgages achieved a good Net Promoter Score ("NPS") of 41 (2017: 57)[1].

Profit by lending segment

Year ended 31 December 2018	Buy to let	Residential	Bridging[2]	Second charge lending	Total
	£m	£m	£m	£m	£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 is not restated under IFRS 9. Profit contribution is equal to segment profit as per note 7 to the Consolidated financial statements.

1 Gauges the quality of relationships between a business and its customers based on responses to a simple question about how likely the customer is to recommend a firm's products or services to their family and friends. NPS range of -100 to +100, a "positive" score or NPS above 0 is considered "good", +50 is "excellent", and above 70 is considered "world class". Please see Customer section in Corporate Responsibility for further details.
2 The Bridging segment was previously known as the short-term lending segment.

Enhancing broker distribution and service standards to maximise efficiency

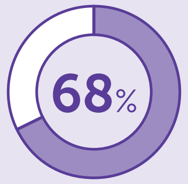
Across the Group's lending business, the 'Broker Journey' project continued to deliver significant improvements to our service proposition. The project has now been active for two years and broker service standards continue to materially improve. In 2018 Charter Court undertook a range of incremental 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.

Case Study - Product innovation

In November 2018 Charter Court launched its Refurbishment buy to let mortgage, a new product leveraging Charter Court's ability to offer both a bridging loan and buy to let mortgage within one product. The product combines the speed and flexibility of bridging finance with secure exit onto a long-term buy to let mortgage once the refurbishment work has been completed. Key to this product is the single underwriter, single valuer and single conveyancer process Charter Court has adopted. This approach enables a streamlined application process and eliminates the duplication of fees and importantly documentation. This product particularly benefits professional landlords that want to take advantage of undervalued or auction properties and refurbish them, taking created equity onto new projects without having to struggle through the difficult processes with multiple lenders. Combined Refurbishment buy to let mortgages offer better value for Charter Court and its customers, streamlining the application processes and eliminating the duplication of fees. The product was well received by the market generating £1.1 million of new mortgage originations since its launch in November 2018.

Case Study - Online Criteria Guide

Through its Broker Journey Project Charter Court recognised that a high number of the telephone queries being received were from intermediaries and their administration teams trying to understand if a case would fit its lending policy or how it would treat customer information such as income. Due to the complex nature of the queries intermediaries often felt the need to call in more than once or check the information they received with their Business Development Manager. This introduced uncertainty and delays for the intermediary which reduced the likelihood of Charter Court securing the case. In order to improve the quality and consistency of the information provided Charter Court launched the Online Criteria Guide in February 2018 covering all aspects of its lending policy in an easy to search web application which is available 24/7. Initially supporting residential, buy to let and second charge schemes with bridging being added in April 2018, over 110,000 visits have been made to the guide since its launch.



of our total loan book

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).

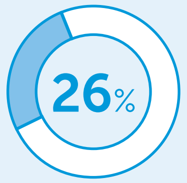
The buy to let market remained resilient in 2018 with a 1.1% increase in overall volumes to £37.1 billion in the 12 months to December 2018 albeit with a shift away from purchases (down 15.1% year-on-year) to re-mortgaging. The fundamental drivers underpinning the segment remain strong with a lack of 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 its buy to let targets 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%).

Charter Court 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%).



of our total loan book

Residential

Highlights

- New originations of £0.8 billion (2017: £0.8 billion).
- Loan book down 0.9% to £1.7 billion[1] (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).

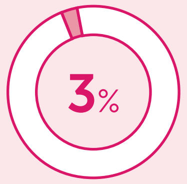
Charter Court continued to capitalise on its strong automated credit assessment ability to deliver controlled growth in residential lending volumes and market share in the relatively stable residential mortgages market. According to the Q3 2018 BDRC Mercury report it remains the no.1 lender for brokers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

In 2018 the UK residential mortgage market saw steady growth, increasing by 6.0% (year-on-year). In the same period Charter Court's residential mortgage lending increased by 7.2% (year-on-year) with both purchase (up 7.4% year-on-year) and re-mortgage (up 6.4% 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) increased by 21.5% 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%).

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



of our total loan book

Bridging

Highlights

- New originations of £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).

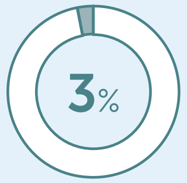
During 2018, bridging loans increased by 11.5% year-on-year to £244.1 million, with new originations of £321.8 million. This growth was achieved whilst maintaining our strong credit risk performance.

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.

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%).



of our total loan book

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%).

Business review by segment
Retail deposits

Paul Whitlock - Executive Director, Charter Savings Bank

> We continued to grow our multi award-winning savings business in 2018 by further diversifying our product offering, maintaining our excellent customer service and continuing to provide a competitive range of savings products.

Charter Savings Bank

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.

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.
- Charter Savings Bank achieved a good NPS of 39 (2017: 70)[1].

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.

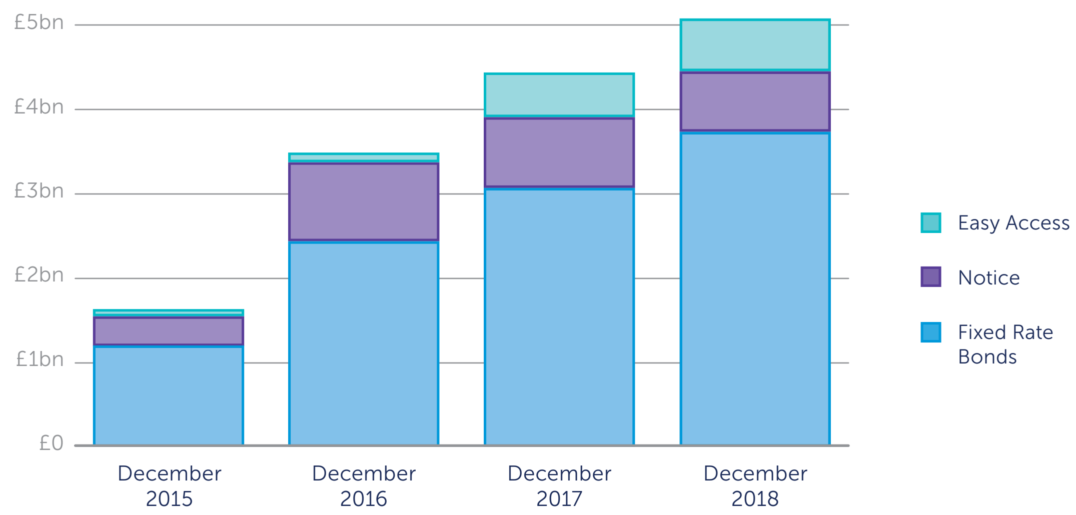
The Group continued to price its retail savings products tactically throughout 2018 to ensure these appeared at the top end of "best buy" tables when most efficient and effective. At the end of 2018, the Group had 116,583 savings customers (2017: 102,394), operating 146,519 savings accounts (2017: 122,825), 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.

1 Please see Customer section in Corporate Responsibility for further details.

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.

Retail deposit book composition
Proactive liquidity management to match duration; low share of easy access deposits.



Business review by segment
Wholesale funding

Simon Allsop - Director of Capital Markets

> Charter Court successfully executed three securitisation transactions at record funding spreads and maximised shareholder value by completing sales of its economic interest in two securitisations.

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 poor.

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.

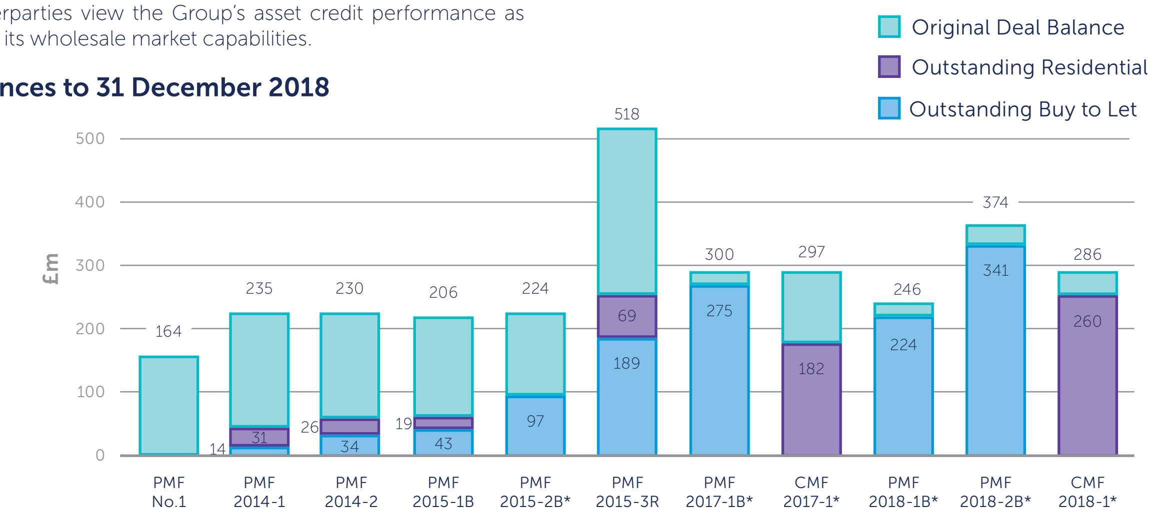
The Group was equally successful in its buy to let securitisation activities, where it closed two further PMF deals, and in the process achieved a record tight post crisis senior margin for a publicly placed sterling buy to let transaction of 3-month LIBOR plus 65bps for its £246.1 million PMF 2018-1B 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 as 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.

Issuances to 31 December 2018



	PMF No.1	PMF 2014-1	PMF 2014-2	PMF 2015-1B	PMF 2015-2B*	PMF 2015-3R	PMF 2017-1B*	CMF 2017-1*	PMF 2018-1B*	PMF 2018-2B*	CMF 2018-1*
Number of accounts 3+ months in arrears	0	8	2	2	2	18	-	3	-	1	1
Losses to date (£k)	-	-	-	-	7	16	-	-	-	-	-
Weighted average mortgage interest rate	0.00%	5.81%	5.40%	5.12%	4.88%	4.82%	4.15%	4.67%	3.94%	3.95%	4.22%
Senior note spread (over LIBOR)	1.15%	0.80%	0.95%	0.95%	1.25%	n/a	0.75%	0.50%	0.65%	0.68%	0.47%
Weighted average margin at closing	1.43%	0.88%	1.11%	1.10%	1.53%	1.00%	1.02%	0.64%	0.74%	0.77%	0.55%

* Group derecognition deal

Risk management

Peter Elcock - Chief Risk Officer (CRO)

> *During 2018 we continued to improve and invest in the risk function: we added more expert resource, developed further our risk scorecards and introduced a new operational risk management system to ensure controlled and prudent business growth.*

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.

Enterprise Risk Management Framework

Regulation
(Basel, EBA, BoE, PRA, FCA, ICO)

Culture, values and ethics - Respect, Excellence, Attention, Challenge, Honesty (REACH) see page 48

- Risk a key performance metric
- Analytics capability
- Risk changes welcomed
- Strong risk culture
- Clear business model
- Rigorous credit oversight
- Expert risk staff
- Top 10 Sunday Times Best 100 Companies to Work For

Governance: Board, Risk Committees

- Board Risk; Audit; and Models & Ratings committees
- Executive RMC, ALCO
- +3 x specific risk committees

Organisational design

- Independent 2nd line
- Executive accountability
- High quality, expert and experienced risk staff

Risk Appetite Statements Embedded

- Treasury
- Business
- Capital
- Treasury wholesale
- Retail credit
- Conduct
- Operational
- Liquidity
- Interest Rate

3 Lines of Defence fully established

- 1st line - business
- 2nd line - risk
- 3rd line - internal audit
- Formally documented
- Fully integrated into the business
- Independent and proven effective

Controls

- Policies
- Processes
- Procedures
- Mandates fully documented
- Board Limits
- Lending authority limits
- Automated underwriting

'Joined up' documentation

- ICAAP
- ILAAP
- Corporate Plan
- ERMF Document
- BCP
- Recovery Plan
- Stress Testing Framework

Models & Systems

- PD Models
- Financial Crime Software
- Treasury / ALM Control
- IFRS9 compliant risk models
- Exactium Op Risk system
- Worldcheck

Risk and Assurance Processes

- Formal Risk Acceptance process
- Risk Control Self Assessment (RCSA)
- Annual Risk Framework Review
- Internal Audit Plan
- Compliance checks, reports, deep dives
- Operational risk event reporting

MI and risk reporting – reviewed by the Board, Board committees and executive Risk Management Vommittees

- Full KRI suite - >400 measures
- BRC Quarterly Compliance Report
- Dynamic Corporate Risk Register
- Financial Crime & AML Dashboard
- Stress testing output reporting
- Daily Treasury positions dashboard

Corporate plan

Shareholders

External environment and economy

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 as part of the ICAAP process which considers, quantifies and analyses all risks under a range of stress conditions and assesses the relative adequacy of capital. This includes a projection of capital requirements and resources over a three year horizon, taking account of the business plan and the impact of chosen stress scenarios.

Liquidity

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.

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, cyber-crime 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.

Areas of the risk management section highlighted as 'audited' are within the scope of the independent auditor's report.

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 and 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. For further information see page 45.

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.

Risk	Monitoring and control	Emerging risks
Credit risk The risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.	**Retail credit risk** • Monthly reviews by Credit Management Committee (overseen by Executive Risk Management and Board Risk Committees). • Continuous monitoring of actual exposure. • 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 by Prudential Risk).	• 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.

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.

Risk exposure (audited)

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 (audited)

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 position on forborne loans at 31 December after application of the FINREP rules on probation.

Mortgages subject to forbearance measures

				Past due			
As at 31 December 2018	Current balance	% of portfolio	Current	< 3 months	3 – 6 months	6 – 12 months	>12 months
	£m		£m	£m	£m	£m	£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 sum	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

				Past due			
As at 31 December 2017	Current balance	% of portfolio	Current	< 3 months	3 – 6 months	6 – 12 months	>12 months
	£m		£m	£m	£m	£m	£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 sum	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 period 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 (audited)
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 6 to the Consolidated financial statements.

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 has 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.

The forward looking scenarios are reviewed regularly as part of a working group, with the selection of scenarios and the scenario weightings as 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 20 to the Consolidated financial statements.

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	Weighting	Weighted expected credit loss provision for each scenario
Scenarios as at 31 December 2018	**£m**		**£m**
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**

Strategic report
Corporate governance
Financial statements
Appendices

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 previous 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 on a Hard Brexit scenario and on a No Deal Brexit scenario. The midpoint of these scenarios 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 carrying 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	Stage 2	Stage 3	Total	Balance Weighted PD
	£m	£m	£m	£m	
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	Stage 2	Stage 3	Total	Balance Weighted PD
	£m	£m	£m	£m	
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 are 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 and control	Emerging risks
Treasury risk, comprising: **Liquidity risk** - the 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 Assets and Liabilities and Board Risk committees. • ILBR established for its operational level of required liquidity, ILBR is a stronger measure than the industry standard Liquidity Coverage Ratio measure. • Frequent stress testing performed. • Annual ILAAP conducted and approved by the Board. • Interest rate risk managed by maintaining floating rate liabilities and matching those with floating rate assets, and hedging fixed rate assets and liabilities through the use of interest rate swaps and interest rate options (caps) purchased from large financial institutions with strong credit ratings.	• 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 (audited)

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	More than 3 months but not more than one year	More than one year but not more than 5 years	More than 5 years	Carrying value per balance sheet
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**
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	More than 3 months but not more than one year	More than one year but not more than 5 years	More than 5 years	Total cash flows
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**
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 (audited)

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	As at 31 December 2017
	£m	**£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 and 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, 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 cyber-crime 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 and control	Emerging risks
Regulatory risk, comprising: **Conduct risk** Arises from a failure to treat customers fairly or the failure to deliver an appropriate outcome for them. **Prudential risk** Arises from a failure to maintain sufficient levels of capital and liquidity and includes the potential impact a firm could have on the financial system, its proximity to failure and the context in which the firm operates.	• Established frameworks supported by policies and standards in key areas. • Regular horizon scanning for regulatory change and seeks to ensure it is prepared. • Engages proactively with the PRA and FCA, and undertakes impact analyses to gauge the effect of regulatory changes. • Compliance monitored by the compliance and prudential risk teams. • Regulatory risk matters reported to the 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 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, cyber-crime 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, cyber-crime 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 the date of signing the financial statements, 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 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. We are also conscious that our key suppliers and outsource partners may be affected by Brexit.

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 two Brexit scenarios, 'no deal' and 'hard Brexit'; see page 38 for the additional Brexit overlay;
- **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 identified Brexit risks is that the business remains profitable, is able to continue with 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.

Viability statement

While the financial statements have been prepared on a going concern basis, in accordance with provision C.2.2 of the UK Corporate Governance Code, the Board of Directors have also assessed the longer term prospects and viability of the Group.

Although the Group formulates long term strategic plans and conducts regular assessments of capital and liquidity requirements covering the next five years of operations, the Directors have assessed the viability of the Group over a three-year period in line with the Group planning cycle as they consider that a longer timeframe would be subject to greater economic, political, and regulatory uncertainty. The Directors also consider that a three-year timeframe is a reasonable period to provide shareholders with a balanced assessment of the Group's viability and prospects.

In conducting their viability assessment, the Directors have considered a wide range of information including but not limited to the following:

- the principal risks and uncertainties the business faces including those arising from Brexit;
- the Group's financial performance for 2018 and Consolidated statement of financial position as at the year end;
- the Group's business plan including the assumptions therein and historical performance against plan;
- scenarios that might affect the Group's operations and resilience;
- the Internal Capital Adequacy Assessment Process;
- the Internal Liquidity Adequacy Assessment Process;
- the Board's approach to risk management;
- the Group's cashflows, liquidity and funding profile, and
- the external environment in which the Group operates (including political, regulatory and competitive landscape).

Despite market uncertainty, new entrants and constant regulatory change, the Group has delivered controlled growth and performed well in all aspects of its business model in 2018. Factors such as a growing loan book, stable net interest margin, a diversified funding strategy and improved cost efficiency have contributed to the Group's track record of year-on-year growth in profitability.

As part of the annual planning cycle the Group prepares business plans and forecasts which consider the external environment, competitive landscape, product segment dynamics, and include short and medium term financial projections. These plans also consider the impacts of known upcoming regulatory and government policy changes. The business planning process also factors in assumptions covering lending targets, product development, product margins, funding requirements, IT investment and other capital expenditure as well as changes to the wider cost base. Quarterly financial re-forecasts are prepared for the Board, which include upside and downside sensitivities to support the base financial re-forecast and assess the adequacy of capital and liquidity resources.

As part of the formulation of the viability assessment, the Directors have also considered the conclusions made in the ICAAP and ILAAP, specifically the results from a wide range of stress tests which represent different levels of severity and probabilities of events that could impact on the business.

Stress testing quantifies the impact of unfavourable economic scenarios, which allows the Group to assess if it will still be able to meet its regulatory capital and liquidity requirements and at what point the business would no longer be viable.

Stress testing for both capital and liquidity are regularly run against a range of scenarios that are specific to a retail bank and cover both plausible and severe scenarios. Stress tests adopted by the Group include but are not limited to:

- Short-Term Idiosyncratic Retail Deposit Stress;
- Market Wide Wholesale and Retail Lending Stress;
- Longer Term Idiosyncratic Retail Deposit Stress;
- UK Inflation Stress;
- Combined Stress Scenario;
- Bank of England Stress Scenario (non-concurrent), and
- Reverse stress tests.

The ICAAP and ILAAP also include mitigating actions for the stress scenarios which include management actions to offset the adverse consequences of the stress. The Group's Capital Working Group and Liquidity Working Group respectively meet bi-monthly and weekly to review stress scenarios and report their findings to ALCO.

Assessments of the risks of greatest concern are captured through the Group's processes for identifying and efficiently managing the key and emerging risks as disclosed on pages 27 to 30. Such assessments inform the Board of the impact of these risks crystallising both individually and collectively. These risks are more fully discussed on pages 31 to 43 and in Risk factors on page 44. The Board has also specifically reviewed the risks from Brexit as detailed on page 45. The Group has considered and is confident that, although the shock would be very severe, it has the capital and liquidity resources to deal with the impact of a potential disorderly Brexit.

As described in the Risk Management section of this report on page 27, the Group has a comprehensive risk appetite framework which addresses risk capacity and sets risk appetite and associated risk limits for key business risks. While all business areas are responsible for managing their own risks, management of strategic risk is primarily the responsibility of senior management and committees. This is intrinsically linked to the corporate planning and stress testing processes and is further supported by the regular provision of consolidated business performance and risk data to the Board Risk Committee and the Board.

Information relevant to the viability assessment can be found in the following sections of the Annual Report:

- the Group's business model and strategy are described in the Strategic Report on pages 2 to 26;
- the Group's approach to risk management including emerging risks is described in the Risk management report and can be found in pages 27 to 44;
- the assessment of risks arising from Brexit as described on page 45, and
- financial performance, including income statement and statement of financial position is included in pages 108 to 163.

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. On completion of the possible combination OSB shareholders would hold approximately 55% and Charter Court shareholders would hold approximately 45% of the combined group. 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 Viability statement and Going concern statement in this report take no account of this possible transaction and have therefore been prepared on a stand-alone basis.

Based on the collective assessment of information described above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of assessment.

Going concern statement

Profit before tax for the year ended 31 December 2018 was £158.2 million (2017: £111.7 million). At 31 December 2018, the Consolidated statement of financial position shows a net asset position of £450.3 million (2017: £335.0 million). The Group holds liquid assets above its regulatory minimum requirement to ensure obligations can be met as they fall due, on a business as usual basis and on a stressed basis. The appropriateness of the Group's liquidity risk appetite and risk management framework and controls is subject to an at least annual review through the ILAAP. At 31 December 2018 the Group held £908.0 million (2017: £886.9 million) of liquid assets consisting mainly of £823.8 million (2017: £848.0 million) of Bank of England reserve account balances and £76.0 million (2017: £34.5 million) of balances held with tier 1 UK banking institutions.

The Group also has access to two uncommitted wholesale funding facilities provided by major banks and to the Bank of England's Indexed Long Term Repo facility and other emergency liquidity facilities. The Group pre-positions collateral with the Bank of England and manages its level of asset encumbrance to enable access to its funding and liquidity facilities at short notice.

The Group regularly conducts an ICAAP and this 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 the three year corporate plan.

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 Consolidated financial statements.

Corporate responsibility

At Charter Court, corporate responsibility is a vital part of our culture and a core element of how we do business. In 2018, we set out to build on our past achievements and maintained our focus on integrating responsible business practices throughout our operations. We seek to run our business responsibly and sustainably for the benefit of our shareholders, customers, employees and the community in which we operate.

With this in mind, we have established principles that apply to all our activities and that are taken into account in the daily conduct of our business.

Respect	Treat customers and colleagues with the same respect you would expect to receive.
Excellence	Aspire to be excellent in everything you do. Deliver consistently high service and have a can do attitude.
Attention	Take time to pay attention to detail, listen, build knowledge and be helpful.
Challenge	Be curious and always look for solutions to improve things.
Honesty	Act with honesty and integrity in the workplace championing good practice at all times.

2018 highlights

During 2018, we demonstrated our commitment to corporate responsibility through the initiatives described on the following pages under the categories of Customers, People, Community and Environment.

People

#6 in Sunday Times Best 100 Companies to Work For 2018 (highest placed bank for a consecutive year)[1]

Society

Over £65,000 donated to Socks & Chocs, a local charity supporting the homeless

Non-financial information statement

The Group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the strategic report. This can be found as follows:

- The Group's business model is in the sections; How we deliver our strategy, Our approach to lending and Our approach to funding on pages 11 to 26.
- Information regarding the following matters, including policies, the due diligence process implemented in pursuance of the policies and outcomes of those policies, can be found on the following pages:
  - People on pages 51 to 54;
  - Community matters on pages 55 to 56;
  - Respect for human rights on page 55;
  - Anti-bribery and anti-corruption matters on pages 55 to 56, and
  - Environmental matters on page 57.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 27 to 44, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.
- All key performance indicators of the Group, including those non-financial indicators, are on page 11.
- The Business performance sections on pages 15 to 26 includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

1 Among medium sized companies (250-3,000 employees).

Precise Mortgages Customers

17,699 customers served in 2018 (2017: 16,093)

88% happy to recommend us (2017: 94%)[1]

41 Net Promoter Score (2017: 57)

As a specialist mortgage lender, our aim is to help customers underserved by the high street banks. In 2018, we provided 17,699 customers with buy to let and residential mortgages, as well as short-term loans and second charge loans, collectively worth £2.8 billion (2017: £2.7 billion).

Our products are distributed to customers exclusively via mortgage intermediaries and we aim to provide both intermediaries and end customers with excellent service.

The service enhancements implemented as part of our 'Broker Journey' project during 2018 are described on page 20. The benefits of such efforts are reflected in improved broker satisfaction compared with 2017 and plans are underway to include initiatives aimed at improving end-customer experience within the project in 2019.

Following on from the expansion of the sales team in 2018, Charter Court initiated a project during the second half of 2018 aimed at optimising the Group's intermediary contact strategy.

As described in more detail on page 20, our new product development programme remains focused on delivering solutions to customers with increasingly complex needs.

The results of our survey conducted in July 2018 showed that over 88% of our customers were happy to recommend Precise Mortgages to others and 97% felt that their individual circumstances were taken into account during the application process.

In 2018, we complemented our internal customer feedback by obtaining a Net Promoter Score, which gauges the quality of relationships between a business and its customers based on responses to a simple question about how likely the customer is to recommend a firm's products or services to their family and friends. Given the NPS range of -100 to +100, a "positive" score or NPS above 0 is considered "good", +50 is "excellent", and above 70 is considered "world class". Precise Mortgages achieved a good score of 41, which is in line with our specialist bank peer group. This reflects our efforts to always treat our customers fairly, deliver consistently high service and continually improve the way we do things.

1 Precise Mortgages Customer Satisfaction Survey, July 2018.

Charter Savings Bank Customers

116,583 customers served in 2018 (2017: 102,394)

89% had a Good or Excellent experience with us (2017: 98%)[2]

39 Net Promoter Score (2017: 70)

Charter Savings Bank continues to offer straightforward savings products to UK savers, with competitive interest rates and supported by excellent customer service. During 2018, our multi award-winning savings business grew customer numbers by 14,189 (2017: 24,920) while deposits grew 15.3% to £5.1 billion.

As discussed in more detail on pages 23 and 24, 2018 saw Charter Savings Bank diversify its funding sources by gathering pooled deposits from a number of aggregated providers. Notably, the Bank also added a further funding channel by making its savings accounts available to an underserved base of customers who prefer to apply and access their savings by post.

In addition, Charter Savings Bank's innovative "Mix and Match ISA" proposition continued to attract deposits which within 18 months from launch grew to almost £1.0 billion across 37,133 new accounts.

Our continued efforts are reflected in the positive feedback received from customers. Over 89% of our customers who took part in our feedback survey in 2018[2] rated their experience with Charter Savings Bank as Good or Excellent.

Charter Savings Bank's good NPS of 39 is in line with our specialist bank peer group and reflects our attractive savings product portfolio and the high quality of service we provide to our customers.

2 Charter Savings Bank Customer Satisfaction Survey, August 2018

People

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2018

#6 in The Sunday Times 100 Best Companies To Work For 2018

92% of employees are proud to work for Charter Court (2017: 91%)[1]

Our people are at the heart of our success and we take great pride in our strong corporate culture, high levels of employee engagement across the Group and the continued external recognition of our collective efforts.

For a third consecutive year, Charter Court has been placed in the top 10 of the Sunday Times Best Companies to Work For, and we remain the highest placed bank in this list. This achievement is a testament to our efforts to foster a strong corporate culture that inspires all of our people, develops their talent to their full potential and underpins the growth and success of our business.

1 Sunday Times 100 Best Companies 2018 Survey.

Attracting the best people

We have a fair and inclusive recruitment policy to ensure we select the best candidates regardless of their gender, race, sexual orientation, religion or age.

All vacancies are internally advertised via our intranet, giving employees an opportunity to apply for roles that interest them and support their progression. In 2018, 119 roles were advertised of which 68 were filled internally.

Our very successful 'Recommend a Friend' recruitment scheme resulted in 23 appointments during 2018. The scheme grants cash rewards to employees when they introduce a successful candidate for an advertised role. The continued success of the scheme shows that our employees are proud to work for Charter Court and confident in recommending friends and family to the Group.

On joining, all new employees attend our 'Welcome to Charter Court' induction session which is a full day introduction to 'everything you need to know' about life at Charter Court. A member of the Senior Management Team, often the CEO, attends part of the session to give a personal welcome and take questions.

Training and development

We are committed to training and developing our employees, ensuring they reach their maximum potential and deliver the best service for our customers.

We offer comprehensive training and development programmes for our employees, alongside online compliance training that ensures they understand all mandatory procedures. Charter Court also has a dedicated central training team focused on the development of our managers. The average number of training hours recorded per full time employee in 2018 was 40.

All mandatory training for all employees covers areas such as anti-money laundering, information security, health & safety and treating customers fairly. In addition, the Group provides its employees with support in obtaining professional qualifications. In 2018, two employees obtained professional qualifications, while a further eight enrolled in courses.

Our Aspiring Supervisors and Managers programme ("ASMP") is endorsed by the Institute of Leadership and Management ("ILM"), UK's top leadership and management qualifications specialist. The programme is regularly reviewed by the ILM to ensure it remains in line with ILM standards. This endorsement demonstrates our commitment to investing in our people, our customers and wider stakeholder groups.

Sharing our success

Providing our employees with an opportunity to share in our success is a key priority for Charter Court. We regularly benchmark our employee remuneration and seek to offer attractive additional benefits including private pension, life cover, child care vouchers and medical insurance.

Our IPO in 2017 gave us the opportunity to allow employees to participate in our first ever Save As You Earn ("SAYE") Scheme and save a fixed amount between £5 and £500 per month over three years. At the end of that period, employees can buy shares in the Company at the Option Price set at the outset. To encourage as many of our employees as possible to participate in the offering, we granted options with the maximum allowed discount of 20% applied to the Option Price. Over 80% of employees chose to participate in the scheme, demonstrating confidence in the business and a high level of employee engagement and commitment. A further scheme was offered in 2018 and more than half of all eligible employees participate in one or both of the plans.

Engagement and support

At Charter Court, we place great emphasis on maintaining high levels of employee engagement.

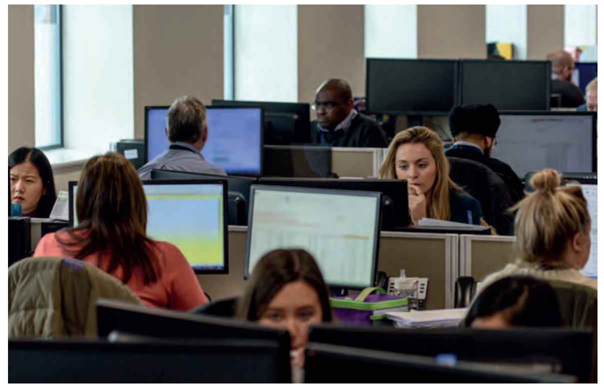
Our Employee Representative Committee, which met 4 times in 2018, includes representatives from all parts of the business who meet with senior management teams to raise any concerns they may have and provide input into ways we can improve our employees' working life.

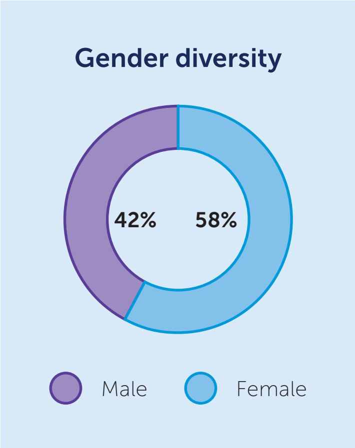
We use a number of communications channels to keep our employees informed of developments within the business, from the intranet, which features a dedicated area for employees to raise questions anonymously, to more open forums such as quarterly presentations for all staff delivered by the CEO. In addition to providing an update on business developments, these events allow employees to ask questions and management to commend individuals nominated as the strongest advocates of our core values during the preceding quarter.

Charter Court recognises that, from time to time, people can have issues or concerns that impact their general wellbeing. Our Employee Assistance Programme ("EAP"), delivered by Workplace Options, is designed to support all employees in managing such issues. Through the EAP, practical information and counselling is made available to employees and their families.

As signatories of the MIND 'Pledge to Change' we are committed to reducing the stigma of mental health within the workplace. All our managers now undergo training aimed at preventing discrimination and promoting good mental health throughout our business. This training programme is delivered with the support of 'Mental Health First Aid England' and the programme is accredited by the Royal Society for Public Health.

We are proud to have a low attrition rate, of only 9.57% in 2018 (2017: 6.70%), which reflects the significant loyalty of our employees.





Promoting diversity

In 2018, one of Charter Court's key priorities was to improve diversity and inclusion across the Group. Our policy is to treat all employees fairly, equally and with respect, regardless of whether they work part-time or full-time, irrespective of origin, nationality, disability, sexual orientation or gender.

The majority of our employees work at our Wolverhampton headquarters where we have been based since inception and this year we opened a new headquarters only a few hundred yards away from where we began in 2008.

Wolverhampton is at the heart of the West Midlands and boasts a richly diverse local community that is reflected in the diversity of our people. As a company, we value and celebrate diversity by hosting theme days on key festival dates such as Eid, Diwali, Vaisakhi and Easter.

As of 31 December 2018, 58% of our employees were female and they are well represented at middle management level (40%). However, we recognise that in more senior positions within the Group, there is scope for improvement and are working hard to address this.

Employees

Number of employees	617*
Number of female employees	356*
Percentage of female employees	58%*
Number of Board directors	9
Number of female Board directors	1
Percentage of female Board directors	11%
Number of senior managers	50*
Number of female senior managers	10*
Percentage of female senior managers	20%
Percentage of employees who are proud to work for Charter Court	92%
Percentage of new joiners hired through the 'Refer a Friend' scheme	19%

Gender pay gap	2018	2017
The mean gender pay gap	52.2%	51.3%
The median gender pay gap	19.5%	21.6%
The mean bonus gender pay gap	77.8%	79.6%
The median bonus gender pay gap	32.7%	30.8%
Proportion of male employees receiving a bonus	91.1%	89.0%
Proportion of female employees receiving a bonus	88.8%	91.5%
Male employees in lower quartile band	31.8%	28.2%
Female employees in lower quartile band	68.2%	71.8%
Male employees in lower middle quartile band	37.7%	40.4%
Female employees in lower middle quartile band	62.3%	59.6%
Male employees in upper middle quartile band	46.9%	50.5%
Female employees in upper middle quartile band	53.1%	49.5%
Male employees in upper quartile band	67.7%	70.9%
Female employees in upper quartile band	32.3%	29.1%

*excluding Non-Executive Directors

Our gender pay gap is a direct result of us having more men than women in Senior Management positions and we are taking a number of steps to address this.

We do not believe that there is a simple solution to improving our gender diversity at senior level. However, we are working hard to give our female employees the tools to help them to progress.

We support working parents through a suite of policies that are designed to enable and support employees to balance parental responsibilities and work including:

- flexible working - 93 employees, 89 of whom are female, work reduced or compressed hours, supporting those with family or caring responsibilities;
- maternity, adoption and paternity policies which offer enhanced pay and encourage the use of keeping in touch days to enhance skills and knowledge prior to return to work, and
- a range of additional leave options to help employees take time away from work for reasons that do not necessarily fall under existing leave provisions, such as domestic emergencies, time off for dependants and public duties.

As at 31 December 2018, 58% of the managers that have been through our Leadership Development Program are female and 61% of the participants in our ILM approved 'Aspiring Supervisors and Managers' Program are female.

On 2 January 2018, we became a signatory to HM Treasury's Women in Finance Charter. As a result, we have:

- committed to specific targets with respect to gender diversity,
- appointed a senior manager to run initiatives aimed at reaching our targets, and
- established a link between executive remuneration and the achievement of the targets set.

The Board and other Senior Managers received unconscious bias training during the year and a rollout to all employees involved in the recruitment process is scheduled for 2019.

In April 2018, we were recognised as a Disability Confident Committed employer and have committed to ensuring our recruitment processes are inclusive and accessible, communicating and promoting vacancies and offering interviews to disabled people, anticipating and providing reasonable adjustments as required, supporting existing employees who acquire a disability or long term health condition and offering paid employment to disabled people.

In July 2018, we engaged with Stonewall and became a diversity champion employer, ensuring that we do even more to ensure that our LGBT employees (and future hires) recognise Charter Court as an inclusive employer of choice. Additionally, we became a member of The Employers Network for Equality & Inclusion ("enei"), the UK's leading employer network covering all aspects of equality and inclusion issues in the workplace.

In September 2018, we held a number of events as part of National Diversity and Inclusion Week, including employee forums with Noël Harwerth (Non-Executive Director) and Rajan Kapoor (Non-Executive Director).

Community

Supporting the industry
We participate in an extensive calendar of roadshows and roundtable events each year to help keep our mortgage broker and intermediary network up-to-date with latest industry legislation and developments. Throughout the year, we hosted 272 events with topics ranging from regulation to product knowledge, consumer education and marketing.

We are active members in a number of industry associations including UK Finance, Intermediary Mortgage Lenders Association ("IMLA"), Association of Mortgage Intermediaries ("AMI"), The Finance & Leasing Association ("FLA"), National Association of Commercial Finance Brokers ("NACFB"), Financial Intermediary & Broker Association ("FIBA") and The Financial Services Forum.

Giving back
Charter Court has established itself as one of the local area's largest and fastest growing employers, now employing 617 people primarily in our Wolverhampton base. Providing support to our community is an important part of our overall strategy. Every year we ask our employees to nominate a local charity that they would like us to support. This decision is made by the Charity Committee with final approval from the CEO.

In 2018, we raised over £65,000 for Socks and Chocs, a local charity that supports the homeless in the West Midlands and beyond. In addition to our existing charitable contributions which have totalled £278,635 since 2008, Charter Court offers a 'Good Causes' fund that can be used towards special charity events being undertaken by, or linked to, employees or their families. We also have longstanding relationships as supporters of local cricket and rugby clubs.

Human rights
Charter Court has zero tolerance for slavery and human trafficking and, in line with the Modern Slavery Act 2015, we take active steps to identify and combat slavery and human trafficking in our business and supply chains. Our supply chains include suppliers of goods and suppliers of services in respect of maintenance of our premises, IT systems, software providers, catering, recruitment, out-sourcing providers and mortgage intermediaries. During the course of 2018, we continued our work to identify and assess potential risk areas in our supply chains, grading the risks as "high" or "low" based on criteria and factors we have determined to be relevant to the assessment of the risks. Enhanced due diligence is undertaken on suppliers considered to be high risk and anti-modern slavery provisions are incorporated into our contracts with suppliers.

Anti-bribery and anti-corruption
The Group has an Anti-Bribery Policy, reviewed annually and approved by the Board of Directors. It applies to all companies in the Group. It will not accept or condone any behaviour connected with accepting, requesting or offering any bribe or inducement (including levels of gifts or hospitality that fall outside of its Gifts and Hospitality Policy) in return for providing some favour. The Policy prohibits the offering, giving or receiving of any inducement which results in an individual acting on the Group's behalf (or any person or body associated with them):

- making a personal gain or advantage; or
- influencing, or intending to influence, a person to take action which may not be solely in the best interests of the Group or of the person or body employing them or whom they represent.

The Group takes its responsibility to act in accordance with the law and to prevent bribery and corruption extremely seriously and promotes zero tolerance to any form of bribery, corruption or irregularity. Any breach of the Policy, or breach of the law, will be treated as gross misconduct. Where there is evidence of suspected bribery or corruption, the Group will refer the matter to the police who will determine if a criminal investigation is appropriate.

The Group does not consider itself to be at a high risk of bribery; it conducts all of its business in the UK and its only significant outsourcing arrangement is with a wholly-owned subsidiary of a UK Building Society in relation to its deposit-taking business.

In relation to the procurement of goods and services, the Anti-Bribery Policy operates in conjunction with a number of other Group Policies which are incorporated into the Group's Procurement Policy and include the Conflicts of Interest Policy, Gifts and Hospitality Policy, Modern Slavery Act Statement, and Outsourcing Policy.

All staff are required to complete an Anti-Bribery and Corruption Compliance Training module on induction and every other year afterwards. On an annual basis all staff have to acknowledge that they have read the Employee Handbook which reminds them of the need to comply with the Anti-Bribery Policy.

If staff suspect that the Policy is being violated, they are required to immediately report this in accordance with the Group's Internal Fraud Policy and Response Plan or the Financial Crime reporting procedure as appropriate. The Group's Whistleblowing Policy and Procedure is also available as an alternative reporting process, if for whatever reason, an informant feels that the other procedures above are not appropriate.

The Group has a number of systems and controls in place to assess the effectiveness of the Policy and a report is provided to the Audit Committee on an annual basis.

There have been no incidents resulting in prosecutions or other similar incidents of non-compliance with the Anti-Bribery Policy.

Responsible tax strategy
Charter Court is committed to full compliance with all statutory obligations and full and timely disclosure to relevant tax authorities. The Group's tax affairs are managed in a way which takes into account the Group's wider corporate reputation in line with the Group's overall high standards of governance.

The Group has formally adopted and complies with HMRC's Code of Practice on Taxation for Banks ("Banking Code").

Ultimate responsibility for the Group's tax strategy and compliance rests with the Board and executive management of the Group's tax affairs is delegated to the Chief Financial Officer.

The Group manages risks to ensure compliance with legal requirements in a manner which ensures payment of the correct amount of tax and commits to complying with both the spirit and letter of tax rules and regulations by discerning and following the intentions of Parliament. As such the Group will not undertake tax planning that aims to achieve a tax result that is contrary to the intentions of Parliament. In particular:

- The Group will only engage in tax planning which supports genuine commercial activity;
- The Group will only enter into a commercial transaction that is structured in a way that gives a tax result for the Group which is not contrary to the intentions of Parliament; and
- The Group will seek to take advantage of available tax incentives, reliefs and exemptions in line with, and in the spirit of, tax legislation.

The Group has a very low risk appetite as its principal objective is to achieve certainty in its tax affairs. The Group seeks to comply fully with its regulatory and other obligations and to act in a way which upholds its reputation as a responsible corporate citizen.

The Group acknowledges the importance of maintaining an open and honest relationship with HMRC in relation to its tax affairs. In the event of an issue arising the Group will engage with HMRC to ensure the issue is resolved promptly and satisfactorily.

As the Group is wholly UK based, the effective rate of corporation tax is expected to fall in line with the announced reductions in the standard rate of UK tax. The Group does not expect to be significantly impacted by the OECD project on Base Erosion and Profit Shifting ("BEPS").

The Group's tax strategy can be found in the Investor relations section of its website at:

https://www.chartercourtfs.co.uk/InvestorRelations/CorporateGovernance

Environment

Maintaining a minimal environmental footprint

By the nature of what we do, and by having the majority of our employees in a single location, we have a relatively small impact on the environment.

However, we remain alert to the risks and opportunities presented in transitioning to a low carbon economy and we are committed to minimising our environmental footprint through initiatives such as discouraging printing and running a paper collection and recycling programme. The latter has resulted in the equivalent of 640 trees being saved in 2018[1].

We recognise that some degree of printing is inevitable in an office-based environment and we ensure the print cartridges we use are 100% recycled.

In 2018, we achieved ISO14001 in Environmental Management through a series of initiatives including the formation of an Environmental Committee and the conversion of office lighting to more efficient LED lights.

Additionally, we have installed car charging points at our Wolverhampton offices. The charging points are provided free of charge for employees with electric or hybrid vehicles, supporting our colleagues' efforts to reduce their own environmental footprints.

Greenhouse gas emissions

We continue to take a beyond-compliance approach that includes operational control of facilities, purchased electricity and business travel associated with our business activities. At present, activities outside of our operational control, such as supply chain emissions and employee commuting are excluded due to the lack of available data.

Using the DEFRA Environmental Reporting Guidelines (June 2013) and DEFRA Conversion Factors 2018 (except for hotel stays, where publicly available industry information has been used), emissions of all greenhouse gases have been assessed and we have reported on all of the emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Despite a 19% rise in the number of employees and the opening of a brand-new office building part way through the year, total greenhouse gas emissions only rose by 2% compared to the 2017 baseline. This was influenced by the need for more office space, the introduction of gas heating and an increase in business travel. Nevertheless, there was a 6% reduction in emissions related to electricity consumption and also improvements in waste disposal. Substantial employment growth balanced by stable absolute low carbon emissions allowed us to achieve a 21% reduction in greenhouse gas emissions per employee.

Greenhouse gas emissions	2018	2017
Emission source	Tonnes CO_2e	Tonnes CO_2e
Combustion of fuel	158.05	128.69
Operation of facilities	3.15	3.86
Purchased electricity	272.35	290.69
Total greenhouse gas emissions	**433.55**	**423.24**
Total emissions per employee (FTE)	**0.68**	**0.86**

The above figures have been independently verified by a UKAS accredited Certification Body, Interface NRM Ltd.

Directors' approval statement

The Strategic report, as set out in pages 2 to 57, has been reviewed and approved by our Board of Directors.

Ian Lonergan
Chief Executive Officer
13 March 2019

Sebastien Maloney
Chief Financial Officer
13 March 2019

1 Shred-IT report, 2018

Corporate governance

How we comply with the UK Corporate Governance Code ("the Code")

The Board is committed to the highest standards of corporate governance and confirms that, in the period from the last annual report and accounts, to 31 December 2018, the Group has continued to comply with the requirements of the UK Corporate Governance Code ("the Code"). The Code was published in September 2014 and updated in 2016 and 2018 to reflect legislation on audit committees and auditor appointments, and is available in full at www.frc.org.uk. The following report provides a greater understanding of how the Group has applied the principles and complied with the provisions of the Code. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook.

Contents

Board of Directors

Chairman

1 Sir Malcolm Williamson Chairman

Appointed to the Board:
June 2017 (Chairman from August 2017)

Key skills and experience:
Sir Malcolm has gained significant leadership experience on the boards of a number of publicly listed companies, having served in a variety of roles, latterly as the Senior Independent Director at Aviva plc and as Chairman of Friends Life Group plc. These roles together with his executive experience as the former Group Chief Executive of Standard Chartered Bank and former President and CEO of Visa International ensure he is well placed to lead the Board effectively. Sir Malcolm's previous roles include Chairman of Signet Jewellers, Clydesdale Bank plc, CDC, a government business and the National Australia Group Europe (2012-2014) and a Non-Executive Director of National Australia Bank until 2012. He has been a Non-Executive Director of JP Morgan Cazenove Holdings, G4S and the National Grid Group and has served as a member of the Board of Trustees for the International Business Leaders Forum.

Board committee membership:
Nomination Committee Chair
Stakeholder Committee Member

Principal external appointments:
Chairman Youth Business International and CSFI
Non-Executive Director, New Day Group UK Limited

Executive Directors

2 Ian Lonergan Chief Executive Officer

Appointed to the Board:
November 2008

Key skills and experience:
As CEO and co-founder of the business, Ian leads the senior team and is responsible for delivering the Group strategy, ensuring risk management is a core focus and setting the values and standards to which employees work. He has over 20 years of experience in financial services, focusing mainly on strategy, financial analysis and management functions. Ian qualified as a Chartered Accountant with Ernst & Young where he worked in the Financial Services Practice as both an auditor and a management consultant in Europe and the Asia Pacific region.

Principal external appointments:
None

3 Sebastien Maloney Chief Financial Officer

Appointed to the Board:
January 2010

Key skills and experience:
In his role as CFO, Sebastien has executive responsibility for all aspects of finance, including the production of management and statutory accounts, financial planning and analysis, corporate finance, treasury operations, capital markets activities, and asset/liability management. He previously held senior roles at Merrill Lynch, GMAC-RFC and Morgan Stanley, working in a range of roles focusing on portfolio valuation analytics, financial planning and liability management through to mortgage securitisation structuring and sales.

Principal external appointments:
None

4 Peter Elcock Chief Risk Officer

Appointed to the Board:
November 2015

Key skills and experience:
Peter is responsible for the risk, legal and compliance teams. He has over 39 years of experience in financial services, having held a number of senior positions in financial institutions, including 27 years at Barclays plc in a variety of roles and most latterly at director level leading risk management strategy and change. He was previously the Chief Risk Officer at Coventry Building Society.

Principal external appointments:
Non-Executive Director of Ipswich Building Society

Non-Executive Directors

5 Philip Jenks Deputy Chairman

Appointed to the Board:
October 2009 (Deputy Chairman as of August 2017)

Key skills and experience:
Philip has over 40 years of experience in retail banking services, including 37 years at Halifax Bank of Scotland (and previously Halifax plc and Halifax Building Society), one of the UK's largest mortgage and savings businesses. He has worked closely with the Department for Communities and Local Government and been an adviser to the Housing Finance Select Committee. Since his appointment to the Charter Court Board, Philip has made a valued contribution in building the governance infrastructure and regulatory relationships.

Board committee membership:
Risk Committee Member

Principal external appointments:
Non-Executive Director at Leeds Building Society

6 Noël Harwerth Senior Independent Director

Appointed to the Board:
June 2017 (Senior Independent Director from August 2017)

Key skills and experience:
Noël has extensive experience in both the public sector with government bodies and the private sector with global banking companies, which brings valuable insight to the boardroom debate. Noël is a former non-executive director of Standard Life Aberdeen plc and RSA Insurance Group plc prior to which she held a variety of senior roles with Citicorp for 15 years, latterly serving as the Chief Operating Officer of Citibank International. Noël's prior non-executive roles include GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe, Avocet Mining, Alent plc, Corus, Logica, The London Metal Exchange and Standard Life Assurance Limited.

Board committee membership:
Risk Committee Member
Remuneration Committee Member
Nomination Committee Member
Stakeholder Committee Member

Principal external appointments:
Chair of the UK Export Finance Board
Senior Independent Director of Sirius Minerals Plc
Non-Executive Director of the British Horseracing Authority Limited
Member of the advisory Board of CHAPS Clearing Company Limited

7 Rajan Kapoor Independent Non-Executive Director

Appointed to the Board:
September 2016

Key skills and experience:
Rajan was Financial Controller of the Royal Bank of Scotland Group and held a number of senior finance positions in a 28-year career with RBS. He has wide-ranging experience of all aspects of banking including external reporting, financial planning and analysis, asset and liability management, taxation and stress testing. He also has extensive experience of financial and regulatory reporting in the UK and US with a strong background in internal financial controls, governance and compliance. Rajan is a Fellow of the Institute of Chartered Accountants and of the Chartered Institute of Bankers in Scotland.

Board committee membership:
Audit Committee Chair
Risk Committee Member
Remuneration Committee Member

Principal external appointments:
Non-Executive Director, Chairman of Audit Committee and Remuneration Committee of Allica Limited

8 Ian Ward Independent Non-Executive Director

Appointed to the Board:
January 2015

Key skills and experience:
Ian has over 40 years of experience in financial services including 16 years as Chief Executive Officer of Leeds Building Society. He was formerly a Director of Leeds, York and North Yorkshire Chamber of Commerce and Chairman of its property forum and the Senior Independent Director of Harrogate & District NHS Foundation Trust. Ian has considerable experience in non-executive roles and his understanding of the regulated financial services market brings valuable regulatory insight to the Board.

Board committee membership:
Remuneration Committee Chair
Stakeholder Committee Chair
Audit Committee Member
Risk Committee Member
Nomination Committee Member

Principal external appointments:
Non-Executive Director of Newcastle Building Society
Chairman of Newcastle Systems Management Limited.
Chairman of Newcastle Financial Advisors Limited

9 Tim Brooke Independent Non-Executive Director

Appointed to the Board:
January 2015

Key skills and experience:
Tim has strong risk management and commercial experience gained within the financial services sector through executive roles with JPMorgan Chase & Co., Yorkshire Building Society and latterly as a former partner with PricewaterhouseCoopers LLP. Tim is the former Chairman of Capita Employee Benefits Limited and Non-Executive Director of Marsden Building Society. Together with Tim's operational and internal audit experience gained in the early part of his career and his non-executive roles with Risk and Audit Committees he is well placed to lead the Risk Committee. Tim holds non-executive roles with a number of other financial and non-financial institutions operating in the UK and abroad.

Board committee membership:
Risk Committee Chair
Audit Committee Member
Remuneration Committee Member
Stakeholder Committee Member

Principal external appointments:
Non-Executive Director of Butterfield Mortgages Limited
Senior Independent Director of Monzo Bank Limited
Chairman of TFP Schemes Limited
Chairman of PIB Risk Services Limited
Chairman of Thistle Insurance Services

Chairman's introduction

Sir Malcolm Williamson, Chairman

> During 2018, we continued to strengthen our corporate governance framework to ensure effective oversight of executive management performance, in an increasingly uncertain market environment.

Dear Shareholders,

I am delighted to welcome you to our 2018 corporate governance report. Throughout the year, the Group's Board has provided critical oversight of executive management to ensure successful execution of Charter Court's long-term strategy.

Governance

I consider corporate governance as a key element underpinning the sustainable, long-term growth of any business. At Charter Court, we are committed to achieving our business objectives in an honest, transparent and accountable way. As such, we regularly challenge our business practices to develop and improve accountability, leadership, transparency, probity, and the process by which the Group is directed and controlled. This allows us to maintain the trust placed in us by our customers, employees, regulators and the wider public.

In this report, we describe our corporate governance arrangements and outline how the Group has applied the principles of the Code in 2018.

The Board

During 2018 we took a number of actions to further strengthen our corporate governance framework, including changes to Board committee leadership to reinforce the independence of each committee and enhance their effectiveness, and the establishment of a Stakeholder Committee to facilitate greater stakeholder involvement in our governance.

Diversity

In line with our commitment to promoting diversity across all levels of our organisation, on 2 January 2018, we became a signatory to the HM Treasury's Women in Finance Charter. As such, we have set out specific targets with respect to gender diversity and put in place arrangements needed to support their delivery. We are aware that representation of women on our Board currently falls short of the Hampton-Alexander guidelines and are working hard to address this.

Board effectiveness

To ensure that our Board, including all its members, continues to provide effective oversight of executive management, during 2018 we commissioned an external review of our performance against the FTSE Listed and Governance Code standards.

I am pleased to report that the results of the findings showed high levels of effectiveness across many of the areas reviewed. Given that Charter Court has only recently entered the listed market, this was viewed as commendable by our independent evaluator, Advanced Boardroom Excellence.

There are, of course, areas to work on. These include maximising all the individual strengths of the Board members to accelerate the overall development of the Board. To address this and other areas for improvement, we have developed an action plan and assigned clear responsibilities for delivery.

Further details regarding the Board review process and election and re-election of Directors are set out on page 67 of this report.

Stakeholder engagement

At Charter Court, we place a great deal of emphasis on active engagement with all our stakeholders and expect our newly-formed Stakeholder Committee to play a critical role in facilitating this process. The Stakeholder Committee has been formed to consider matters in relation to environment, social responsibility, reputation, diversity (other than Board diversity), culture, conduct, employee relations, ethics and investor relations with Ian Ward as Chairman together with Tim Brooke, Noël Harwerth and myself as members.

Looking ahead

In addition to addressing key themes emerging from our board effectiveness evaluation, during 2019 we look forward to embracing the new Corporate Governance Code published by the Financial Reporting Council on 16 July 2018.

In many respects, our key focus areas in 2018 with regard to engagement with stakeholders, succession planning and diversity are in line with the changes introduced by the new Code.

Through continued evolution of our corporate governance framework and practices, our key objective remains to discharge our duties effectively and to the highest of standards into 2019.

Sir Malcolm Williamson
Chairman
13 March 2019

Corporate governance report
Leadership

The role of the Board and its committees

The Board understands the importance of having the right balance of skills, experience and diversity. As such, the composition of the Board is regularly reviewed by the Nomination Committee.

The Board is chaired by a Non-Executive Chairman, Sir Malcolm Williamson and has a majority of Non-Executive Directors. Each Non-Executive Director will stand for election at the Annual General Meeting ("AGM") in May 2019.

The skills and experience of the current Directors and the value they bring to the Board is described on pages 59 to 60.

The Board of Directors is responsible for promoting the highest standards of corporate governance across the Group. The Board ensures the long-term success of the Group, sets the values and culture of the organisation, agrees the strategic objectives and establishes a relationship with the shareholders.

The Board is collectively responsible for leading and controlling the Group and for the management and conduct of the Group's business, strategy and development. The Board is also responsible for ensuring the Group has an appropriate system of internal controls and risk management (including financial, operational and compliance controls) and for reviewing the effectiveness of these controls. In addition, the Board approves changes to the capital, corporate and management structure of the Group. Ultimately, the Board is accountable to shareholders for creating and delivering sustainable value by ensuring that management not only delivers on short-term objectives but promotes the long-term growth of the Group.

The Senior Management team support the Chief Executive in implementing the strategic objectives set by the Board and do so within the internal control systems and risk appetites established by the Board.

The Board's responsibilities are set out in a formal schedule of matters reserved for the Board and are reviewed annually in light of regulatory and corporate governance developments and other matters that may have an impact on the Group's business performance.

The Board has delegated a number of its responsibilities to Board Committees, which are responsible for maintaining effective governance in the key areas of audit, remuneration, risk and stakeholders succession planning, including Board composition. They utilise the expertise and experience of their members and independent advisors and make recommendations to the Board where required.

See pages 71 to 82 for further details on the committees.

The Group has a wholly owned operating subsidiary Charter Court Financial Services Limited which transacts the Group's banking business. It is authorised by the PRA and regulated by the FCA and the PRA. The Board of the Bank mirrors that of the Group and comprises the same Directors; separate Board meetings are held immediately following meetings of the Group's Board. The Bank also has Audit and Risk Committees, which is chaired by a non–executive director and includes two other non–executive directors.

There are a number of Risk committees at the executive level which also support the CEO in his decision-making process as the Risk Management Committee, Credit Management Committee, Operational Risk Committee and the Assets and Liabilities Committee. There is also an Executive Disclosure Committee, comprised of senior managers and the Executive Directors, which monitors price sensitive information.

Further information on the role and activities of each of the Board committees can be found in this report. Their individual terms of reference, which have been approved by the Board are available at http://www.chartercourtfs.co.uk/InvestorRelations/BoardCommittees.

The governance framework

Strategic report
Corporate governance
Financial statements
Appendices

A description of Board activities in 2018

The Board, during 2018, had a schedule of matters. Key items in the matters reserved schedule are as follows:

- Approval of a Stakeholder Committee
- Monitoring of the Group's operational and financial performance
- Approval of the Dividend Policy
- Changes to the Group's capital structure
- Approval of the Board Independence Policy
- Approval of the Group's Disclosure Policy
- Approval of Financial Risk Management Policy
- Approval of the Group's Anti-Bribery Policy
- Approval of the Group's budget
- Approval of Market Abuse Policy
- Approval of financial statements including interim and annual results and quarterly trading updates
- Approval of the Payment Practice Report
- Approval of the Terms of Reference of Board Committee

Key topics discussed in 2018

During 2018 the Board reviewed the following:

- Strategy
- Grant of Performance Share Plan Awards
- Changes to Share Capital
- GDPR Updates
- Gender pay gap reporting
- Dividend Policy
- Internal Bank Accounts
- Interim and Annual Financial Results, and quarterly trading updates
- Financial Performance and the 2019 Business Plan
- Risk Management and Internal Financial Controls
- Culture review and employee engagement survey
- Customer surveys
- External Board Effectiveness Evaluation
- Succession planning

Roles on the Board

A clear division of responsibilities between Executive and Non-Executive Directors has been established, in line with the principles of the Code.

The Group's Chairman leads and manages the work of the Board. The Non-Executive Director's role is to independently challenge and review while the Chief Executive Officer carries responsibility for the day-to-day management of the business. The Chief Executive Officer is supported in this role by the Chief Financial Officer, the heads of each of the divisions and by the Chief Risk Officer.

The roles are defined as follows

Role	Name	Responsibilities
Chairman	**Sir Malcolm Williamson**	Leads the Board and ensures its effectiveness, measures performance against strategy, responsible for the performance of the CEO, facilitates the effective contribution of the Non-Executive Directors, including identification of training needs, ensures the Board understand and has visibility over the views and objectives of the major shareholders and other key stakeholders, ensures the values and culture in the organisation are reflected.
CEO	**Ian Lonergan**	Responsible for developing the strategic direction of the Group for approval by the Board, accountable for the implementation and delivery of the strategy and the day-to-day performance of the Group, leads the executive team to deliver the strategic vision. Close working relationship with the Chairman.
CFO	**Sebastien Maloney**	Responsible for delivering the Group's financial performance and assisting the CEO in delivering the strategic vision.
CRO	**Peter Elcock**	Responsible for managing, controlling and reporting risks, compliance and ensuring operation within risk appetite.
Deputy Chairman (Non-Independent)	**Philip Jenks**	The current Deputy Chairman has significant sector experience which provides a valuable contribution to Board meetings and adds additional support to the Board's strategy.
Senior Independent Director	**Noël Harwerth**	Act as a sounding board for other Non-Executive Directors and the Chairman, meets other Non-Executive Directors without the Chairman or executives present to collate feedback from the Non-Executive Directors on the Chairman's performance. Available to discuss with shareholders any concerns they may have that cannot be resolved through the normal channels with the Chairman. Leads on the Chairman's succession plan. Co-ordinates the annual evaluation of the Chairman.
Independent Non-Executives	**Ian Ward** **Tim Brooke** **Rajan Kapoor**	Responsible for providing independent and constructive challenge, sound judgement and objectivity to the Board's decision making. Monitor the delivery of the strategy and financial performance within the parameters of the risk management framework.

Board meetings attendance

The attendance of Directors at Board and committee meetings of which they were members during the financial year ended 31 December 2018 is shown in the table below. Directors are expected to attend, and to be well prepared for, all Board and Board committee meetings, and to make time to understand the business, meet with executives and regulators, and complete ongoing training.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee	Stakeholder Committee[3]
Sir Malcolm Williamson[1]	8/8	n/a	n/a	n/a	2/2	1/1
Noël Harwerth	8/8	n/a	5/5	5/5	2/2	1/1
Philip Jenks	8/8	n/a	5/5	n/a	n/a	n/a
Ian Ward[2]	8/8	7/7	5/5	5/5	2/2	1/1
Tim Brooke	7/8	7/7	5/5	5/5	n/a	1/1
Rajan Kapoor	7/8	7/7	5/5	4/5	n/a	n/a
Ian Lonergan	8/8	n/a	n/a	n/a	n/a	n/a
Sebastien Maloney	8/8	n/a	n/a	n/a	n/a	n/a
Peter Elcock	8/8	n/a	n/a	n/a	n/a	n/a

1 Sir Malcolm Williamson was appointed as Chairman of the Nomination Committee with effect from 5 March 2019.
2 Ian Ward stepped down as Chair of the Nomination Committee on 5 March 2019. He was appointed as Chairman of the Stakeholder Committee with effect from 1 December 2018.
3 The Stakeholder Committee was created on 1 December 2018.

Information provided to the Board

In order to effectively monitor the performance of the Group against its strategy and agreed risk appetite, as well as to support the achievement of strategic objectives by providing advice, the Board requires accurate and timely information. The Chairman is assisted in ensuring the Board receives such information by the Company Secretariat. The Board has a schedule of matters reserved (see page 65) and annual agendas for the Board and each of the committees. The agendas for each meeting are discussed with the Executive Directors and the Chairman, a similar process takes place for Board committee meetings where the committee chairs discuss the agenda with the Company Secretariat and relevant function head. In addition, the Board has access to an online resource centre which provides updates on analyst reports, corporate governance matters and other miscellaneous reports which help the Board in carrying out their duties as Directors.

The Group's financial performance is reviewed at every Board meeting and, members of the senior management team make regular presentations to the Board. The CEO presents progress against the agreed strategic objectives throughout the year. A regular risk report from the CRO is also discussed at the Board which includes regulatory and conduct matters. The Board also receives regular updates from external advisors including auditors, corporate lawyers and the Company's brokers. The Group held a strategy day on 19 September 2018 in which the Directors and Executive managers discussed key strategic themes.

On the rare occasion when a Director is unable to participate in a meeting, they are encouraged to provide comments to the Chairman on key items of business in advance of the relevant meeting, so that their views can be shared at the meeting and their opinions taken into account during discussions.

The Non-Executive Directors meet without management present to discuss performance and other matters on a regular basis.

Board activities 2018

The Board held eight scheduled meetings in 2018. In 2018, the Board has focused on compliance with new regulations and codes, GDPR, the year end and interim financial statements, the governance structure, composition of the Board for the future, including a review of succession planning, training, commissioning an external board evaluation and the appointment of a new Company Secretariat. Further focus was on risk reports and updating the Committees Terms of Reference.

Appointment of Directors

The Nomination Committee is responsible for making recommendations to the Board regarding the appointment of new Directors. Such recommendations are provided taking into account the structure and composition of the Board having regard to the balance of skills, diversity, knowledge and experience.

In addition, the Nomination Committee carried out an assessment of the skills and diversity the Board requires going forward.

Election and re-election of Directors

Non-Executive Directors are appointed for terms of three years which may be renewed, subject to satisfactory performance and approval by shareholders, for up to a maximum period of three terms (nine years). Each of the Directors stood for election at the first AGM of the Group in accordance with the Code and all Directors were elected. At subsequent AGMs all Directors will either stand for re-election again or election if they have been appointed since the last AGM.

The Nomination Committee assesses:

- their performance;
- time commitments;
- confirmation from the Chairman that, following formal performance evaluation, the individual's performance continues to be effective and demonstrates commitment to the role, and
- independence of each of the Non-Executive Directors,

in order to recommend their re-election to the Board.

Further biographical details of the Directors can be found on pages 59 to 60.

The Group has a controlling shareholder as defined under the Listing Rules and as a result the independent Non-Executive Directors of the Group must be elected or re-elected by both a majority of the votes cast by all of the Group's shareholders and a majority of the votes cast by the Group's independent shareholders.

Independence of Directors

The Board consists of six Non-Executive Directors (including the Chairman who was independent on appointment) five of whom are considered to be independent.

The Nomination Committee assesses the independence of the Directors annually. In doing so it uses the criteria in the Code and also reviews any potential and actual conflicts. The Nomination Committee recommended that each of the Non-Executive Directors are independent, except as noted below. In reaching this determination the Board considered the following.

- Ian Ward is a director of Newcastle Building Society, the parent company of Newcastle Strategic Solutions Limited, which provides outsourced services to the Charter Savings Bank. Mr Ward does not participate in the discussion of and voting matters related to the outsourcing arrangement in his role on either of the Charter Court and Newcastle Building Society boards.
- Philip Jenks will have served on the Board for more than nine years in March 2019.

The Board has determined that Mr Ward continues to be independent notwithstanding his connection with Newcastle Building Society and is of independent character and judgement and should be regarded as an independent Director for the purposes of the Code. Mr Jenks was previously deemed as a non-independent Non-Executive Director and the situation remains unchanged.

Skills, knowledge and experience

The Nomination Committee reviewed the Board composition in March 2018 and whilst the Board is considered sufficiently diversified with an appropriate balance of skills and experience, it is an important part of the Committee's role to ensure there is effective succession planning at both Board and executive levels. Early in the year the Board commissioned Korn Ferry, an external executive search and leadership consulting firm, to conduct an independent review to assist in compiling a matrix of key skills and attributes that the Board members should bring to the boardroom. The process was conducted by a way of interviews with each of the Board members and external benchmarking exercise. The Board has appointed Korn Ferry to recommend candidates for non-executive positions.

Independent professional advice

All Directors have access to the advice and services of the Company Secretariat who ensures that Board procedures are complied with. In addition, Directors have access to independent and professional advice at the Group's expense.

Conflicts of interest

The Board has procedures in place to deal with potential or actual conflicts of interest, which are governed by both company law and the Group's Articles of Association.

Conflicts of interests and external appointments registers are maintained for all Directors. Directors are requested to keep the Company Secretariat informed of external appointments and possible conflicts that could affect their ability to act in the best interests of the Group.

Under the Group's Articles, the Board is permitted to authorise such conflicts and to impose any conditions on that authorisation that it considers to be necessary, for example to leave Board meetings when certain matters are discussed.

Ian Ward has disclosed his directorship of the Newcastle Building Society, the parent of Newcastle Strategic Solutions Limited (on the Board of which Mr Ward does not sit) which provides outsourced services relating to Charter Savings Bank. Mr Ward does not participate in the discussion of and voting on matters related to the outsourcing arrangement in his role on either of the Charter Court and Newcastle Building Society Boards and his access to related Board papers is also restricted.

Effectiveness

Evaluations

The Board is committed to undertaking an annual review of its effectiveness and believes such a process adds value to the way the Board and its committees operate.

In 2018 an independent, external Board review was undertaken to provide a benchmark against the FTSE Listed and Governance Code standards. This reflects the Group's drive to create "excellence in all aspects of operations" and its focus "on delivering sustainable, profitable growth" by developing positive relationships with all stakeholders. The next external independent review will be in 2021.

The review was carried out by Advanced Boardroom Excellence Ltd ("ABE"), a specialist board effectiveness consultancy, and led by Helen Pitcher OBE, its Chairman, which undertakes no other business for the company. ABE was chosen to provide a clear focus on the best practice in board governance within the listed environment and a developmental approach on board effectiveness.

The Chairman and Company Secretariat provided a comprehensive briefing to ABE ahead of the review in March 2018. In addition, detailed one-to-one interviews were held with each Director against a tailored agenda. A number of external advisors were also interviewed for their view on the Board and Committee effectiveness. A final report and recommendations were presented to the Board in July 2018 and considered by the Directors. A Separate Documentation Report provided a detailed review of the Board and Committees documentation covering terms of reference, agendas and Board and Committee information. As part of the Board review the Chairman also received a report on each Director and the Senior Independent Director received a report on the Chairman.

The Charter Court Financial Services Board was seen to have shown strong levels of effectiveness across many of the areas of board effectiveness set out in the FRC Guidance on Board Effectiveness, part of the Governance Code. This was viewed as commendable by Advanced Boardroom Excellence, given that the Company has only recently entered the listed market.

A strong theme of the report was the development of the Board governance infrastructure following the successful IPO in October 2017. This development is primarily focused on the requirements of the listed market and the FRC's revised 'Code' due for implementation in January 2019.

Many of the Group's underlying business processes were viewed as good, and having undergone the rigour of the IPO process. The review concluded that the Board was in a position where its development should focus on consolidating its oversight role, offering the executive team the level of support and challenge required of a listed company. The Group was considered ambitious, and its positive relationship with shareholders and investor markets was seen as a key ingredient in the success of its growth plans.

A development focus for the Board was seen to be to continue maximising all the individual strengths of the Board members to accelerate the overall development of the Board. Much of what was recommended in the report has been recognised by the Board, and in many cases, is already in progress.

The Board has discussed the findings and recommendations and developed an action plan with assigned responsibilities to address the agreed developments for the Board. This will be regularly reviewed as part of the Board's on-going agenda.

Four key areas for the Board's development identified in the report are, the Board working with the Senior Independent Director, Board future strategic engagement, Company Secretariat function and the effectiveness of the Nomination Committee.

Training and development

Board members are provided with ongoing training and development opportunities. Development needs are discussed during annual performance reviews with the Chairman. The training schedule for the year is subsequently devised by the Company Secretariat together with the Chairman, taking into account the Directors' preferences.

Throughout 2018, Board members were provided with training on a number of topics including: General Data Protection Regulation, Cyber Security, investor relations for Non-Executive Directors, the Senior Manager Regime and IFRS 9.

Induction

On joining the Board all new Directors receive a comprehensive induction programme that is tailored to their individual requirements. The induction schedule is facilitated by the Human Resources team and the Company Secretariat in consultation with the Chairman and the new Director.

The programme generally consists of one-to-one meetings with key members of the management and heads of functions, the Group's external advisors, access to relevant Group polices and minutes of previous Board meetings.

The objective of the induction programme is to provide an overview of the business, strategy, finances, relationship with the regulator, Group's history and culture and values and to ensure that the new Director gains sufficient knowledge of the business to allow them to carry out their role effectively.

Engagement

Relationship with shareholders

The Board is committed to effective communication with our shareholders. The CEO and CFO effectively communicated the strategy and business plan to investors and will strive to continue to do so throughout the forthcoming year through various events, including financial results roadshows for all shareholders. The CEO and CFO also regularly attended industry and investor conferences and hosted regular meetings with financial analysts discussing the Group's performance.

Early in 2018 the Chairman wrote to the Group's top shareholders, offering a face-to-face meeting with himself and the Company Secretariat to discuss corporate governance matters.

Institutional shareholders have a continuing dialogue with the Executive Directors. All of the announcements, presentations, and regulatory news can be found on our website in the Investor Relations section, which is itself an important part of how the Group communicates with all our shareholders. The Group's brokers also attend Board meetings to provide an insight into the investors views on the market and the Group in general.

Retail shareholders are also able to ask questions via the Registrars, who have a dedicated team of people available and will pass appropriate enquiries to the Company Secretariat for response.

Annual general meeting

In 2018 the Company held its first AGM and all resolutions were passed.

This year the AGM will be held at the offices of Linklaters, One Silk Street, London, EC2Y 8HQ. The notice of the AGM will be posted to shareholders and is available on the website at www.chartercourtfs.co.uk. Voting will be conducted by a poll and the results will be made available on the Group's website as soon as practicable following the meeting.

Shareholder Relationship Agreement

The Group adopted a Relationship Agreement at IPO which is intended to ensure that the Group is capable of carrying out business independently of the major shareholder, so long as it holds a legal or beneficial interest in more than 30% of the ordinary shares. The Relationship Agreement allows the shareholder to nominate one Non-Executive Director to the Board for as long as it holds indirectly or directly 30% or more of the ordinary shares and a further Non-Executive Director should it hold 50% or more of the ordinary shares. The major shareholder has not exercised this right and does not intend to do so over the near term.

The Nomination Committee ("the Committee") is committed to ensuring that the Board's structure, size and composition is suitable to deliver the Group's strategy taking into account wider stakeholder views.

Committee Members

The Committee comprises:

- **Sir Malcolm Williamson (Chairman)**
- **Ian Ward**
- **Noël Harwerth**

Ian Ward chaired the Committee throughout 2018.

Governance

Members of the Committee are appointed by the Board. The Chair reports to the Board on the Committee's proceedings after each meeting.

Role of the Committee

The Committee's remit broadly covers the following areas:

- Board composition
- Making recommendations to the Board on new appointments to the Board
- Succession planning
- Monitoring the Board's diversity policy
- Board performance evaluation
- Annual reporting

Meetings

The Committee met twice in 2018. For details of members' attendance at Committee meetings, see page 66.

Other required attendees at meetings include the Chief Executive Officer and the Director of HR and Central Operations. The Committee has scheduled three meetings for 2019.

Nomination Committee report

Dear Shareholders,

I am pleased to present the Nomination Committee (the "Committee") report.

As announced on 8 March 2019, I succeeded Ian Ward as Chair of the Committee. Ian was very supportive during the handover process and I am grateful for, and look forward to, his continued support as a member of the Committee throughout 2019.

Responsibilities

The Committee's key area of responsibility is to ensure the composition of the Board is appropriate for the effective oversight of the strategic direction of the Group. This includes reviewing the balance of skills and knowledge of the Directors and leading the director appointment process to ensure plans are in place for orderly succession to the Board and senior management.

The following report provides an overview of the work carried out by the Committee during 2018.

Committee evaluation

The Committee's performance was internally evaluated by the members of the Committee by way of a self-assessment questionnaire, which considered the effectiveness of the Committee and the individual members' contribution to the Committee and its communications to the Board. The results were considered by the Committee Chairman and shared with the Board.

This evaluation concluded that the Committee operates effectively and each member is contributing effectively and demonstrates commitment to their role.

Action plan for 2019

In the year ahead the Committee will focus on the Board and Board Committee composition and long-term succession plans, and conflicts of interest, and will continue to monitor developments in corporate governance practices. The Committee intends to look at succession planning for the senior management team alongside succession planning for the Board.

Following the introduction of the 2018 UK Corporate Governance Code (the 'Code'), which became effective from 1 January 2019, the role of the Nomination Committee has been widened and during 2019 the Committee will consider its approach to succession planning and how this and the process used in relation to board appointments support the development of a diverse pipeline; it will also consider the diversity policy and its objectives to ensure it is linked to the Company's strategy, it will also consider the gender balance of those in senior management and their direct reports to ensure there is a balanced and diverse pipeline within the Company.

I will report on these matters in next year's annual report.

Re-election of Directors at the AGM

In March 2019 the Committee met and reviewed the proposed re-elections at the 2019 AGM.

During 2018 Philip Jenks reached his ninth anniversary since first being appointed as a Director.

Based on experience, performance, skills and commitment demonstrated, and also in light of the results of the Board evaluation, the Committee informed the Board that it considers it appropriate to recommend each of the Directors for re-election.

As Chair of the Committee, I will be available at the AGM in May 2019 to answer questions relating to the work of the Committee.

Malcolm Williamson
Chairman of the Nomination Committee
13 March 2019

Annual Report of the Nomination Committee

Principal activities during the year

Board composition

As disclosed in the Company's Annual Report & Accounts for 2017, a third party independent report was commissioned at the start of 2018 to help the Committee to ensure that the composition of the Board collectively possesses a diverse range of skills, expertise, industry knowledge, business and other experience necessary for the effective oversight of the Group.

Korn Ferry was engaged to assess the skills and experience of the Board, taking into account the anticipated future demands of the business, the skills and knowledge required to deliver against these successfully, and diversity (including gender and ethnicity). Interviews were carried out with each Board member and external benchmarking conducted to inform the analysis.

The assessment concluded that the Board has the necessary skills and expertise required for the short-term, taking into account the risk that unforeseen temporary absences may occur. In order to meet the Group's needs in the medium term however, it was recommended that an additional non-executive director be appointed during 2019 to supplement existing capability in key areas exposed to developing complexity such as director remuneration.

As a result of the assessment, the Chairman commenced a search for suitable independent non-executive director candidates with the skill-set that would allow them to be considered for appointment as Chair of the Remuneration Committee in the future following the new Code's requirement that the Chair should have served on a Remuneration Committee for at least 12 months.

Appointment of an additional independent non-executive director

Korn Ferry was engaged during 2018 to conduct the search for potential candidates for appointment as an additional non-executive Director. Korn Ferry is independent to the Group, with no connection to it or any of the Directors. The firm is also a signatory to the 'Voluntary Code of Conduct for Executive Search Firms' on gender diversity and best practice.

A list of candidates recommended following an external search is circulated to members of the Committee and the Chief Executive Officer (and other Directors, if appropriate) for comment and the addition of any further potential candidates.

Short-listed candidates are seen in the first instance by the Chairman of the Board, at least one Committee member and the Chief Executive Officer. The preferred candidate is then invited to meet with other Directors. The Committee then meets to consider the robustness of the process and the candidate's suitability and, if appropriate, recommends the appointment to the Board.

In its assessment of the suitability of the candidate for appointment, the Committee will consider candidates on the basis of their skills and experience in the context of the range and skills and experience held within the existing Board as a whole.

The Committee views gender diversity as one of many factors to consider when recommending new appointments to the Board. In line with the Company's Diversity Policy, any executive search agency used in the appointment process is asked to ensure that at least one of the candidates put forward for consideration is female.

For further details on the Board's policy on diversity, please see the following section on Board Diversity.

Nomination Committee report (continued)

Stakeholder Committee
The establishment of a Stakeholder Committee, consisting four Non-Executive Directors, was approved by the Board in December 2018.

The role of the Stakeholder Committee is as follows:

- to inform the Board on general policy, objectives and programmes in relation to key areas within the Stakeholder Committee's remit;
- to ensure the adoption and effective application of relevant policies and monitor compliance;
- to ensure fair outcomes for all stakeholders consistent with being a trusted and responsible business;
- to review, on behalf of the Board, the management of conduct risk and reputational risk, and
- to co-ordinate the non-financial and diversity information reporting process in accordance with applicable regulations and standards.

Prior to the formation of the Stakeholder Committee, the Committee considered the skills, expertise and knowledge required for its membership and on the recommendation of the Committee, the Board appointed Ian Ward as Chair, and Sir Malcolm Williamson, Noël Harwerth and Tim Brooke as members of the Stakeholder Committee.

The Stakeholder Committee held one meeting in 2018 to consider and approve its terms of reference, the Stakeholder Committee's agenda for 2019 and meeting dates for 2019.

Succession planning
During the year the Committee reviewed a formal succession plan for the Board. The plan covers short-term emergency cover in the event that a Director is incapacitated or unavoidably unavailable on a temporary basis.

Board diversity
The Board is aware of the benefits of diversity in the boardroom and believes that a wide range of experience, backgrounds, perspectives and skills generates effective decision-making. The Board currently does not comply with the 33% target of female representation on boards, as recommended by the Hampton-Alexander Review.

The Board considers that members of the Board should collectively possess a diverse range of skills, expertise, industry knowledge, business and other experience necessary for the effective oversight of the Group. Accordingly, the Board has not set gender targets but recognises that there is a low representation of female directors on the Board (11%). This is not reflective of the Group as a whole as female representation below Board level is 20% of senior management and 58% of the overall workforce.

The Board's policy remains that director selection should be based on the best person for the role. The Committee has an important role in, and is committed to, ensuring that the Board's structure, size and composition is suitable to deliver the Group's strategy taking into account wider stakeholder views. The recruitment of an additional Non-Executive Director in 2019 to strengthen the existing capability and good dynamics of the Board (see above) presents an opportunity to take female representation at Board level to 20%.

The Committee envisages that further progress to improve the gender balance of the Board will be made within the next two years, and diversity will be a key factor considered during its focus on longer-term succession planning in 2019.

For details of diversity as it applies to the Group's wider workforce, please see page 53.

Board evaluation
Following the external Board evaluation carried out at the start of 2018, the Board has agreed to undertake an internal evaluation during 2019. Further details of the review and the recommendations arising can be found in the Corporate Governance section of the Annual Report on page 69.

The effectiveness of individual directors is an important component of the Board evaluation.

Directors' personal performance reviews
All Directors have an annual performance review. During the year the Committee considered the process of Chairman and Non-Executive Director performance reviews.

The process for the Executive Directors is the same as for other employees.

The Non-Executive Directors' performance is assessed formally at the end of each year. While no specific objectives are set for Non-Executive Directors, they are assessed against quality of contributions, strategic and risk debate, effectiveness of decision making, whether they are committing enough time to carry out the role effectively including consideration of the number of additional board appointments the Non-Executive Directors hold.

Following the Non-Executive Directors' performance review, the Senior Independent Director meets with Directors to review the Chairman's performance. This review and any recommendations arising is then shared with the Chairman.

Committee members
The Audit Committee ("the Committee") is composed of independent Non-Executive Directors:

- **Rajan Kapoor (Chair and financial expert)**
- **Tim Brooke**
- **Ian Ward**

Regular attendees include the CEO, CFO and representatives from both KPMG (outsourced internal auditor) and Deloitte LLP (external auditor) ("Deloitte").

Rajan Kapoor is a financial expert and meets the Code requirements for having recent and relevant financial experience, being a qualified chartered accountant with a strong financial services background.

Each of the Committee members also have significant sectoral experience.

The Committee meets at least four times a year in line with the Group financial reporting calendar and meets both the external and outsourced internal audit function privately without the management present at each meeting.

All members of the Committee are also members of the Risk Committee, and the Remuneration Committee. This cross-committee membership facilitates effective governance across all finance, risk and compensation issues. It also helps ensure that agendas are aligned and that overlaps and gaps in responsibilities are avoided.

Role of the committee
The Committee's remit broadly covers the following areas:

- Reviews the accounting policies and the external financial reports including the annual and interim accounts.
- Monitors the internal control environment including internal financial controls.
- Considers the adequacy, effectiveness and the scope of internal and external audit and monitors their independence and objectivity.
- Reviews and monitors the Group's whistleblowing policy.

Audit Committee report

Dear Shareholders,

The Audit Committee (the "Committee") is responsible for monitoring and reviewing the Group's financial reports and disclosures, its accounting policies and practices and systems of internal controls, including internal financial controls. I am pleased to provide an overview of the issues considered and debated by the Committee in 2018 and our expected priorities in 2019.

Financial reporting
The most significant activity of the committee in 2018 was to oversee the Group's transition from IAS 39 to IFRS 9 – Financial Instruments. This standard introduces a forward-looking expected credit loss model which is designed to recognise impairment losses earlier. We debated and challenged the critical judgements and estimates made by management and provided input on material disclosures relating to IFRS 9. The Committee is responsible for ensuring the integrity of the Group's published financial information, the Committee invested a considerable time debating and challenging judgements made by management. The Committee also reviewed reports from the external and internal auditors and provided robust challenge and detailed feedback on the financial results.

System of internal controls
In conjunction with the Risk Committee, we continued to oversee the Group's control environment with particular focus on monitoring the system of internal controls relating to financial reporting, accounting and financial management. The Committee reviewed reports from external and internal auditors on control matters throughout the year.

As the Group's external auditor, Deloitte attended each meeting of the Committee, providing semi-annual audit reports and updates on other topics as appropriate. During the second half of the year, the Committee engaged with Deloitte on the selection of a new audit partner responsible for the Group, in line with the requirement to rotate the audit partner every five years. My Committee colleagues and I are satisfied that our new external lead audit partner from 2019, Matt Perkins, has the right combination of sectoral experience, technical knowledge and quality track record to provide fresh challenge and insight on the Group's control framework and accounting matters. I would like to take this opportunity to thank Kieren Cooper, the outgoing audit partner, for his contribution to the Group, especially as we transitioned to a listed environment and in our preparation and implementation of IFRS 9.

Committee performance
The Committee's performance during 2018 was assessed as part of an overall board effectiveness review. The conclusion of this review was that the Committee, thanks to its appropriate balance of skills and experience, strong support for executive management and the high level of commitment from all its members, is very effective and the Board takes a high level of assurance from the technical competence and diligence. A number of minor recommendations put forward by the review have been implemented.

Audit Committee report (continued)

Key priorities for 2019

Looking ahead to 2019, as we head into uncertain times, the Committee will place strong focus on monitoring the impact of the changing political and macroeconomic environment on the Group's strategy and performance.

Furthermore, we will continue to focus on ensuring the integrity of the financial statements of the Group.

I would like to thank all the Committee members and attendees for their support and commitment during 2018.

Rajan Kapoor
Chairman of Audit Committee
13 March 2019

Report of the Audit Committee

Responsibility of the Audit Committee

The Committee responsibilities are set out in more detail in its terms of reference which are reviewed annually by the Committee and approved by the Board. This can be found on the Group's website.

Allocation of Audit Committee time in 2018

- Pillar 3 Disclosure policy
- Recovery plan
- Internal audit
- External audit
- Regulatory and compliance
- Financial Statements

Performance evaluation

An evaluation of the Committee was undertaken in 2018 as part of the independent evaluation of the Board. The evaluation, conducted by ABE, concluded that the Committee is functioning exceptionally well, with a new Chairman, who has significant experience of the listed environment. The Chairman is also viewed as interacting well with external advisors. The Committee has established itself as a well-formed entity and is organised and focused for the listed environment.

Matters considered by the Committee in 2018

Accounting and financial reporting

The Committee's main responsibility in relation to the Group's financial reporting is to consider with both management and the external auditor the Group's annual and interim financial statements. The principal focus is on:

- Assessing whether the Annual Report is fair, balanced and understandable.
- Material areas which require significant assumptions or estimates as well as significant issues discussed with or challenged by the external auditor.
- The appropriateness and acceptability of principal accounting policies and processes.
- The business model assessment of IFRS 9 and agreed with management's assumption that the business model is held to collect.

The Committee discussed reports from management in relation to the identification of critical accounting judgements and key sources of estimating uncertainty, significant accounting policies and the disclosures in notes 5 and 6 to Consolidated financial statements. Following the discussion with management and the external auditor the Committee approved these.

Significant judgement and estimates

The significant judgements and estimates are outlined below. These are broadly comparable in nature to prior years. Each of these was discussed with the external auditor and where appropriate have been addressed in the Auditor's report.

The Group is required to ensure that its external reporting is fair, balanced and understandable. The Committee undertakes an assessment on behalf of the Board in order to provide assurance to the Board that it can make the statement required by the UK Corporate Governance Code 2016.

The Committee evaluated the assurances and information provided by management and concluded that the process for the preparation of the 2018 financial statements and Annual Report were appropriate in ensuring that these statements were fair, balanced and understandable and the Committee recommend to the Board that the statement required by the Code could be made.

Measuring impairment in financial instruments is a key accounting judgement. The Group's impairment provision is dependent on management's forward looking judgements on areas such as interest rates, employment rates, and house prices. The Group implemented IFRS 9 from 1 January 2018 by developing models to calculate expected credit losses in a range of economic scenarios. The key areas of judgement include setting modelling assumptions, weighting of economic scenarios, the criteria of determining significant deterioration in credit quality and the application of adjustments to model outputs.

The Committee considered the key IFRS 9 assumptions relating to staging criteria and the weighting of the economic scenarios.

The Committee reviewed model adjustments and economic scenario updates made by management to ensure that the impairment allowances were set at adequate and appropriate levels. In particular, the Committee reviewed and approved the basis of adjustment of £1.5 million overlay made to reflect the current economic uncertainty in the UK. IFRS 9 also requires new and additional disclosures. The Committee reviewed these and also discussed these with the external auditor and considers that these give a good explanation of the impact.

The Committee was satisfied that the overall provision for loan impairments and underlying assumptions and methodologies were reasonable and applied consistently.

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. The Audit Committee considered the business model assessment of IFRS 9 and agreed with management's assumption that the business model of the Group is 'held to collect'.

Accounting for securitisation transactions is complex. Judgement is required in determining whether the Group controls the special purpose vehicle following securitisation and therefore whether the mortgage assets transferred should be derecognised from the Group. Of the three securitisations undertaken by the Group in 2018, the Group derecognised assets in one but not the others. The Committee considered the facts and agreed with the assessment that the Group controlled two SPVs but the risks and rewards in the other were outside the Group.

Accounting for effective interest rate requires a number of significant judgements. They are sensitive to certain assumptions, in particular the behavioural lives of assets. The Committee considered and challenged the reasonableness of these assumptions and satisfied itself that they had been applied consistently.

Long term viability

The Directors are required to make a statement in the Annual Report as to the long term viability of the Group. The Committee provides advice to the Board on the form and content of the statement, including the appropriate time frame and underlying assumptions.

The Committee considered the forecast of capital, liquidity and leverage, including the forecast of earnings, outcome of the stress test on capital and liquidity forecast as well as key risks and emerging risks. The Committee agreed that three years continued to be the appropriate time frame for the viability statement. Taking into account the assessment by the Risk Committee of stress testing results and the risk appetite, the Committee agreed to recommend the viability statement to the Board.

Systems of internal control and risk management

The Committee is responsible for the oversight of the Group's system of internal controls, including the risk management framework and the work of the internal audit function. Details of the risk management framework are discussed within the risk management section on pages 27 to 30. The Group's principal risks and uncertainties, which provide a framework to the Committee's focus, are discussed on pages 31 to 43. The Group has a number of processes to support the internal control environment, for example risk management team, internal audit and financial reporting cycle. Oversight of these controls is via reporting to the relevant Board committees.

Management has identified the key operational and financial processes which exist within the business and have developed an internal control framework. This is structured around a number of Group policies and procedures and includes a delegated authority framework.

Audit Committee report (continued)

Fostering a culture of integrity is an important part of the risk management and internal controls system. The Group's values support this and provide employees with the framework for reporting business conduct issues and promoting a positive culture of integrity at every level.

During the course of its review of the risk management and internal control systems, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Internal control over financial reporting
The Group has specific internal mechanisms that support the financial reporting process including preparation of the Annual Report. The Group has in place a detailed annual budgeting and forecasting process. The budget is prepared annually for Board approval and is regularly reviewed and updated during the year. Performance is monitored against the budget through monthly reporting cycles. Regular reports are received by the Board on financial performance including income statements, balance sheets and cash flow.

The Audit Committee and the Risk Committee, reported to the Board that the Group's internal control system and risk framework were appropriate and operated effectively during the year. There have been no significant failures or weaknesses identified for the 2018 financial year.

External auditor
Deloitte were appointed auditors in 2009 and undertook the first audit for the year ended 31 December 2009. Charter Court Financial Services Group plc became a Public Interest Entity in 2015 on obtaining its banking licence. It therefore has to comply with EU Audit Directive (2014/56/EU) and Audit Regulation (537/2014) and will be required to put the external audit contract out to tender by 2025, subject to any further regulatory change. In addition, Deloitte will be required to rotate the audit partner responsible for the Group audit every five years. Consequently, the current lead audit partner Kieren Cooper, who was appointed in 2014, will step down following the Annual General Meeting in May 2019. The Committee satisfied itself on the suitability of his replacement and approved the appointment of Matt Perkins as lead audit partner from 2019. The process complies with the provisions of the Competition and Markets Authority ("CMA") order for the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Committee undertook an annual review following the audit and concluded that the auditor remained independent and objective. The external auditor attends each meeting of the Committee and reports on audit work and conclusions including the appropriateness of the judgements made by management and their compliance with International Financial Reporting Standards. The Committee has responsibility for the oversight of the external audit plan. This includes monitoring the independence and objectivity of Deloitte, the quality of the audit services and their effectiveness, the level of fees paid, approval of non-audit services provided by Deloitte and re-appointment. The Committee considered a number of factors including the challenge provided by and the effectiveness of the external audit, the quality and scope of planning the audit and the audit process itself taking into consideration the views and experience of the Group finance function, senior management and the Directors.

The Committee concluded that Deloitte remain independent and objective, continue to operate at a high standard and will be recommending to the Board that the auditors be re-appointed at this year's AGM for the financial year ending 31 December 2019.

Non-audit services
In order to safeguard the auditor's independence and objectivity, the Group has in place a policy setting out the circumstances in which the auditor may be engaged to provide services other than those covered by the Group audit. The Policy complies with the FRC's Ethical Standard for Auditors, published in August 2018, which implemented the EU's revised Statutory Audit Directive.

The Policy sets out those types of services that are strictly prohibited and those that are allowable in principle (permissible services). Any service types that do not fall within either list is considered by the Committee Chairman on a case by case basis, supported by a risk assessment provided by management.

The Committee considered and approved the appointment of Deloitte to provide non-audit services. The Committee monitors compliance with the policy including the prior approvals required for non-audit services.

The Committee has pre-approved certain services such as verification reports required by the PRA for inclusion of interim profits in the capital base, review of interim results and accounting opinions. Any other non-audit service where the expected fee is less than £25,000 can be approved by the Chief Financial Officer, any non-audit services where the expected fee is between £25,000 and £100,000 requires the prior approval of the Chairman of the Audit Committee and any non-audit fee above £100,000 requires prior approval by the Audit Committee and is subject to a public tender process.

Details of fees charged can be found in note 13 to the financial statements. Total fees for non-audit services, and other assurance related services, were £0.4 million (2017: £0.4 million), a ratio of 80% (2017: 100%) to audit services. In 2017 the firm was also paid £0.7 million for work in connection with the IPO.

Work undertaken by Deloitte for non-audit services, was as follows:

- profit verifications;
- accounting opinions regarding the analysis, due diligence and validation of the securitisation structures and accounting impact.

The Audit Committee viewed that it was most effective for Deloitte to provide these services and that their independence was not compromised.

Internal audit
The Group currently outsources its internal audit function to KPMG. The Committee will keep under review the benefits of having an outsourced arrangement for internal audit on a regular basis.

The annual internal audit plan is a risk-based plan developed with the management team and approved by the Committee. The adequacy of the resources is also considered by the Committee. The Committee also reviews the budget for internal audit work and was satisfied this was sufficient to enable Internal Audit to deliver the plan. The results of the internal audit reports and management responses are discussed and challenged at Committee meetings. The Committee reviews management actions in response to significant findings and looks at the root causes to identify consistent themes emerging across the Group. The Committee will also review the speed of management's responses to any internal audit findings that require remediation and consider the adequacy of resources. The Committee monitors any changes to the internal and external operating environment and will make alterations to the plan where necessary.

In 2018, the Committee received a presentation from a business area on issues raised by Internal Audit and these were remediated.

The Group undertook an effectiveness review of the internal audit function. The review found that overall the function was effective and well regarded. A number of improvements were identified and the Committee will monitor their implementation in 2019. KPMG attend all the Audit Committee meetings to report on the progress of the audits and also meet periodically with the Audit Committee in private. The Chairman also has meetings with KPMG ahead of each Committee meeting as well as a regular dialogue.

Taxation
The Committee considered and recommended to the Board the formal articulation of the Group's tax strategy. The Group is committed to paying the correct amount of tax and will only undertake transactions that have a genuine commercial purpose. It will be open, proactive and transparent in its dealings with HMRC.

Whistleblowing policy
The Group has a whistleblowing policy in place and the Committee is responsible for overseeing the arrangements and the effectiveness of the processes. The policy exists to enable employees to raise concerns in confidence about wrongdoing or impropriety within the Group. The Group has an anonymous helpline that employees can call and any matters reported through this helpline are referred directly to the Deputy Chairman. There is also a private email address for employees to use which reports directly to each of the Non-Executive Directors.

A report on whistleblowing in 2018 was considered by the Committee. There were no areas of concern or material weaknesses in internal controls.

Following the introduction of the 2018 Corporate Governance Code, the responsibility for overseeing the arrangement and the effectiveness of the processes will move to the Board.

Activities during the year

Financial reporting
- Quality and appropriateness of the full year and half year results.
- Recommending to the Board the Viability Statements and Going Concern statements, having reviewed and approved the underlying assumptions to enable this recommendation.
- The assessment as to whether the Annual Report is fair, balanced and understandable.
- The financial control environment and compliance with the financial reporting standards and governance reporting requirements.
- Pillar 3 disclosures policy.
- Implementation of IFRS 9.
- Reviews of key accounting judgements.

External audit
- Scope of the external audit plan.
- The quality and effectiveness of the external auditor, the audit and re-appointment.
- Level of fees paid for both audit and non-audit services.
- Independence of the auditor.
- Appointment of lead external audit partner for 2019.

Internal audit
- The scope of the internal audit plan and resourcing requirements.
- The independence, appropriateness and effectiveness of the outsourced internal audit function.
- The appropriateness of the continuation of outsourcing the internal audit function to KPMG .

Risk management and control
- Scope of the internal control and risk management programme.
- Results of internal audit reviews and progress made.
- Annual review of Whistleblowing arrangements, anti-money laundering arrangements.
- Effectiveness of the Group's internal control and risk management systems.

Committee Members

The Risk Committee ("the Committee") is composed of independent Non-Executive Directors:

- **Tim Brooke (Chairman)**
- **Ian Ward**
- **Philip Jenks**
- **Noël Harwerth**
- **Rajan Kapoor**
- **Regular attendees include the CEO, CRO and CFO.**

Role of the Committee

- Overseeing the Group's risk appetite, risk monitoring and capital management.
- Ensuring that the Group maintains an adequate risk management framework and maintains appropriate levels of liquidity and capital in the Group.
- Advising the Board on the overall risk appetite.

Meetings

During 2018 the Risk Committee held five meetings.

Risk Committee report

Dear Shareholders,

As Chairman of the Risk Committee, I am pleased to provide you with a review of the key activities undertaken by the Committee in 2018.

Our principal responsibility remains the oversight of the effectiveness of Charter Court's risk management framework and controls, risk monitoring, as well as ensuring that the Group maintains prudent risk appetite and appropriate levels of liquidity and capital.

Risk management framework

The Committee was pleased with the forward-looking view maintained by the Group's risk function in the ongoing development of the Group's risk management framework and controls throughout 2018, which supported the continued growth of the business within a prudent risk appetite.

Risk appetite and monitoring

We carried out continuous assessment of the impact important macroeconomic and market developments could have on the risk profile of the Group, including the heightened political and economic risk in the UK resulting from Brexit negotiations.

The Committee also evaluated the financial and capital impacts of operational risk. This is of particular importance in an environment of heightened financial crime, fraud and cyber-crime within the financial services industry.

Furthermore, we continued to work closely with the Models and Ratings Committee of Charter Court Financial Services Limited (which transacts the Group's banking business) to ensure careful monitoring of credit risks arising from developments in the UK's property market and our competitive landscape.

Liquidity and capital levels

Throughout the year, the Risk Committee and the Audit Committee continued to seamlessly support one another to ensure that there is appropriate communication on matters where there is commonality.

The two committees provided joint support to the Group's risk function with preparations for a planned transition to the IRB approach to capital requirements for credit risk, building on the enhancements to risk management processes resulting from IFRS 9 implementation at the start of the year.

Committee performance

During 2018, the performance of the Committee was formally assessed as part of the independent evaluation of the Board. The evaluation concluded that, as a result of the IPO process, the Committee was more structured and focused in 2018, leveraging a strong framework to support Charter Court's risk management function.

While the Committee interacted positively with the PRA throughout the year, the review recommended that further development focused on moving away from a mechanistic approach to risk. This will be a key area of focus during 2019 and beyond as the Committee continues to evolve to ensure it is effective in discharging its responsibilities towards Charter Court's shareholders and regulators.

Tim Brooke
Chairman of Risk Committee
13 March 2019

Report of the Risk Committee

Responsibility of the Risk Committee

The Committee responsibilities are set out in more detail in its terms of reference which are reviewed annually by the Committee and approved by the Board. These can be found on the Group's website.

Allocation of Risk Committee time in 2018

- Review of risk appetite
- Current and potential risks
- Capital and liquidity plans
- Review of ICAAP, ILAAP and Recovery Plan & Resolution Pack

Activities and discussions during 2018

- Culture that emphasises greater awareness on risk management
- Risk management framework
- Review of the Credit risk management framework and the Compliance risk framework
- Corporate Risk Register
- Credit risks
- Stress testing framework
- Review and update of Risk Committee report
- Quarterly legal and compliance reporting
- Review of external resilience reports
- Buy to let policy changes
- Cyber risk and data security board training
- Scope and effectiveness of the internal control and risk management programme
- Review of the principal risks for year end and interim reporting

The Committee focused on the development of the internal frameworks, the risk appetite statements, risk profiling for current and potential risks, capital and liquidity and the adequacy of ICAAP and ILAAP. The Committee considered, discussed and where appropriate challenged.

Stress testing framework

The Committee considered throughout the year the additional stress testing scenarios satisfying the requirement to produce internally designed stress tests to supplement the PRA baseline and rates up scenarios from the Bank of England, ICAAP and ILAAP processes and the IFRS 9 modelling. The Committee ensures the stress testing framework is robust in its approach and continues to develop and adjust the stress testing framework to align new models and scenarios.

Directors' remuneration report

Annual Statement from the Chairman of the Remuneration Committee

Dear Shareholders,

As the Chair of the Remuneration Committee ("the Committee"), I am pleased to present the second annual Directors' Remuneration Report. This report sets out the remuneration policy for Directors, what we paid our Directors and why.

This report is split into three sections:

- This **Annual Statement** which summarises the key decisions made by the Committee during the year and the context in which those decisions were made.
- **Directors' Remuneration Policy** – here we set out the existing remuneration policy for the Executive Directors, the Chairman and the Non-Executive Directors. The policy was approved by a binding shareholder vote at the AGM on 16 May 2018 and became effective on that date. No changes are proposed at this AGM.
- **Annual Report on remuneration** – this sets out, in detail, the remuneration received by Directors in 2018 and how the new Directors' Remuneration Policy will be applied in 2019. The Annual Report on remuneration together with the Annual Statement will be subject to a single advisory shareholder vote at the 2019 AGM.

Key activities of the Committee

The Committee carried out an extensive review of remuneration arrangements prior to the IPO and was pleased that our policy was approved by shareholders at our 2018 AGM, with almost universal support. The Committee believes that the policy has provided a good level of alignment with the Group's strategic objectives and that the policy remains appropriate. No significant changes to the implementation of the policy are proposed.

The Committee's key activities during the 2018 financial year included:

- Determining the level of bonus payments in respect of the 2017 financial year;
- Setting appropriate performance targets in respect of the bonus for the 2018 financial year;
- Determining 2018 base salary increases, which were effective 1 July 2018 and in line with all employees;
- Setting performance targets for, and granting of, annual awards under the Performance Share Plan, and
- Considering market trends and developments and how these might impact the Group's remuneration policies and practices, including the new UK Corporate Governance Code which comes into effect 1 January 2019, for reporting in the 2019 report, and changes to shareholder and proxy voting advisers' guidelines.

Corporate governance code changes, and changes to shareholder and proxy voting agency guidelines

The Committee is considering the impact of the new Corporate Governance Code, and other changes to remuneration guidelines from shareholder and proxy voting agencies. Any changes to our remuneration practices that are required as a result of these developments will be disclosed in the Remuneration Report for 2019. Some aspects of the Code have already been implemented in the Directors' Remuneration Policy:

- LTIP awards granted from 2018 onwards have a 2-year post-vesting holding period
- Malus and clawback provisions are in operation with a range of triggers

The Committee is also considering the impact of changes to the Code in relation to pension and post-employment shareholding for Executive Directors. In line with the new regulations, the Committee will publish the CEO pay ratio in next year's report.

Performance and reward for the 2018 financial year

Performance in 2018 has again been strong. Profit before tax increased by 41.6% from 2017. Total income increased by 32.1% to £224.9m and the Cost Income Ratio improved by 5.4 percentage points. Profit after Tax increased by 48.6% to £120.8m from £81.3m in 2017 and Return on Equity increased by 2.2 percentage points. The feedback from bank and mortgage customers during the year was good.

Corporate performance

Under the annual bonus plan, the CEO and CFO are eligible for a maximum annual bonus of 125% of base salary, defined as the base salary earned over the course of the financial year. The CRO's maximum annual bonus is 100% of the base salary earned over the course of the financial year.

Performance under the annual bonus plan was measured by way of a robust company scorecard of financial and non-financial measures. The Group's performance was reflected in outcomes under the financial measures, and under the risk, customer & clients and people & culture measures. Reflecting a strong year, the business scorecard outcome was 93.4% of maximum.

Personal performance

The Executive Directors' bonuses are subject to a personal performance adjustment factor, of between 0x and 1.25x the corporate performance outcome, but subject to an override that the adjustment factor cannot increase the bonus above the maximum of 125% of base salary for the CEO and CFO, and 100% of base salary for the CRO.

The Committee recognises that the use of an adjustment factor is unusual, compared with the more common 'additive approach' in which personal performance is measured as a weighted element of the scorecard. However, it is important to note that the more traditional 'additive approach' can provide a more generous bonus outcome than our 'adjustment approach'. For example, up to an outcome of 45% of maximum on the corporate scorecard, maximum personal performance under an 'additive approach' (with a 20% weighting on personal performance) would provide a higher bonus outcome than our 'adjustment approach'. And, for an outcome of up to 60% of maximum on the corporate scorecard, on-target personal performance under an 'additive approach' would provide a higher bonus outcome than under our 'adjustment approach'.

The Committee was mindful of feedback from proxy bodies in relation to this approach at the 2018 AGM. However, as this was received during 2018, the Committee decided not to change the approach mid-year. The Committee applies the personal performance adjuster with care and rigour, and only awards an adjustment factor of greater than 1x (on-target) if this is clearly justified by above-target personal performance. However, the Committee will continue to keep this approach under review.

In assessing the Executive Directors' performance for 2018, the Committee determined that the Executive Directors had performed strongly against the targets which were set, and awarded an adjustment factor of 1.25x for the CEO and 1.125x for the CFO and CRO. Details of these metrics and outcomes are provided in this report. The corporate scorecard outcome, subject to the personal performance adjuster, would have resulted in outcomes of 146%, 131% and 105% of salary for the CEO, CFO and CRO respectively. As noted above, under the policy, awards are capped at 125% of salary for the CEO and CFO, and 100% of salary for the CRO. Accordingly, bonuses were scaled back to 125% of salary for the CEO and CFO, and to 100% of salary for the CRO.

Performance share plan

Awards under the PSP were made to Executive Directors and other members of senior management in March 2018, subject to EPS, relative total shareholder return ("TSR") and Risk metrics, with a 3-year performance period. Subject to the achievement of these conditions, this award is due to vest in March 2021, with any vesting shares subject to an additional two-year holding period from that date. The first award under the PSP, which was made on admission, is due to vest in March 2020.

How the policy will be implemented for the 2019 financial year

The remuneration policy is set out on pages 83 to 94. The Committee will implement the policy in the following way for financial year 2019:

- Base salaries are reviewed annually with increases normally effective from 1 July each year with the next review taking place in 2019. The review will take into account the general percentage increases for employees across the Group.
- The 2019 annual bonus opportunity will be 125% of salary for the CEO and CFO and 100% of salary for the CRO. The bonus will be based on achievement of a robust balanced scorecard of measures across four categories being financial, risk management, customer & clients and people & culture. For the CRO, performance will be measured against all categories excluding financial.
- Further details of the measures and their weightings can be found on page 95.

Executive Directors will be considered for grants under the Performance Share Plan of 125% of salary for the CEO and the CFO and at 100% of salary for the CRO. Consistent with the awards made in 2017 and 2018, 40% will be subject to EPS targets, 40% on relative TSR against a basket of other financial services companies and the remaining 20% on a rounded assessment of key risk indicators over the three-year performance period.

As always, the Remuneration Committee remains receptive to the views of our shareholders and we welcome any comments or feedback you may have. I hope that you find the information in this report helpful and I look forward to your support on the remuneration resolution that will be presented to shareholders at the Group's AGM.

Ian Ward
Chairman of the Remuneration Committee
13 March 2019

Directors' remuneration policy

This part of the Director's remuneration report sets out the remuneration policy for the Group and has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended. The remuneration policy was approved in a binding vote of shareholders at the 2018 AGM on 16 May 2018, becoming formally effective from that date. It was intended that the remuneration policy will apply for a period of three years following approval, subject to any necessary changes that could require re-approval before then. The policy is shown for reference below.

Purpose and role of the Remuneration Committee

The Remuneration Committee has responsibility for determining the overall remuneration policies and practices within the Group, taking into account applicable laws, regulations and the principles of good governance.

In particular, the Committee is responsible for:

- setting the remuneration policy for all Executive Directors, the Board Chairman, and all employees who are designated as Code Staff under the PRA and/or the FCA Remuneration Codes;
- approving their remuneration packages and service contracts;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- reviewing and approving the overall remuneration spend (fixed and variable) to ensure that evidence exists to demonstrate that awards have been adjusted where appropriate for risk and will not limit the ability to strengthen the capital base;
- approving the design of, and determining targets for, all performance-related incentive plans operated by the Group and approving the total annual payments made under such plans, and
- reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such plans, the Committee determines each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to Executive Directors and Code Staff and the performance targets to be used.

The Committee's terms of reference are available on the Group's website.

Policy overview

The remuneration policy has been designed to reflect the Group's culture and support the delivery of its business strategy. When setting the policy for Directors' remuneration, the Committee takes into account the overall business strategy, considering the long-term interests of the Group, with the aim of delivering rewards to shareholders.

The Group is required to comply with relevant regulatory requirements and principles in relation to remuneration as published by the PRA and must establish, implement and maintain remuneration policies that are consistent with and promote sound and effective risk management.

The Group is in Proportionality Level Three for the purposes of the application of the Remuneration part of the PRA Rulebook and is not therefore required to apply the requirements as to deferral of variable remuneration, payment in shares that are subject to retention, or performance adjustment. The Group is also not required to apply the variable pay cap (i.e. the limit on the ratio of variable to fixed remuneration). The Group proposes to dis-apply the strict requirements of the PRA Remuneration Code in respect of its variable remuneration, and to apply these measures in a proportionate manner taking into account the size and internal organisation of the Group and the nature, scope and complexity of its activities. This approach may change in the future having regard to the regulatory environment and market sentiment.

The Group's policy is that the overall remuneration packages offered should:

- attract, retain and motivate high-quality executives;
- align the rewards of the executives with the progress of the Group;
- support the Group's risk policies and controls to guard against inappropriate risk-taking;
- support an appropriate balance between risk-taking and reward;
- reward the achievement of the overall business objectives of the Group; and
- align employees' interests with those of shareholders.

Consistent with these principles, the Committee has agreed a remuneration policy for Executive Directors, whereby:

- both salaries and total pay potential will be set at competitive levels compared to relevant banking peers and other companies of broadly equivalent size and complexity;
- performance-related pay, based on stretching targets, will form a significant part of remuneration packages; and
- there will be an appropriate balance between short- and longer-term performance targets linked to delivery of the Group's business plan.

Remuneration levels for the Executive Directors and senior managers have been set at a level that is considered by the Committee to be appropriate for the size and nature of the Group.

Risk management is core to our business, and the ways the Committee takes account of risk includes:

- the balance of remuneration (i.e. both pay levels and the balance between fixed and performance-related pay) is appropriate to our business and risk appetite;
- the choice of performance metrics whereby a broad balance of metrics is used;
- the use of discretions in our incentive plans, allowing the Committee to take account of the wider risk management framework;
- a significant proportion of performance-related pay is deferred and paid in shares; and
- the inclusion of clawback and malus provisions on incentive pay.

Consideration of shareholder views

The Committee will seek to engage with shareholders and their representative bodies when it is proposed that any material changes are to be made to the Remuneration Policy. In addition, we will consider any shareholder feedback received in relation to the AGM. This, plus any additional feedback received from time to time, will be considered as part of the Committee's annual review of remuneration.

Consideration of employee views

The Committee does not consult directly with employees as part of the process for reviewing executive pay. The Committee receives regular updates from the Director of HR and Central Operations in relation to salary and bonus reviews across the Group. As set out in the policy table overleaf, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group and salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce.

Policy table

The table below summarises each element of the remuneration policy applicable to Executive Directors.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary			
To provide an appropriate level of basic fixed pay to help to recruit, retain and reward executives of a suitable calibre to deliver the Group's strategic goals and business outputs. Reflects an individual's experience, performance and responsibilities within the Group.	Typically reviewed annually with any changes normally taking effect from 1 July each year. Salaries are set taking into consideration a number of factors, including: • individual and Group performance; • the responsibilities; accountabilities of each role; • the experience of each individual; and • market competitiveness. The Committee aims to set levels that are broadly aligned with those in similar positions at relevant peers and other companies of broadly equivalent size and complexity. Salaries are normally paid monthly and are pensionable.	The general policy is to set salaries around market competitive levels with increases (in percentage terms) typically in line with that of the Group's workforce. Percentage increases beyond those granted to the wider workforce may be awarded in certain circumstances such as when there is a change in the individual's role or responsibility or where there has been a fundamental change in the scale or nature of the Group. In addition, a higher increase may be made where an individual had been appointed to a new role at below market salary while gaining experience. Subsequent demonstration of strong performance may result in a salary increase that is higher than for the wider workforce. There may also be circumstances where the Committee agrees to pay above mid-market levels to secure or retain an individual who is considered, in the judgement of the Committee, to possess significant and relevant experience which is required to enable the delivery of the Group's strategy. Current salary levels are disclosed in the Annual Report on remuneration.	Executive Directors' performance is a factor considered when determining salaries. Performance is reviewed in line with the established performance review process in place across the Group.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Benefits			
To provide a market-competitive and appropriate benefits package to help to recruit, retain and reward Executive Directors of a suitable calibre.	Benefits normally include, but are not limited to, private medical insurance, dental cover, company car (or car allowance), car insurance, critical illness and life assurance. The benefits provided may be subject to minor amendment by the Committee from time to time within this policy. In addition, Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms. Under certain circumstances additional benefits in relation to relocation may be provided. Any reasonable business-related expenses (including tax thereon) incurred in connection with their role may be reimbursed.	There is no overall maximum level of benefits provided to Executive Directors, and the level of some of these benefits is not pre-determined but may vary from year to year based on the overall cost to the Group. However, the Committee monitors the overall cost of the benefits provided to ensure that it remains appropriate.	Not performance related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Pension			
To provide market-competitive and appropriate pension package to help to recruit, retain and reward Executive Directors of a suitable calibre.	Each Executive Director may participate in a defined contribution pension scheme operated by the Group. Executive Directors may elect to receive all or some of such benefit as a cash allowance in lieu of pension.	Up to 20% of base salary.	Not performance related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual Bonus Plan ("ABP")			
To incentivise and reward the execution of key annual goals which are closely linked to the Group's strategy. Compulsory deferral of a proportion into shares reinforces retention and provides alignment with interests of shareholders over the longer term.	Annual bonuses are subject to achievement of stretching performance measures, which are set by the Remuneration Committee at the start of the financial year. At least 50% of any bonus earned will be deferred into awards over shares under the Deferred Bonus Plan ("DBP"), with awards normally vesting in tranches after one, two and three years, subject to continued employment. Dividends may accrue on DBP awards over the period from grant until the first date on which the award can be exercised and be paid out either as cash or as shares on exercise. Dividend accrual may assume dividend roll up. Deferral levels, and period of deferral, may be subject to change over life of the policy, to take account of any financial services (or other) regulatory changes. Recovery and withholding provisions are in operation across the annual bonus and the DBP, as described in the notes section below.	The maximum bonus opportunity under the annual bonus plan is 150% of base salary. The bonus opportunity for each Executive Director in 2019 is set out in the Annual Report on remuneration.	Performance metrics may be financial, non-financial or strategic under a balanced scorecard. A risk assessment is included and an adjustment may be applied to take account of personal performance. Amounts payable for threshold may vary depending on the category of measure, for financial metrics, up to 20% of the bonus is payable for threshold performance. The Committee may reduce the bonus outcome if it considers that the pay-out is inconsistent with the Group's overall performance or risk appetite taking account of any factors it considers relevant. This will help ensure that pay-outs reflect overall Group performance during the period. Awards under the DBP are not subject to further performance conditions.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Long Term incentive plan (Performance Share Plan, "PSP")			
To incentivise and reward the achievement of sustained long-term performance and alignment with shareholder interests. Facilitates share ownership to provide further alignment with shareholders.	PSP awards are normally made annually at the discretion of the Committee, taking the form of nil-cost options. Vesting is subject to the satisfaction of performance conditions, as well as continued service, with performance normally over a three year period. Vesting is subject to the achievement of performance measures and continued service. A further two-year holding period will generally apply following the end of the normal vesting period. The awards vest and become exercisable at the end of the holding period to the extent that performance conditions are met. Performance periods, normal vesting periods and holding periods may be subject to change over the life of the policy, to take account of any financial services (or other) regulatory changes. Dividends may accrue on PSP awards between grant and the first date on which an award can be exercised, and be paid out either as cash or as shares on exercise of the award. Dividend accrual may assume dividend roll-up. Recovery and withholding provisions are in operation, as described in the notes section below. The PSP awards granted to Executive Directors on IPO were made prior to this policy and these may vest on their original terms. Details of these can be found in the Annual Report on Remuneration and also within the Prospectus.	The maximum award level for Executive Directors is 150% of base salary per annum. Actual awards may be lower than this. Details can be found in the Annual Report on Remuneration.	PSP awards may include financial, non-financial and strategic measures, which may include TSR and financial measures such as EPS, and also measures used in the Company's balanced scorecard. Up to 25% of the award vests for threshold performance. The Committee has the flexibility to vary the mix of measures or introduce new measures taking into account the business priorities at the time.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
All-employee share plans			
Encourages share ownership and therefore increases alignment with shareholders.	Executive Directors are entitled to participate in the Group's tax-advantaged all-employee SAYE plan on identical terms as other eligible employees. The operation of the SAYE plan will be in line with the legislative requirements that apply to plans of this type. Executive Directors will not receive any preferential terms compared to the wider employee group. The Group may in the future operate a tax-advantaged all-employee Share Incentive Plan (SIP) in which Executive Directors will be eligible to participate on identical terms as other eligible employees and up to the relevant legislative limits. The SAYE and SIP are not subject to recovery and withholding provisions.	The SAYE and SIP are subject to the limits set by applicable legislation from time to time.	Not performance-related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Shareholding guideline			
Encourages Executive Directors to build a meaningful shareholding so as to further align interests with shareholders.	Each Executive Director must build up and maintain a shareholding in the Group equivalent to 200% of base salary (for the CEO and CFO) and 100% of base salary (for the CRO). Until the guideline is met, Executive Directors are required to retain at least half of any PSP or DBP awards that vest (or are exercised) on a net of tax basis.	n/a	n/a

Notes to the table

Recovery and withholding

Variable pay awards (ABP, DBP and PSP) are subject to malus and clawback provisions. Events which may lead the Committee to apply these are: employee gross misconduct; the discovery of a material misstatement and/or significant downwards revision of results; a miscalculation or error; an event where any applicable capital ratio falls or has fallen below the required capital ratio (or a breach of regulatory capital); a material failure of risk management by any member of the Group or the business in which the individual is employed; or where there has been a sufficiently significant impact on the reputation of the Group. These provisions apply within two years after payment of a bonus under the ABP, two years after the vesting date of a DBP award, or two years after the normal vesting date of a PSP award (i.e. this may run concurrently with any holding period). In addition, awards may be clawed back if the Group is required to apply these provisions to an Executive Director by any relevant regulator or by any relevant regulation or code of conduct.

Selection of performance measures and targets

The Group strategy and business objectives are the primary consideration when we are selecting performance measures for incentive plans. The Committee has retained some flexibility on the specific measures which will be used to ensure that any measures are fully aligned with the strategic focus prevailing at the time they are set. The Committee considers that the mixture of financial, strategic and risk measures used across the incentive plans represent an appropriate balance between long-term and short-term performance of the Group.

Details of the performance measures selected for 2018 and 2019 can be found in the Annual Report on Remuneration on pages 95 to 103

The threshold and maximum targets are set to reflect minimum acceptable levels of performance at threshold and very stretching but achievable levels of performance at maximum. At the end of each performance period the Committee reviews performance against the targets. The Committee reviews the formulaic bonus and PSP results before any payments are made to Executive Directors or any PSP awards vest and, in the case of the ABP, has full discretion to adjust the final payment downwards, including to zero in exceptional circumstances, if they believe the circumstances warrant it.

Differences in remuneration policy between Executive Directors and other employees

In line with Group's remuneration framework that is intended to ensure consistency and common practice across the Group, and in determining the overall levels of remuneration of the Executive Directors, the Committee also pays due regard to pay and conditions elsewhere in the organisation.

The Committee seeks to ensure that the underlying principles, which form the basis for decisions on Executive Directors' pay, are consistent with those on which pay decisions for the rest of the workforce are taken. For example, the Committee takes into account the general salary increase for the broader employee population when conducting the salary review for the Executive Directors.

However, there are some structural differences in the Executive Directors' Remuneration Policy (as set out overleaf) compared to that for the broader employee base, which the Committee believes are necessary to reflect the differing levels of seniority and responsibility. A greater weight is placed on performance-based pay through the quantum and participation levels in incentive plans. This ensures the remuneration of the Executive Directors is aligned with the performance of the Group and therefore the interests of shareholders.

Legacy arrangements

For the avoidance of doubt, the Committee may approve payments to satisfy commitments agreed prior to the approval of this remuneration policy, for example, any outstanding and unvested incentive awards, including the PSP awards granted on the date of the IPO. The Committee may also approve payments outside of this remuneration policy in order to satisfy legacy arrangements made to an employee prior to their appointment to the Board of Directors.

A cash award contingent on a successful IPO was made to Peter Elcock as per agreements communicated to him in October 2015 and November 2016, the first tranche of the award was paid prior to the approval of this policy in October 2017 and the second tranche of £78,000 was paid in October 2018. The second tranche is approved as part of the terms of this policy.

Incentive plan discretions

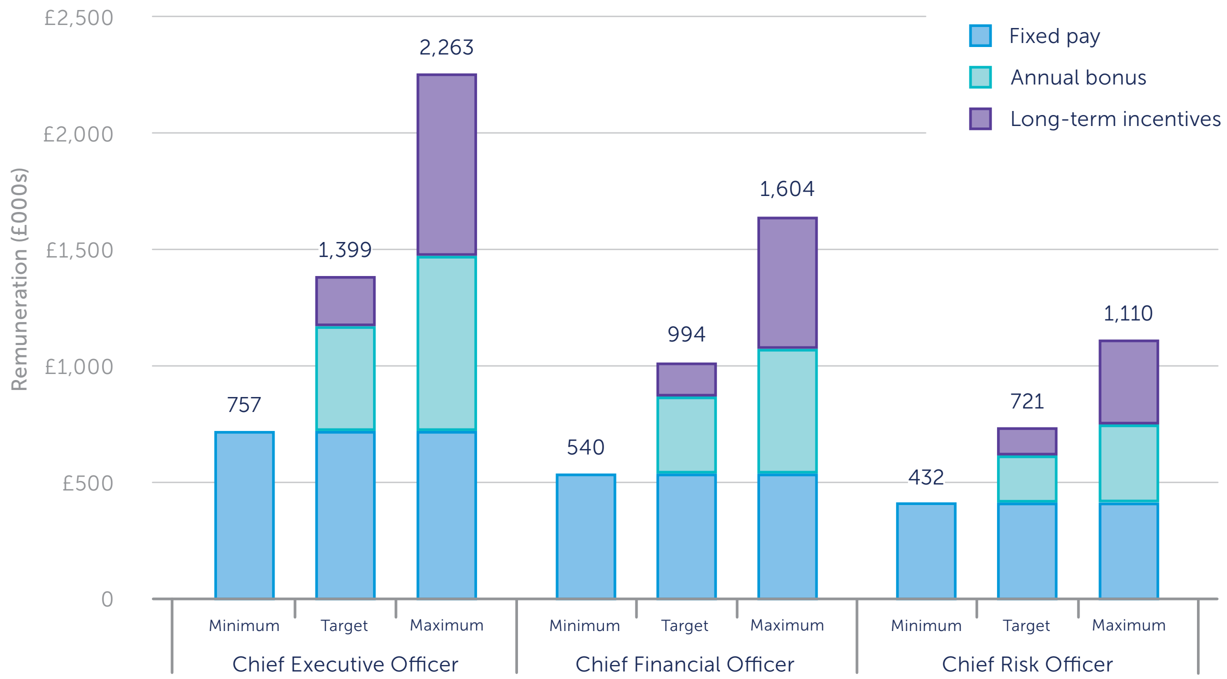
The Committee will operate the ABP, DBP and PSP according to their respective rules. To ensure the efficient operation and administration of these plans, the Committee retains discretion in relation to a number of areas. This is consistent with market practice and these include (but are not limited to) the following:

- the participants;
- the timing of grant and/or payment;
- the size of grants and/or payments (within the limits set out in the Policy table);
- whether dividend equivalents shall be applied to awards;
- the determination of vesting based on the assessment of performance (ABP and PSP only);
- the determination of a "good leaver" and where relevant the extent of vesting in the case of the share-based plans;
- treatment in exceptional circumstances such as a change of control;
- making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends);
- whether malus and clawback shall apply to any award and, if so, the extent to which it shall be applied;
- cash settling PSP and DBP awards; and
- the annual review of performance measures, weightings and setting targets for the discretionary incentive plans from year to year.

The Committee also retains the ability to adjust existing performance conditions on PSP awards for exceptional events so that they can still fulfil their original purpose. Any varied performance condition would not be materially more difficult to satisfy in the circumstances. Any use of discretion would, where relevant, be explained in the Annual Report on Remuneration.

Illustrations of remuneration policy

Under the Directors' Remuneration Policy, a significant proportion of total remuneration is linked to Group performance. The chart below illustrates the Executive Directors' total pay package at minimum, on-target and at maximum. These charts are indicative, as share price movement and dividend accrual have been excluded. All assumptions made are noted below the chart.



Assumptions:

- Minimum = fixed pay only (salary + pension + benefits). Salaries are as at the most recent review date and benefits are based on the single figure value for 2018.
- On-target = fixed pay as above plus 60% pay-out of the maximum annual bonus opportunity and 25% vesting of maximum PSP award.
- Maximum = fixed pay as above plus maximum pay-out and vesting of the annual bonus and PSP awards.

The Executive Directors can participate in all-employee share plans on the same basis as other employees. The value that may be received under these plans is subject to legislative limits. For simplicity, the value that may be received from participating in these plans has been excluded from the above charts. No account has been taken of any potential dividend equivalent payments or, for the Minimum, On-target and Maximum scenarios, any share price appreciation.

Service contracts

Provision	
Notice period	The Executive Directors have entered into service agreements governing the performance of their duties for the Group, with an indefinite term that may be terminated by either party on twelve months' written notice. Contracts for new appointments will be terminable by either party on a maximum of twelve months' written notice. Executive Directors' service contracts are available for inspection at the Group's registered office during normal business hours and will be available for inspection at the AGM.
Termination payments	An Executive Director's employment may be terminated at the employer's discretion by making a payment in lieu of notice equal to basic salary for any unexpired portion of the notice period ("PILON"). The PILON will not include payments in respect of bonus, holiday which would have been accrued during the notice period or other benefits. The employer may pay any PILON in instalments, which will normally be phased. If it exercises its right to pay the PILON in instalments, an Executive Director is obliged to take reasonable steps to seek suitable alternative income which is then applied in mitigation of the PILON payments. The employer also has the discretion to place an Executive Director on garden leave for up to six months during the notice period. An Executive Director's service contract may be terminated summarily without notice and without any further payment or compensation, except for sums accrued up to the date of termination, if they are deemed to be guilty of gross misconduct or for any other material breach of the obligations under their employment contract. The employer may suspend an Executive Director or put them on a period of garden leave during which they will be entitled to salary, benefits and pension but would not normally be eligible for bonus in respect of the garden leave period. Any statutory entitlements or sums to settle or compromise actual or potential claims in connection with a termination (including, at the discretion of the Committee, reimbursement for legal advice and provision of outplacement services) would be paid as necessary or appropriate.

There will be no automatic entitlement to a bonus under the ABP if an Executive Director has ceased employment or is under notice before the date of payment. However, the Committee may in its discretion pay a bonus to the Executive Director. Any such bonus would be payable in cash and not subject to deferral, and would ordinarily be subject to pro-ration in respect of the proportion of the financial year worked.

Any share-based entitlements granted to an Executive Director under the Group's share plans will be treated in accordance with the relevant plan rules. In certain prescribed circumstances, such as death, ill-health, injury, disability, redundancy, or a transfer of the business for which the Executive Director works out of the Group, "good leaver" status is applied.

Plan	
DBP	If the award holder has died, the awards may be exercised within twelve months after death. For other "good leavers", unvested awards will normally be retained and become exercisable during the six months following the original vesting date, unless the Committee exercises discretion to permit the good leaver to exercise within six months after cessation of employment on such terms as the Committee may determine. In all other circumstances, outstanding awards lapse on cessation of employment (or if earlier when notice is given or received), unless the Committee permits the award holder to keep their awards and exercise them within six months after the original vesting date, on such terms as the Committee may determine. Following a change of control or similar corporate event, awards can be exercised in full within six months following the event.
PSP	In the event of death, the awards may be exercised within twelve months after death but reduced on a pro-rata basis to reflect the period of time which has elapsed between the grant date and the date of cessation of employment as a proportion of the normal three-year vesting period (unless the Committee disapplied pro-rating or applied it in a different way). The Committee would determine the extent to which the performance conditions were met on such modified basis as it thinks fit. For other "good leavers", outstanding awards will normally vest at the normal vesting date (to the extent that the performance conditions have been satisfied). The Committee retains the discretion to allow awards to become exercisable within six months following cessation on such terms as the Committee may determine, in which case the Committee would determine the extent to which the performance conditions were met on such modified basis as it thinks fit, and the award would be subject to time pro-rating to reflect the period of time which has elapsed between the grant date and the date of cessation of employment as a proportion of the normal three-year vesting period (unless the Committee disapplied pro-rating or applied it in a different way). On cessation of employment before the end of the normal three-year vesting period for any other reason, outstanding awards lapse on cessation of employment (or earlier when notice is given or received), unless the Committee permits the award holder to exercise their awards within six months after the end of the three-year normal vesting period, on such terms as the Committee may determine. If an award holder ceases employment for any reason during the holding period relating to an award, the award can be exercised in full within 6 months after the end of the holding period. The Committee retains the discretion to allow awards to become exercisable within six months following cessation on such terms as the Committee may determine. Following a change of control or similar corporate event, awards can be exercised within six months following the event, and reduced pro-rata to reflect the period of time which has elapsed between the grant date and the date of the relevant event as a proportion of the normal vesting period (unless the Committee disapplied pro-rating or applied it in a different way). The Committee would have the discretion to waive the performance conditions on a change of control during the normal vesting period or apply these on such modified basis as it thinks fit.
All-employee share plans	The Committee has no discretion in relation to good or bad leaver treatment under the SAYE or SIP, as the terms are prescribed by applicable legislation and set out in the relevant plan rules. The same leaver and change of control provisions apply to all employees who participate in these plans.

In determining whether a departing Executive Director should be treated as a "good leaver", the Committee will take into account the performance of the individual and the Group over the whole period of employment and the reasons for the individual's departure.

External Directorships

Executive Directors are permitted to accept external appointments with the prior approval of the Chairman and where there is no impact on their role with the Group. The Board will determine on a case-by-case basis whether the Executive Directors will be permitted to retain any fees arising from such appointments, details of which will be provided in the Annual Report on Remuneration.

Recruitment or promotion of directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's shareholder-approved remuneration policy at the time of appointment and the maximum limits set out therein.

Base salary will be set appropriate to the calibre, experience and responsibilities of the new appointee. Base salaries may be set at a below-market level initially with a view to increasing them to the market rate, subject to individual performance and developing into the role, over a period of time.

The maximum level of variable pay for an Executive Director is 300% of base salary (150% in relation to ABP/DBP and 150% in relation to the PSP). Depending on the timing and responsibilities of the appointment, it may be necessary to set different annual bonus performance measures and targets as applicable to other Executive Directors.

For an internal appointment, his or her existing pension arrangements may continue to operate and any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue, and be disclosed in the next Annual Report on Remuneration.

In addition to the above, the Committee may offer additional cash and/or share-based elements in order to 'buy-out' remuneration relinquished on leaving a former employer. In the event that such a buy-out is necessary to secure the services of an Executive Director then the structure of any award or payment will mirror, as far as is possible, the arrangements in place at the incoming Executive Director's previous employer. Any share awards made in this regard may have no performance conditions, or different performance conditions, or a shorter vesting period compared to the Group's existing plans, as appropriate. Shareholders will normally be informed of any buy-out arrangements at the time of the Executive Director's appointment.

Such payments would take into account the nature of awards forfeited and would reflect (as far as possible) performance conditions, attributed expected value and the time over which they would have vested or been paid.

The Committee may agree that the Group will meet certain relocation, legal, tax equalisation and any other incidental expenses as appropriate, so as to enable the recruitment of the best people including those who need to relocate.

Chairman and Non-Executives

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fees			
To attract and retain a high-calibre Chairman, Deputy Chairman and Non-Executive Directors by offering market-competitive fee levels.	The Chairman and Deputy Chairman are paid a single fixed fee. The Non- Executive Directors are paid a basic fee. Additional fees are paid for Chairmanship and membership of Board Committees. The Senior Independent Director is paid an additional fee to reflect their extra responsibilities. Additional fees may be paid where in exceptional circumstances the normal time commitment is significantly exceeded in any year. Fees are reviewed periodically by the Committee and Chief Executive Officer for the Chairman and by the Chairman and Executive Directors for the Non-Executive Directors. Fees are set taking into consideration market levels in comparably sized companies, the time commitment and responsibilities of the role, and to reflect the experience and expertise required. The Chairman, Deputy Chairman and the Non-Executive Directors are entitled to reimbursement of reasonable expenses. They may also receive limited travel or accommodation-related benefits in connection with their role as a Director. The Non-Executive Directors will not participate in the Group's share, bonus or pension schemes.	The Charter Court Articles of Association place a limit on the aggregate fees of the Non-Executive Directors of £1.5 million p.a. The Committee is guided by the general increase for the broader employee population, but on occasions may need to recognise, for example, changes in responsibility, and/or time commitments. Current fee levels are disclosed in the Annual Report on Remuneration section.	None.

Non-Executive Directors – letters of appointment

All Non-Executive Directors have letters of appointment with the Group for an initial period of three years, subject to annual re-election by the Group at a general meeting.

As at 31 December 2018 the remaining term of the service contracts of; Sir Malcolm Williamson and Noel Harwerth was 18 months expiring 26 June 2020; Ian Ward, Tim Brooke and Philip Jenks was two years expiring 5 January 2021, and Rajan Kapoor was nine months expiring 22 September 2019.

The Chairman's appointment may be terminated by either party with six months' notice. The appointment may also be terminated at any time if he is removed as a Director by resolution at a general meeting or pursuant to the Articles, provided that in such circumstances the Group will (except where the removal is by reason of his misconduct) pay the Chairman an amount in lieu of his fees for the unexpired portion of his notice period.

The Deputy Chairman's appointment may also be terminated by either party with six months' notice. The appointment may also be terminated at any time if he is removed as a Director by resolution at a general meeting or pursuant to the Articles, provided that in such circumstances the Group will (except where the removal is by reason of his misconduct) pay the Chairman an amount in lieu of his fees for the unexpired portion of his notice period.

The appointment of each Non-Executive Director may be terminated at any time with immediate effect if they are removed as a Director by resolution at a general meeting or pursuant to the Articles. The Non-Executive Directors (other than as described above for the Chairman and Deputy Chairman) are not entitled to receive any compensation on termination of their appointment.

Directors' letters of appointment are available for inspection at the registered office of the Group during normal business hours and will be available for inspection at the AGM.

Recruitment policy on appointment of a new Chairman or Non-Executive Director

For a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

Annual Report on Remuneration

This part of the Directors' Remuneration Report sets out a summary of how the Directors' Remuneration Policy was applied in 2018 and, together with the Annual Statement from the Chairman of the Remuneration Committee, will be subject to a single advisory vote at the AGM. Details of the remuneration earned by Executive and Non-Executive Directors and the outcomes of the incentive plans, together with the link to Group performance, are provided in this section.

Single figure of total remuneration (audited)

The following tables report the total remuneration receivable in respect of qualifying services by each Director. As the Company listed in October 2017, part of the 2017 remuneration relates to the period when the Company was privately owned.

£'000	Salary and fees[1]		Benefits[2]		Pension		Annual Bonus[3]		LTIP/PSP[4]		Other[7]		Total	
Executive	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Ian Lonergan	602	476	21	17	120	95	753	744	–	–	–	–	1,496	1,332
Sebastien Maloney	425	350	24	19	85	69	532	525	–	–	–	–	1,066	963
Peter Elcock[6]	339	270	20	20	68	54	339	326	–	–	78	42	844	712
Total	**1,366**	**1,096**	**65**	**56**	**273**	**218**	**1,624**	**1,595**	**–**	**–**	**78**	**42**	**3,406**	**3,007**
Non-Executive														
Sir Malcolm Williamson[5]	200	102	–	–	–	–	–	–	–	–	–	50	200	152
Philip Jenks	150	181	–	–	–	–	–	–	–	–	–	104	150	285
Tim Brooke	105	110	–	–	–	–	–	–	–	–	–	50	105	160
Noël Harwerth[5]	100	51	–	–	–	–	–	–	–	–	–	50	100	101
Rajan Kapoor	112	105	–	–	–	–	–	–	–	–	–	50	112	155
Ian Ward	107	117	–	–	–	–	–	–	–	–	–	50	107	167
Total	**775**	**666**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**354**	**775**	**1,020**

1 Salaries for Executives were increased during the year, effective 1 July 2018.
2 Benefits include company car / car allowance, car insurance, private medical insurance, life assurance, critical illness insurance, and dental cover.
3 The 2017 bonus scheme which was set prior to IPO was payable in cash in early 2018.
4 There were no long-term incentive awards vesting based on a performance period ending in 2017 or 2018.
5 Sir Malcolm Williamson and Noël Harwerth joined the Board on 27 June 2017.
6 As per an agreement dated 2 October 2015 and 18 November 2016 which was contingent on a successful listing of the Group, Peter Elcock received a cash award of £120,000. The first tranche of £42,000 was paid in October 2017 and the second tranche of £78,000 was paid in October 2018.
7 The fee paid to Sir Malcolm Williamson was increased to £250,000 with effect from 1 January 2019.

2018 annual bonus outcome

The 2018 bonus plan was approved in early 2018 and was based on performance against a robust balanced scorecard of quantitative and qualitative measures covering four categories. Weightings described below apply to the CEO and CFO; the CRO's bonus was based on all measures other than financial.

1. Financial 55%
2. Risk management 25%
3. Customer and clients 10%
4. People and culture 10%

The majority of the balanced scorecard comprises a set of quantitative financial measures which are aligned with the Group's business priorities for the year. For each measure, the Committee determines threshold, target and maximum targets, with performance measured on a straight-line basis between these points.

The Remuneration Committee assesses the non-financial elements by way of both internal, quantifiable targets and a broader qualitative assessment. Although some of the specific details remain commercially sensitive and cannot be disclosed in full, the Committee understands the importance of transparency and therefore has provided as much information as possible to give shareholders the opportunity to assess the link between performance and the bonus outcome.

Once the balanced scorecard has been assessed, individual performance is taken into account by applying a personal performance factor which can range from nil to 1.25, with a factor of 1 assigned to performance in line with expectations. In the event that the personal performance adjuster would take bonuses above the policy maximum, awards are reduced.

The assessment of each performance measure is summarised in the tables below.

1. Financial (55%)

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Profit before tax	22%	£120.3m	£133.7m	£147.1m	£159.3m	22%
Return on equity	16.5%	23.54%	26.16%	28.78%	30.90%	16.5%
Cost income ratio	8.25%	36.27%	32.97%	29.68%	28.70%	8.25%
Net loan growth	8.25%	21.40%	23.78%	26.16%	24.2%	5.25%
Total	**55%**					**52%**

Continued strong performance during 2018 saw an increase of 41.6% in Profit before tax. Total income increased by 32.1% to £224.9 million (2017: £170.2 million) whilst administrative expenses increased by 11.4% to £64.6m (2017: £58.0 million) and Cost income ratio therefore improved from 34.1% in 2017 to 28.7% in 2018. Profit after tax increased by 48.6% to £120.8m from £81.3 million in 2017 and Return on equity increased from 28.6% to 30.8%. Loan book growth was 24.2% year-on-year in 2018 to £6.7 billion (2017: 40.9%, £5.4 billion, this result is negatively affected by structured asset sales. Excluding the impact of structured asset sales, loan book growth would have reached 34.7% in 2018). 52% of a maximum 55% for overall financial performance has been awarded.

The Committee has assessed the outcomes set out above and determined that the bonus outcome for this element is aligned with the Group's overall financial performance in the year.

2. Risk management (25%)

The Group's risk appetite is set by the Board and the Group adopts a disciplined approach to risk management which ensures operation within risk appetite and associated monitoring and control measures. An Enterprise Risk Management Framework is in place which supports prudent growth and the development of a diverse and robust business capable of delivering sustainable returns.

For 2018, the Committee simplified its approach to measuring risk management for the bonus plan, defining three specific measures for the year:

1. Cost of risk – a quantitative measure based on the aggregate cost of our risk management framework in the year.
2. Risk appetite – a quantitative measure based on adherence to the Board's defined risk appetite limits throughout the year, taking into account each of the nine risk categories of operational, conduct, liquidity, funding, capital, basis, gap, interest rate and treasury risks. A score is assigned for each month of the year, based on the severity and duration of any breaches of the Group's risk appetite, where 0 means no risk failures have occurred, and 9 means that there has been a serious breach of the risk appetite under each of the nine categories. The final score at the year end can therefore vary between 0 and 108. Any breach of PRA regulatory limits carries an immediate score of 10 per breach.
3. Risk management – a qualitative measure based on a recommendation from the Chairman of the Risk Committee, which is intended to reflect overall risk management performance. This takes into account a number of factors, such as: effectiveness of the risk management framework; quality of ICAAP and ILAAP; PRA visit feedback; risk reporting; and the ability of the business to grow its balance sheet in line with the plan.

Given that this is the first year in which we have measured risk performance under this framework, and the complexities of the underlying risk management environment, the Committee retained the discretion to adjust the scoring if it believed that the outcome does not properly reflect risk performance in the year.

A full assessment was undertaken by the Chief Risk Officer and the views of the Risk Committee were sought to provide comfort on the risk scorecard outcome. Following the Committee's assessment for the year, it was agreed that a strong risk culture was prevalent throughout the business and accordingly 24% out of 25% was payable under this element. The targets under each measure are set out in the table below, notwithstanding that the Group's risk appetite parameters remain commercially sensitive.

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Cost of risk	10%	0.05%	0.04%	0.03%	0.036%[1]	10%
Risk appetite	7.5%	15	8	0	0	7.5%
Risk management	7.5%	-	-	-	85	6.4%
Total	**25%**					**24%**

1 The assessment of cost of risk includes a management overlay due to uncertainty over the implementation of the UK's decision to leave the European Union. The Committee determined that a maximum award should be paid following its assessment of underlying performance.

3. Customer and clients (10%)

Customer satisfaction remains a core priority for the Group, which is measured each year through Net Promoter Score ("NPS"). Targets are set each year for both our banking and mortgage customers, and our broking clients, with the aim of delivering sustained strong results over the longer term. The feedback from bank and mortgage customers during the year was good. The service provided to our intermediaries continues to improve and this was recognised in 2018. Accordingly, the pay-out under this element was 7.6% out of 10%.

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Customer survey (NPS)	5%	20	30	40	40	5%
Broker survey (NPS)	5%	10	20	30	18	2.6%
Total	**10%**					**7.6%**

4. People and culture (10%)

Charter Court places great importance on its employees and maintaining its employee-focused culture. Employee engagement, which is measured annually through our engagement survey, remains high, supported by low staff turnover and absence rates.

The Committee determined that the two best measures for people and culture in 2018 were our ranking in the Sunday Times Top 100 Best Companies to work for (reflecting an external view), and the staff attrition rate (reflecting an internal view), and duly set targets for each as shown in the table below. We are pleased to report that the Group was ranked as the 6th best company to work for, which is our third consecutive year in the top ten. Reflecting this, the pay-out under this element was 9.8% out of 10%.

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Sunday Times Top 100 Best Companies Ranking	7.5%	Third tercile	Middle tercile	First tercile	6th place	7.5%
Staff attrition rate	2.5%	15%	12%	9%	9.6%	2.3%
Total	**10%**					**9.8%**

Based on performance for each element as described above, the 2018 balanced scorecard aggregate outcome was 93% out of a total of 100%, before any adjustment for personal performance.

Individual performance assessment

The bonus plan includes a personal performance multiplier. Based on an individual's performance with respect to a set of well-defined objectives, the balanced scorecard can be flexed by a factor ranging from 0% to 125%, but subject to the maximum annual bonus permitted under the policy.

	Objectives for 2018	Performance during the year	Personal performance factor (0% – 125%)
Ian Lonergan	• Develop the Group's Company Secretariat to ensure smooth working processes. • Deliver and implement executive succession plan. • Effectively manage annual report and accounts process. • Effectively manage the Board and Board Committee process. • Effectively manage investor issues and engagement. • Develop and champion the Group's diversity and inclusion plan.	Mr Lonergan demonstrated outstanding leadership through the Group's first year as a listed entity. This has included managing relations with the broader investor community and leading effective investor interactions, and upgrading internal functions to a high standard in line with the expectations of a listed company. Additionally, Mr Lonergan has overseen increased focus on diversity/inclusion within the business through commitments to the Women in Finance Charter and joining the Stonewall Diversity Champion programme. Mr Lonergan's performance was rated by the Committee as "Outstanding".	Outstanding 125 %
Sebastien Maloney	• Develop the Group's financial and reporting functions to meet the requirements of a FTSE 250 company. • Effectively manage annual report and accounts process. • Effectively manage investor issues and engagement. • Formulate and execute the Group's funding strategy. • Work with the CEO in formulating the Group's medium-term strategy.	Mr Maloney led his team to deliver three well-timed and effective securitisation executions in a short period, and when market conditions were conducive. Mr Maloney has also led proactive work on the broader balance sheet and on the wider capital management agenda. He has demonstrated excellent leadership in the new Investor Relations function and continued to upgrade the finance function to the high standards expected for a listed company. Mr Maloney's performance was rated by the Committee as "Exceeding".	Exceeding 112.5 %
Peter Elcock	• Maintain an effective and appropriate risk infrastructure and support the delivery of the risk management objectives. • Own and deliver ICAAP, ILAAP and RRP to a high standard. • Define the Group's IRB Strategy and execution plan. • Maintain excellent regulatory relationships and the Group's strong reputation.	Mr Elcock has led the risk management agenda to a high standard, making strong progress in both the coverage of current and emerging risks, and in the development of the depth of the risk management team. Especially notable has been the excellent progress of the IRB project to clearly define the Group's IRB Strategy and execution plan. Mr Elcock's performance was rated by the Committee as "Exceeding".	Exceeding 112.5 %

The Committee determined that in respect of the year to 31 December 2018, the resulting Annual Bonus awards were as follows:

	Maximum opportunity % salary	Actual % of salary	Total awarded
Ian Lonergan	125%	125%	£753,047
Sebastien Maloney	125%	125%	£531,563
Peter Elcock	100%	100%	£339,188

The Committee considered the value of bonus pay-outs in the context of the performance of the business and individual directors during the year, and concluded that they were appropriate, and represented a good level of alignment between pay and performance. 50% of the annual bonus will be deferred into shares under the DBP, which will vest in three tranches after one, two and three years, subject to continued employment.

Awards vesting in the year (audited)

There were no long term incentive awards vesting in the year.

Awards granted in the year (audited)

The following awards were granted to Executive Directors during the year:

Year ended 31 December 2018	Type of award	Date of grant	Number of shares[1]	Face value[1]	Face value as a % of salary	Threshold vesting %	End of performance period[2]	End of holding period
Ian Lonergan	PSP	26 March 2018	248,745	£742,504	125%	25%	31 December 2020	26 March 2023
Sebastien Maloney	PSP	26 March 2018	175,585	£524,121	125%	25%	31 December 2020	26 March 2023
Peter Elcock	PSP	26 March 2018	112,040	£334,439	100%	25%	31 December 2020	26 March 2023

[1] PSP awards were granted using a share price of £2.99p and take the form of nil cost options subject to performance conditions, see page 87 and note 38 to the Consolidated financial statements for further details.

Strategic report
Corporate governance
Financial statements
Appendices

Year ended 31 December 2017	Type of award	Date of grant	Number of shares[1]	Face value[1]	Face value as a % of salary	Threshold vesting %	End of performance period[2]	End of holding period
Ian Lonergan	PSP	4 October 2017	323,369	£743,749	125%	25%	31 December 2019	No holding period
Sebastien Maloney	PSP	4 October 2017	228,260	£524,998	125%	25%	31 December 2019	No holding period
Peter Elcock	PSP	4 October 2017	145,652	£335,000	100%	25%	31 December 2019	No holding period

1 PSP awards were granted when the share price was 230p and take the form of nil cost options subject to performance conditions, see page 87 and note 38 to the Consolidated financial statements for further details.
2 PSP awards vest on the date on which the Group's audited annual accounts for the year ending 31 December 2019 are approved by the Board, and can be exercised until 3 October 2027.

The performance conditions applying to the PSP awards are:

Date of grant	Performance condition	Weighting	Threshold (25% vests)	Maximum (100 vests)
26 March 2018	Aggregate earnings per share over FY 2018, 2019 and 2020	40%	137 pence	157 pence
	Relative TSR[3]	40%	Median ranking	Upper quartile ranking
	Risk	20%	Commercially sensitive[4]	

3 Total shareholder return performance against a peer group comprising, OneSavings Bank, Paragon, CYBG, Close Brothers, Provident Financial, Metro Bank, Arrow Global, Secure Trust Bank, Lloyds, RBS, S&U, Barclays and HSBC.
4 An assessment of risk performance over the three-year performance period. The actual performance targets which are quantitative and qualitative in nature are deemed to be commercially sensitive. Appropriate disclosure of the targets and outcomes will be disclosed on a retrospective basis.

An additional underpin applies whereby the Remuneration Committee must additionally be satisfied that the vesting outcome is a fair reflection of the underlying performance of the business during the performance period and that vesting is not inconsistent with the Group's approach to risk.

Pension payments (audited)

Executive Directors have the right to participate in a defined contribution pension plan or elect to be paid some or all of their contribution in cash. Pension contributions and/or cash allowances are capped at 20% of salary. In compliance with Corporate Governance Code 2018, the pension contribution of newly appointed Executive Directors will be aligned more closely with the wider employee group.

Payments to past Directors (audited)

There were no payments made to any past Directors during the year.

Payments for loss of office (audited)

There were no loss of office payments made during the year.

External Appointments for Executive Directors

Peter Elcock is a Non-Executive Director at Ipswich Building Society and retains any fees received for undertaking this role. Fees in the year ended 30 November 2018 were £28,000 (2017:£22,800).

1 Includes person(s) closely associated shareholding

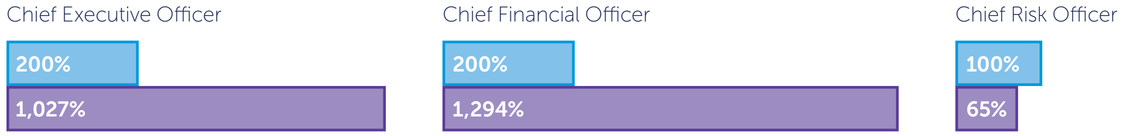
Statement of Directors' shareholding and share interests (audited)

Details of the Directors' interests in shares are shown in the table below.

Director	Beneficially owned shares at 31 December 2018	Shareholding guideline achieved	PSP	DBP	SAYE
Ian Lonergan	2,506,712	Yes	572,114	–	9,625
Sebastien Maloney	2,229,543[5]	Yes	403,845	–	–
Peter Elcock	90,018	No	257,692	–	9,625
Sir Malcolm Williamson	86,956	n/a	n/a	n/a	n/a
Philip Jenks	10,869	n/a	n/a	n/a	n/a
Tim Brooke	–	n/a	n/a	n/a	n/a
Noël Harwerth	–	n/a	n/a	n/a	n/a
Rajan Kapoor	10,869	n/a	n/a	n/a	n/a
Ian Ward	43,478	n/a	n/a	n/a	n/a
Total	**4,978,445**	**–**	**1,233,651**	**–**	**19,250**

5 Including person(s) closely associated shareholding.

To align the interests of the Executive Directors with shareholders, each Executive Director must build up and maintain a shareholding equivalent to 200% of base salary for the CEO and CFO, and 100% of base salary for the CRO. A policy for minimum shareholding requirements, post termination of employment will be developed in 2019 and the details included within next year's report. The Executive Director current holding against these guidelines is shown below:



There have been no changes in the share interests of the current Directors between 31 December 2018 and 13 March 2019.

The following tables set out the outstanding share awards granted to the Executive Directors.

PSP

Director	Award date[6]	Awards held on 31 December 2017	Award granted in the year	Awards lapsed	Awards vested	Award price basis	Awards held on 31 December 2018	End of performance period	Expected vesting date
Ian Lonergan	4 October 2017	323,369	-	-	-	230p	323,369	31 December 2019	March 2020
	26 March 2018	-	248,745	-	-	299p	248,745	31 December 2020	March 2021
Sebastien Maloney	4 October 2017	228,260	-	-	-	230p	228,260	31 December 2019	March 2020
	26 March 2018	-	175,585	-	-	299p	175,585	31 December 2020	March 2021
Peter Elcock	4 October 2017	145,652	-	-	-	230p	145,652	31 December 2019	March 2020
	26 March 2018	-	112,040	-	-	299p	112,040	31 December 2020	March 2021

6 Vesting of the awards made on 26 March 2018 are subject to EPS, Relative TSR and risk performance metrics, as disclosed earlier in this report. They 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.
Vesting of the awards made on 4 October 2017 are subject to EPS, Relative TSR and risk performance metrics, as disclosed in last year's report. They 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.

SAYE

Director	Award date	Awards held on 31 December 2017	Award granted in the year	Awards lapsed	Awards vested	Award price basis	Awards held on 31 December 2018	End of performance period	Exercisable date
Ian Lonergan	26 October 2017	9,625	-	-	-	228.75p	9,625	n/a	01/12/2020
Peter Elcock	26 October 2017	9,625	-	-	-	228.75p	9,625	n/a	01/12/2020

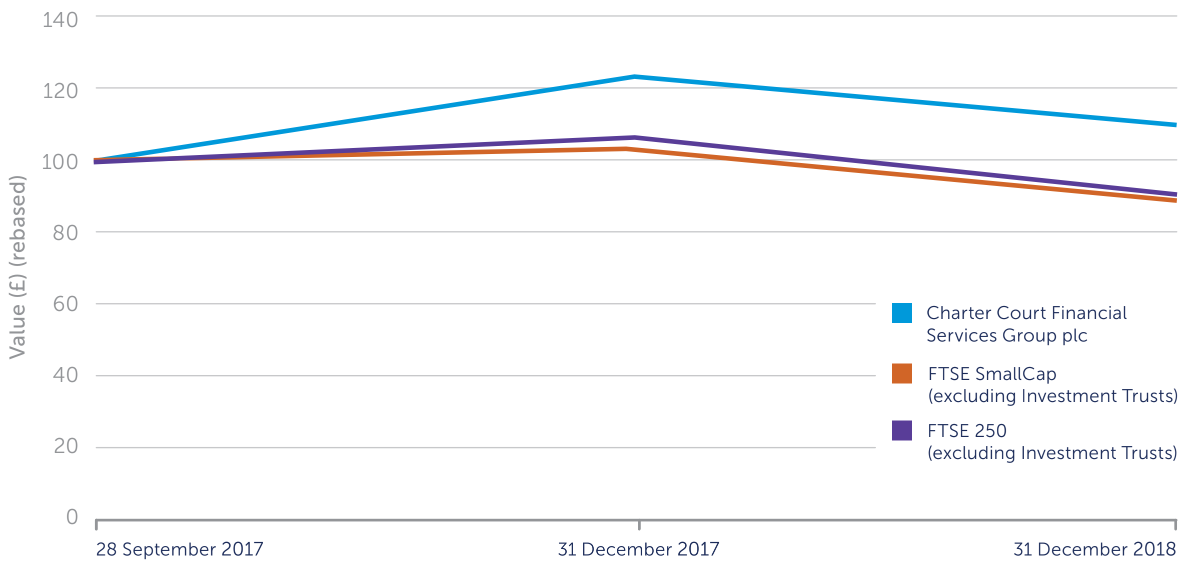
TSR Performance

The chart below shows the Group's Total Shareholder Return performance compared with that of the FTSE 250 and FTSE SmallCap indices (excluding investment trusts) over the period from the date of the Group's admission onto the London Stock Exchange to 31 December 2018. The FTSE 250 Index has been chosen as an appropriate comparator as it is the index of which the Group is a constituent, and the SmallCap has also been shown as the Group was a constituent of this index during Q1 of 2018.

Total Shareholder Return is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and any other payments made to or by shareholders within the period.

Total shareholder return

Source: FactSet



This graph shows the value, by 31 December 2018, of £100 invested in Charter Court Financial Services on 29 September 2017 at the IPO price of £2.30 per share, compared with the value of £100 invested in the FTSE SmallCap (excl. Investment Trusts) and FTSE 250 (excl. Investment Trusts) Indices on the same date.

The other points plotted are the values at intervening financial year-ends.

Aligning pay with performance

The total remuneration figures for the CEO in the years since listing are shown in the table below, along with the value of bonuses paid, and LTIP vesting, as a percentage of the maximum opportunity.

Chief Executive Officer	2018	2017
Total remuneration (£000)	1,487	1,332
Actual bonus (% of the maximum)	100%	100%
LTIP vesting (% of the maximum)	n/a[1]	n/a[1]

[1] No LTIP awards were eligible to vest during the period

Relative importance of spend on pay

The table below compares the total value of all employee costs in the 2017 and 2018 financial years, as well as the total value of dividends declared and profit before tax as well as other financial measures that the Committee considers relevant.

	2018	2017	Percentage change
Employee costs	£37.7m	£31.3m	21.2%
Ordinary dividends	£6.7m	£nil	n/a
Profit before tax	£158.2m	£111.7m	41.6%

Statement of shareholder voting at the 2018 AGM

Shareholders were asked to support two remuneration-related resolutions at the 2018 AGM: a binding vote approving our Directors' Remuneration Policy, and an advisory vote in support of the Annual Report on Remuneration and Chairman's Statement. Votes were cast as follows:

	Policy		Annual Report	
Votes cast in favour	200,889,991	98.50%	200,306,308	98.45%
Votes cast against	3,067,022	1.50%	3,161,570	1.55%
Total votes cast	203,957,013	100%	203,467,878	100%
Votes withheld	12,582		501,716	

Committee membership

The Committee is made up exclusively of independent Non-Executive Directors. The Committee is chaired by Ian Ward and its other members are Timothy Brooke, Noël Harwerth and Rajan Kapoor.

External advisors

The Committee sought independent advice from Aon, who act as the Committee's advisor. Aon were appointed following a tender process prior to IPO. Aon has no other connection with the Group and therefore the Committee is satisfied that it provides objective and independent advice.

Aon is a founder member of the Remuneration Consultants Group and complies with its Code of Conduct, which sets out guidelines to ensure that its advice is independent and objective. During the period, Charter Court incurred fees from Aon of £63,068.

The Chief Executive and other senior management were invited to attend meetings as the Committee considered appropriate, but did not take part in discussions directly regarding their own remuneration.

Implementation of Remuneration Policy for 2019

Base salaries

Current salaries as at 1 July 2018 are set out in the table below. The 2.5% increase in July 2018 was applied to all employees. The next salary review date will be 1 July 2019.

	Salary as of 31 December 2017 (set at 1 July 2017)	Salary as of 31 December 2018 (set at 1 July 2018)	Increase
Ian Lonergan	£595,000	£609,875	2.5%
Sebastien Maloney	£420,000	£430,500	2.5%
Peter Elcock	£335,000	£343,375	2.5%

Annual bonus

Maximum opportunities will be 125% of base salary for the Chief Executive Officer and the Chief Finance Officer and 100% of base salary for the Chief Risk Officer.

As in 2018, annual bonuses for Executive Directors will be determined based on a balanced scorecard of financial and non-financial objectives. As in the prior year, the bonus will be based on objectives in four key categories. The weightings below will apply for the CEO and CFO; the CRO's bonus will be based on all measures other than financial.

Financial	55%
Risk Management	25%
Customer and Clients	10%
People and Culture	10%

The bonus scorecard outcome will be adjusted by a personal performance multiplier for each Director which can flex the scorecard outcome by a factor ranging from nil to 1.25 with a factor of 1 assigned to performance in line with expectations.

The Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive. An explanation of bonus pay-outs and performance achieved will be provided in next year's Annual Report on Remuneration.

Performance Share Plan
The award levels under the PSP for the 2019 financial year will be 125% of base salary for the CEO and CFO and 100% of base salary for the CRO.

The awards made in 2019 will be subject to the following performance conditions, measured over the three financial years to 31 December 2021:

Earnings per Share	40%	Based on aggregate EPS in financial years 2019, 2020 and 2021. None of this part of the award will vest if aggregate three-year EPS is below 159 pence; at 159 pence, 25% of the award increasing on a straight-line basis to full vesting for 184 pence or higher.
Relative TSR	40%	Total shareholder return performance against a peer group comprising OneSavings Bank, Paragon, CYBG, Close Brothers, Provident Financial, Metro Bank, Arrow Global, Secure Trust Bank, Lloyds, RBS, S&U, Barclays and HSBC. None of this part of the award will vest if the Group is ranked below median; for median ranking 25% of the award will vest increasing to full vesting for upper quartile ranking or higher.
An assessment of risk	20%	An assessment of risk performance over the three-year performance period. The actual performance targets which are quantitative and qualitative in nature are deemed to be commercially sensitive. Full disclosure of the targets and outcomes will be disclosed on a retrospective basis.

An underpin shall apply whereby the Remuneration Committee must be satisfied that the vesting outcome is a fair reflection of the underlying performance of the business during the performance period and that vesting is not inconsistent with the Group's approach to risk.

Non-Executive Director fees
Non-Executive Director fees were set at the time of IPO. Following a review of the Board Chairman's fee, taking account of market benchmarks in the banking and financial services sector, and time commitment for the role, it was decided to increase the Board Chairman's fee from £200,000 to £250,000 with effect from 1 January 2019. The fee for the Chairman of the Remuneration Committee was increased in January 2019 due to the time commitment of the role. All other fees remain unchanged.

	2018	2019
Board Chairman	£200,000	£250,000
Board Deputy Chairman	£150,000	£150,000
Basic fee	£67,500	£67,500
Additional fee for Senior Independent Director	£20,000	£20,000
Additional fee for Committee Chairman		
Audit Committee	£25,000	£25,000
Risk Committee	£25,000	£25,000
Stakeholder Committee	£25,000	£25,000
Remuneration Committee	£20,000	£25,000
Nomination Committee	£10,000	£10,000
Models & Ratings Committee	£10,000	£10,000
Additional fee for Committee Membership		
Audit, Risk, Remuneration Committee, Stakeholder Committee	£5,000	£5,000
Nomination and Models & Risk Committees	£2,500	£2,500

Approval
This report was approved by the Board of Directors on 13 March 2019 and signed on its behalf by:

Ian Ward
Chairman of the Remuneration Committee
13 March 2019

Directors' report / other statutory information

The Directors present their report and the financial statements of the Group for the year ended 31 December 2018. As permitted by legislation, some of matters normally included in the Directors Reports are included by reference as detailed below.

Results
The consolidated results for the year are shown on page 117 of the Financial Statements.

Dividend
The Directors declared an interim dividend of 2.8 pence per share reflecting a pay-out ratio of 25% of profit after tax.

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 these financial statements 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.

Directors
The names of the Directors of the Group at the date of this report, together with biographical details, are given on pages 59 to 60 of this Annual Report. In accordance with the UK Corporate Governance Code ("the Code"), all Directors will retire at the 2019 AGM and offer themselves for re - election at that meeting.

All Directors listed on pages 59 to 60 were directors during the year.

Further details on the Directors' remuneration and service agreements or appointment letters (as applicable) can be found in the Directors' Remuneration Report on pages 91 (Executive Directors) and 93 (NEDs) of this Annual Report.

Directors' indemnity arrangements
It is the Group's practice to indemnify its Directors, to the extent permitted by law and the Articles of Association, against all costs, charges, losses, expenses and liabilities incurred in connection with the performance of their duties. Each Director entered into a Deed of Indemnity with the Company on 26 June 2018 which indemnifies him/her (subject to the provisions of the Companies Act 2006 and the limitations set out in each deed, against any liability arising out of any claim made against him/her in connection with any negligence, default, breach of duty or breach of trust in the actual or purported execution and/or discharge of his/her duties or powers as a Director of the Company. In addition, the Group maintains Directors and Officers liability insurance for the Directors.

Directors' interests
The Directors' interests in the share capital of the Group as at 31 December 2018 are set out on page 100 of the Directors' remuneration report.

Appointment and power of Directors
The Group's articles of association set out the powers of the Directors, and rules governing the appointment and removal of directors. The articles of association can be viewed at www.chartercourtfs.co.uk. The appointment of Directors is governed by the Group's articles of association, the Companies Act 2006 and other applicable regulations. Directors may be elected by the shareholders in general meeting or appointed by the Board of Directors in accordance with the provisions of the articles of association.

In accordance with the Code, all Directors will retire and submit themselves for reappointment at each AGM. The Board will only recommend to shareholders that Executive and Non-Executive Directors be proposed for reappointment at each AGM after evaluating the performance of the individual Directors.

Letters of appointment for individual Directors are available for inspection by shareholders at each AGM and during normal business hours at the Group's registered office.

The Directors are responsible for the management of the Group subject to any directions given by special resolution and the articles of association.

Share capital
The Group's share capital consists of one class of ordinary share with a nominal value of £0.01 per share. As at 31 December 2018, 239,320,419 ordinary shares were in issue (2017: 239,130,419).

On 15 October 2018 the Group allotted 190,000 ordinary shares of £0.01 each, par value £1,900. Full details of the share issue are shown in note 33 of the Financial Statements.

On 15 October 2018, immediately following the allotment, the Group's share capital was as follows:

	Issued	Number
Ordinary Shares of £0.01	£2,393,204.19	239,320,419

Pursuant to an ordinary resolution passed at the Annual General Meeting on 16 May 2018, the Directors were generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Group to allot shares in the Group and to grant rights to subscribe for or to convert securities into such shares in the Group:

(a) up to an aggregate nominal amount of £789,000 (being approximately 33% of the issued ordinary share capital of the Company) such authority to apply in substitution for all previous authorities pursuant to section 551 of the Act and provided that authority shall expire at the conclusion of the next annual general meeting of the Group or on 30 June 2019, whichever is the earlier, but, in each case, during this period the Group may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.

Rights attaching to shares
The Group's articles of association set out the rights and obligations attaching to ordinary shares. All of the ordinary shares rank equally in all respects.

On a show of hands, each member has the right to one vote at general meetings of the Group. On a poll, each member would be entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the Group's share capital and all shares are fully paid.

The articles of association and applicable legislation provide that the Group can decide to restrict the rights attaching to ordinary shares in certain circumstances (such as the right to attend or vote at a shareholders' meeting), including where a person has failed to comply with a notice issued by the Group under section 793 of the Companies Act 2006.

Deadline for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM, to be held on 15 May 2019, will be set out in the notice of the AGM.

Restrictions on the transfer of shares

There are no restrictions on the transfer of the Group's shares which are governed by the general provisions of the articles of association and prevailing legislation. The articles of association set out certain circumstances in which the Directors of the Group can refuse to register a transfer of ordinary shares.

Directors and employees of the Group are required to comply with applicable legislation relating to dealing in the Group's shares as well as the Group's share dealing rules. These rules restrict employees' and Directors' ability to deal in ordinary shares at certain times, and require the employee or Director to obtain permission prior to dealing. Some of the Group's employee share plans also contain restrictions on the transfer of shares held within those plans.

The Group is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Purchase of own shares

Under section 701 of the Companies Act 2006 the Group may make a market purchase of its own ordinary shares.

The existing authority given to the Group at the AGM held on 16 May 2018 to make market purchases of its own shares up to 23,900,000 (being approximately 10% of its issued ordinary share capital) will expire, unless renewed at the conclusion of the next AGM, or, if earlier, 30 June 2019.

Employee share trust

RBC is the trustee of the Charter Court Financial Services Group Employee Benefit Trust, an independent trust, which holds shares for the benefit of employees and former employees of the Group. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the Group funds the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 37 of the Financial Statements. The trustee has waived its right to dividends on all shares held within the trust.

Substantial shareholdings

The Group has been notified in accordance with the FCA's Disclosure Guidance and Transparency Rules DTR 5.1 of the following substantial interests as at 31 December 2018:

	% of total voting rights
Elliott International, L.P. and The Liverpool Limited Partnership	31.66
Merian Global Investors (UK) Limited (formerly Old Mutual Global Investors (UK) Limited)	18.52
JPMorgan Asset Management Holdings Inc.	5.01

Information provided by the Group pursuant to DTR 5.1 is publicly available via the regulatory information service and on the Group's website. Substantial shareholders do not have different voting rights from those of other shareholders.

Articles of association

The Group's articles of association were last amended in September 2017. They may only be amended by a special resolution of the Group's shareholders. The articles of association can be viewed at www.chartercourtfs.co.uk.

Corporate governance statement

The Group is required by the Disclosure Guidance and Transparency Rules to prepare a corporate governance statement including certain specified information. Information fulfilling the requirements of the corporate governance statement can be found in this Directors' Report, and the Corporate Governance Report, committee reports and Directors' Remuneration Report on pages 81 to 103 of this Annual Report. This information is incorporated by reference into this Directors' Report.

Strategic report

The Group's Strategic Report can be found on pages 2 to 57 of this Annual Report.

Business review and future developments

The Group's business activities, together with a description of future developments (including the factors likely to affect future development and performance) and its summarised financial position, are set out in the Strategic Report.

Employment practices

Information on the Group's employment practices (including with respect to disabled employees and employee involvement) is set out in the Corporate responsibility section on pages 48 to 57 of the Strategic report.

Greenhouse gas emissions

Greenhouse gas emissions is set out in the Corporate responsibility section on page 57 of the Strategic report.

Significant agreements affected by a change of control

A change of control of the Group, following a takeover bid, may cause a number of agreements to which the Group is party to take effect, alter or terminate. These include certain insurance policies, bank facility agreements and employee share plans.

All of the Group's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on a change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards.

Financial instruments

Details of the Group's financial instruments can be found in notes 18 to 21 and 27 to 29 to the financial statements. The notes begin on page 121.

Financial risk management

The Group has procedures in place to identify, monitor and evaluate the significant risks it faces. The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Group's risk management objectives and policies and the risks associated with the Group's financial instruments are described and analysed on pages 27 to 44.

Post-balance sheet events

On 9 March 2019 the Directors announced that they are in advanced talks with OSB regarding a potential all-share combination of Charter Court and OSB. The potential transaction is subject to shareholders and regulators approval. The financial statements continue to be prepared on a stand-alone basis.

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.

Political donations

No political donations were made during the year (2017: £nil).

Disclosure of information under listing rule 9.8.4R

The table below sets out the information required to be disclosed under Listing Rule 9.8.4R:

Amount of interest capitalised by the Group during the year to 31 December 2018 LR 9.8.4R (1)	**£nil**
Details of long term incentive plans are set out in the Directors Remuneration Report	**Pages 81 to 103**

Relationship agreement

Elliott International, L.P. and Elliott Associates L.P., directly and indirectly through wholly owned subsidiaries, (the "Major Shareholders") own 31.66 percent of the issued share capital of the Group. The Major Shareholders entered into a Relationship Agreement with the Group in accordance with LR9.2.2AR(2)(a) of the UKLA Listing Rules, which took effect from admission to the London Stock Exchange on 4 October 2017. The Relationship Agreement is intended to ensure that the Group is capable of carrying on business independently of the Major Shareholders for so long as the Major Shareholders hold a relevant interest, being a legal or beneficial interest in more than 30 percent of the Ordinary Shares. Pursuant to the Relationship Agreement, the Group has agreed with the Major Shareholders that they may appoint one Non-Executive Director to the Board for so long as they (together with their respective affiliates) hold, directly or indirectly, at least 30 percent of the Group's Ordinary Shares and a further Non-Executive Director to the Board for so long as they hold, directly or indirectly, at least 50 percent of the Group's Ordinary Shares. As at 13 March 2019, the Major Shareholders have not yet elected to exercise these Board appointment rights. The Directors believe that the terms of the Relationship Agreement will enable the Group to carry on its business independently of the Major Shareholders and ensure that all agreements and transactions between the Group, on the one hand, and the Major Shareholders and their respective associates and/or persons acting in concert with the Major Shareholders or their associates, on the other hand, will be at arm's length and on a normal commercial basis.

The Group has complied with the independence provisions in the Relationship Agreement and that so far as it is aware, the major Shareholders and its associates have complied with the independence and procurement obligations.

As required by LR9.8.4R (11) the Group confirms that there are no contracts in place for the provision of services to the Group or any subsidiaries by the major Shareholder.

Resolutions at the 2019 AGM

The Group's AGM was held on 16 May 2018 and the Resolutions set out in the notice of the AGM were passed.

The Group's next AGM will be held on 15 May 2019. Resolutions to be proposed at the AGM will include the renewal of the Directors' authority to allot shares, the disapplication of pre-emption rights, authority for the Group to purchase its own shares, the election of the Directors and the reappointment of Deloitte LLP as the external auditor of the Group.

The full text of each of the resolutions to be proposed at the 2019 AGM will be set out in the notice of the AGM sent to the Group's shareholders. A letter from the Chairman and explanatory notes will accompany the notice of the AGM.

Auditor

The Board (following a recommendation from the Audit Committee) has recommended that Deloitte be reappointed as the Group's auditor with effect from the 2019 AGM, at which resolutions concerning Deloitte's reappointment and authorising the Directors to set their remuneration will be proposed. The full text of the relevant resolutions will be set out in the notice of the AGM sent to the Group's shareholders.

Disclosure of information to the auditor

Each of the persons who are Directors at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Going concern

The Group has a strong, proven and conservative business model and has traded profitably during the year. It is well positioned in each of its core businesses, well capitalised, soundly funded and has adequate access to liquidity.

After making enquiries, the Directors have a reasonable expectation that Charter Court and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report, see Going concern statement on page 47.

Fair, balanced and understandable

A requirement of the UK code is that the Annual Report is fair, balanced and understandable to shareholders. The Audit Committee concluded that this report is fair, balanced and understandable in providing an assessment of the Group's financial position, business performance and strategic outlook.

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

Ian Lonergan
Chief Executive Officer
13 March 2019

Sebastien Maloney
Chief Financial Officer
13 March 2019

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS Standards) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss 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 position and performance, business model and strategy.

Approved by the Board of Directors and signed on behalf of the Board:

Ian Lonergan
Chief Executive Officer
13 March 2019

Sebastien Maloney
Chief Financial Officer
13 March 2019

The Board

Sir Malcolm Williamson
Peter Elcock
Ian Ward
Ian Lonergan
Philip Jenks
Tim Brooke
Sebastien Maloney
Noël Harwerth
Rajan Kapoor

Financial statements

Contents

Independent auditor's report to the members of Charter Court Financial Services Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Charter Court Financial Services Group plc (the "Parent company") and its subsidiaries ("the Group") give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and Parent company statement of financial position;
- the consolidated and Parent company statement of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 63; and
- the information identified as "audited" within the risk management section of the strategic report.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • loan loss provisioning; • effective interest rate ("EIR") accounting; and • securitisation accounting. Within this report, any new key audit matters are identified with ● and any key audit matters which are the same as the prior year identified with ●.
Materiality	The materiality that we used for the Group financial statements was £7.9 million, which was determined on the basis of 5% of profit before tax. The materiality that we used for the Parent company in the current year was £5.5 million, which equated to 2.3% of total equity and was capped at 70% of Group materiality.
Scoping	All entities in the Group are within our audit scope and audited to a local materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the Directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 27 to 44 that describe the principal risks and explain how they are being managed or mitigated; • the Directors' confirmation on page 79 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • the Directors' explanation on pages 46 to 47 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan loss provisioning

Key audit matter description	The Group has implemented IFRS 9: Financial Instruments, which is effective from 1 January 2018. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. The Group held loan loss provisions of £3.6 million (2017: £1.0 million in accordance with IAS 39) against loans and advances to customers of £6,643.6 million (2017: £5,365.2 million). The transition adjustment on adoption of IFRS 9 at 1 January 2018 was an increase of £0.7 million (resulting in a total provision of £1.7 million). For financial assets held at amortised cost, IFRS 9 requires the carrying value of the asset to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimation on assumptions relating to customer default rates, exposure at default, loss given default, assessing significant increases in credit risk and macroeconomic scenario modelling. These assumptions are informed using historical behaviour and experience as well as credit bureau data. They are also affected by management's consideration of the future economic environment including the potential effect of the withdrawal of the United Kingdom from the European Union. The most significant assumptions applied in the impairment model are the probability of possession given default, forced sale discounts and selection of forbearance indicators all of which impact the loss given default, the staging criteria applied within the model and whether management overlays are required to capture other specific risks within the provision. As such our significant risk focussed on the validity of these particular assumptions and judgements. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. Management's associated accounting policies are detailed within note 5 on pages 125 and 126. The corresponding area in the Audit Committee report is on page 76.
How the scope of our audit responded to the key audit matter	We first understood management's process and key controls around loan loss provisioning by undertaking a walkthrough. Following identification of the key controls placed by management to review the impairment provision we evaluated the associated design, implementation and tested operating effectiveness of such controls. Specifically, we assessed the key controls that the Group has in place to review the loan loss provisioning methodology, as well as the controls in place to assess the completeness and validity of changes in the key estimates relating to management overlays. In order to determine the key assumptions within the model, we performed sensitivity analysis and considered the impact each assumption had on the level of recorded provision. We engaged credit risk and accounting specialists to assess the compliance of the modelling approach with the requirements of the standard. We also engaged credit risk specialists to determine whether the documented modelled approach was implemented in practice. We challenged management's key assumptions, including testing the accuracy of key aspects of the loss given default calculation, through independent recalculation using underlying data for which we have tested the completeness and accuracy. In addition, we assessed the completeness and appropriateness of identified management overlays, through our understanding of the Group's loan book and the external environment and benchmarked these assumptions to peers where appropriate. We have testing the accuracy of the staging allocation within the Group's model based upon management's approved staging criteria. We have benchmarked the criteria applied to peers as well considering the specific characteristics of the Group's lending streams. We challenged management's consideration of the future economic environment within the macroeconomic scenarios, including the potential effect of the withdrawal of the United Kingdom from the European Union by engaging our economic experts to review management's approach as well as comparing modelled assumptions to publically available data from the Office of National Statistics and comparable peer data. We reconciled the loan loss provision models to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate.
Key observations	Based on the evidence obtained, we found that the assumptions underpinning the loan loss provisioning model, including management overlays, were determined and applied appropriately and the recognised provision was reasonably stated.

Effective interest rate accounting

Key audit matter description	The Group holds loans and receivables which meet the criteria of financial assets under IFRS 9. The recognition of interest income on loans under IFRS 9 requires the use of an effective interest rate method. Judgement is applied by management to determine key assumptions related to the behavioural life of each loan and the cash flows directly attributable to each loan (primarily fee and interest cash flows). Any changes to such assumptions during the life of the loan can have a significant impact on the amount of interest income recognised during the year. Given the degree of judgement and estimation involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. The Group held an EIR adjustment of £17.4 million (2017: £20.0 million) against customer loans and receivables which is being amortised over the behavioural lives of the associated loans. Management's associated accounting policies are detailed within note 5 on page 125, with detail about critical accounting estimates on page 129. The corresponding area in the Audit Committee report is on page 76.
How the scope of our audit responded to the key audit matter	We first understood management's process and key controls around recognition of interest income through discussions and walkthroughs, we then evaluated the associated design, implementation and tested operating effectiveness of the key controls. Specifically, we assessed the key controls that the Group has in place to assess the completeness and accuracy of the fees and costs included within the EIR models, as well as the controls in place to assess the validity of the adjustments posted due to changes in behavioural life. We reviewed the ongoing treatment of fees and charges arising on customer loans and receivables and the appropriateness of their inclusion or exclusion in the Group's EIR models and performed a reconciliation of the EIR adjustments within the model back to the general ledger. We engaged our IT specialists to independently calculate the expected EIR adjustment for the long term lending portfolios in order to conclude on accuracy. We challenged the behavioural life assumptions used by management by reference to the Group's historical behavioural life experience and the macroeconomic environment.
Key observations	The results of our testing were satisfactory and the underlying methodology used for the calculation of EIR is considered materially accurate in the context of the accounting policies and the requirements of the relevant accounting standards. We determine the on-going treatment of fees and charges to be appropriate. Overall we consider the judgements applied by management to be reasonably stated.

Securitisation accounting

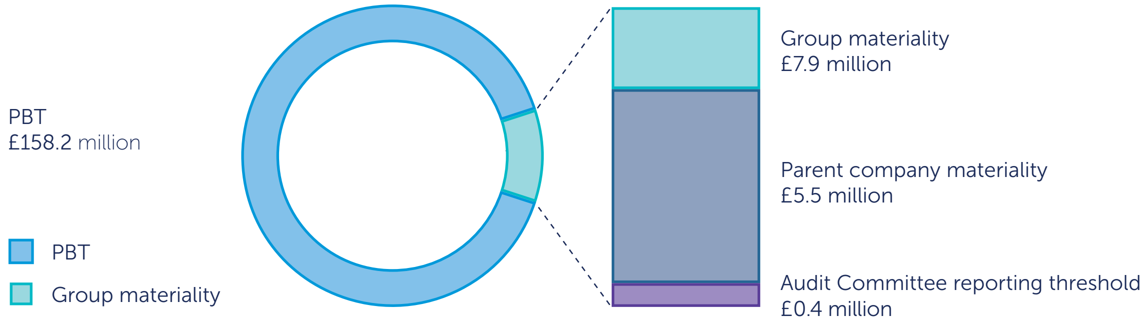
Key audit matter description	Securitisation accounting within the Group structure is complex. Judgement is required in determining whether the Group controls the special purpose vehicle ("SPV") following securitisation, and therefore whether the transferred mortgage assets should be de-recognised from the Group. The outcome of this assessment has a material impact on the assets and liabilities recognised within the Group. During the year three (2017: two) new securitisations aggregating £906.1 million (2017: £297.3 million) were completed and the residual rights of four securitisations were sold. Of the four (2017: one) transactions of the sale of the residual rights during the year, management has concluded that in two (2017: one) instances the sales have achieved de-recognition of loans from the Group. The Group recognised a gain on the sale of loans amounting to £36.4 million (2017: £17.7 million) towards the two de-recognised securitisation transactions. Management's associated accounting policies are detailed on pages 123, 126 and 127 with detail about judgements in applying accounting policies on page 129.
How the scope of our audit responded to the key audit matter	We first understood management's process and evaluated the design and implementation of key controls that the Group has in place to calculate any gain or loss which arises on securitisation, as well as the controls in place to determine the accounting treatment on day one for each of the new securitisations. We used the relevant accounting guidance to assess whether the Group controls the SPVs following securitisation, which is primarily dependent on whether the Group retained the risks and rewards of ownership of the SPVs following securitisation. We considered whether the Group retained the economic interest through the residual rights to the cash flows within the SPV. Where it was deemed that mortgage assets should be de-recognised from the Group, we challenged the completeness of the journals posted by management, using our knowledge from previous securitisations completed by the Group, as well as our understanding of the relevant accounting guidance. We performed substantive procedures in order to assess the accuracy and completeness of the gain, which arose on the sale of the residual rights to the cash flows. We also challenged against the requirements of IFRS 9, the accounting of cash consideration received from the sale of residual certificates for the securitisations which were not de-recognised from the Group.
Key observations	We concurred with management's conclusions regarding continued recognition, de-recognition of the mortgage assets subject to the securitisation transactions in the year. From our testing performed, we determined the gain on sale as reasonable. Overall we consider the current year securitisation transactions are reasonably stated.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£7.9 million (2017: £4.9 million)	£5.5 million (2017: £4.7 million)
Basis for determining materiality	5% of profit before tax. Prior year materiality adjusted the profit before tax by excluding gains recognised in de-recognition securitisation transactions. As these gains now form part of the Group's normal business activities, we no longer adjust our materiality for the gains recognised.	Parent company materiality equates to 2.3% of total equity and is capped at 70% of Group materiality. The prior year materiality was capped at 95% of Group materiality on the basis of the investment in subsidiaries balance. In the current year we determined total equity to be a more appropriate basis.
Rationale for the benchmark applied	We determined materiality using profit before tax as we considered this to be the most appropriate measure to assess the performance of the Group.	We determined materiality using the total equity balance as we considered this to be the most appropriate measure for the Parent company. As this was higher than Group materiality, we capped Parent company materiality at 70% of Group materiality.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £398,000 (2017: £245,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, our Group audit scope focused on all entities within the Group and covered 100% of the material balances in the Consolidated financial statements of the Group. We have performed testing over the consolidation of Group entities. These audits were performed directly by the Group audit team and executed at levels of materiality ranging from £5.8 million to £0.2 million (2017: £4.4 million to £0.1 million), which are applicable to each individual entity and are lower than Group materiality.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Parent company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuation, share-based payment, information technology, financial instrument, prudential regulatory, and credit risk specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: loan loss provisioning and EIR accounting.
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, listing rules and tax legislation. In addition, we considered the regulation set by the Prudential Regulatory Authority relating to regulatory capital and liquidity requirements, which are fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning and EIR accounting as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority and Prudential Regulation Authority; and
- in addressing the risk of fraud through management override of controls; testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

In the light of the knowledge and understanding of the Group and the Parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 156 for the financial year ended 31 December 2018 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors' on 6 July 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 31 December 2009 to 31 December 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

K. J. Cooper

Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory auditor
Birmingham, United Kingdom
13 March 2019

Consolidated financial statements

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Interest income and similar income	8	**275.5**	211.1
Interest expense and similar charges	9	**(95.0)**	(67.0)
Net interest income		**180.5**	144.1
Non-interest income	10	**8.0**	8.5
Gain on sale of loans		**36.4**	17.7
Net loss from derivative financial instruments	11	**-**	(0.1)
Total income (net)		**224.9**	170.2
Administrative expenses		**(64.6)**	(58.0)
Provision for loan impairments – net charge	20	**(2.1)**	(0.5)
Profit before tax	12	**158.2**	111.7
Tax charge	15	**(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	16	**50.5**	35.0
Diluted	16	**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.

Consolidated statement of financial position
As at 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Cash and cash equivalents	18	**981.2**	966.8
Investment in debt securities	19	**123.0**	78.4
Customer loans and receivables	20	**6,661.5**	5,364.2
Fair value adjustment for hedged risk	20	**(9.9)**	(6.2)
Derivative financial instruments	21	**17.1**	11.9
Other assets held at fair value	22	**0.1**	0.2
Trade and other receivables	23	**5.9**	4.6
Deferred tax asset	24	**2.5**	2.2
Property, fixtures and equipment	25	**2.5**	0.9
Intangible assets	26	**2.6**	1.4
Total assets		**7,786.5**	6,424.4
Liabilities			
Deposits from banks	27	**1,214.8**	1,003.5
Deposits from customers	28	**5,094.5**	4,420.0
Fair value adjustment for hedged risk	28	**(2.7)**	(0.2)
Debt securities in issue	29	**972.9**	627.4
Derivative financial instruments	21	**13.7**	6.5
Trade and other payables	30	**24.2**	15.2
Corporation tax payable	31	**18.8**	17.0
Total liabilities		**7,336.2**	6,089.4
Net assets		**450.3**	335.0
Equity			
Share capital	33	**2.4**	2.4
Share premium	34	**19.0**	19.0
Retained earnings	35	**429.3**	313.6
Own shares	37	**(0.4)**	-
Equity attributable to equity holders of the Parent Company and total equity		**450.3**	335.0

Notes 1 to 49 form an integral part of the Consolidated financial statements.

The financial statements were approved by the Board of Directors on 13 March 2019. They were signed on its behalf by:

Ian Lonergan
Chief Executive Officer

Sebastien Maloney
Chief Financial Officer

Company number: 06712054

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	33	34	35	36	**37**	
	£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 38)	-	-	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 17)	**-**	**-**	**(6.7)**	**-**	**-**	**(6.7)**
Deferred tax on transition to IFRS 9 (note 24)	**-**	**-**	**0.2**	**-**	**-**	**0.2**
Recognition of share-based payments (note 38)	**-**	**-**	**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**

Consolidated statement of cash flows
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Net cash (utilised)/generated by operating activities	39	**(850.0)**	189.6
Purchases of property, fixtures and equipment	25	**(2.1)**	(0.4)
Expenditure on product system development and software	26	**(1.5)**	(1.0)
Proceeds from sale of customer loans and receivables		**286.2**	300.0
Purchases of investments in debt securities	19	**(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	40	**1,275.5**	394.4
Costs associated with issue of debt securities	40	**(3.0)**	(1.5)
Repayment of debt securities	40	**(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	18	**981.2**	966.8

At 31 December 2018 cash and cash equivalents includes £73.2 million (2017: £79.9 million) of restricted cash (see note 18).

Notes to the Consolidated financial statements

For the year ended 31 December 2018

1. General information

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 Consolidated financial statements for the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. 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.

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 these financial statements 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 financial statements are 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 Consolidated financial statements, see Going concern statement.

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).

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

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 a 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.

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 on pages 32 to 39.

The accounting policy for financial instruments has been revised following the first time application of IFRS 9 Financial instruments in 2018, see note 5.

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

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 statement of cash flows.

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.

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

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.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £11.3 million (2017: £11.4 million). Of these arrangements, £10.8 million (2017: £10.9 million) relate to leases other than short-term leases, and, £0.5 million (2017: £0.5 million) of these arrangements relate to short-term leases.

On transition to IFRS 16, the Group will recognise a right of use asset of £8.5 million and a corresponding lease liability of £8.5 million in respect of these leases other than short-term leases. The impact on the Consolidated statement of comprehensive income of the Group is not material.

5. Accounting policies

Basis of consolidation

The Consolidated financial statements include the assets and liabilities and results of operations of the Company and its subsidiaries, including certain structured entities, after elimination of intercompany transactions, balances, revenues and expenses.

Consolidation

Subsidiaries are those entities, including structured entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

The Group manages the administration of its securitised assets and is exposed to the risks and rewards of the underlying mortgage assets through its continued subordinated investment in the securitisation structures. Where the Group does not retain a direct ownership interest in a securitisation entity, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying mortgage assets and raising debt on those mortgage assets which is used to fund the Group) and uses this control to obtain a variable return (for example, retaining the residual risk on the mortgage assets). Securitisation structures that do not meet these criteria are not treated as subsidiaries and the mortgage assets are derecognised when they are sold.

The Group's Employee Benefit Trust ("EBT") is controlled by the Group and consequently is consolidated into the Group's accounts. A "look through" approach has been adopted, accounting for the EBT as if it is a part of the holding company.

The Group is not deemed to control an entity when it exercises power over an entity in an agency capacity. In determining whether the Group is acting as an agent, the Directors consider the overall relationship between the Group, the investee and other parties to the arrangement with respect to the following factors: (i) the scope of the Group's decision making power; (ii) the rights held by other parties; (iii) the remuneration to which the Group is entitled; and (iv) the Group's exposure to variability of returns.

The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that different parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Significant judgment is applied in assessing the relevant factors and conditions in totality when determining whether the Group controls an entity. Specifically, judgment is applied in assessing whether the Group has substantive decision making rights over the relevant activities and whether it is exercising power as a principal or an agent.

The Group consolidates all subsidiaries from the date it obtains control and ceases consolidation when an entity is no longer controlled by the Group. The Group's consolidation conclusions affect the classification and amount of assets, liabilities, revenues and expenses reported in the Consolidated financial statements.

For a full list of the Group's subsidiaries and the special purpose entities consolidated into the Consolidated financial statements, refer to note 52.

Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost are recognised in profit or loss using the effective interest rate ("EIR") method. The EIR is the rate which exactly discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability. In calculating the EIR, the Group estimates the cash flows considering all contractual terms, but does not consider future credit losses. Expected lives are estimated using historical data and management judgement and the calculation is adjusted when actual experience or a change in estimate differs from current expected cash flows. The revised expected cash flows are discounted using the original EIR and the difference between the revised carrying amount and the recorded carrying value of the financial instrument is recognised immediately in the Consolidated statement of comprehensive income. Origination fees received and paid on loans to customers are included within customer loans and receivables and are amortised over the expected life of those assets using the EIR method.

Net interest income or expense on interest based derivative instruments is included in interest income and similar income or interest expense and similar charges following the underlying instrument it is hedging. For interest rate swaps designated in a hedging relationship, accrued interest is recognised in net interest income in the Consolidated statement of comprehensive income.

For credit impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses ("ECLs")).

Non-interest income

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

Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers include fees received from the mortgage administration services and mortgage origination activities.

Income from the rendering of these services and mortgage origination activities is recognised when the services are delivered and the benefits are transferred to clients and customers.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

5. Accounting policies (continued)

Gain on sale of loans

The difference between the carrying amount of customer loans and receivables (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised as a gain on sale of loans in the Consolidated statement of comprehensive income.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rent expense under operating leases is charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also recognised on a straight-line basis over the lease term.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Consolidated statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Consolidated statement of financial position date. Exchange differences are recognised in profit or loss in the Consolidated statement of comprehensive income in the year in which they arise.

Retirement benefit costs

The Group operates defined contribution retirement benefit schemes for all qualifying employees who subscribe to the terms and conditions of the schemes policies.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and also excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Consolidated statement of financial position date.

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

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

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

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

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

Property, fixtures and equipment

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

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

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

The net gain or loss arising on the disposal or retirement of property, fixtures and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in gain or loss in the Consolidated statement of comprehensive income.

Intangible assets

Computer software and licences, which are not integral to specific related items of equipment, are stated at cost less accumulated amortisation and any recognised impairment loss.

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

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

Internally-generated intangible assets – development costs

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

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

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives of between three to five years, which is determined at the point at which the asset is developed and is capable of being used. Subsequent expenditure on internally-generated intangible assets, after its purchase or completion, is recognised as an expense in the period in which it is incurred.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

5. Accounting policies (continued)

Impairment of property, fixtures and equipment and intangible assets

At each Consolidated statement of financial position date, the Group reviews the carrying amounts of its property, fixtures and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested at least annually for impairment and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Financial assets

Classification

From 1 January 2018 the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost; and
- those to be measured subsequently at fair value (either through OCI, or through profit or loss).

Financial assets are classified on the basis of two criteria:

1. The business model within which financial assets are managed; and
2. Their contractual cash flow characteristics (whether the cash flows represent solely payments of principal and interest).

An assessment of the Group's business model for managing financial assets is fundamental to the classification of a financial asset. 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 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 FVTPL.

At the initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. Management assessed the business model of the Group as of 1 January 2018 on initial application of IFRS 9.

The Group makes infrequent, opportunistic sales of the residual interests in mortgage securitisations, resulting in the derecognition of the associated mortgage assets. In order to appropriately classify mortgage assets at period end between those measured at amortised cost and those measured at FVOCI, the Group takes account of the frequency and amount of the sales and potential sales in future forecasts.

Measurement

At initial recognition, the Group measures a financial asset at its fair value. In the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value. In the case of financial asset carried at FVTPL, transaction costs are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest rate ("EIR") method. The Group incurs transaction costs and fees for the origination of financial assets.

Financial assets measured at amortised cost consist of customer loans and receivables (principally residential mortgage loans) originated by the Group, investments in debt securities and cash and cash equivalents.

Customer loans and receivables are originated by the Group with the intention of holding the assets until maturity and to collect contractual cash flows where those cash flows represent solely payments of principal and interest. The Group incurs direct and incremental costs and fees, such as application fees and broker commissions. These costs and fees are included within customer loans and receivables and are amortised over the expected life of those assets using the EIR method.

Investments in debt securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold solely to collect payments of principal and interest. These investments are initially recognised at fair value including direct and incremental transactions costs and measured subsequently at amortised cost, using the EIR method.

Financial assets measured at FVTPL

Customer loans and receivables acquired by the Group are initially recognised at fair value. Direct and incremental costs of acquisition are expensed through profit or loss. Customer loans and receivables are subsequently carried at fair value as the contractual cash flows from these loans include payments that are not solely payments of principal and interest.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial instruments that are not measured at FVTPL.

The Group recognises loss allowances for expected credit losses on the following financial instruments:

- loans and advances to banks;
- investments in debt securities;
- loans and advances to customers; and
- loan commitments issued.

5. Accounting policies (continued)

Expected credit losses are determined by projecting the probability of default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") 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 calculates an expected credit loss for each future month, which is then discounted back, using the original effective interest rate, to the reporting date and summed. This calculation is undertaken for a number of the selected economic scenarios and probability weighted to produce the final loss allowance.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. 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).

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

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 Group identifies early warnings through considering movements in the customer's credit file and through the outcomes of customer contact. 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.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

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 contractual payments.

Qualitative criteria: The borrower is less than 90 days past due on contractual payments but is judged to be unlikely to pay, in circumstances such as bankruptcy or a borrower being deceased. It may not be possible to identify a single discrete event, instead, the combined effect of several events may have caused the loan to become credit impaired.

The above criteria are applied to all financial instruments held by the Group, with the exception of bridging loans. The default definition is applied consistently to model the PD, EAD and LGD in 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 at least three payments in arrears.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria. Such an instrument is no longer classified as Stage 3 but must remain in Stage 2 for at least three months before it can be classified as Stage 1.

The Group assesses whether a financial instrument measured at amortised cost or FVOCI is credit impaired at each reporting date.

c) Forward-looking information

The Group's calculation of expected credit losses incorporates the use of internal and external forward-looking information and key economic variables impacting credit risk and expected credit losses for each portfolio available as of each period end. This information is used to develop a base economic scenario and other possible scenarios that are weighted according to management judgement of each scenario's likelihood.

The assessment of significant increases in credit risk takes into account forward looking macroeconomic data available as of 31 December 2018 through a management judgement process.

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy.

Renegotiated loans are included in stage 2 as a significant increase in credit risk since initial recognition is assumed to have occurred.

Write-offs

Loans are written off when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Derecognition of financial assets on securitisation

When the Group completes a securitisation, management considers whether the assets securitised meet the criteria to be derecognised, or should continue to be recognised by the Group. A financial asset is derecognised when the rights to the cash flows from that asset expire; or when the contractual rights to the cash flows are transferred; or when the risks and rewards of the financial asset are substantially transferred.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and restricted cash. Where cash is not freely available for the Group to use for its general purposes, it is disclosed as restricted cash, as set out in note 18; this includes cash collected in the securitisation vehicles prior to paying down loan notes.

Financial liabilities

A financial liability is any liability that is (a) a contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; or (b) a contract that will or may be settled in the Group's own equity instruments and is: (i) a non-derivative for which the Group is or may be obliged to deliver a variable number of the Group's own equity instruments; or (ii) a derivative that will or may be settled other

5. Accounting policies (continued)

than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity interests. Financial liabilities includes any financial guarantees the Group may enter into.

Financial liabilities including wholesale liabilities and retail deposits are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities (other than financial liabilities at FVTPL) are added to or deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognised immediately in profit or loss. Financial liabilities are classified as either financial liabilities at FVTPL (see policy for FVTPL for financial assets above) or other financial liabilities.

Retail deposits
Retail deposits are carried in the Consolidated statement of financial position on an amortised cost basis. The initial fair value recognised represents the cash amount received from the customer.

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

Other financial liabilities
Other financial liabilities consist of trade payables and accruals and corporation tax payable. They are initially recognised at fair value net of transaction costs incurred and subsequently measured at amortised cost using the EIR method.

Fair value hierarchy
The Group applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability.

The Group categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Group can access at the measurement date.

Level 2: Quoted prices in inactive markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Level 2 positions include derivative financial instruments (unless categorised as Level 3).

Level 3: Significant inputs to the pricing or valuation techniques are unobservable. Level 3 positions include other assets held at fair value and certain derivative financial instruments.

Term Funding Scheme ("TFS")
Under the Bank of England TFS the Group pledges its rights to the collateral on loans and advances to the Bank of England in return for cash. The loans and advances pledged are not derecognised from the Consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership including all cash flows arising from the loans and advances and exposure to credit risk. The cash received against the pledged assets is recognised as an asset within the Consolidated statement of financial position (note 18), together with the corresponding obligation to return it, which is recognised as a liability at amortised cost (note 27) and therefore interest is recognised over the life of the TFS on an EIR basis.

Sale and repurchase agreements
Investments and other securities may be lent or sold subject to a commitment to repurchase them. Such securities are retained on the Consolidated statement of financial position when substantially all the risks and rewards of ownership remain within the Group, and the liability is included separately.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the Consolidated statement of financial position.

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

Derivative financial instruments
The Group enters into derivative financial instruments, specifically interest rate swaps, interest rate caps, basis swaps and balance guaranteed swaps, to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each Consolidated statement of financial position date.

The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Hedge accounting
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. The Group applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its risk management strategies. Derivatives are used to hedge exposures to interest rates.

At the time a financial instrument is designated as a hedge (i.e. at the inception of the hedge), the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), its risk management objective and strategy for undertaking the hedge. The documentation includes the identification of each hedging instrument and respective hedged item, the nature of the risk being hedged (including the benchmark interest rate being hedged in a hedge of interest rate risk) and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk is to be assessed. Accordingly, the Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been

5. Accounting policies (continued)

and will be highly effective in offsetting changes in the fair value attributable to the hedged risk during the period that the hedge is designated. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Group can expect, and actual results indicate, that changes in the fair value or cash flow of the hedged items are effectively offset by changes in the fair value or cash flow of the hedging instrument. If at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the derivatives may be designated as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments (fair value hedges); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges); or (iii) a hedge of a net investment in a foreign operation (net investment hedges). The Group does not use cash flow hedges or net investment hedges.

Fair value hedge accounting
The Group applies hedge accounting for a portfolio hedge of interest rate risk. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Consolidated statement of comprehensive income, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Changes in the fair value of portfolio hedged items are presented separately in the Consolidated statement of financial position in fair value adjustment for hedged risk. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the Consolidated statement of comprehensive income. For a portfolio hedge of interest rate risk, the cumulative adjustment is amortised to the Consolidated statement of comprehensive income using the EIR method over the period to maturity or the expected life of the instrument.

Own shares
Own shares represent the shares of the Parent company Charter Court Financial Services Group plc that are held by the Employee Benefit Trust. Own shares are recorded at cost and deducted from equity.

Share-based payments
Following the listing of its shares on the London Stock Exchange, the Group has introduced a number of employee share schemes under which shares or share options have been granted to employees or Directors subject to the terms of the relevant scheme.

These schemes are accounted for as equity settled share-based payments in accordance with 'IFRS 2 Share-based Payment.' The fair value at the date of grant of a share award or share option is charged to the profit and loss account on a straight-line basis over the vesting period over which the employee becomes unconditionally entitled to the awards, with a corresponding increase in equity.

The grant date fair value takes into account the terms and conditions attached to the awards and in the absence of market prices of equivalent instruments is determined using an appropriate valuation model. Inputs into the valuation models include the risk-free interest rate, the expected volatility of the Group's share price and other factors related to any market-based performance conditions attached to the awards as described in note 38.

The amount recognised as an expense is adjusted to reflect differences between expected and actual outcomes of employee attrition and non-market based performance conditions, such that the amount ultimately recognised as an expense is based on the number of awards that vest (except for those which are subject to market-based performance conditions).

For the Sharesave (SAYE) scheme an additional discount has been applied to reflect the number of awards which are anticipated to be cancelled by employees during the vesting period (for example by cancelling their monthly savings contract). This discount has been accounted for as an adjustment to the calculated grant date fair value. The charge in respect of awards which are subsequently cancelled is accelerated and charged to the income statement in full in the period of cancellation.

National Insurance on share-based payments is accrued at each accounting period end during the vesting period, based on the share price at each accounting period end.

Where the allowable cost of share-based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

IPO expenses
Qualifying costs attributable to the primary issuance are debited directly to equity. They include incremental costs that are directly attributable to issuing the primary shares such as advisory and underwriting fees. Costs associated with both the primary issuance and secondary sale of shares are allocated between the income statement and equity based on the number of primary and secondary shares sold during the issue. Other non-qualifying costs are taken to the income statement.

Segmental reporting
The accounting policies of the segments are the same as those described above for the Group as a whole. Interest payable by each segment is the allocated cost of funds utilised.

6. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 5, 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.

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

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.

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 48 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 48 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 29 for more information on the Group's securitisation arrangements.

Key sources of estimation uncertainty

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

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.

7. 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

7. Segment information (continued)

- 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 remaining 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.

Year ended 31 December 2018	BTL	Residential	Bridging	SCL	Other	Total
	£m	£m	£m	£m	£m	£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	Residential	Bridging	SCL	Other	Total
	£m	£m	£m	£m	£m	£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

8. 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

9. 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

10. 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

11. 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)

12. Profit before tax

Profit before tax for the year has been arrived at after (credit)/charge for:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Increase in the fair value of financial instruments designated at FVTPL	**(0.6)**	-
Depreciation of property, fixtures and equipment	**0.5**	0.4
Amortisation of intangible assets	**0.3**	0.2
Operating lease costs	**1.6**	1.0
Research and development costs	**0.8**	0.1
Staff costs (see note 14)	**37.7**	31.3
IPO costs	**-**	4.9

No IPO costs were incurred in 2018. Total costs associated with the IPO for the year ended 31 December 2017 were £5.8 million, comprising £4.9 million charged to the income statement and £0.9 million charged to equity.

The auditor's remuneration for audit and other services is detailed in note 13.

13. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
The analysis of auditor's remuneration is as follows:	**£m**	**£m**
Fees payable to the Group's auditor for the audit of the Company's financial statements	**0.1**	-
Fees payable to the Group's auditor for other services to the Group's companies		
The audit of the subsidiaries within the Group	**0.4**	0.4
Total audit fees	**0.5**	0.4
Audit related assurance services	**0.3**	0.7
Other assurance services	**0.1**	0.1
Total assurance services	**0.4**	0.8
Services relating to corporate finance advisory	**-**	0.3
Total other non-audit services	**-**	0.3
Total non-audit services	**0.4**	1.1
Total fees	**0.9**	1.5

13. Auditor's remuneration (continued)

For the year ended 31 December 2018, non-audit services fees charged of £0.4 million was in respect of, but not limited to, the review of the half-year accounts, work relating to due diligence on securitisation transactions and the verification of profits. In the year ended 31 December 2017 there were £0.7 million fees for IPO related services of which £0.4 million was included within Audit related assurance services and £0.3 million was included within services relating to corporate finance advisory. There were no fees for IPO related services in 2018.

Fees for the audit of the Company's Consolidated financial statements charged in the year ended 31 December 2018 were £74,000 (2017: £30,000).

14. Staff costs

The average monthly number of employees (including Executive Directors) was:

	Year ended 31 December 2018	Year ended 31 December 2017
Processing, collections and recovery	212	172
Sales and marketing	45	37
Compliance	30	21
Finance	60	55
Operations and administrative support	230	177
	577	462

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Their aggregate remuneration comprised:		
Wages and salaries	30.8	26.0
Social security costs	3.9	3.1
Share-based payments (see note 38)	2.1	1.1
Other pension costs (see note 42)	0.9	1.1
	37.7	31.3

There are no staff employed by the Parent Company.

The remuneration of the Directors and key management personnel is disclosed in note 46.

15. 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.

15. Tax (continued)

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.

16. Earnings per share

Earnings per share ("EPS") are based on the profit for the year and the number of ordinary shares in issue. Basic EPS are calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted EPS 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, as disclosed in note 33. 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.

17. 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 these financial statements 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.

18. Cash and cash equivalents

	As at 31 December 2018 £m	As at 31 December 2017 £m
Unrestricted cash	**76.0**	34.5
Bank of England cash ratio deposit	**8.2**	4.4
Reserve with the Bank of England	**823.8**	848.0
	908.0	886.9
Restricted cash	**73.2**	79.9
Total cash and cash equivalents	**981.2**	966.8

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less and an insignificant risk of change to fair value.

Unrestricted cash is available for the Group's general purposes and consists of balances held with tier 1 UK banking institutions. Restricted cash is ring-fenced and held in securitisation vehicles for use in managing the Group's securitised debt facilities under the terms of securitisation agreements (note 29).

The reserve with the Bank of England forms part of the Group's liquid assets, there are no restrictions on access to this reserve.

All cash and cash equivalents held by the Group are denominated in pounds sterling.

19. 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 portfolios, and to the sales of mortgage backed securities.

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

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.

20. 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.

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.

20. Customer loans and receivables (continued)

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")	27	1,592.4	1,326.1
Sale and repurchase agreements	27	77.3	-
Debt securities in issue	29	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% (31 December 2017: 36.9%).

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 £m	Stage 2 £m	Stage 3 £m	Total £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.

20. 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.

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.

20. Customer loans and receivables (continued)

Ageing of past due but not impaired customer loans and receivables

	As at 31 December 2018	As at 31 December 2017
	£m	£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.

Ageing of past due and impaired customer loans and receivables

	As at 31 December 2018	As at 31 December 2017
	£m	£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 mortgages 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:

	As at 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 10)	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	As at 31 December 2017
	£m	£m
Fair value adjustment for hedged risk	(9.9)	(6.2)

21. Derivative financial instruments

	Notional	Positive fair value	Negative fair value
	£m	£m	£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).

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	Year ended 31 December 2017
	£m	£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)	-

22. Other assets held at fair value

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Other assets held at fair value	0.1	0.2

Other assets held at fair value relate to the expected future cash flows on mortgage assets sold to third parties, where the premium recovered over par value is received by Charter Court Financial Services Limited. Other assets held at fair value are all Level 3 fair value measurements, being derived from inputs which are not quoted in active markets. The fair value is based on discounted future cash flows arising from performance based payments receivable. Movement in fair value is recognised in revenue from mortgage origination activities in the Consolidated statement of comprehensive income. There were no material movements in other assets held at fair value during the year.

23. Trade and other receivables

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Amounts receivable for the rendering of services	0.3	0.2
Prepayments and other receivables	5.6	4.4
	5.9	4.6

24. Deferred tax asset

Movement in deferred taxation balance in the year is shown below:

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	2.2	0.2
Credit to the Consolidated statement of comprehensive income	0.1	2.1
Adjustments in respect of prior periods	-	(0.1)
Credit to equity	0.2	-
At 31 December	2.5	2.2

Analysis of deferred tax balance

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Short term timing differences	2.5	2.2

The majority of the deferred tax asset relates to short-term timing differences, timing differences of capital allowances in excess of depreciation and other short-term differences, which will be offset against future profits. There is a credit to equity of £0.2 million (2017: £nil) which relates to short-term timing differences arising on transition to IFRS 9. Based on the Group's forecasts, there should be sufficient profits against which to offset these assets when they are realised.

At 31 December 2018 and 2017, the Group had no unused tax losses.

Deferred tax balances, relating to the wholly owned subsidiaries Charter Mortgages Limited, Charter Court Financial Services Limited and Exact Mortgage Experts Limited, are in respect of short-term timing differences. A net deferred tax credit of £0.1 million (2017: £2.1 million) has been recognised in the Consolidated statement of comprehensive income, and a net deferred tax credit of £0.2 million (2017: £nil) has been recognised in equity. The corresponding net deferred tax asset has been recognised in assets.

25. Property, fixtures and equipment

	Leasehold property improvements	Fixtures and equipment	Computer equipment	Total
	£m	£m	£m	£m
Cost				
At 1 January 2017	0.5	0.5	1.2	2.2
Additions	0.1	0.1	0.2	0.4
At 31 December 2017	0.6	0.6	1.4	2.6
Additions	0.2	1.7	0.2	2.1
At 31 December 2018	0.8	2.3	1.6	4.7
Accumulated depreciation				
At 1 January 2017	0.3	0.2	0.8	1.3
Charge for the year	0.1	0.1	0.2	0.4
At 31 December 2017	0.4	0.3	1.0	1.7
Charge for the year	0.1	0.2	0.2	0.5
At 31 December 2018	0.5	0.5	1.2	2.2
Carrying amount				
At 31 December 2018	0.3	1.8	0.4	2.5
At 31 December 2017	0.2	0.3	0.4	0.9
At 1 January 2017	0.2	0.3	0.4	0.9

26. Intangible assets

	Development costs	Computer software and licenses	Total
	£m	£m	£m
Cost			
At 1 January 2017	2.4	0.7	3.1
Additions	0.1	0.9	1.0
At 31 December 2017	2.5	1.6	4.1
Additions	1.1	0.4	1.5
At 31 December 2018	**3.6**	**2.0**	**5.6**
Amortisation			
At 1 January 2017	2.0	0.5	2.5
Charge for the year	-	0.2	0.2
At 31 December 2017	2.0	0.7	2.7
Charge for the year	0.1	0.2	0.3
At 31 December 2018	**2.1**	**0.9**	**3.0**
Carrying amount			
At 31 December 2018	**1.5**	**1.1**	**2.6**
At 31 December 2017	0.5	0.9	1.4
At 1 January 2017	0.4	0.2	0.6

Amortisation of internally generated intangible assets begins at the point the asset is developed and is capable of being used. At 31 December 2018 the total assets included in development costs and not being amortised was £1.5 million (2017: £0.4 million).

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment as at 31 December 2018.

27. Deposits from banks

	As at 31 December 2018	As at 31 December 2017
	£m	£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 assets encumbered under sale and repurchase agreements is £77.3 million (31 December 2017: £nil) (note 20).

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), see note 20. Deposits from banks includes £2.2 million of accrued interest (2017: £1.0 million).

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.

28. 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	As at 31 December 2017
Amounts repayable	£m	£m
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	As at 31 December 2017
	£m	£m
Fair value adjustment for hedged risk	**(2.7)**	(0.2)

29. Debt securities in issue

	As at 31 December 2018	As at 31 December 2017
	£m	£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.

29. Debt securities in issue (continued)

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

	As at 31 December 2018	As at 31 December 2017
	£m	£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

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.

30. Trade and other payables

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Payable within one year:		
Trade and other payables	24.2	15.2

31. Corporation tax payable

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Corporation tax payable within one year	18.8	17.0

32. Financial guarantee

On 10 December 2015, Charter Court Financial Services Limited entered into a financial guarantee in favour of GIFS Capital Company LLC acting as original class A variable funding noteholder to CCFS Warehouse No.1 Plc, and Elavon Financial Services Limited. Charter Court Financial Services Limited and CCFS Warehouse No. 1 Plc are both consolidated subsidiaries of the Group, acting in its capacity as agent to the same transaction. The guarantee covers interest, default interest, principal, tax gross up and break costs as they fall due, should CCFS Warehouse No.1 Plc be unable to meet its obligations due in relation to the class A variable funding notes issued. The guarantee was terminated on 16 January 2018. As at 31 December 2017, the fair value of the guarantee was £nil.

33. 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.

The movements in the number of shares authorised and in issue in the year is shown below.

2018	Ordinary shares
As at 1 January	239,130,419
Shares issued	190,000
	239,320,419

During 2018, the Group issued 190,000 shares at par, £1,900, to the Group's Employee Benefit Trust (note 37) to satisfy the free share awards under the Performance Share Plan (note 38).

2017

Share Class	A1	A2	B	C	D	E	F	G	Deferred shares	Ordinary shares
As at 1 January	873,365	7,229	110,426	9,105	252,000	55,657	100,000	100,000	-	-
Share issue	-	-	-	-	-	573	-	-	-	-
Reclassifications	-	1,433	-	(1,433)	-	-	-	-	-	-
Capital reorganisation:										
Bonus issue	1,972,931,535	19,567,458	249,452,334	18,098,248	594,468,000	8,153,293,770	1,299,900,000	999,900,000	-	-
Total shares pre-share consolidation	1,973,804,900	19,576,120	249,562,760	18,105,920	594,720,000	8,153,350,000	1,300,000,000	1,000,000,000	-	-
Share consolidation	(1,776,424,410)	(17,618,508)	(224,606,484)	(16,295,328)	(535,248,000)	(8,145,196,650)	(1,298,700,000)	(999,000,000)	-	-
Total shares post consolidation	197,380,490	1,957,612	24,956,276	1,810,592	59,472,000	8,153,350	1,300,000	1,000,000	-	-
Re-designation as deferred shares	(3,839,503)	(38,081)	(265,214)	(36,266)	(59,469,188)	(569,384)	(377,917)	(1,000,000)	65,595,553	-
Cancellation of deferred shares	-	-	-	-	-	-	-	-	(65,595,553)	-
Re-designation as ordinary shares	(193,540,987)	(1,919,531)	(24,691,062)	(1,774,326)	(2,812)	(7,583,966)	(922,083)	-	-	230,434,767
IPO share issue	-	-	-	-	-	-	-	-	-	8,695,652
As at 31 December	-	-	-	-	-	-	-	-	-	239,130,419

During 2017, the Group reorganised its share capital in order to prepare for the public listing of the Group.

Strategic report

Corporate governance

Financial statements

Appendices

34. Share premium

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£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.

35. Retained earnings

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£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 34)	-	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 17)	(6.7)	-
At 31 December	429.3	313.6

36. Equity-settled employee benefits reserve

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	-	0.1
Arising on share-based payments	-	0.7
Transfer to retained earnings	-	(0.8)
At 31 December	-	-

The equity-settled employee benefits reserve related to incentive growth shares (series F and G) granted by the Group to certain employees under a share-based incentive plan which commenced during 2016. These shares were issued initially as options in November 2016, but were exercised in December 2016 and were sold as part of the share capital reorganisation in preparation for the IPO.

37. Own shares

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	-	-
Shares subscribed for (note 33)	-	-
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.

38. Share-based payments

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) Scheme

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.

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.

38. Share-based payments (continued)

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

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£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

Movements in the number of share-based awards, average fair value per award and weighted average remaining contractual life are shown below:

2018	Number of awards / options							
	As at 1 January	Granted	Forfeited	Exercised	As at 31 December	Vested	Average fair value per award (£)	Weighted average remaining contractual life (Years)
PSP 2017	1,429,796	-	-	-	1,429,796	-	1.81	1.2
PSP 2018	-	1,128,413	-	-	1,128,413	-	2.48	2.2
Free share awards	180,756	-	(11,069)	(159,827)	9,860	9,860	2.33	-
Sharesave 2017	1,437,141	-	(95,995)	-	1,341,146	-	0.63	1.9
Sharesave 2018	-	236,234	(3,984)	-	232,250	-	0.50	2.9
Total	3,047,693	1,364,647	(111,048)	(159,827)	4,141,465	9,860		

2017	Number of awards / options							
	As at 1 January	Granted	Forfeited	Exercised	As at 31 December	Vested	Average fair value per award (£)	Weighted average remaining contractual life (Years)
PSP 2017	-	1,429,796	-	-	1,429,796	-	1.81	2.3
Free share awards	-	180,756	-	-	180,756	-	2.33	0.8
Sharesave 2017	-	1,437,141	-	-	1,437,141	-	0.63	3.5
Total	-	3,047,693	-	-	3,047,693	-		

Grant date fair value
The valuation of the share-based awards has been determined as explained below:

PSP
The fair value of the shares in the EPS and risk measure elements of the awards is measured using a Black Scholes model. This model takes account of the expected dividends which participants of the PSP are not entitled to receive. The fair value of the shares in the TSR award is calculated using a Monte Carlo model.

38. Share-based payments (continued)

Set out below is a summary of the key data and assumptions used to calculate the fair value of the TSR and EPS & risk measure element of the award:

Awards granted on 4 October 2017

Performance condition	TSR	EPS & Risk Measure
Model used for valuation	Monte Carlo	Black Scholes
Share price at valuation date	£2.33	£2.33
Exercise price	£nil	£nil
Risk-free rate	0.52%	n/a
Expected dividend yield	1.97%	1.97%
Expected volatility	34.0%	n/a
Fair value of one share	**£1.20**	**£2.22**

Awards granted on 26 March 2018

Performance condition	TSR	EPS & Risk Measure
Model used for valuation	Monte Carlo	Black Scholes
Share price at valuation date	£2.99	£2.99
Exercise price	£nil	£nil
Risk-free rate	0.96%	n/a
Expected dividend yield	3.10%	3.10%
Expected volatility	35.4%	n/a
Fair value of one share	**£2.11**	**£2.72**

Free share awards
The fair value of the shares is based on the share price at the date of the grant £2.33.

Sharesave (SAYE)
Options granted under the Sharesave schemes have no entitlement to dividends until they are exercised.

The 2017 Sharesave scheme grant date fair value of the options was determined to be £0.63 using a Binomial valuation model with the following significant inputs:

Share price at valuation date	£2.29
Exercise price	£1.87
Risk-free rate[1]	0.60%
Expected dividend yield	1.97%
Expected volatility[2]	34.00%
Expected employee cancellations	5.00%

The 2018 Sharesave scheme grant date fair value of the options was determined to be £0.50 using a Binomial valuation model with the following significant inputs:

Share price at valuation date	£2.87
Exercise price	£2.80
Risk-free rate[1]	0.86%
Expected dividend yield	3.80%
Expected volatility[3]	32.74%
Expected employee cancellations	5.00%

1 Risk-free rate based on the implied yield of zero-coupon government bonds (UK Strips) with a remaining term equal to the expected term.
2 As the Company was a newly listed company at the 2017 Sharesave scheme grant date, expected volatility was based on historic volatility of comparable companies over a term commensurate with the expected life of each option.
3 The Company only had one year of share price volatility data as a listed company at the 2018 Sharesave scheme grant date, expected volatility was based on a comparison of the Company's volatility since IPO with the historic volatility of comparable companies over a term commensurate with the expected life of the 2018 Sharesave option.

39. Net cash flows from operating activities

	Note	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	20	**2.1**	0.5
Depreciation of property, fixtures and equipment	25	**0.5**	0.4
Amortisation of intangible assets	26	**0.3**	0.2
Gain on sale of investment in debt securities	10	**-**	(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	38	**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

40. Gross debt reconciliation

The table below shows the changes in liabilities from financing activities for the year.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At 1 January	**627.4**	426.1
Cash movements		
Proceeds on issue of debt securities	**1,275.5**	394.4
Deal costs on issue of debt securities	**(3.0)**	(1.5)
Repayment of debt securities	**(639.1)**	(191.6)
Non-cash movements		
Write off of unamortised deal costs on sale of loans	**1.5**	-
EIR adjustment on debt securities in issue	**(7.0)**	-
Working capital movements		
Derecognition of debt securities	**(282.4)**	-
At 31 December	**972.9**	627.4

41. Operating lease arrangements

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
The Group as lessee		
Minimum lease payments under operating leases recognised as an expense in the period	**1.6**	1.0

At the Consolidated statement of financial position date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 31 December 2018 £m	As at 31 December 2017 £m
Within one year	**1.9**	1.4
In the second to fifth years inclusive	**4.9**	4.5
More than five years	**4.5**	5.5
	11.3	11.4

Operating lease payments represent rent expense for office premises in Wolverhampton and London and rental of a company car. The premises leases have terms of between one and ten years and rentals are fixed over the term of the lease. The company car lease was entered into in October 2016, the lease and the rental period was fixed for 24 months, and expired in September 2018.

42. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees who subscribe to the terms and conditions of the schemes policies.

For the year ended 31 December 2018, the total cost of £0.9 million (2017: £1.1 million) charged to the Consolidated statement of comprehensive income represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2018, there was £0.2 million (2017: £0.1 million) due in respect of 2018, which had not been paid over to the schemes. There was one Director (2017: one) participating in Group pension plans during the period.

43. 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 Group's Consolidated financial statements.

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.

43. Capital risk management (continued)

The following table which is unaudited and therefore not in scope of the independent auditor's report, shows the regulatory capital resources of the Group:

	As at 31 December 2018 £m Unaudited	As at 31 December 2017 £m Unaudited
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, which is unaudited and therefore not in scope of the independent auditor's report, shows the Group's minimum Pillar 1 requirement at the year end.

	As at 31 December 2018 £m Unaudited	As at 31 December 2017 £m Unaudited
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%

44. Financial instruments

The table below sets out the classification of financial instruments in the Consolidated statement of financial position.

Categories of financial instruments	Carrying value As at 31 December 2018 £m	Carrying value As at 31 December 2017 £m
Financial assets held at amortised cost		
Cash and cash equivalents	**981.2**	966.8
Investment in debt securities	**123.0**	78.4
Customer loans and receivables	**6,640.0**	5,364.2
Trade and other receivables	**5.9**	4.6
	7,750.1	6,414.0
Financial liabilities held at amortised cost		
Deposits from banks	**1,214.8**	1,003.5
Deposits from customers	**5,094.5**	4,420.0
Debt securities in issue	**972.9**	627.4
Trade and other payables	**24.2**	15.2
	7,306.4	6,066.1
Financial instruments held at fair value		
Customer loans and receivables	**21.5**	-
Other financial assets – designated as FVTPL	**0.1**	0.2
	21.6	0.2
Derivative financial instruments – assets	**17.1**	11.9
Derivative financial instruments – liabilities	**13.7**	6.5

Financial instruments held at fair value	Carrying value £m	Level 2 £m	Level 3 £m
At 31 December 2018			
Customer loans and receivables	**21.5**	**-**	**21.5**
Other financial assets – designated as FVTPL	**0.1**	**-**	**0.1**
Derivative financial instruments – assets	**17.1**	**16.0**	**1.1**
Derivative financial instruments – liabilities	**13.7**	**12.4**	**1.3**
At 31 December 2017			
Other financial assets – designated as FVTPL	0.2	-	0.2
Derivative financial instruments – assets	11.9	11.9	-
Derivative financial instruments – liabilities	6.5	6.5	-

Customer loans and receivables held at fair value are all Level 3 fair value measurements, being derived from inputs which are not quoted in active markets. For further information see note 20.

Other assets held at fair value are all Level 3 fair value measurements, being derived from inputs which are not quoted in active markets. For further information see note 22.

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. Basis swaps and certain balance guaranteed swaps within derivative liabilities are categorised as Level 3. For further information see note 21.

44. Financial instruments (continued)

Fair values of financial instruments carried at amortised cost
The Level 3 fair value measurements for financial assets and liabilities held at amortised cost are summarised below.

	Carrying value £m	Fair value £m
At 31 December 2018		
Financial assets held at amortised cost		
Cash and cash equivalents	**981.2**	**981.2**
Investment in debt securities	**123.0**	**122.2**
Customer loans and receivables	**6,640.0**	**6,884.4**
Trade and other receivables	**5.9**	**5.9**
Financial liabilities held at amortised cost		
Deposits from banks	**1,214.8**	**1,214.8**
Deposits from customers	**5,094.5**	**5,094.5**
Debt securities in issue	**972.9**	**972.9**
Trade and other payables	**24.2**	**24.2**
At 31 December 2017		
Financial assets held at amortised cost		
Cash and cash equivalents	966.8	966.8
Investment in debt securities	78.4	79.2
Customer loans and receivables	5,364.2	5,565.6
Trade and other receivables	4.6	4.6
Financial liabilities held at amortised cost		
Deposits from banks	1,003.5	1,003.5
Deposits from customers	4,420.0	4,420.0
Debt securities in issue	627.4	627.4
Trade and other payables	15.2	15.2

The fair values of cash and cash equivalents and trade and other receivables are not considered to be materially different from their book values. In arriving at that conclusion, market inputs have been considered but because these assets mature within three months of the year end, and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises. While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. The fair value of investments in debt securities held to maturity have been calculated using quoted market prices at the relevant date for each security.

To assess the fair value of the Group's customer loans and receivables and retail deposit liabilities, the estimated cash flows expected to arise, based on a mixture of market based inputs, such as funding rates, discount rates and target returns; and non-market based inputs such as redemption rates and credit losses, have been considered.

▶ The contractual maturity analysis of the Group's liabilities is disclosed in the Risk management section on page 41.

45. Financial risk management objectives and policies

Risk management
The Group's activities expose it to a number of financial risks and uncertainties; primarily credit risk, liquidity risk, market risk, business risk, operational risk and assurance of compliance with regulations.

▶ For detailed information on each of these risks refer to the Risk management section on pages 27 to 44.

46. 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.

47. Ultimate controlling party of the Group

As at 31 December 2018 and 31 December 2017, there was no controlling party of Charter Court Financial Services Group plc.

48. 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. An announcement of a firm intention to make a recommended offer is conditional on agreement on the terms and conditions of the possible combination, satisfactory completion of customary mutual due diligence, final approval by the Board and board of OSB and their respective unanimous and unconditional recommendation of the possible combination. However, there can be no certainty that an offer will be made even if those pre-conditions are satisfied or waived. The proposed combination would be subject to the 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.

49. Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations within the scope of the European Union's Capital Requirements Directives (CRD IV). Article 89 of the CRD IV requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information on a consolidated basis. The information for the year ended 31 December 2018 is set out below. The Group operates wholly in the United Kingdom:

Name	Charter Court Financial Services Group plc
Type of entity	Credit institution
Nature of activities	Mortgage lending and deposit taking
Geographical location	United Kingdom
Number of employees	577
Turnover*	£283,500,000
Pre-tax profit	£158,200,000
Corporation tax payable	£37,400,000
Public subsidies received	£nil

* Turnover is derived from the Consolidated statement of comprehensive income as interest income and similar income plus non-interest income.

Company financial statements

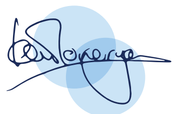
Company statement of financial position
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Cash and cash equivalents		**0.4**	1.2
Trade and other receivables	51	**0.2**	0.1
Investment in subsidiaries	52	**239.4**	214.0
Total assets		**240.0**	215.3
Liabilities			
Trade and other payables	53	**0.7**	0.2
Corporation tax payable	54	**-**	0.5
Net assets		**239.3**	214.6
Equity			
Share capital	55	**2.4**	2.4
Share premium	56	**19.0**	19.0
Retained earnings	57	**218.3**	193.2
Own shares	59	**(0.4)**	-
Total equity		**239.3**	214.6

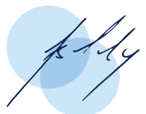
The profit after tax for the year ended 31 December 2018 of Charter Court Financial Services Group plc as a Company was £29.7 million (2017: £23.0 million). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

Notes 50 to 63 form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 13 March 2019. They were signed on its behalf by:



Ian Lonergan
Chief Executive Officer



Sebastien Maloney
Chief Financial Officer

Company number: 06712054

Company 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	55	56	57	58	59	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2017	-	195.1	(23.8)	0.1	-	171.4
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	-	-	23.0	-	-	23.0
Recognition of share-based payments	-	-	0.4	0.7	-	1.1
Transfer of equity-settled employee benefits reserve	-	-	0.8	(0.8)	-	-
At 31 December 2017	2.4	19.0	193.2	-	-	214.6
Profit and total comprehensive income for the year	-	-	29.7	-	-	29.7
Interim dividend paid	-	-	(6.7)	-	-	(6.7)
Recognition of share-based payments	-	-	2.1	-	-	2.1
Purchase of own shares	-	-	-	-	(0.4)	(0.4)
At 31 December 2018	**2.4**	**19.0**	**218.3**	**-**	**(0.4)**	**239.3**

1 See note 48. Basis of preparation, significant accounting policies and critical judgements and estimates

Company statement of cash flows
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Net cash generated by operating activities	60	**29.4**	24.0
Investing activities			
Investment in shares of subsidiaries		**(23.6)**	(42.0)
Net cash utilised by investing activities		**(23.6)**	(42.0)
Financing activities			
Interim dividend paid		**(6.7)**	-
Purchase of own shares		**(0.4)**	-
Loan from subsidiary		**0.5**	-
Proceeds from issue of shares		**-**	20.0
Share issue costs		**-**	(0.9)
Net cash (utilised)/generated by financing activities		**(6.6)**	19.1
Net (decrease)/increase in cash and cash equivalents		**(0.8)**	1.1
Cash and cash equivalents at beginning of year		**1.2**	0.1
Cash and cash equivalents at end of year		**0.4**	1.2

Notes to the Company financial statements

For the year ended 31 December 2018

50. Basis of preparation, significant accounting policies and critical judgements and estimates

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards 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.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 5 to the Consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

There are no critical judgements and estimates that apply to the Company.

51. Trade and other receivables

At 31 December 2018 amounts receivable from subsidiaries included in the trade and other receivables balances were £0.2 million (2017: £0.1 million) due from Charter Court Financial Services Limited, see note 62 for further details. There are no past due or impaired receivable balances.

52. Investment in subsidiaries

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cost		
At 1 January	**258.0**	214.9
Investment in ordinary shares of subsidiaries	**23.6**	42.0
Capital contribution to subsidiaries	**2.1**	1.1
At 31 December	**283.7**	258.0
Impairment		
At 1 January	**44.0**	43.6
Charge for the year	**0.3**	0.4
At 31 December	**44.3**	44.0
Carrying amount		
At 1 January	**214.0**	171.3
At 31 December	**239.4**	214.0

During the year the Company subscribed to two ordinary shares (2017: two ordinary shares) in Charter Court Financial Services Limited for £23.6 million (2017: £20.0 million). During 2017, the Company also subscribed to two ordinary shares in Charter Mortgages Limited for £22.0 million.

During the year the Company invested £2.1 million (2017: £1.1 million) in Exact Mortgage Experts Limited in relation to the equity-settled employee benefit scheme.

52. Investment in subsidiaries (continued)

Details of the Company's subsidiaries as at 31 December 2018 and 31 December 2017 are as follows, except as noted:

Name	Principal activity	Proportion of ownership interest	Proportion of voting power held
		%	%
Charter Court Financial Services Limited[1]	Mortgage lending and deposit taking	100	100
Exact Mortgage Experts Limited[1]	Group Service Company	100	100
Charter Mortgages Limited[1]	Mortgage Administration and Analytical Services	100	100
Broadlands Finance Limited[1]	Mortgage Administration Services	100	100
Buttermere Plc[2,3]	Special Purpose Vehicle	-	-
Issuer Purchase Holdings Limited[2]	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding No 1 Plc[2]	Special Purpose Vehicle	-	-
Precise Mortgage Holdings No 1 Limited[2]	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2014-1 Plc[2]	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2014-1 Limited[2]	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2014-2 Plc[2]	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2014-2 Limited[2]	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2015-1 Plc[2]	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2015-1 Limited[2]	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2015-3R Plc[2]	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2015-3R Limited[2]	Special Purpose Vehicle Holding Company	-	-
CCFS Warehouse No.1 Plc[2]	Special Purpose Vehicle	-	-
CCFS Warehouse No.1 Holdings Limited[2]	Special Purpose Vehicle Holding Company	-	-
CML Warehouse Number 1 Limited[2]	Special Purpose Vehicle	-	-
Precise Mortgage Funding 2018-1B Plc[2,4]	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2018-1B Limited[2,4]	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2018-2B Plc[2,4]	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2018-2B Limited[2,4]	Special Purpose Vehicle Holding Company	-	-

1 Registered offices 2 Charter Court, Broadlands, Wolverhampton, West Midlands, WV10 6TD
2 Registered offices 35 Great St. Helen's, London, EC3A 6AP
3 As of 12 January 2018, 40 Station Road, Upminster, Essex, RM14 2TR
4 These companies were incorporated during 2018

The investments in subsidiaries are all stated at cost less impairment.

Special purpose vehicles which the Group controls are treated as subsidiaries for accounting purposes. All of the entities listed above have been consolidated into the Group's Consolidated financial statements.

All of the above companies are incorporated and operate in the United Kingdom.

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. Charter Mortgages Funding 2017-1 Plc and its holding company, Charter Mortgage Holdings 2017-1 Limited, were no longer consolidated from that date.

53. Trade and other payables

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Trade and other payables	**0.7**	0.2

All trade and other payables are payable within one year.
At 31 December 2018 amounts payable to subsidiaries included in the trade and other payables were £0.5 million (2017: £nil) due to Charter Mortgages Limited, see note 62 for further details.

54. Corporation tax payable

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Corporation tax payable	**-**	0.5

All corporation tax is payable within one year.

55. Share capital

Details of the Company's share capital are disclosed in note 33 to the Consolidated financial statements.

56. Share premium

Details of the Company's share premium are disclosed in note 34 to the Consolidated financial statements.

57. Retained earnings

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	**193.2**	(23.8)
Bonus issue	**-**	(3.0)
Share premium cancellation (see note 34)	**-**	195.1
Cancellation of deferred shares	**-**	0.7
Net profit for the year	**29.7**	23.0
Recognition of share-based payments	**2.1**	0.4
Transfer of equity-settled employee benefits reserve	**-**	0.8
Interim dividend paid (note 17)	**(6.7)**	-
At 31 December	**218.3**	193.2

58. Equity-settled employee benefits reserve

Details of the Company's equity-settled employee benefits scheme are disclosed in note 36 to the Consolidated financial statements.

59. Own shares

Details of the Company's purchase of its own shares are disclosed in note 37 to the Consolidated financial statements.

60. Notes to the Company statement of cash flows

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Profit before tax	**29.7**	23.5
Adjustments for:		
Write off investment in subsidiaries	**0.3**	0.4
Operating cash flows before movements in working capital	**30.0**	23.9
(Increase)/decrease in receivables	**(0.1)**	0.1
Cash generated by operating activities	**29.9**	24.0
Tax paid	**(0.5)**	-
Net cash generated by operating activities	**29.4**	24.0

61. Capital risk management and financial risk management

Capital risk management
The Company manages its capital to ensure that is be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital of the Company consists entirely of equity attributable to equity holders of the Company, comprising issued capital, retained earnings and reserves less own shares held as disclosed in notes 55 to 59.

The Group's Risk Management Committee reviews the capital structure on an annual basis, see note 43.

Financial risk management
The Company'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	As at 31 December 2017
	£m	£m
Cash and cash equivalents	**0.4**	1.2
Trade and other receivables	**0.2**	0.1
Investment in subsidiaries	**239.4**	214.0
Potential exposure to credit risk	**240.0**	215.3

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

62. Related parties

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

	Servicing fees received		Debtor/(creditor) outstanding	
	Year ended 31 December 2018	Year ended 31 December 2017	As at 31 December 2018	As at 31 December 2017
	£m	£m	£m	£m
Charter Court Financial Services Limited	**0.7**	2.9	**0.2**	0.1
Charter Mortgages Limited	**-**	-	**(0.5)**	-

The Company provides holding company services to its subsidiaries and recharges any Group costs to them. The agreement commenced on 29 November 2016.

The Company's purchase of its own shares (see note 37) was funded by an interest-free loan of £0.5 million, repayable on demand, from Charter Mortgages Limited.

Remuneration of key management personnel
Details of remuneration of key management personnel is shown in note 46 to the Consolidated financial statements.

63. Immediate and ultimate controlling party

Details of the immediate and ultimate controlling party are shown in note 47 to the Consolidated financial statements.

Appendices

Contents

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%

	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.

B. Other financial APMs

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.

	2018 £m	2017 £m
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 20)	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.

	2018	2017
Customer loans and receivables (note 20)	6,661.5	5,364.2
Deposits from customers (note 28)	5,094.5	4,420.0
Loan deposit ratio	130.8%	121.4%

B. Other financial APMs (continued)

Percentage increase in mortgage originations (year-on-year)
This APM demonstrates the growth in the Group's mortgage origination activity.

	2018 £m	2017 £m
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.

	2018 £m	2017 £m
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 (iii) / (i)	34.7%	48.7%

Percentage residential loan book growth since year end
This APM demonstrates the underlying growth in the Group's residential mortgage portfolio in 2018.

	2018 £m	2017 £m
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%

Originations by segment
This APM shows the level of mortgage origination activity by segment.

	2018 £m	2017 £m
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 20)	2,846.1	2,737.3

B. Other financial APMs (continued)

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.

	2018 £m	2017 £m
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.

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.

Glossary

Term	Definition
ALCO	Assets and Liabilities Committee.
Arrears	A payment that is overdue. An account or customer is in arrears when one or more payments have been missed resulting in an outstanding loan that is unpaid or overdue.
Assets administered	Assets administered comprises of customer loans and receivables balances as per Consolidated statement of financial positon, and mortgages of selected third parties.
Bank	Charter Court Financial Services Limited trading as Charter Savings Bank.
Basel II	A set of international banking regulations issued by the Basel Committee on Banking Supervision ("BCBS") in June 2004 defining how firms should calculate their regulatory capital requirements.
Basel III	A set of reforms first issued in late 2009 by the BCBS designed to improve the regulation, supervision and risk management within the banking sector. In Europe the new requirements were implemented by "CRD IV", on a phased basis from 1 January 2014 with full implementation by 1 January 2019.
Basis points ("bps")	One basis point is one hundredth of a percent (0.01%). 100 basis points is 1%. It is used in quoting interest rates or yields on securities.
BBR	Bank of England Base Rate.
Board	Refers to the Charter Court Financial Services Group plc Board.
BoE	Bank of England.
Bridging	Bridging segment previously known as the short-term lending segment, provides short-term loans primarily to property developers and home movers
Carrying amount or carrying value	The value of an asset or a liability in the balance sheet based on either amortised cost or fair value.
CCA	Consumer Credit Act.
CDS	Credit default swap.
CET1 (Common Equity Tier 1 capital)	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.
Charter Savings Bank ("CSB")	Charter Savings Bank is a brand name of Charter Court Financial Services Limited. It is an online bank which provides a range of competitive savings products via its website.
Collateral	The assets of a borrower, usually a property, which acts as security against a loan.
Collective impairment provision	Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.
Company	Charter Court Financial Services Group plc ("CCFSG").
Contractual maturity	The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.
Counterparty	The other party that participates in a financial transaction, every transaction requires a counterparty in order for the transaction to complete.
CRD IV	European legislation to implement Basel III and replace earlier European capital requirements directives with a new Capital Requirements Directive and a new Capital Requirements Regulation. CRD IV raises capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also "Basel III".
Credit risk	The risk of financial loss arising from a borrower failing to meet their financial obligations to the Group in accordance with agreed terms.
Customer deposits	Money deposited by individuals and corporate entities that are not credit institutions, and can be either interest bearing or term deposits.
Customer Loans	Loans and advances to customers, net of provision for loan impairment.
Default	A customer is in default when they have failed to pay interest or principal on a loan when due or they have breached a pre-set arrears threshold.

Term	Definition
Derivative	A financial instrument that is a contract or agreement whose value is based on an agreed-upon underlying financial asset, reference rate, index, or security.
EIR	Effective interest rate.
Encumbered assets	Assets that have been pledged as security, collateral or ring- fenced and are subject to the legal claim of another party which prevents those assets being transferred, pledged, sold or otherwise disposed of.
Encumbrance	The use of assets to secure liabilities, such as by way of a lien or charge.
Exact Mortgage Experts	Exact Mortgage Experts is a brand name of Charter Court Financial Services Limited. It administers mortgages originated by Precise Mortgages and selected third parties. It offers portfolio trading pricing, specialist analytics and credit consultancy to institutional clients.
Executive team	Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer and Managing Director (Precise Mortgages).
Financial Conduct Authority ("FCA")	The FCA regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.
Financial Services Compensation Scheme ("FSCS")	Funded by the financial services industry, the FSCS is the compensation fund of last resort for customers of UK authorised financial services firms.
Forbearance	Forbearance occurs when facilities are provided or changes are made to facilities provided to assist borrowers, who are experiencing, or are about to experience, a period of financial stress.
GDPR	General Data Protection Regulation.
Group	Charter Court Financial Services Group plc ("CCFSG") and its subsidiaries.
Impaired customer loans	Loans where the carrying amount of the loan exceeds the expected recoverable amount or contractual cash flows are expected to be collected later than contractually due. All loans more than 90 days past due are classed as impaired loans.
Impairment losses	When the recoverable amount of an assets is less than its carrying value the difference is recognised in the income statement with the carrying value of the asset reduced by creating a provision for loan impairments. An impairment loss may be either individual or collective.
Interest rate risk	The risk of financial loss due to a change in interest rates through un-hedged or mismatched asset and liability positions.
Internal Capital Adequacy Assessment Process ("ICAAP")	The Group's assessment, based on Basel II and Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.
Internal Liquidity Adequacy Assessment Process ("ILAAP")	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal ratings-based approach ("IRB")	A method of calculating credit risk regulatory capital requirements using internal, rather than supervisory, estimates of risk parameters.
IPO	Initial Public Offering.
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.
LIBOR (London Inter-Bank Offered Rate)	The interest rate participating banks offer to other banks for loans on the London market.
Liquidity coverage ratio ("LCR")	Measures the surplus (or deficit) of a bank's high quality liquid assets relative to weighted net stressed cash outflows over a 30 day period. It assesses whether the bank has sufficient liquid assets to withstand a short-term liquidity stress based on cash outflow assumptions provided by regulators.
Listing Rules	Regulations applicable to any company listed on a United Kingdom stock exchange, subject to the oversight of the UK Listing Authority ("UKLA"). The Listing Rules set out mandatory standards for any company wishing to list its shares or securities for sale to the public.

Term	Definition
LTV	Loan to value.
Loan book	Outstanding balance of loans we provided to customers.
Loan to value ratio	A ratio that expresses the amount of a loan as a percentage of the value of the property on which it is secured.
Mortgage pipeline	Post offer mortgage applications currently being processed but not yet completed.
Net interest income	The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.
Net interest margin ("NIM")	Net interest income as a percentage of average interest earning assets. Net interest income is divided by average interest earning assets for a given period (excluding short-term repos used for liquidity management purposes).
Net promoter score ("NPS")	This is an externally collated customer loyalty metric that measures loyalty between a Provider, who in this context is the Group, and a consumer.
Origination	The process of creating or acquiring a loan or mortgage.
Overall Liquidity Adequacy Rule ("OLAR")	An PRA rule that firms must at all times maintain liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. This is included in the Group's "Risk Appetite" and subject to approval by the Board as part of the "ILAAP".
Past due	When a counterparty has failed to make a payment when contractually due.
Past due loans and advances	Loans and advances on which repayments are overdue.
Peer group	Specialist bank peer group includes: Aldermore Bank plc, OneSavings Bank plc, Paragon Banking Group plc and Shawbrook Group plc. TSR peer group includes: OneSavings Bank, Paragon, CYBG, Close Brothers, Provident Financial, Metro Bank, Arrow Global, Secure Trust Bank, Lloyds, RBS, S&U, Barclays and HSBC.
Pillar 1	The part of the Basel framework that sets outs the rules that govern the calculation of minimum capital requirements for credit, market and operational risks.
Pillar 2	As part of the ICAAP and SREP, firms and supervisors are required to identify and assess whether a firm should hold additional capital to cover any firm specific risks that are not adequately covered by Pillar 1.
Pillar 3	Pillar 3 complements Pillar 1 and Pillar 2. Pillar 3 seeks to promote market discipline through regulatory disclosure requirements. Pillar 3 Disclosures allow market participants to access key pieces of information on a firm's capital resource, capital adequacy, risk exposures, risk assessment process and remuneration approach.
Precise Mortgages	Precise Mortgages is a brand name of Charter Court Financial Services Limited. It provides residential and buy to let mortgages, along with bridging and second charge loans to borrowers.
Probability of default	The likelihood that a loan will not be repaid and will fall into default.
Provision for loan impairments	A provision held on the balance sheet to recognise loans that have been individually or collectively impaired.
Prudential Regulation Authority ("PRA")	The PRA, a subsidiary of the Bank of England, is responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks.
Regulatory capital	The capital which the Group holds, determined in accordance with rules established by the PRA.
Repurchase Agreements or 'Repos'	A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or a reverse repo.
Residential mortgage-backed securities ("RMBS")	Securities that represent interests in groups or pools of underlying mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).
Residual certificate	Certificate entitling the holder to the residual cash-flows available from a securitisation transaction once other liabilities have been met.
Retail deposits	Current balance of savings deposited with us by our retail customers.
Return on equity	Amount of profit generated with each £ of shareholders' equity.
Risk appetite	The level and types of risk the Group is willing to assume within the boundaries of its risk capacity to achieve its strategic objectives.
Risk-weighted assets ("RWA")	On and off balance sheet assets of the Group are allocated a risk weighting based on the amount of capital required to support the asset.

Term	Definition
Secured lending	Lending in which the borrower pledges some asset (e.g. property) as collateral for the lending.
Securitisation	The practice of pooling similar types of contractual debt and packaging the cash flows from the financial asset into securities that can be sold to institutional investors in debt capital markets. It provides the Group with a source of secured funding than can achieve a reduction in funding costs by offering typically "AAA" rated securities secured by the underlying financial asset.
Specialist mortgage	Specialist mortgages are for customers with minor adverse credit rating imperfections. The Group targets specialist mortgage lending markets that are underserved by large and medium-sized UK retail banks and building societies.
Specific impairment provision	A specific provision relates to a specific loan, and represents the estimated shortfall between the carrying value of the asset and the estimated future cash flows, including the estimated realisable value of securities after meeting securities realisation costs.
Standardised Capital Framework Approach for Credit Risk	In relation to credit risk, a method for calculating credit risk capital requirements using External 0Credit Assessment Institutions ("ECAI") ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of specified business lines.
Stress Testing	Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital or liquidity resources which are required to be held.
Structured entities	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). A structured entity may take the form of a corporation, trust, partnership or unincorporated entity. Structured entities are often created with legal arrangements that impose strict limits on the activities of the structured entity. May also be referred to as an SPV.
Term Funding Scheme ("TFS")	Set up by the BoE and designed to reinforce the transmission of Bank Rate cuts to those interest rates actually faced by households and businesses by providing term funding to banks at rates close to Bank Rate. The TFS also provides participants with a cost effective source of funding.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 Capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 capital ratio	Tier 1 capital resources divided by risk-weighted assets at a given date. Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment allowances and other Tier 2 securities as defined by CRD IV.
Underlying mortgage assets	The mortgage assets pooled together and used as security in the Group's securitisation transactions. (See 'Residential mortgage-backed securities' and 'Securitisation').

Shareholder information

Annual General Meeting

The annual general meeting ("AGM") will be held on Wednesday, 15 May 2019 at 12 noon 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

Financial calendar dates	Description	Available format			
		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:	By telephone:	By email:
Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA	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).	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.

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.

Charter Court Financial Services Group plc (Company Number 06712054)

Registered Office: 2 Charter Court, Broadlands, Wolverhampton WV10 6TD, United Kingdom

chartercourtfs.co.uk

02142 (16)