Charter Court Financial Services Group PLC

H1 2019 Results

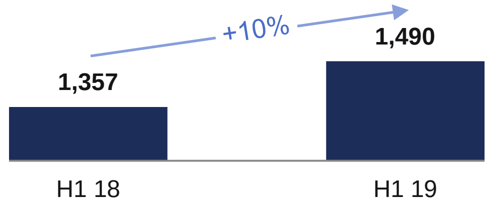
21 August 2019

Charter Court Financial Services

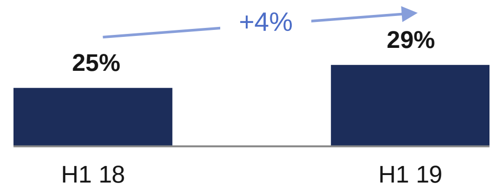
Performance Highlights – H1 2019

Charter Court Financial Services

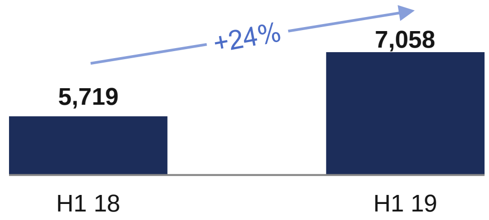
Gross Originations (£m)



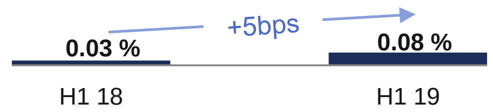
Underlying Cost : Income Ratio[1] (%)



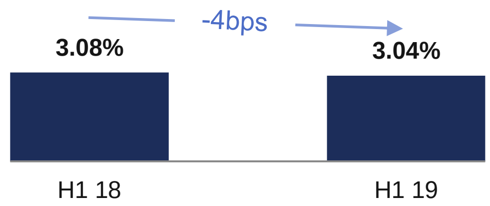
Gross Customer Loans (£m)



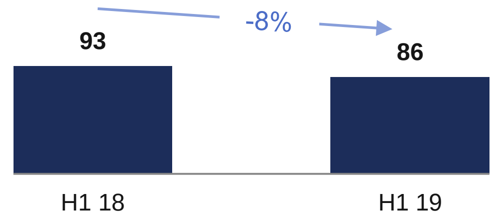
Cost of Risk[2] (%)



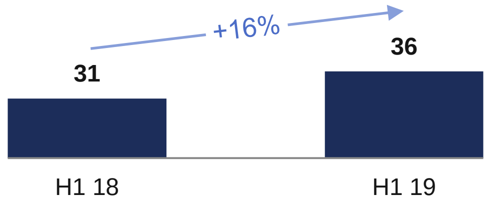
Net Interest Margin[3] (%)



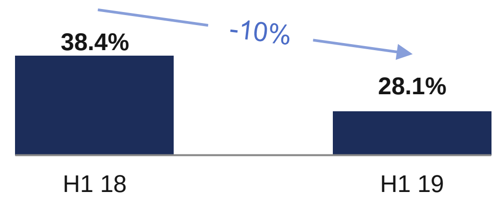
Underlying Profit before Tax (£m)



Underlying Operating Expense (£m)



Underlying Return on Equity[4] (%)



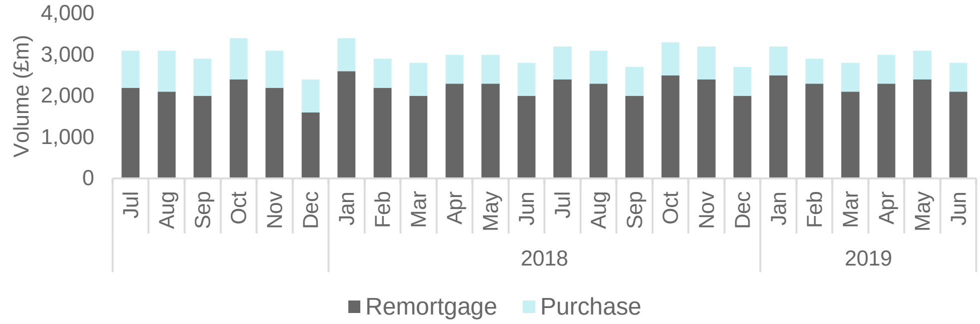
A strong H1 with continued loan book growth while maintaining robust credit performance

1. *On a statutory basis cost income ratio was 24.8% in H1 18 and 31.7% in H1 19*
2. *Calculated as impairments divided by 7-point average net customer loans*
3. *Calculated based on 7-point average net loans for the period*
4. *Calculated as profit after tax divided by a 2-point average shareholders' equity for the period. On a statutory basis return on equity was 38.4% in H1 18 and 26.5% in H1 19*

Supportive Market Backdrop in H1 2019

Charter Court Financial Services

UK BTL Mortgage Volumes



- Market has remained relatively stable year-on-year, with the purchase market softening whilst remortgage volumes continue to grow
- The specialist segment of the market has seen significant growth, with limited company ownership and high-yielding property types increasing in popularity
- 5 year fixed rates continue to represent over half of the total BTL market

What we delivered in H1 2019:

Buy to Let

- BTL completions outpacing market growth with an estimated market share of 4.9%
- BTL completions driven by strong activity in the Specialist BTL sector, particularly for Limited Companies (c.49% of BTL completions in H1 2019)
- Multi-Units and Holiday Lets were launched in August 2018 and, together with HMOs, represented c.30% of BTL completions in H1 2019

Residential

- Completions growth in line with the market (+3.6% y/y in H1 2019)
- Help to Buy represented c.35% of Precise Residential completions in H1 2019

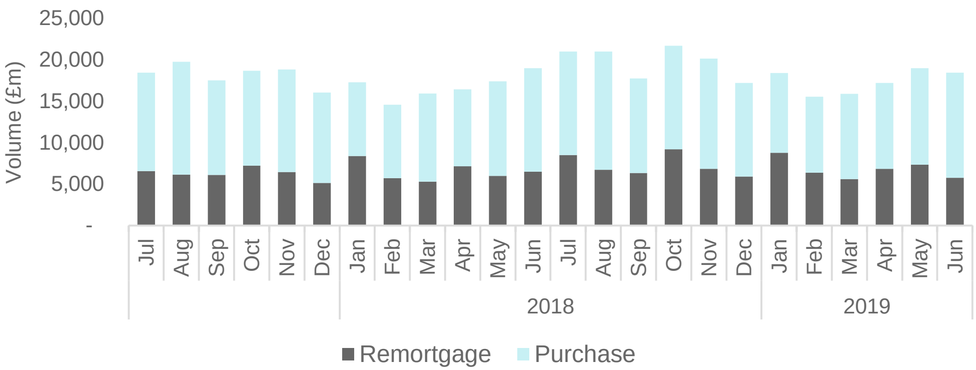
Bridging

- Completions boosted by launch of Refurb BTL proposition in November 2018 (c.9% of STL total in H1 2019)

Second Charge

- Removal of Early Repayment Charges in January has contributed to strong growth in H1 2019

UK Residential Mortgage Volumes



- The residential market saw modest growth in H1 2019, +3.8% year-on-year
- The Help to Buy scheme has become increasingly popular, with a +2.8% annual increase in the number of market completions in Q1 2019

Taking advantage of diversified funding channels

Wholesale markets in focus H1 19

- £734m PMF 2019-1B completed in May 2019, CCFS' largest transaction to date
- Two structured sales completed in the period for an aggregate gain of £29.8m
- Further structured sale completed in H2 to provide Group with strong capital position

H1 19 saw continued increasing retail inflows

- Expanded pooled platforms to add Monzo to the panel of providers CCFS uses, to access a further diverse source of funding
- Delivered an expanded range of products sourced via these platforms to include Easy Access and Non-Retail deposits

HARGREAVES LANSDOWN FLAGSTONE THE SMARTER CASH PLATFORM Insignis Cash Solutions monzo

Source: UK Finance, MHCLG, Precise Market Insights, BVA BDRC Landlords Panel

Charter Court Financial Services

Financial Performance

Sebastien Maloney

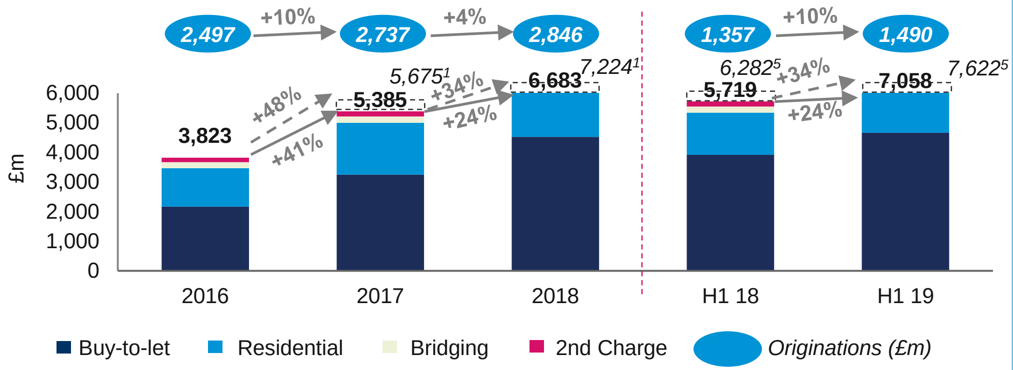
Chief Financial Officer

Charter Court Financial Services

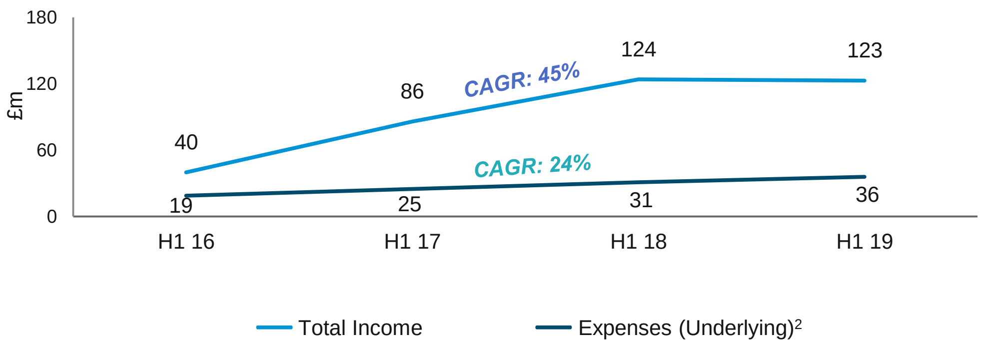
Continuous Year-on-Year Growth

Strong Loan Growth

Gross Loans to Customers

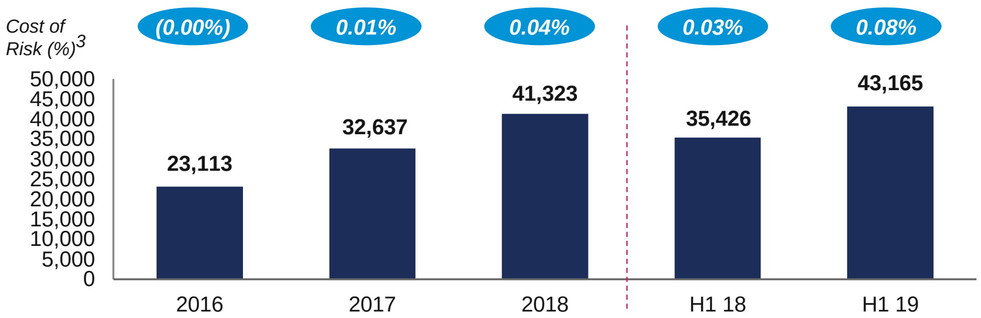


Established Financial Delivery

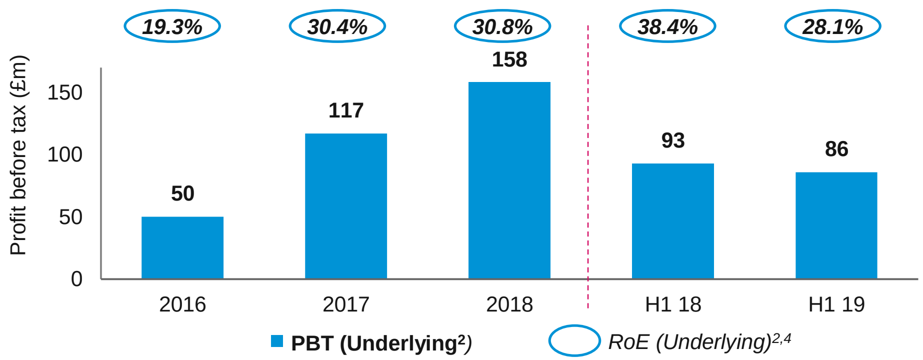


Exceptional Asset Quality

Number of Accounts



Robust Profitability



Well Positioned to Deliver Growth and Compelling Shareholder Returns

1. *Includes additional loan balance (£289m in 2017 and £563m in 2018) derecognised owing to sale of residual notes in securitisation. Balances as of 31 December 2017 and 31 December 2018*
2. *Adjusted for one-off costs such as IPO and aborted sales costs of c.£2m in H1 17 and merger costs of c.£4m in H1 19*
3. *Calculated as impairments divided by 13-point average net customer loans for FY 2016 – FY 2017 and 7-point average for 2018 and H1 2019*
4. *Calculated as profit after tax divided by a 2-point average shareholders' equity for the year / period. On a statutory basis return on equity was 38.4% in H1 18 and 26.5% in H1 19*
5. *Includes additional loan balance (£562.5m in H1 18 and £564m in H1 19) derecognised owing to sale of residual notes in securitisation. Balances as of 30 June 2018 and 30 June 2019*
6. *Tables may not cast due to rounding*

Summary Financials

Income Statement

(£m)		H1 19	H1 18	H1 18 vs. H1 19 Change £m	H1 18 vs. H1 19 Change %
Interest income		158	127	*31*	*24%*
Interest expense		(58)	(43)	*(15)*	*34%*
Net interest income	1	**100**	**84**	***16***	***19%***
Impairment charges		(2)	-	*(2)*	-
Other income	2	25	40	*(15)*	*(38%)*
Underlying total income		**123**	**124**	***(1)***	***(1%)***
Underlying operating expenses	3	(36)	(31)	*(5)*	*16%*
One-off costs	4	(4)	-	*(4)*	-
Profit before tax		**83**	**93**	***(10)***	***(11%)***
Profit after tax		**63**	**71**	***(8)***	***(12%)***

Earnings per share (p)		*26.0*	*29.5*
Dividend per share (p)	5	*4.3*	*2.8*
Net interest margin (%)[1]	6	*3.04%*	*3.08%*
Underlying cost income ratio[2]		*28.7%*	*24.8%*
Cost of risk (%)[3]	7	*0.08%*	*0.03%*
Underlying return on equity (%)[4]		*28.1%*	*38.4%*

Commentary

1. Increase in Net Interest Income driven by robust loan book growth and CCFS' ability to optimise funding costs through tactical retail deposit pricing and opportunistic securitisation issuance
2. Other income includes £29.8m gain on sale of subordinated notes and residual certificates relating to a structured asset sale conducted in January 2019, offset by charge of £7.2m net fair value movements on derivative financial instruments
3. Driven by growth in size of business and resultant increase in staff numbers, from an average of 557 in H1 2018 to 651 in H1 2019
4. Includes £3.8m of costs incurred in relation to the proposed merger with OneSavings Bank
5. Interim dividend per share of 4.3p, reflecting a 25% pay-out ratio and based on one third of the prior year's total dividend
6. Robust H1 19 NIM of 3.04%
7. Continued strong credit performance

1. Calculated based on 7-point average net loans for the period
2. On a statutory basis cost income ratio was 24.8% in H1 18 and 31.7% in H1 19
3. Calculated as impairments divided by 7-point average net customer loans
4. Calculated as profit after tax divided by a 2-point average shareholders' equity for the period. On a statutory basis return on equity was 38.4% in H1 18 and 26.5% in H1 19

Summary Financials

Balance Sheet

Y/e 31-Dec (£m)		H1 19	H1 18	H1 18 vs. H1 19 Change	
				£m	*%*
Net customer loans	1	7,047	5,694	*1,353*	*24%*
Liquid assets[1]	2	1,109	989	*120*	*12%*
Other assets		113	12	*101*	*845%*
Total assets		**8,270**	**6,695**	***1,575***	***24%***
Customer deposits	3	(5,977)	(4,263)	*(1,714)*	*40%*
Securitisations	4	(476)	(826)	*350*	*(42%)*
Other liabilities		(1,326)	(1,200)	*(126)*	*11%*
Net assets		**491**	**406**	***85***	***21%***
Share capital		21	21	-	*0%*
Retained earnings		470	385	*85*	*22%*
Shareholders' funds		**491**	**406**	***85***	***21%***
Originations		*1,490*	*1,357*	*133*	*10%*
Number of accounts		*43,165*	*35,426*	*7,739*	*22%*
CET1 ratio (%)	5	*15.6%*	*16.6%*		
Loans to deposit ratio (%)	6	*118%*	*134%*		

Commentary

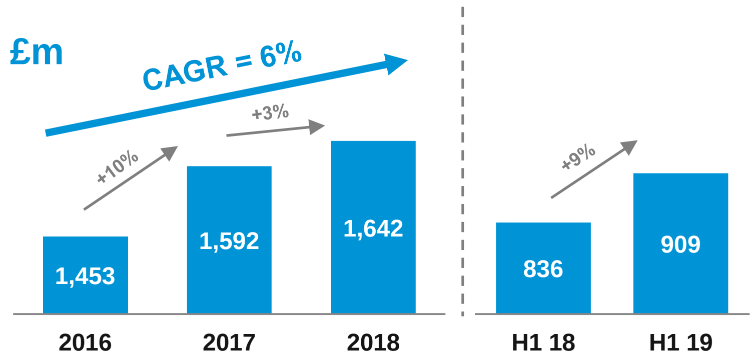
1. Continued strong growth in loan book
   - Year on year net loan growth of 23.8% driven by strong origination volumes across all product segments
   - Strong pipeline effectively converted into consistently strong origination volumes
2. Continue to manage liquidity prudently with a significant stock of liquid assets mainly in the form of cash held in a reserve account at the BoE
3. Customer deposits rose 40% y-o-y, with digital retail channel continuing to deliver strong inflows at attractive funding spreads
4. CCFS successfully executed one securitisation transaction of £733.7m, building on our established track record as an issuer
   - Two structured asset sales resulted in the derecognition of £564.3 million of underlying BTL mortgage assets
5. Well capitalised with CET1 ratio of 15.6%
6. Reduction in Loan to Deposit ratio reflects strong retail deposit growth during the period

1. *Includes cash*

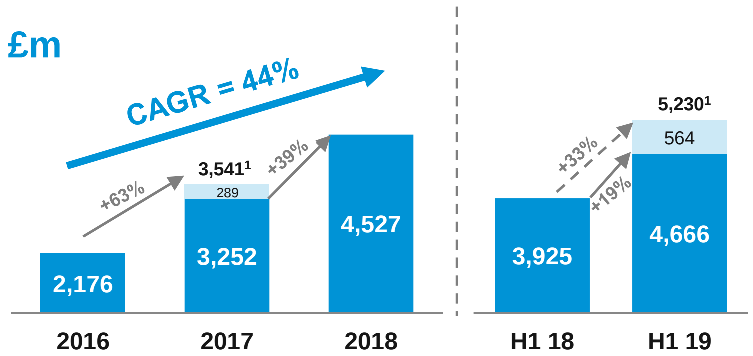
Segmental Results - BTL

Charter Court Financial Services

Originations



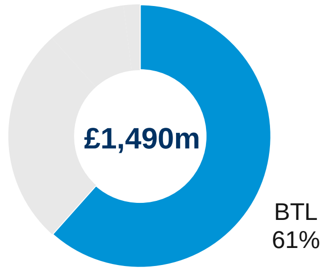
Gross BTL Loan Book Evolution



2016	2017	2018	H1 18	H1 19
4.2%	4.0%	4.2%	4.1%	4.3%

Book Yield[2]

H1 2019 Originations

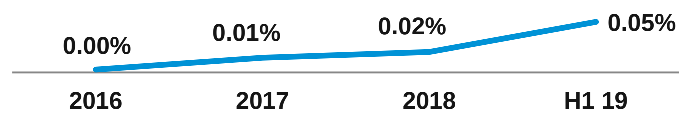


Average LTV: *71.1%*

Average Loan Size: *£179k*

Cost of Risk[2]

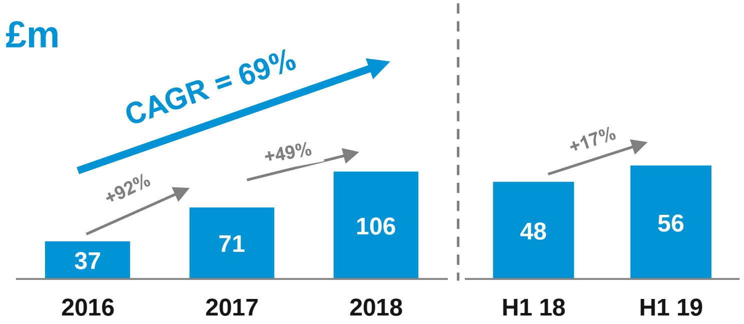
%



0.45%	***0.18%***	***25 accounts***
1+ arrears	3+ arrears	3+ arrears

Arrears as at 30-Jun-2019

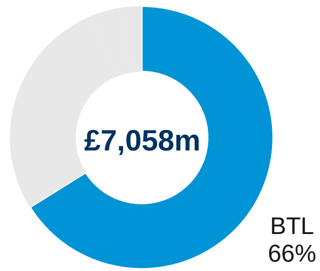
Segmental Contribution



2016	2017	2018	H1 18	H1 19
41%	49%	58%	56%	58%

% of profit contribution[3]

Jun-19 Loan Book



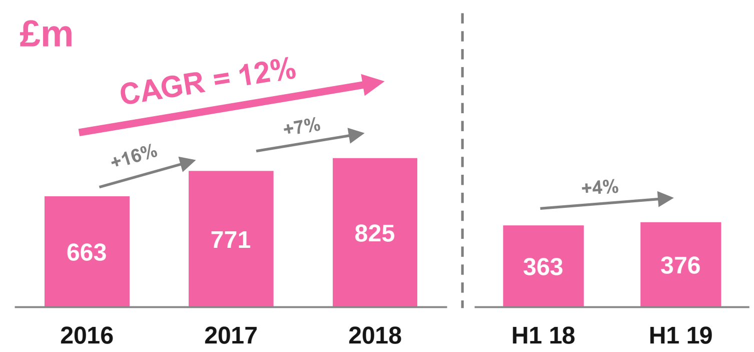
Average LTV: *71.5%*

Average Loan Size: *£194k*

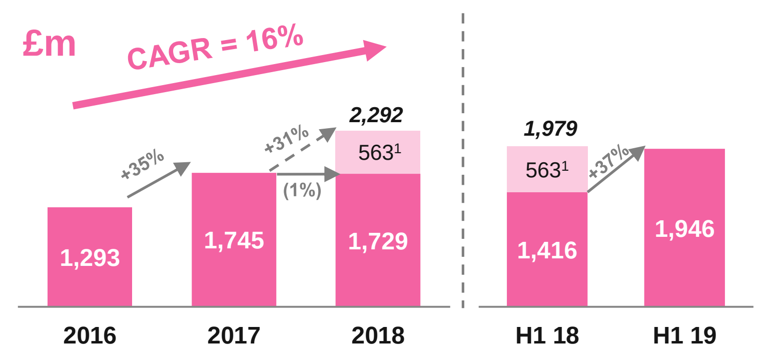
1. *Includes additional loan balance (£289m in 2017 and £564m in H1 2019) derecognised owing to sale of residual notes in securitisation. Balance as of 30 April 2017 and 30 June 2019*
2. *Based on a 13-point average throughout each year and 7-point average for H1 2018 & 2019*
3. *Relates to profit contribution of the four segments only and excludes other income*

Segmental Results – Specialist Residential

Originations



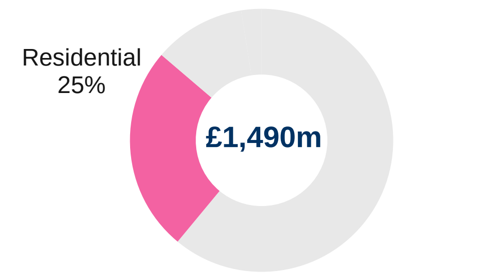
Gross Residential Loan Book Evolution



2016	2017	2018	H1 18	H1 19
5.0%	4.8%	4.9%	4.9%	5.1%

Book Yield[2]

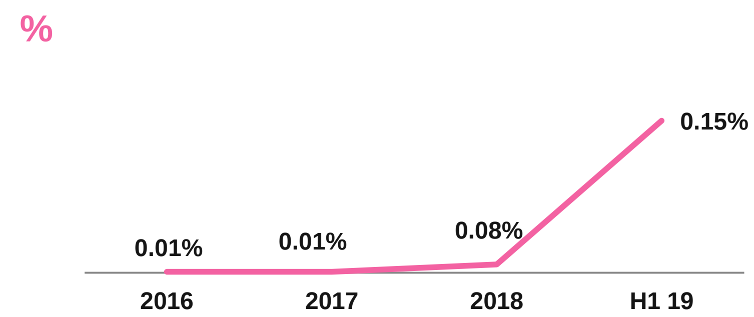
H1 2019 Originations



Average LTV: *71.9%*

Average Loan Size: *£157k*

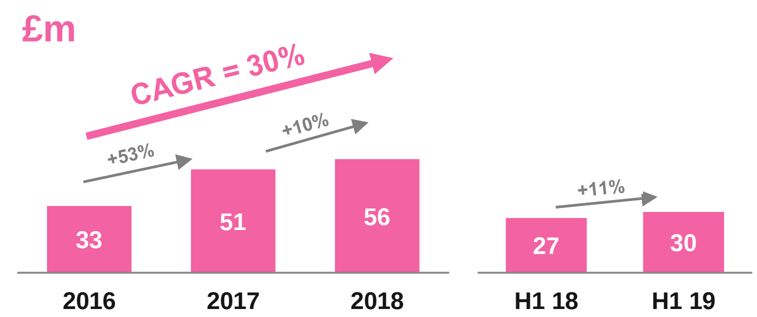
Cost of Risk[2]



2.14%	0.76%	96 accounts
1+ arrears	3+ arrears	3+ arrears

Arrears as at 30-Jun-2019

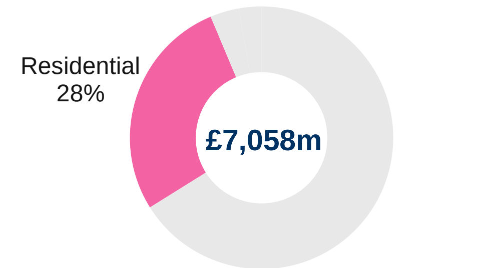
Segmental Contribution



2016	2017	2018	H1 18	H1 19
37%	35%	30%	31%	31%

% of profit contribution[3]

Jun-19 Loan Book



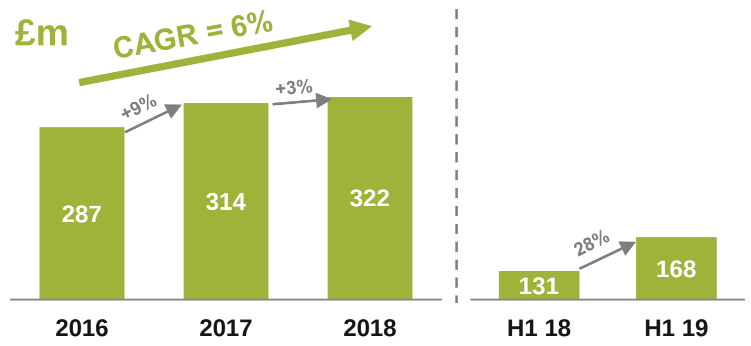
Average LTV: *69.4%*

Average Loan Size: *£142k*

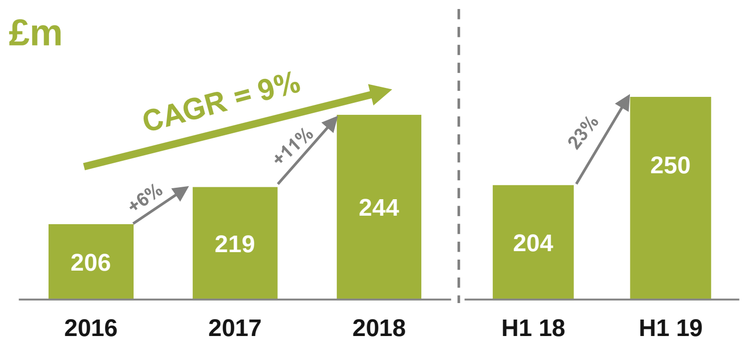
1. *Includes additional loan balance (£563m in 2018) derecognised owing to sale of residual notes in securitisation. Balance as of 31 December 2018*
2. *Based on a 13-point average throughout each year and 7-point average for H1 2018 & 2019*
3. *Relates to profit contribution of the four segments only and excludes other income*

Segmental Results – Bridging Loans

Originations



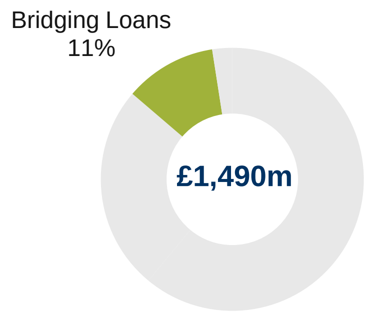
Gross Bridging Loan Book Evolution



9.3%	8.8%	8.4%	8.7%	8.1%

Book Yield[1]

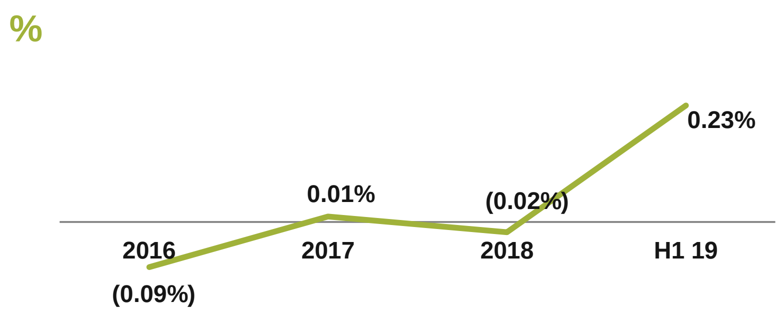
H1 2019 Originations



Average LTV: *55.0%*

Average Loan Size: *£194k*

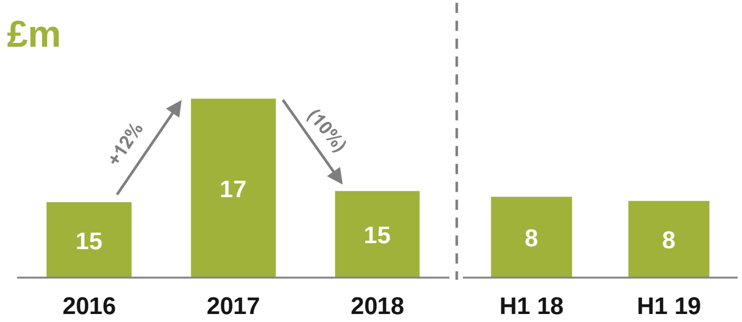
Cost of Risk[1]



0.96%	*0.78%*	*6 accounts*
1+ arrears	3+ arrears	3+ arrears

Arrears as at 30-Jun-2019

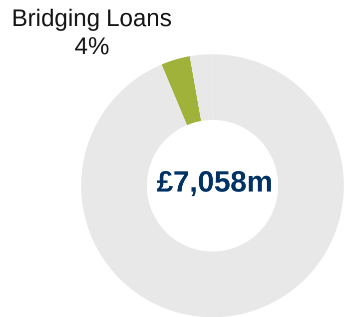
Segmental Contribution



17%	12%	8%	9%	8%

% of profit contribution[2]

Jun-19 Loan Book



Average LTV: *53.8%*

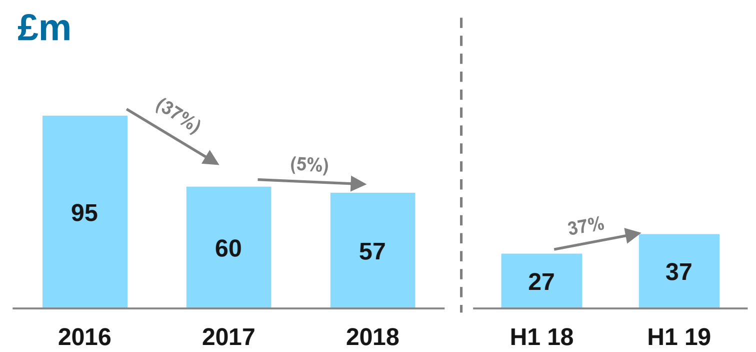
Average Loan Size: *£202k*

1. *Based on a 13-point average throughout each year and 7-point average for H1 2018 & 2019*
2. *Relates to profit contribution of the four segments only and excludes other income*

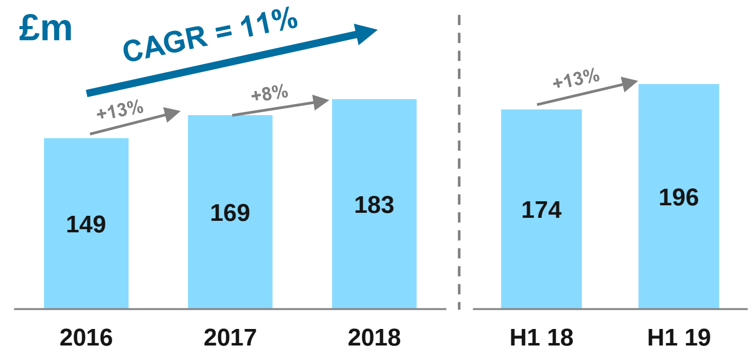
Segmental Results – Second Charge

Charter Court Financial Services

Originations



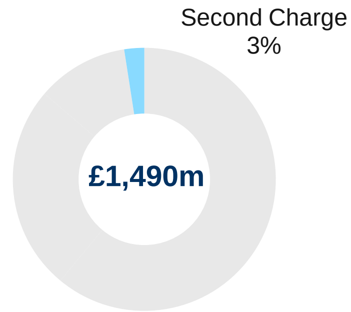
Gross Second Charge Loan Book Evolution



2016	2017	2018	H1 18	H1 19
5.6%	5.1%	5.1%	5.2%	5.4%

Book Yield[1]

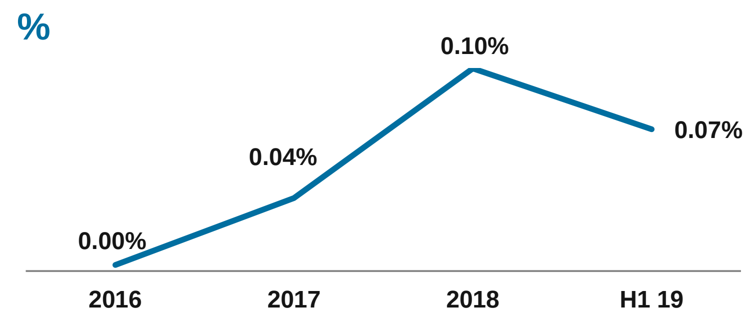
H1 2019 Originations



Average LTV: *67.4%*

Average Loan Size: *£62k*

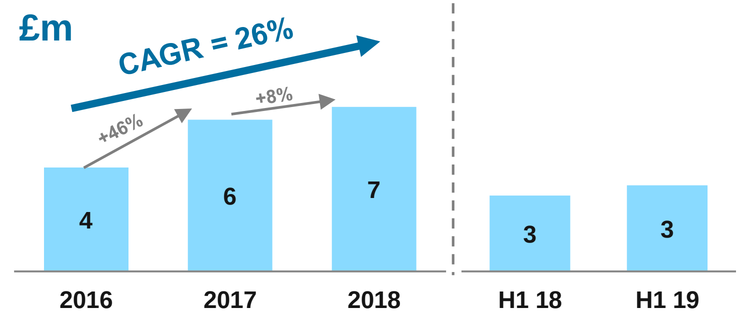
Cost of Risk[1]



1.25%	***0.35%***	***11 accounts***
1+ arrears	3+ arrears	3+ arrears

Arrears as at 30-Jun-2019

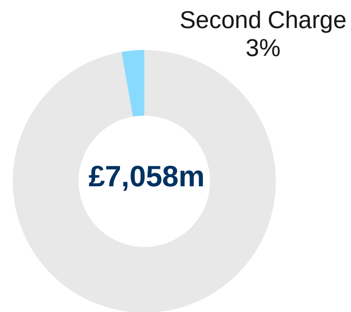
Segmental Contribution



2016	2017	2018	H1 18	H1 19
5%	4%	4%	3%	3%

% of profit contribution[2]

Jun-19 Loan Book



Average LTV: *63.7%*

Average Loan Size: *£53k*

1. *Based on a 13-point average throughout each year and 7-point average for H1 2018 & 2019*
2. *Relates to profit contribution of the four segments only and excludes other income*

CCFS' funding strategy continues to optimise cost of funding – taking tactical advantage of market conditions

Charter Court Financial Services

Retail Deposits

- Award winning deposit franchise
- Retail channel continues to deliver in-flows at attractive funding spreads
- Deposits of £5,935m

1.8% Average Cost of Funding H1 2019

BoE Facilities

Pre-positioned Mortgages: £2.4bn | *Pre-positioned Securities: £0.3bn* | *Total Pre-positioned: £2.7bn*

Drawn TFS = £1,128m | *Discount Window Facility* | *Emergency Facilities*

0.8% Average Cost of Funding H1 2019

Securitisation

- Continued to leverage capital markets execution capabilities to support asset growth and optimise funding costs
- One securitisation and two structured sales conducted in the period

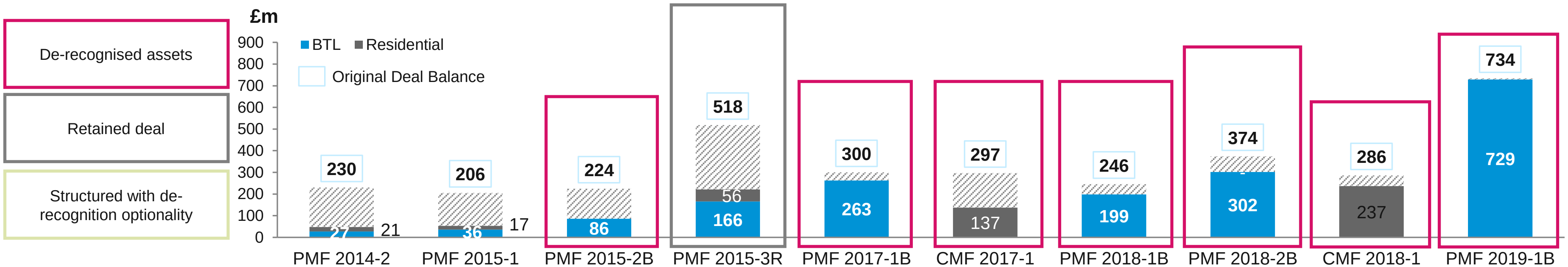
1.5% Average Cost of Funding H1 2019

Wholesale markets in focus for H1 2019

- £734m PMF 2019-1B completed in May 2019, CCFS' largest transaction to date
- Tightest UK RMBS BTL senior print in the last 12 months, and the first transaction to issue Sonia linked mezzanine bonds
- Strategically important trade, creating capital and funding optionality
- Two structured sales completed in the period for an aggregate gain of £29.8m
- Further structured sale completed in H2, to provide Group with strong capital position into a period of potential macro uncertainty

Outstanding Securitisations[1]

	PMF 2014-2	PMF 2015-1	PMF 2015-2B	PMF 2015-3R	PMF 2017-1B	CMF 2017-1	PMF 2018-1B	PMF 2018-2B	CMF 2018-1	PMF 2019-1B
Number of 3 MIA+ accounts	4	5	2	14	2	6	1	-	4	-
Losses to date (£k)	-	-	7	19	-	-	-	-	-	-
WA interest rate	5.30%	5.04%	4.77%	4.71%	4.09%	4.82%	4.03%	3.90%	4.22%	3.62%
Senior note spread (over Libor/SONIA)	0.95%	0.95%	1.25%	n/a	0.75%	0.50%	0.65%	0.68%	0.47%	0.93%[2]
WA margin at closing	1.11%	1.10%	1.53%[2]	1.00%	1.02%[2]	0.64%	0.74%	0.77%	0.55%	1.27%[3]



1. As of June 2019. Performance data in accordance with June 2019 month end investor reports
2. Equivalent to c. Libor plus 0.80%
3. Equivalent to c. Libor plus 1.13%

Capital and Liquidity

Charter Court Financial Services

Robust Capital and Liquidity Positions

Capital Position

- CET 1 ratio of 15.6% as at 30 June 2019
- RWAs calculated using **standardised risk weightings**
- Well capitalised for future growth:
  - Vast majority of the regulatory capital currently held in CET1
  - Leverage ratio currently comfortably exceeds minimum requirements

IRB

- CCFS hopes to achieve an IRB status in advance of the implementation of the new capital regime
- In addition to the expected capital benefits, through IRB, CCFS will benefit from sophistication of risk management and measurement;
- IRB rating system will support more informed risk and pricing decisions, dynamic portfolio monitoring and strengthening risk governance;
- The Group has made good progress in pursuit of an IRB waiver in a number of areas

Key Liquidity Measures (Jun-19)

£675m
LCR Requirement

£887m
HQLA

131%
LCR

£1,069m
Balance Sheet Liquidity

£617m
BoE Liquidity Access

£2.7bn
Total Pre-positioned Assets

23.0%
Asset Encumbrance

£1.7bn
Total Liquidity Access[1]

£5.9bn
Total Retail Deposits

28%
Retail Deposit Coverage

1. *Liquidity value after haircut applied to assets pre-positioned*

Wrap-Up

Ian Lonergan

Chief Executive Officer

Our Strategy has Resulted in Continuous Growth Over the Last 3 Years

Charter Court Financial Services

Our Strengths

Continued to deliver in line or in excess of our IPO targets

Charter Court goes from strength to strength as it takes advantages of underserved markets

H1 19 proved the resilience of our diversified funding model

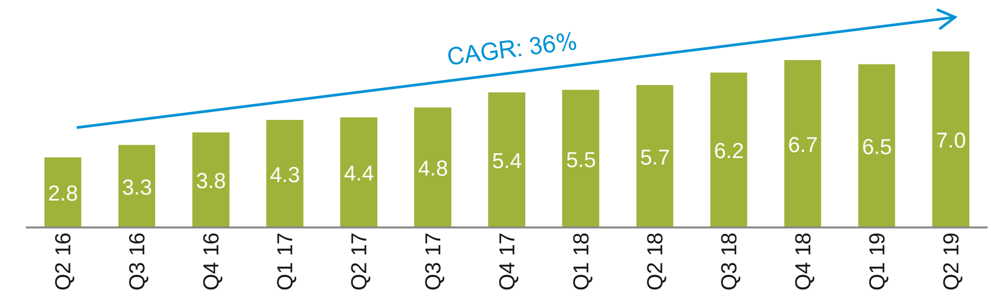
Well positioned for a post-Brexit environment with continued strong credit performance

Plenty of headroom for growth in our core markets as we continue to innovate

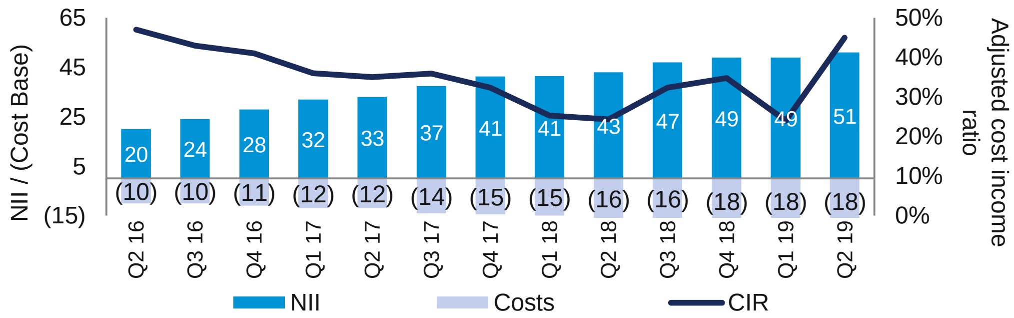
Continue to be an employer of choice

Our Delivery

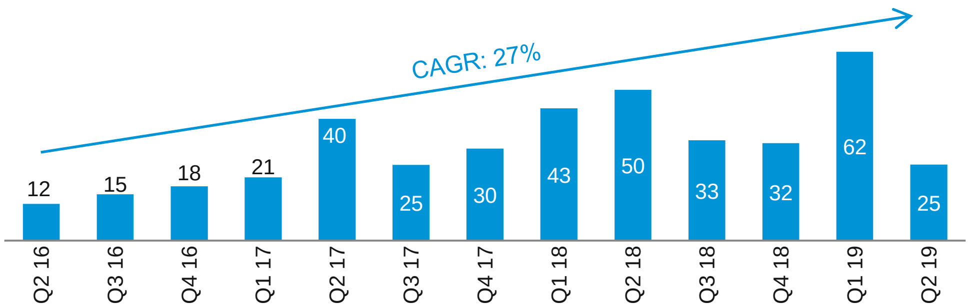
Net Loans to Customers (£bn)



Net Interest Income / (Cost Base[1]) (£m)



Adjusted Profit before Tax (£m)[1]



1. Adjusted basis; excluding any one-off income and costs

Charter Court
Financial Services

Q&A