Charter Court Financial Services

Charter Court Financial Services Group Limited

Pillar 3 Disclosures 31 December 2015

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1. Introduction

1.1 Overview

This document represents the consolidated Pillar 3 disclosures by Charter Court Financial Services Group Limited (CCFSG) as at 31 December 2015. CCFSG is subject to consolidated regulatory supervision by the Prudential Regulation Authority (the PRA). The regulatory scope of consolidation includes CCFSG's subsidiaries, the most significant of which is Charter Court Financial Services Limited (the Bank) (PRA firm reference number 494549) (together the Group).

This document should be read in conjunction with the consolidated financial statements of CCFSG available at www.chartercourtfs.co.uk, which contain a complete list of entities included within the regulatory consolidation (see Note 41 within the financial statements).

The regulatory consolidation has been produced in accordance with the requirements established under the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), collectively referred to as CRD IV, which came into effect on 1 January 2014. The CRD is the framework for implementing Basel III in the European Union (the Basel Framework). All article references made within this document refer to the CRR (Regulation (EU) No 575/2013).

The Basel Framework consists of three 'pillars'. Pillar 1 of the standards sets out the minimum capital requirements firms are required to meet for credit, market and operational risk. Under Pillar 2, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk assessment processes and remuneration approach.

The Pillar 3 disclosures in this document relate to the Group, with the exception of Appendices 1 and 2 which contain the disclosures required for the Bank as a solo entity.

The Group has established a disclosure policy for Pillar 3 information that sets out the internal controls and procedures for disclosure of such information. Pillar 3 disclosures will be prepared and updated on an at least annual basis.

This document has been prepared purely for the purposes of: explaining the basis on which the Group has prepared and disclosed certain capital requirements; providing information about the management of risks relating to those requirements; and presenting remuneration information as required by CRD IV and the PRA Prudential Rulebook.

This document has not been prepared for any other purpose. It therefore does not constitute any form of financial statement of the Group nor does it constitute any form of contemporary or forward looking record or opinion of the Group.

The Group is committed to ensuring that its remuneration practices are appropriate and in compliance with relevant regulatory standards described in section 8 of this document. There are no differences between the basis of consolidation for the Group for financial reporting and accounting purposes and prudential purposes. All of the Group's subsidiary undertakings are included in the Pillar 3 disclosure data.

Verification

These Disclosures have been reviewed and recommended by the board of directors of CCFSG (the Group Board). The Disclosures are not subject to audit. However, certain information has been extracted from CCFSG's Annual Report and Financial Statements for the year ended 31 December 2015, these Financial Statements having been subject to independent external audit.

1.2 Non-material, proprietary or confidential information

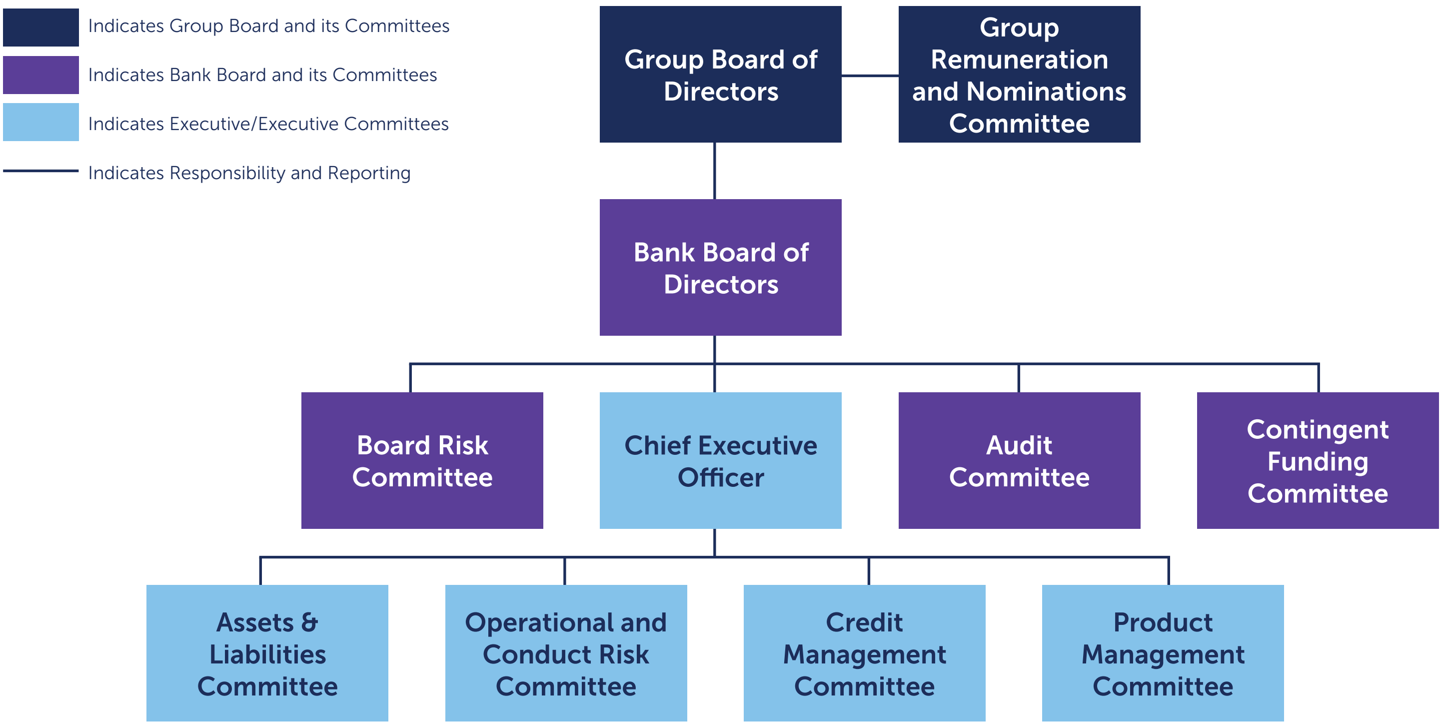
The Group has not sought any exemption from its disclosure on the basis of materiality or on the basis of proprietary or confidential information.

2. Governance Framework and Committee Structure

2.1 Governance Structure

In delivering its goals and objectives, the Group will focus on sustainable success over the longer term and regularly challenge its practices to develop and improve accountability, leadership, transparency, probity, and the systems by which the Group is directed and controlled.

The chart below provides an overview of the governance structure referred to throughout this section 2.



2.2 Board of Directors

The Bank is headed by a Board of Directors (the Bank Board) which meets regularly. There is a clear division of responsibility which ensures a balance of power and authority between the Chairman, who controls and directs Bank Board meetings and the Chief Executive Officer, who carries responsibility for running the Bank's business.

The Bank Board consists of both Executive and Non-Executive Directors. The following table showing directorships held by members of the Bank Board complements disclosures made in the Bank's financial statements available at www.chartercourtfs.co.uk.

Name	Role	Position	Number of Other Directorships held
Philip Jenks	Chairman	Non Executive	1
Ian Ward	Vice Chairman /Senior Independent Director	Non Executive	3
Tim Brooke	Director	Non Executive	5
Ian Lonergan	Chief Executive Officer	Executive	0
Sebastien Maloney	Chief Financial Officer	Executive	0
Peter Elcock	Chief Risk Officer	Executive	1

The Bank Board role is to understand the business, establish a clear strategy, articulate a clear risk appetite to support that strategy, and oversee an effective risk control framework. It collectively has the skills, the experience and the confidence to hold executive management rigorously to account for delivering the strategy, and managing the business within that risk appetite.

The Bank Board is provided with any information it requires to allow it to discharge its responsibilities. A monthly board pack is distributed to directors and senior management. Financial information (management accounts, budgets and forecasts) is provided on a Group basis.

Appointments to the Group and Bank Board are managed through the Group Remuneration and Nominations Committee. The Group Remuneration and Nominations Committee have established a policy on diversity with regard to the selection of Board members. The policy embraces the benefits of having a diverse Board and sees increasing diversity at senior levels as an essential element in maintaining effectiveness and competitive advantage. In identifying suitable candidates for appointment to the Board, the Group Remuneration and Nominations Committee will consider candidates on merit against objective criteria with due regard to the benefits of diversity of Board members.

2.3 Audit Committee

The Bank Board has established an Audit Committee to oversee, review and advise it on the adequacy and effectiveness of the framework of internal control, ensuring that appropriate levels of external and internal audit are maintained.

The Audit Committee monitors assurance, audit and compliance, providing assurance evaluation to the Bank Board. The Legal and Compliance team produce a quarterly report to the Board Risk Committee which reports on current regulatory issues and compliance checks. In addition, two principal audit activities are undertaken to identify any potential issues and make recommendations for their resolution or improvement:

- Internal Audit: reviews undertaken by the Internal Auditor to identify any weaknesses in the Bank's risk management policies, systems and controls, and any breaches in compliance; and
- External Audit: financial audits undertaken by the external auditors to approve the validity of financial statements.

The members of the Audit Committee are all non-executive directors, who receive reports and meet at least four times annually.

2.4 Board Risk Committee

The Bank Board has established a Board Risk Committee to:

- oversee, understand and review the Bank's risk profile, advising the Bank Board on current risk exposures and future risk strategy, including recommending the risk appetite. This includes challenging management's understanding and management of risk, especially related to strategy and major initiatives, and ensuring suitable risk management techniques and disciplines are applied;
- review the Bank's capital and liquidity plans to ensure that capital held supports the risk profile of the business and meets current capital adequacy and future solvency requirements, and that liquidity is held in sufficient quantity and quality to support future liquidity requirements;
- oversee and ensure the robustness and adequacy of the annual Internal Capital Adequacy Assessment Process (ICAAP) and annual Internal Liquidity Adequacy Assessment Process (ILAAP), and ensure relevant risk management disciplines are embedded in planning and decision making;
- oversee the implementation of a culture that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Bank, and encourage greater awareness of risk management at all levels; and
- review and report to the Bank Board on the risk management framework, anticipating changes in business conditions and operations.

The members of the Board Risk Committee are all non-executive directors who receive reports and meet at least four times annually.

2.5 Executive Directors

The Chief Executive Officer (CEO), supported by the Chief Financial Officer (CFO) and Chief Risk Officer (CRO), is responsible for carrying out the management of the conduct of the whole business, the allocation of responsibilities, and for the development and maintenance of the business model.

The CFO, supported by the Finance team, is responsible for management of financial resources, the production and integrity of financial information and regulatory reporting, management of the allocation and maintenance of capital, funding and liquidity, treasury management systems, and for managing the internal stress tests and ensuring the accuracy and timeliness of information provided to the PRA and other regulatory bodies for the purposes of stress testing.

The CRO, supported by the Operational, Prudential, Credit and Financial Crime Risk teams and the Legal and Compliance function, is responsible for overall management of risk controls, including the setting and managing of risk exposures, reporting in relation to risk management arrangements, for policies and procedures for countering financial crime risk, for assessing the adequacy and effectiveness of policies and procedures designed to detect any risk of failure by the Bank to comply with its obligations under the regulatory system, the Recovery Plan and Resolution Pack, and overseeing internal processes regarding their governance.

2.6 Executive Committees

The Chief Executive Officer has established four executive committees as follows:

2.6.1. Assets and Liabilities Committee (ALCO)

Established to develop a strategy for financial risk management, implement financial risk management controls, monitor financial performance within agreed parameters and report on the status and prioritisation of financial risk management issues.

ALCO's duties focus on maximising net interest income whilst maintaining within Bank Board approved appetites for credit risk, liquidity risk, interest rate risk and capital.

2.6.2. Credit Management Committee (CMC)

Established to develop and provide oversight of the risk management framework for controlling credit risks arising from on-going residential lending activities, and administer credit-related policies.

2.6.3. Operational and Conduct Risk Committee (OCRC)

Established to review management's recommendations on operational and conduct risk management, including proposed strategies, frameworks and policies, prior to recommending to the Board Risk Committee, and to monitor, evaluate and address significant operational and conduct risk matters on a day to day basis.

2.6.4. Product Management Committee (PMC)

Established to develop, approve and implement product and pricing strategies, and monitor conduct risk as it relates to products and pricing.

2.7 Oversight Arrangements for Key Strategies and Internal Controls

Oversight arrangements exist to ensure key strategies and internal controls operate effectively as follows.

2.7.1. Strategy, Plans and Budgets

Business strategy, plans and budgets are approved by the Group Board and Bank Board.

2.7.2. Capital and Liquidity Planning

The Group's capital and liquidity plans are linked to the strategic planning and budgeting process. The Board Risk Committee reviews these plans before approval by the Group Board and Bank Board.

2.7.3. Stress Testing Process and Oversight

The Group is subject to supervisory stress testing and as such stress testing represents a key focus for the Group. Stress tests are conducted as part of the ICAAP, ILAAP and business planning cycle.

Stress tests are reviewed at ALCO, Board Risk Committee and both Group Board and Bank Board, including the results and output and model calibrations, and assumptions.

2.7.4. Risk Management

The key elements of the Bank's approach to risk management are documented within an Enterprise Risk Management Framework (ERMF). Overall, the ERMF comprises eight core elements being; Risk Appetite, Governance and Committees, Three Lines of Defence Organisation, Risk Policies, Risk Register, Risk Processes and Infrastructure, Risk Data, Management Information and Reporting. The ERMF is maintained by the Chief Risk Officer and reviewed regularly by the Board Risk Committee.

Key risks are identified and monitored by the CRO in conjunction with the Director of Credit Risk, the Director of Legal and Compliance, the Treasury Risk Manager and the Operational Risk Manager using a Corporate Risk Register (CoRR). The CoRR is a central tool in the 'top down' risk management process being used in the following ways:

- the CoRR is considered quarterly by the Board Risk Committee and monthly by the CRO;
- the CRO presents a monthly Risk Summary to the Bank Board giving his view of risk across the business against each of the risk categories identified in the CoRR; and
- the CoRR is used as the basis of risk assessment for key new initiatives, such as material outsourcing arrangements.

2.7.5. Financial Risk Management

Financial risk management strategies are prepared and reviewed by ALCO before being recommended to the Bank Board for approval.

The Audit Committee monitors the adequacy and effectiveness of the financial risk management framework, reviewing and challenging (where necessary) significant financial reporting issues and judgements, and reviewing significant accounting policies.

2.7.6. Non-Financial Risk Management

Non-financial risk management strategies are prepared and reviewed by the OCRC and the Board Risk Committee before Bank Board approval.

The approach to operational risk management is documented within an Operational Risk Management Framework (ORMF). The framework is built around five key components:

- Functional organisation: Each function manages a number of activities and processes which are required for the Bank to operate effectively and deliver value;
- Drivers of Risk: The things that could lead to loss caused by failure of processes, people, systems and external events;
- Risk categories: the types of risk the Bank is exposed to;
- Loss Events: Losses or "near misses" are reported against a list of typical loss events using Basel II standard; and
- Operational risk management policies, procedures and tools: A combination of policies, processes and tools used to identify, measure, manage and report on risk and controls.

2.7.7. ICAAP

Key ICAAP responsibilities are outlined below:

Stakeholder	ICAAP Responsibility
Finance Function (1st Line of Defence*)	• Preparation of budgets in accordance with the strategic plan approved by the Board • Preparation of the capital plan • Application of stress testing scenarios and result analysis • Proposal of capital allocation
All functions (1st Line of Defence*)	• Provision of data for preparation and implementation of the ICAAP • Identification of risks
Risk Management Function (2nd Line of Defence*)	• Design of the risk management framework • Preparation of risk management policies • Establishment of risk monitoring and measurement methodology • Preparation of the ICAAP
Internal Audit Function (3rd Line of Defence*)	Independent assessment of: • the risk assessment, stress testing and capital allocation processes and their compliance with regulatory obligations; • financial data and consistency with financial records; and • that the ICAAP process is followed according to the Board's requirements.
Directors (3rd Line of Defence*)	• Definition of business strategy and objectives, and of the risk profile • Establishment of an appropriate internal control system, especially in relation to the ICAAP • Review, approval and understanding of ICAAP

* See paragraph 3.3 Three Lines of Defence (3LOD) Organisation

The Bank's Board Risk Committee oversees the ICAAP process and ensures its robustness and adequacy prior to approval by the Group Board.

2.8 Use of ICAAP

2.8.1 Capital Stress Testing

As part of the Group's obligations under the general stress and scenario testing rules (as described in the PRA Rulebook) which state that a firm must, for the major sources of risk, carry out stress tests and scenario analyses that are appropriate to the nature, scale and complexity of those major sources of risk and to the nature, scale and complexity of the business.

The Group undertakes a number of stress tests as part of its ICAAP, and uses the results of this stress testing to assess capital needs, including reviewing the output of the stress tests, and if the scenario was appropriate.

Stress tests are carried out annually as part of the ICAAP and ILAAP cycles and include a projection of the capital resources and capital requirements over a three year horizon, taking account of the business plan and the impact of relevant stress scenarios.

2.8.2 Recovery Plan and Resolution Pack (RPRP)

The PRA August 2015 update to SS31/15 introduced a new requirement for Reverse Stress Testing as part of the recovery and resolution planning. A Reverse Stress Test scenario was undertaken during the 2015 ICAAP which would lead to the resolution plan being invoked.

3. Risk Management Framework

Charter Court Financial Services

3.1 CCFS' Overall Approach to Managing Risk

The Enterprise Risk Management Framework (ERMF) is used to set out the high level risk management components and standards. The purpose is to provide a single, consistent view of the various components and tools within the framework and to aid the periodic review of the framework and its effectiveness.

3.2 Risk Appetite Framework

The Risk Appetite Framework (RAF) enables risk capacity, risk appetite, risk limits, and the risk profile to be considered for business lines and legal entities as relevant, and within the Group context, in line with Financial Stability Board (FSB) best practice guidelines.

The Framework is illustrated below to provide an overview of the structure, and how the various components fit together and are embedded within the business, through committees supporting risk appetite statements, policies, procedures and suites of Key Risk Indicators (KRIs).

Risk Appetite Framework

Business Strategy and Objectives

Corporate Risk Appetite Statement

Executive Risk Committee Full KRIs

Business Risk Appetite Statement	Credit Risk Appetite Statement	Treasury Risk Appetite Statement	Operational Risk Appetite Statement	Conduct Risk Appetite Statement

Policies and Procedures

Board Risk Selected KRIs

Business Risk KRIs	Credit Risk KRIs	Treasury Risk KRIs	Operational Risk KRIs	Conduct Risk KRIs

Executive Risk Full KRIs

Business Risk KRIs	Credit Risk KRIs	Treasury Risk KRIs	Operational Risk KRIs	Conduct Risk KRIs

3.3 Three Lines of Defence (3LOD) Organisation

The 3LOD organisational model is used to underpin the risk management approach in line with best practice financial services risk management.

- ✓ The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them;
- ✓ the second line of defence provides advice, challenge and oversight; and
- ✓ Internal Audit (outsourced) is the third line of defence which helps to protect the Group's assets, reputation and sustainability

3.4 Risk Policies

Risk policies and standards covering all of the Group's key exposures provide best practice guidelines, clarify principles, define minimum standards and resolve conflicts.

3.5 Risk Register

The Bank works to a Risk Taxonomy comprising 5 key risk exposures: business, credit, treasury, operational and conduct risks. The Corporate Risk Register and overall risk reporting has been aligned to these exposures or categories together with more detailed sub-category reporting.

3.6 Risk Processes and Infrastructure

Within the Group a number of risk processes operate within a supporting infrastructure. Top level processes include the Strategic Business Plan Risk Assessments, ICAAP, ILAAP and RPRP documents. In addition to these processes regular working groups have been established for Liquidity (LWG) and for Capital (CWG) as part of the ICAAP planning process.

3.7 Risk Data, Management Information and Reporting

A suite of detailed management information reports exist to support the business.

4. Risk Categories

4.1 Risk Exposures

The CoRR is used to capture and categorise the risks considered as the most material to the Group. The CoRR is an integral part of the ERMF.

- Additional risks have been considered, but are not considered either material or relevant and these are summarised in Section 4.2.

The table below links the risk exposures to the risk appetite statements and the management committee which has responsibility for risk oversight.

Risk Exposure	Risk Appetite Statement	Executive Committee
Credit Risk The risk that failure or poor performance of credit management techniques and processes results in exposure to customer defaults and loss.	Credit Risk	CMC
Concentration Risk The risk arising from a lack of diversification of business. Key exposures are: geographical distribution of lending; large exposures; proportion of lending in each asset class; credit exposure to a single counterparty. Concentration Risk is also generated by over reliance on one source of funding; this is dealt with in Funding Risk below.	Credit Risk	CMC
Liquidity Risk The risk financial obligations are not met as they fall due. **Funding Concentration Risk** is a component of Liquidity Risk.	Treasury Risk	ALCO
Interest Rate Risk The risk that movement in interest rates adversely impacts net income or net worth as inadequate hedging of interest rate or basis risk is in place.	Treasury Risk	ALCO
Counterparty Risk The risk of failure of a counterparty to fulfil its contractual obligations by failing to pay. The main exposure is to counterparties to Treasury transactions.	Treasury Risk	ALCO
Business Risk The risk that the management business plan is not delivered through the selection of the wrong strategy, its improper implementation, a lack of responsiveness to external business developments or through changes in the business environment forcing deviation from the plan.	Business Risk	OCRC
Operational Risk The risk of financial loss, impairment of reputation or regulatory failure resulting from: poor governance structures (e.g. over material outsourcing); inadequate or failed internal processes or systems; inadequate people resource; financial crime; failure to protect information; or failure to manage change.	Operational Risk	OCRC
Conduct Risk The risk arising from a failure to treat customers fairly, or the failure to deliver an appropriate outcome for them.	Conduct Risk	OCRC (PMC for Product Risk)

4.2 Risk Not Present

The Group does not believe that the following commonly occurring risks are relevant as documented in the 2015 ICAAP assessment.

Risk	Rationale
Market Risk	Assets are not held for trading purposes and no foreign currency assets or liabilities are held.
Insurance Risk	The Group is not involved in any direct insurance activities and therefore does not have any insurance liabilities. Insurance cover for other risks is considered under Operational Risk.
Residual Risk	Residual Risk is the risk retained after the application of risk mitigation techniques such as Mortgage Indemnity Guarantee (MIG). MIG or other similar products are not in use and therefore no Residual Risk exists.
Securitisation Risk	The Bank sells mortgage assets to a securitisation company which will in turn issue residential mortgage-backed securities (RMBS). As part of the RMBS certain reps and warranties are provided which if breached could result in the buy back of loans from the RMBS structure, however this risk is not determined to be material,. For a number of these securitisations the residual certificates, subordinated loan and junior bonds may be held by the Bank which will receive the excess spread. These securitised assets will still be recognised on the Bank's balance sheet. Consequently, the Bank will not have any securitisation risk. Other entities within the Group may also hold residual certificates, subordinated loan notes and junior bonds receive the excess spread that is generated from the transaction, and also hold the right to call the asset from a future, agreed date. These securitised assets will not be recognised on the Bank balance sheet as Significant Risk Transfer (SRT) has been achieved; a status supported by legal and accounting independent opinions, and no objections from the PRA. Consequently, the Group will not have any securitisation risk as it has no ongoing exposure to the transaction. The Bank issued an RMBS securitisation in 2015 where neither it nor the wider Group has retained any position within the transaction, with all exposures, including the unrated notes and the rights to any excess spread, being sold to third party investors. The Bank has complied with CRR 405 risk retention requirements by randomly selecting 5% of the mortgage loans that would otherwise have been securitised. This structure has achieved a SRT as supported by legal opinion and accounting derecognition as supported by an accounting opinion, and no objections from the PRA; the Bank will not have any securitisation risk as it has no ongoing exposure to the transaction.
Pension Obligation Risk	Pension Obligation Risk is the risk that there is a shortfall in respect of defined benefit pensions. The Group does not have such a pension scheme.
Group Risk	The Bank (CCFS) is part of a simple group all parts of which are wholly owned by CCFSG. The only material other group company is the service company, Exact Mortgage Experts Ltd (EME), which manages some operational contracts and employs staff. A service contract between CCFS, CCFSG and EME was put in place on 6th December 2013 and was effective from 1st January 2014. The service agreement defines roles, responsibilities and financial arrangements. The contract is structured on the basis that EME will be obliged to continue to provide essential staff and services in the event of CCFS' insolvency to facilitate its RPRP.
Remuneration Risk	The Group's variable pay structure and risk appetite ensure that staff are not rewarded by taking additional risks outside of the agreed appetite and risk framework.

4.3 Credit Risk

Credit risk arises from the failure or poor performance of credit management techniques and processes resulting in exposure to customer defaults and loss.

The Group is exposed to Credit Risk from the following areas of business activity:

- Residential First Lien Mortgage Lending;
- Buy-To-Let (BTL) First Lien Mortgage Lending;
- Secured Second Lien Lending;
- First and Second Lien Bridging Finance;
- Held to Maturity Treasury Investments; and
- Treasury Operations.

Residential and BTL Credit Risk exposures consist of securitised and unsecuritised exposures. Except where Significant Risk Transfer and accounting derecognition has been achieved, Credit Risk is assessed under the Standardised Approach against the underlying risk exposures as if the securitisation had not taken place.

Held to Maturity Treasury Investments are made in accordance with a Board approved Treasury Investment Policy which specifies minimum ratings and permitted asset classes.

Exposures due to Treasury Operations comprise of balances due from Financial Institutions representing cash balances, derivatives, held-to-maturity liquid assets and short term money market placements.

4.3.1 Credit Exposures

The table below sets out credit risk by type net of specific provisions at 31 December 2015.

Exposure Class	2015 £m UK	2015 £m Ireland	2015 £m France	2015 £m Total
Government	463.3			463.3
Institutions	14.3	65.4	0.1	79.8
Secured By Mortgages on Immovable Property	675.1			675.1
Exposures in Default	0.8			0.8
Other Assets	5.1			5.1
Securitised Exposures Secured by Mortgages on Immovable Property	1,341.6			1,341.6
Securitisation Positions	112.2			112.2
Total	**2,612.4**	**65.4**	**0.1**	**2,677.9**

4.3.2 Loss Provisioning

Mortgage receivables are reviewed for indications of possible impairment throughout the year and at each Statement of Financial Position date, in accordance with IAS 39. Where individual loans exhibit objective evidence of impairment, specific provisions are calculated representing the difference between the carrying value of the loans and the net present values of their expected future cash flows, including the value of the potential security, discounted at the original Effective Interest Rates (EIR). Any loan which is 90 days past due is presumed to be in default and is subject to specific provisioning. Loans are assessed collectively for potential impairment, grouped by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the Statement of Financial Position date.

At 31 December 2015 the Group held the following specific and collective credit loss provisions:

Provision Type	2015 £m
Collective	0.3
Specific	0.3
Total Credit Loss Provisions	**0.6**

All impairment provisions relate to Exposures Secured by Mortgages on Immovable Property.

4.3.3 Credit Risk Weighted Exposures

The Group uses the Standardised Approach to determine regulatory capital requirements for Credit Risk Exposures. Under the Standardised Approach exposure risk weighting is determined by reference to class, counterparty ratings and for retail assets whether the exposure is secured or unsecured. The Credit Risk capital requirement, which represents the minimum Pillar 1 capital requirements, is equal to Risk Weighted Exposure Values multiplied by 8%.

As at 31 December 2015 the Group's Risk Weighted Exposure values by class were as follows:

Exposure Class	2015 £m Exposure	2015 £m Risk Weighted Assets	2015 £m Average Risk Weight	2015 £m Pillar 1 Requirement
Government	463.3	-	0.0%	-
Institutions	79.8	16.7	20.9%	1.3
Secured By Mortgages on Immovable Property	675.1	237.6	35.2%	19.0
Exposures in Default	0.8	0.7	84.7%	0.1
Other Assets	5.1	5.1	100.0%	0.4
Securitised Exposures Secured by Mortgages on Immovable Property	1,341.6	471.8	35.2%	37.7
Securitisation Positions	112.2	22.4	20.0%	1.8
Total	**2,677.9**	**754.3**		**60.3**
Total Inclusive of Credit Value Adjustments	**2,677.9**	**755.7**		**60.5**

4.3.4 Treasury Counterparty Credit Risk

Counterparty Credit Risk occurs through Treasury operations in the management of liquidity and market risk, and held to maturity investments in high credit and liquidity quality assets. The Group has a defined appetite for Wholesale Counterparty Risk. The minimum required Long Term counterparty rating is A-/A3, as determined by at least two of Moody's, Fitch and Standard and Poor's. The minimum Short Term counterparty rating P-2/A-2/F2 as rated by each of Moody's, Fitch and Standard and Poor's. Limits to maximum allowable exposures to single counterparties are specified in the Treasury Wholesale Credit Policy. This risk is considered to be inherently low from a capital perspective due to the quality of the counterparties the Group will do business with and the conservative limits that are in place.

Counterparty	2015 - £m					
	Banks and Institutions	RMBS	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Central Bank Balances and Government	463.3	0.0	463 .1	0.0	0.0	0.2
Other Credit Step Quality 1	66.4	112.2	65.4	0.0	113.2	0.0
Credit Step Quality 2	13.4	0.0	11.0	0.0	2.4	0.0
Total	**543.1**	**112.2**	**539.5**	**0.0**	**115.6**	**0.2**

Market Risk arising from the origination of fixed rate retail assets and liabilities is managed through interest rate derivative contracts. The Bank trades in OTC derivative contracts under the terms of bilateral ISDAs. The ISDA arrangements in place provide for the netting of valuations and settlements due across all transactions covered by the contract. Under the terms of the ISDAs the Bank will receive collateral for net exposures and post collateral for net liability positions. Collateral exchanges are normally in the form of cash.

Interest rate risk relating to securitised assets is managed through bilateral interest rate swap agreements entered in to by Group SPVs that are not subject to margining but have rating triggers that require the swap counterparties to be replaced in the event of a multiple notch rating downgrade.

4.4 Operational Risk

Operational Risk is the risk of financial loss, impairment of reputation or regulatory failure resulting from: poor governance structures (e.g. over material outsourcing); inadequate or failed internal processes or systems; inadequate people resource; financial crime; failure to protect information; or failure to manage change.

The Group assess Operational Risk under the Basic Indicator Approach (BIA) and uses operational risk scenarios to determine an additional level of Pillar 2 operational risks not covered under the BIA for those material risks identified under the CoRR.

4.5 Market Risk

The Group does not hold any assets for trading purposes and does not have any foreign currency assets or liabilities. Excess regulatory liquidity may be invested in high quality liquid assets. Such investments are held to maturity and do not form part of the Group's liquid asset buffer. However, the ability to raise liquidity through sale and repurchase of these assets is retained. As at 31 December 2015 the Group has accumulated an investment portfolio with a book value of £44.4m.

4.5.1. Interest Rate Risk

Interest Rate Risk in the Banking Book (IRRBB), including Basis Risk, is the risk of losses arising from changes in interest rates for banking book items. The Group is exposed to IRRBB arising from Duration Risk, Basis Risk and Optionality Risk. The overall risk appetite for IRRBB in the banking book is expressed as a percentage of Group CET1 capital at risk from a 2% parallel shift in the yield curve and a tail risk stress on interest rate basis mismatch.

The Group also monitors and maintains limits for Net Interest Income at risk from a 0.5% shift in the yield curve over a 12 month time horizon.

4.6 Asset Encumbrance

Disclosures on Assets Encumbrance for the Bank only are included at Appendix 2.

5.1 Capital Management Framework

Stakeholder	ICAAP Responsibility
Finance Function (1st Line of Defence*)	• Preparation of budgets in accordance with the strategic plan approved by the Board • Preparation of the capital plan • Application of stress testing scenarios and result analysis • Proposal of capital allocation
All functions (1st Line of Defence*)	• Provision of data for preparation and implementation of the ICAAP • Identification of risks
Risk Management Function (2nd Line of Defence*)	• Design of the risk management framework • Preparation of risk management policies • Establishment of risk monitoring and measurement methodology • Preparation of the ICAAP
Internal Audit Function (3rd Line of Defence*)	Independent assessment of: • the risk assessment, stress testing and capital allocation processes and their compliance with regulatory obligations; • financial data and consistency with financial records; and • that the ICAAP process is followed according to the Board's requirements.
Directors (3rd Line of Defence*)	• Definition of business strategy and objectives, and the risk profile • Establishment of an appropriate internal control system, especially in relation to the ICAAP • Review, approval and understanding of ICAAP

* See paragraph 3.3 Three Lines of Defence (3LOD) Organisation

The Group's capital resources and requirements use the CRD IV framework as implemented locally by the PRA.

The Pillar 1 risk assessment is under the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. As part of the ICAAP a Pillar 2 assessment of risks not covered in Pillar 1 is undertaken. Following the annual SREP visit and review of the ICAAP the PRA confirms by letter the Group and Bank's Individual Capital Guidance, which covers Pillar 1 and Pillar 2 requirements.

5.2 Capital Developments

The PRA updated a number of policy and supervisory statements in 2015 impacting capital, the key ones being 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)' - SS31/15 issued in July 2015 and updated in August 2015 together with PS17/15 'Assessing Capital Adequacy Under Pillar 2'.

The PRA's methodologies for setting Pillar 2 capital under PS 17/15 introduced a number of new measures including the decision to replace the Capital Planning Buffer (CPB) with a new regulatory buffer called the PRA Buffer to work with the CRD IV Systemic Risk Buffers (SRB) and Capital Conservation Buffer (CCoB).

The PRA Buffer assessment will be based on the outputs from the stress tests. In setting the PRA Buffer, the PRA will consider the extent to which the CRD IV buffers already capture the risks identified in the PRA Buffer assessment and will continue to apply a more flexible approach to new entrants and expanding smaller banks.

The Basel Committee on Banking Supervision issued its second conductive document on Revisions to the Standardised Approach for credit risk in December 2015.

5.3 Capital Composition

The following table sets out the regulatory capital resource of the Group at 31 December 2015.

Common Equity Tier 1 (CET1)	2015 £m
Share Capital	0.0
Share Premium	165.0
Retained Earnings	1.0
Regulatory Adjustments to CET1:	
Intangible Assets	(0.4)
Deferred Tax Asset	(0.2)
Common Equity Tier 1 Capital	**165.4**

Tier 2	2015 £m
Share Capital	0.0
Share Premium	0.0
Collective Impairment Allowance	0.3
Total Tier 2 Capital	**0.3**

Total Capital	**165.7**

5.3.1 Capital Flows

Changes in the Group's Regulatory Capital during the year ended 31 December 2015 are set out below:

	2015 £m
Capital At 1 January 2015[(1)]	(20.4)
Ordinary Share Capital	0.0
Share Premium	165.0
Profit For The Year	21.4
Intangible Fixed Asset Deduction	(0.4)
Deferred Tax Asset Deduction	(0.2)
Total Tier 1 Capital At 31 December 2015	**165.4**

[(1)] The Group became regulated by the PRA and licenced to take Retail Deposits through its principal subsidiary Charter Court Financial Services Limited on 6 January 2015 following the issue of new ordinary share capital for £165m. Prior to this date there was no external regulatory capital requirement at Group level.

5.3.2 Tier 1 Capital

The Group's Tier 1 Capital consists of issued ordinary share capital and associated premiums plus accumulated audited accounting profits. In accordance with Article 36 of the CRR adjustments are made to CET1 for intangible fixed assets and deferred tax assets.

5.3.3 Tier 2 Capital

The Group's Tier 2 Capital consists of issued preferred ordinary share capital and associated premiums plus added back Collective Impairment Provisions. The Tier 2 share capital ranks behind any claims from Group creditors and depositors; and is subject to a fixed return of Libor. The Collective Impairment Provisions are recognised subject to the cap of 1.25% of RWAs imposed under Article 62 of the CRR. This cap was not exceeded at 31 December 2015.

5.3.4 Reconciliation of Equity to Regulatory Capital

Set out below is a reconciliation of Group Total Equity per the Consolidated Statement of Financial Position included in the Annual Report and Regulatory Capital.

	2015 £m
Regulatory Capital	165.7
Collective Impairment Provisions	(0.3)
Intangible Fixed Asset Deduction	0.4
Deferred Tax Asset	0.2
Total Equity	**166.0**

5.3.5 Capital Surplus: Pillar 1

The Group's Pillar 1 minimum capital requirement is calculated as the sum of Credit Risk and Operational Risk requirements. The Group's minimum Pillar 1 requirement at 31 December 2015 was:

	2015 £m
Credit Risk	60.5
Operational Risk	1.7
Total Pillar 1 Requirement	**62.2**

Tier 1 capital ratio	21.3%
Total Capital Ratio	**21.3%**

The Group's surplus capital resources over minimum Pillar 1 requirements at 31 December 2015 was as follows:

	2015 £m
Capital Resources Requirement - Pillar 1	62.2
Capital Resources:	
CET 1	165.4
Other Tier 1	0.0
Tier 2	0.3
Capital Surplus:	
CET 1	103.2
Tier 1	103.2
Total Capital	**103.5**

Detailed information on Credit Risk Exposures is included in Section 4.

5.4 Countercyclical Capital Buffers

Institutions are required to comply with the requirements for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU (the CRD). The Group has assessed its countercyclical capital buffer requirement as zero for 2015, 2016 and 2017 following the FPC's July 2016 announcement.

5.5 Leverage Ratio

The Group calculates its Leverage Ratio as its Tier 1 Capital divided by the sum of its total exposures and expresses the result as a percentage in accordance with Article 429 of the CRR. The Leverage Ratio is calculated at quarter end dates and no adjustments to Tier 1 Capital, as permitted through the derogations under Chapter 1 and 2 of the CRR, are applied.

	2015 £m
Tier 1 Capital	165.4
Total Assets per the Group Statement of Financial Position	2,604.6
Derivative Exposure Items	2.0
Off Balance Sheet Exposures	72.1
Collective Provisions	0.3
Deferred Tax	(0.3)
Intangibles	(0.4)
Other Adjustments	(0.3)
Leverage Ratio Exposures	2,678.0
Leverage Ratio	**6.1%**

Derivative exposure values are calculated in accordance with the Mark-to-Market Method and applicable rules set out in the CRR. Deferred Tax and Intangibles are excluded from Total Exposures as they are deducted directly from Tier 1 Capital.

Off Balance Sheet Exposures represent commitments to provide credit which are not unconditionally cancellable. Leverage Ratio Exposure values for off balance sheet items are determined after applying a credit conversion factor to the nominal value of the items. Medium/low risk commitments to provide credit with an original maturity of up to one year attract a conversion factor of 20%.

The Group has a significantly higher Leverage Ratio than the Bank of England minimum requirement of 3%. The following items have impacted the Group's Leverage Ratio in 2015:

- Issue of £165m of CET 1 Capital
- Increase in Assets to £2.6 bn

An analysis of Group Leverage Ratio Exposures is set out below.

	2015 £m
Trading Book Exposures	-
Banking Book Exposures:	
Central Government	463.3
Institutions	79.8
Secured By Mortgages of Immovable Property	2,016.7
Exposures In Default	0.8
Securitisation Positions	112.2
Other Assets	5.1

6.1 Introduction

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 disclosure requirements of Pillar 3 are defined by CRR Article 450 and BIPRU 11. Information is provided here for remuneration received by individuals identified as within the scope of the regulatory requirements (Code Staff) for the year ending 31 December 2015.

During the year ending 31 December 2015, a total of 13 individuals were identified as Code Staff. Of these, 10 were categorised as Senior Management (being the Executive and Non-Executive Directors, an interim contractor who served during the year and members of the senior management team reporting directly into the Chief Executive Officer), as well as three individuals categorised as other Code Staff.

6.2 Role of the Committee

The Group Board has established a Remuneration and Nomination Committee (the "Committee") which is responsible for the decision making process for determining the Group's remuneration policy. The primary focus of the Committee during the year ending 31 December 2015 was as follows:

- assessing the effectiveness and relevance of the remuneration policy and its implementation, ensuring that procedures and processes were compliant with regulatory standards;
- identifying those employees who should be regarded as Code Staff and regularly monitoring the level and structure of their remuneration and taking reasonable steps to ensure that arrangements were in place to ensure existing and new employees received adequate information to understand the regulatory requirements;
- approving the design and structure of the variable remuneration scheme for Code Staff;
- agreeing and recommending for approval payments proposed under the variable remuneration scheme for Code Staff, whilst having regard to the remuneration trends of non-Code Staff and total remuneration outcomes;
- agreeing and recommending approval of salary increases for Code Staff and considering the pension impact/ costs of any increases, whilst having regard to the remuneration trends of non-Code Staff;
- reviewing and recommending for approval the Remuneration Policy Statement;
- ensuring that provisions regarding disclosure of remuneration policy and practices for Code Staff were fulfilled.

6.3 Composition of the Committee

During the year ending 2015, the Committee consisted of three non-executive directors and was constituted in a way that enabled it to exercise its independent judgment and demonstrate its ability to make decisions which were consistent with effective risk management and the current and future financial interests of the Company.

The Committee meets as circumstances require, but at least four times a year, to enable responsibilities to be discharged. During the year ending 31 December 2015, the Committee met four times.

6.4 Role of Relevant Stakeholders

During the year ending 2015, the Committee was attended by the Chief Executive Officer, supported by the Director of Operations who has responsibility for people management within the Group. The Committee may request the attendance of any executive, or other person as deemed appropriate, to facilitate the review of remuneration recommendations and policy design to ensure that the remuneration practices are consistent with effective risk management and appropriate financial measures. Additional attendees may include, for example individuals from the Risk and Finance functions. No person was in attendance when matters concerning their own remuneration or fees were discussed.

In performing its duties, the Committee draws on the advice of independent external consultants. During the year the Committee received information on market rates of pay, best practice and remuneration trends from Deloitte LLP. Deloitte LLP is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

6.5 The Link between Pay and Performance

During the year ending 2015, variable remuneration awards for Code Staff were awarded by the Committee in a manner which promoted sound risk management, did not encourage excessive risk taking and promoted the long term interests of the Company.

The Company aligned its remuneration policy to be consistent with and promote effective risk management by adopting the following principles:

- a rigorous governance structure was in place to promote sound and effective risk management which did not encourage risk taking that exceeded the agreed level of tolerated risk;
- performance assessment measures for all Code Staff included both financial and non-financial objectives and were weighted towards non-financial measures to ensure that any variable remuneration awards did not undermine effective risk management;
- the design, structure and performance assessment measures for Code Staff were reviewed and agreed by the Chief Risk Officer to ensure it reflected the agreed risk appetite and profile, that any current and future risks were considered and that any risk adjustment techniques were validated and assessed;
- the design, structure and performance assessment measures for Code Staff were reviewed and agreed by the Chief Financial Officer to ensure that it was based on appropriate measures of profit;
- variable remuneration awards for Code Staff were at the discretion of the Committee and were subject to overall company and individual performance.

Remuneration decisions for all Code staff were reviewed by the Committee prior to approval. All remuneration decisions for non-Code Staff were approved by a member of the senior management team and HR before implementation.

6.6 Design and Structure of Remuneration

Remuneration policies are designed to comply with the Code and the Group is committed to adherence to its practices and guidelines in respect of Code Staff. The Group aims to offer competitive remuneration to enable us to attract, motivate and retain the very best people. The Group's remuneration policies are designed to ensure high levels of performance are encouraged to increase individual motivation by establishing a clear link between pay and performance, to reward employees for their valued quantitative and qualitative contributions and to create and reinforce the desired workplace conduct, culture and values with a view to delivering good outcomes for customers.

During the year ending 2015, there were three main elements of remuneration available to Code Staff:

- fixed remuneration and fees;
- variable remuneration; and
- employee benefits.

The proportion of fixed versus variable remuneration was carefully considered to ensure that there was not an over reliance on variable remuneration and that remuneration did not incentivise employees to take risks or act in a manner which was not in the long terms interests of the customer and the Group.

6.7 Fixed Remuneration and Fees

During the year ending 2015, all Code Staff, excluding the Non-Executive Directors and the interim contractor, received a basic fixed salary which was determined on the basis of the role and the position of the individual employee, including professional experience, skills, responsibility, role complexity and local market conditions. Salaries were reviewed by the Committee and recommended for approval during the year with consideration given to external market data for similar roles in the financial services sector. Other factors considered by the Committee included the individual's skills, experience and performance and the approach being taken on salaries in the wider organisation.

Non-Executive Directors and an interim contractor received fees for their services during the year. Fees were reviewed by the Committee and recommended for approval with consideration given to external market data for similar fee structures in the financial services sector as well as the time commitment for the role.

6.8 Variable Remuneration

During the year ending 31 December 2015, the company had one variable remuneration scheme available to Code Staff, other than the Non-Executive Directors and the interim contractor.

Non-Executive Directors and the interim contractor did not participate in any variable remuneration scheme.

6.9 Variable Remuneration Scheme

In the year ending 31 December 2015, eligible Code Staff participated in a discretionary variable remuneration scheme, the metrics of which were based on agreed key objectives.

The Group's performance was assessed against a number of financial and non-financial performance measures on a balanced scorecard, including:

- financial performance;
- people;
- values and culture;
- customers and clients; and
- risk management.

The performance measures provided challenging objectives that were aligned with agreed plans and weighted towards non-financial measures to ensure that any variable remuneration award did not undermine effective risk management. Variable remuneration awards were also moderated based on individual performance during the performance year.

The scheme was fully flexible which allowed no variable remuneration to be awarded, regardless of an individual's performance, if the overall Group performance did not warrant a bonus to be paid during the year. The variable remuneration award could also be reduced in part or withheld altogether at an individual level, to ensure that substandard performance or failure was not rewarded.

All Code Staff who participated in the scheme during the year ending 31 December 2015 were not subject to the full Code due to proportionality, and as such variable remuneration awards were paid in full in cash at the end of the performance year.

6.10 Other Variable Remuneration Schemes

From time to time Code Staff may be eligible to participate in other variable remuneration schemes which are designed to reward participants for enhancing value for shareholders. These schemes may consist of the issue of cash and/or shares awarded only in the event of particular company outcomes by a particular date. These schemes are also subject to continued satisfactory performance and continued employment until payment of any such award. Restriction periods add a longer term element to focus behaviour and decision making activity beyond the current year.

6.11 Employee Benefits

During the year ending 2015, Executive Directors and members of the senior management team were provided with benefits commensurate with their role which comprise a car allowance, pension arrangements, private medical insurance and life assurance. Some Executive Directors and members of the senior management team were also provided with car insurance, dental cover, critical illness cover and group income protection insurance.

Other Code Staff were provided with similar car, pension, life assurance and private medical insurance arrangements.

Non–Executive Directors and the interim contractor did not receive employee benefits.

6.12 Aggregate Remuneration Expenditure for Code Staff

During the year ending 31 December 2015, there were a total of 13 Code Staff. Of these, 10 were categorised as Senior Management (being the Executive and Non-Executive Directors, an interim contractor who served during the year and members of the senior management team reporting directly into the Chief Executive Officer), as well as three individuals categorised as other Code Staff.

Remuneration by band

The table below shows total remuneration by bands during the year ending 31 December 2015:

Remuneration Band (Euros) [1]	Number of Code Staff
1 million to 1.5 million	1
Less than 1 million	12

[1] Total Remuneration has been calculated including base salary, allowances and variable remuneration in relation to the year ending 31 December 2015, and fees for Non-Executive Directors and an interim contractor

Aggregate Remuneration Expenditure for Code Staff, broken down by business area

The table below shows the total remunerations awarded to Code staff during the year ending 31 December 2015, broken down by business area:

	Executive £k	Finance[1] £k	Risk [2] £k	Operations £k	Sales & Marketing £k	Savings £k	Total £k
Total Remuneration	959	664	780	549	551	227	3,730

[1] Finance represents Finance and Treasury.

[2] Risk represents Risk, Credit Risk and Legal and Compliance.

Aggregate Remuneration Expenditure for Code Staff, broken down by remuneration type

The table below shows the total fixed and variable remuneration awarded to Code Staff, the amounts and form of variable remuneration and the number of beneficiaries during the year ending 31 December 2015:

	Senior Management £k	Other Code Staff £k	Total £k
Total fixed remuneration	1,770	432	2,202
Variable remuneration awarded in cash	1,391	137	1,528
Total variable remuneration	1,391	137	1,528
Total Remuneration	**3,161**	**569**	**3,730**
Number of Code Staff	10	3	13

Aggregate remuneration expenditure in respect of all Code Staff during the year ending 31 December 2015 was £3.7m, of which 59% represented fixed remuneration and 41% represented variable remuneration.

6.13 Deferred Remuneration

During the year ending 31 December 2015, the Company did not operate any deferral of variable remuneration awarded to its Code Staff. Based on proportionality, there was no requirement for the Company to operate deferral of remuneration.

6.14 Sign-on and Severance Payments

During the year ending 31 December 2015, the Company did not make any sign-on or severance payments to its Code Staff.

Appendix 1
Pillar 3 Disclosures for Charter Court Financial Services Limited (the Bank)

This sections sets out the Pillar 3 disclosures of the Bank, being the significant subsidiary of the Group, on a solo basis in accordance with Article 13 of the CRR.

The differences between the Bank and the Group primarily relates to a single securitised asset portfolio that has been derecognised from the Bank's balance sheet but not the Group's for prudential and financial reporting purposes.

Capital Resources at 31 December 2015

Common Equity Tier 1 (CET1)	2015 £m
Share Capital	2.9
Share Premium	122.6
Retained Earnings	26.0
Regulatory Adjustments to CET1:	
Intangible Assets	(0.4)
Deferred Tax Asset	0.0
Common Equity Tier 1 Capital	**151.1**

Tier 2	2015 £m
Share Capital	0.0
Share Premium	0.0
Collective Impairment Allowance	0.3
Total Tier 2 Capital	**0.3**

Total Capital	**151.4**

Capital Requirements – Pillar 1 as at 31 December 2015

The Pillar 1 requirements for the Bank were as follows:

	2015 £m
Credit Risk	54.3
Operational Risk	1.9
Total Pillar 1 Requirement	**56.2**

Tier 1 capital ratio	21.5%
Total Capital Ratio	**21.6%**

Countercyclical Capital Buffer

Institutions are required to comply with the requirements for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU (the CRD). The Bank has assessed its countercyclical capital buffer requirement as zero for 2015, 2016 and 2017 following the July 2016 FPC announcement.

Capital Flow Year Ended 31 December 2015

	2015 £m
Regulatory Capital At 1 January 2015[1]	6.1
Ordinary Share Capital	0
Share Premium	122.6
Profit For The Year	**19.4**
Intangible Fixed Asset Deduction	(0.1)
Deferred Tax Asset Deduction	3.1
Total Tier 1 Capital At 31 December 2015	**151.1**

[1] The Bank became regulated by the PRA and licenced to take Retail Deposits on 6 January 2015 following the issue of new ordinary share capital for £122.6m. Prior to this date the Bank was regulated by the FCA as a non-bank and had to hold regulatory capital in accordance with the prudential rules for Mortgage and Home Finance Firms, and Insurance Intermediaries.

Reconciliation of Statutory Capital to Regulatory Capital Year Ended 31 December 2015

	2015 £m
Regulatory Capital	151.4
Collective Impairment Provisions	(0.3)
Intangible Fixed Asset Deduction	0.4
Deferred Tax Asset	0.0
Total Equity	**151.5**

Capital Surplus At 31 December 2015

	2015 £m
Capital Resources Requirement - Pillar 1	56.1
Capital Resources:	
CET 1	151.1
Other Tier 1	0.0
Tier 2	0.3
Capital Surplus:	
CET 1	95.0
Tier 1	95.0
Total Capital	**95.3**

Leverage Ratio At 31 December 2015

	2015 £m
Tier 1 Capital	151.1
Total Assets per the Group Statement of Financial Position	2,412.4
Derivative Exposure Items	1.4
Off Balance Sheet Exposures	73.1
Collective Provisions	0.3
Deferred Tax	0.0
Intangibles	(0.4)
Other Adjustments	(73.8)
Leverage Ratio Exposures	2,413.0
Leverage Ratio	**6.3%**

Leverage Ratio At 31 December 2015

	2015 £m
Trading Book Exposures	-
Banking Book Exposures:	
Central Government	463.3
Institutions	6.7
Secured By Mortgages of Immovable Property	1,817.5
Exposures In Default	0.8
Securitisation Positions	112.2
Other Assets	12.5

Appendix 2
Asset Encumbrance Disclosures

Charter Court Financial Services

The following disclosures are provided in accordance with Article 443 of the CRR "Unencumbered assets" following guidance issued by the European Banking Authority on "disclosures of encumbered and unencumbered assets" in June 2014. The disclosures relate to the Bank only.

Template A - Assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	674,562,642		1,683,248,559	
030	Equity instruments				
040	Debt securities	7,186,104	7,229,383	126,322,055	128,180,061
120	Other assets	667,376,538		1,556,926,504	

Template B
Collateral received disclosures are not presented in accordance with Supervisory Statement SS11/14 issued by the PRA in December 2014, which provides a waiver from disclosures under Template B for firms that meet certain balance sheet value criteria.

Template C - Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	653,291,626	674,562,643

Template D - Information on importance of encumberance
The Bank encumbers its balance sheet through the securitisation of mortgage assets which are not derecognised from the Bank's balance sheet and the raising of short term funding through commercial and central bank repurchase agreements.

The Bank maintains an overall level of asset encumbrance percentage below a limit agreed with the PRA.

Appendix 3
Glossary of Terms

Charter Court Financial Services

Basic Indicator Approach (BIA)	Is a set of operational risk measurement techniques specified by BCBS and detailed in the CRR IV, used to calculate Capital required for Operational Risk
BCBS	Basel Committee on Banking Supervision
CCoB	Capital Conservation Buffer
CET1	Common Equity Tier 1
CoRR	Corporate Risk Register
CPB	Capital Planning Buffer
CRR	Capital Requirements Regulation
CRD	Capital Requirements Directive also known as CRD IV (being the 4th update of the Basel Directives)
CWG	Capital Working Group
EIR	Effective Interest Rate
ERMF	Enterprise Risk Management Framework
FPC	Financial Policy Committee
FSB	Financial Stability Board
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
KRI	Key Risk Indicator
LWG	Liquidity Working Group
OTC	Over The Counter
Pillar 1	The first pillar - Minimum Capital Requirement covers total risk including the credit risk, market risk as well as Operational Risk
Pillar 2	The second pillar - Supervisory Review Process is intended to ensure that the banks have adequate capital to support all the risks associated in their businesses.
Pillar 3	The third pillar complements the first and second pillar. This is completed through these disclosures of capital structure and approaches to assess the capital adequacy including the governance
PRA	The Prudential Regulation Authority
RAF	Risk Appetite Framework
RMBS	Residential Mortgage Backed Security
RPRP	Recovery Plan and Resolution Pack
RWA	Risk Weighted Assets
Securitisation	The process of taking less illiquid assets, or group of assets, and through financial structuring, transforming them into a tradeable security. A typical example of securitisation is a residential mortgage-backed security (RMBS), which is a type of asset-backed security that is secured by a homogenous collection of mortgages
SRB	Systemic Risk Buffer
SREP	Supervisory Review and Evaluation Process
SRT	Significant Risk Transfer
Standardised Approach	Refers to a set of credit risk measurement techniques specified by BCBS and detailed in the CRR for the calculation of Risk Weighted Assets (RWA's) for Pillar 1
3LOD	Three Lines of Defence

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