Charter Court
Financial Services Group plc

THE SPECIALIST MORTGAGE BANK

Annual Report
and Accounts
2017

Contents

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 ("Charter Court") and its subsidiaries (together "the Group"). Actual results and developments may differ materially from those expressed or implied by these statements and depend on a variety of factors.

These statements are made in respect of Charter Court's intentions or future beliefs and 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.

www.chartercourtfs.co.uk

Strategic report

Business overview

Who we are

Charter Court Financial Service Group plc ("Charter Court") and its subsidiaries (together "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 an online bank which provides a range of competitive savings products via its website.

For more information see pages 20 to 21.

Total savings balances of

£4.4bn

(2016: £3.4bn)

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 16 to 19.

A net loan book of

£5.4bn

(2016: £3.8bn)

Exact Mortgage Experts

Exact Mortgage Experts ("Exact") administers mortgages originated by Precise Mortgages and selected third parties. It offers portfolio pricing services and credit consultancy to institutional clients.

Mortgages administered or serviced of

£21.3bn

since 2008

As at 31 December 2017 unless stated otherwise.
1 Based on the volume of mortgages generated in 2017 in the core markets in which it operates.

How we got here

2008

Launched by current management team with investment from Elliott

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 focus of the initial 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 management 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 solid 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 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 net 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-.

Within the first year of operation, CSB's retail savings deposits surpassed £1 billion. Supported by the enlarged funding base, Charter Court achieved cumulative mortgage originations of above £2 billion.

2016

Continued 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 the total mortgage balance sheet 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

Cumulative loan originations of over £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.

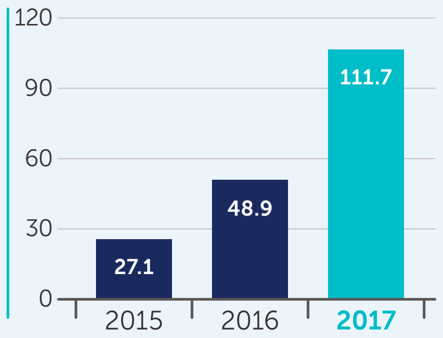
Just two months after securing third place in The Sunday Times "100 Best Companies to Work For" rankings in March 2017, Charter Court was recognised as one of the UK's most inspiring companies in London Stock Exchange Group's 1,000 "Companies to Inspire Britain 2017" report.

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

2017 highlights[1]

Profit before tax (£m)

Statutory

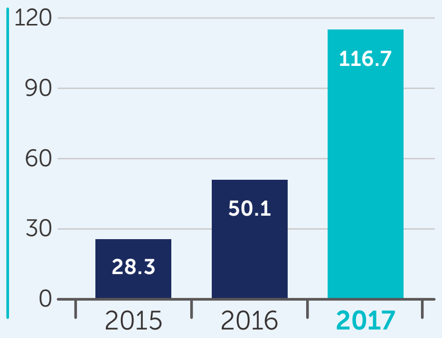


£111.7m

+128% vs. 2016

Total profit generated by the Group before paying tax.

Underlying

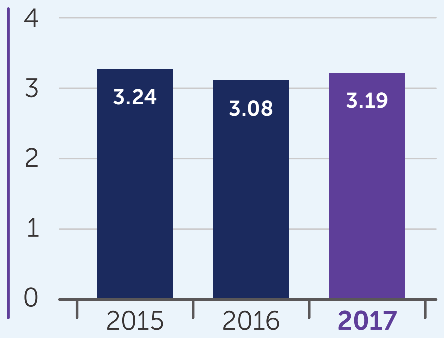


£116.7m

+132% vs. 2016

Total profit generated by the Group before paying tax, excluding one-off expenses related to our IPO in 2016/17 and attempted sale of the business in 2015/16.

Net interest margin (%)



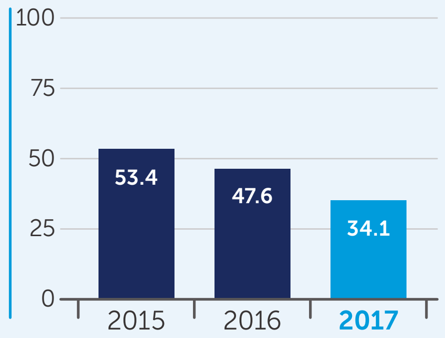
3.19%

+3.50% vs. 2016

Net interest income as a percentage of average interest earning assets.

Cost income ratio (%)

Statutory

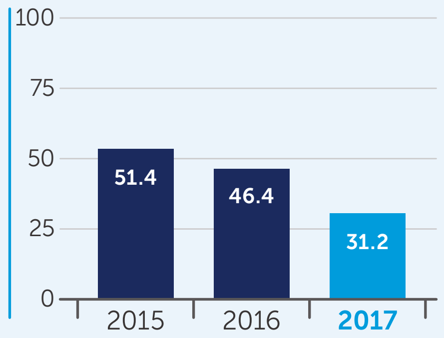


34.1%

-28% vs. 2016

Total costs as a percentage of total income.

Underlying



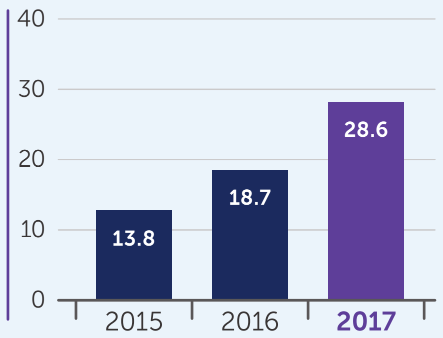
31.2%

-33% vs. 2016

Total costs, excluding one-off expenses related to our IPO in 2016/17 and attempted sale of the business in 2015/16, as a percentage of total income.

Return on equity (%)

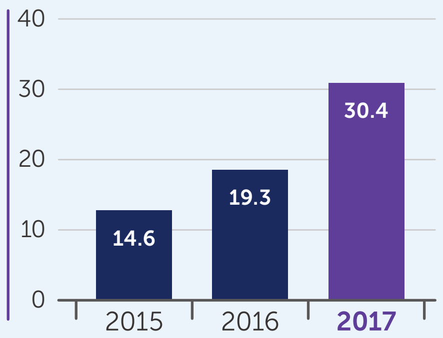
Statutory



28.6%

+53% vs. 2016

Underlying

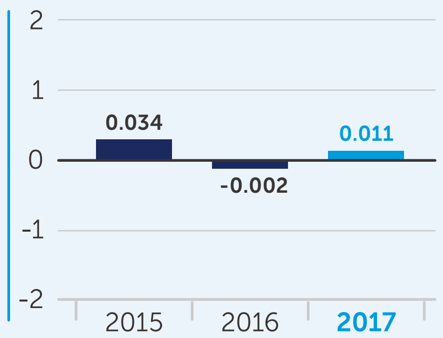


30.4%

+58% vs. 2016

Amount of profit generated with each £ of shareholders' equity.

Cost of risk[2] (%)

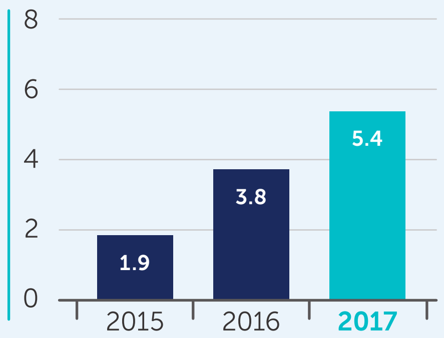


0.011%

The cost of managing risks and incurring losses.

Loan book (£bn)

Customer loans and receivables



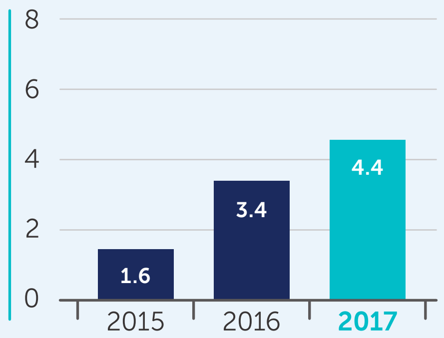
£5.4bn

+42% vs. 2016

Outstanding balance of loans we provided to customers.

Retail deposits (£bn)

Deposits from customers



£4.4bn

+29% vs. 2016

Current balance of savings deposited with us by our retail customers.

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

Please see page 154 for further detail.

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

Chairman's statement

It was my great privilege to join the Board of Charter Court in 2017, at a time when the Group had embarked on the next stage of its development as a publicly listed company.

By delivering a successful IPO and listing on the London Stock Exchange in October 2017, Charter Court reinforced its positioning as one of the UK's leading specialist mortgage and savings banks and created a strong platform for future growth.

Clear strategic focus on specialist mortgage model

Despite undergoing significant internal transformation and in the face of heightened market uncertainty and rapid regulatory change, Charter Court maintained its position as the UK's leading specialist mortgage lender in its core markets, by volume of mortgages generated. The Group also further developed its retail savings business by providing competitive savings products and personal, reliable service to over 100,000 customers.

This robust performance in uncertain market conditions both underlines the resilience of our business model and the ability of our management team to deliver our strategy.

Effective corporate governance

Throughout its history, Charter Court has been committed to delivering high standards of corporate governance, a commitment that remains firmly in place today. As part of our transition to a publicly listed company, in 2017 we undertook a review of our Board composition and corporate governance practices to ensure these will be fully compliant with the UK Corporate Governance Code, and aligned with the expectations of our current and future shareholders.

Through this process, we established a Disclosure Committee that, alongside our four committees, assists the Board in carrying out its functions. We also welcomed Noël Harwerth to the Charter Court Board as an Independent Non-Executive Director. She brings with her a depth and breadth of experience which will be of significant additional value to the Board.

▶ For more information see Corporate governance on pages 46 to 89.

I would like to take this opportunity to extend my gratitude to Philip Jenks, who has served as Chairman of the Board since 2015. Philip has made a valued contribution in building the business, its governance infrastructure and the regulatory relationships that the Group enjoys today. Following the listing, the Board continues to benefit from his skills and experience through his role as Deputy Chairman.

As a Board, we recognise that effective corporate governance requires diverse perspectives and skill sets as well as personal attributes that are aligned with our corporate values. We remain committed to inclusion in all its forms and to achieving greater representation of women on our Board. This is already an important consideration during searches for new Board members and will be a key priority for us in the years to come.

Delivering value to our shareholders

In 2017, we adopted a dividend policy which envisages a pay-out ratio reflective of the growth profile of Charter Court's business. The Board currently targets a dividend pay-out ratio of at least 15% of the profit for the year, with the aim of increasing it over the medium term as our balance sheet continues to build. The Directors expect to commence dividend payments with an interim dividend in respect of the first half of 2018, which will be payable in the second half of 2018.

People are at the heart of our success

At Charter Court, we are very proud of the open, friendly and collaborative environment in which we work. Our high ranking of third in The Sunday Times Top 100 Companies to Work For 2017 reflects our strong culture, which is supported by the Board and executive management. At inception, Charter Court built a series of core values that still guide our employees' actions every day.

Recognising the valuable contribution of our employees, as part of Charter Court's IPO, all staff were given shares in the business and over 80% of staff joined the Group's Share Save Scheme.

▶ For more information see Corporate responsibility on pages 37 to 45.

Outlook

The Board's strategy for the business is based on the belief that as experts across all key areas of mortgage origination and distribution, risk management, capital and liability management, Charter Court is very well positioned to serve the significant specialist market segments we target.

The Board is committed to supporting Charter Court's continued operational development and remains confident in the Group's ability to deliver strong, sustainable returns for its shareholders.

I would like to thank all colleagues for their dedication and commitment, our customers and intermediaries for their continued trust in Charter Court and all of our shareholders for their ongoing support.

Sir Malcolm Williamson
Chairman

“I am pleased to report on a year of considerable progress and achievement for Charter Court.”

Sir Malcolm Williamson, Chairman

Chief Executive Officer's review

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

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

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

▶ For more information see How we deliver our strategy on page 10.

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

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

Outperforming the market in balance sheet growth

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

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

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

Building on our award-winning savings business

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

Enhancing our customer experience

Our continued success is based on the trust our customers place in Charter Court. We continually invest across our lending and savings operations to make sure our products are attractive and high standards of customer service are maintained. To ensure we consistently improve our relationship with both borrowers and savers, in 2017, we set out to measure customer satisfaction using Net Promoter Scores ("NPS"). I am delighted to report that a majority of our customers were "promoters", as reflected in our combined NPS of 67 for the Group[1].

Delivering a solid financial performance

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

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

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

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

Investing in risk management

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

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

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

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

Outlook

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

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

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

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

Ian Lonergan
Chief Executive Officer

> "Our resilient performance during a period of regulatory change and political uncertainty is down to our strong business model, specialist focus and talented employees."
>
> *Ian Lonergan,*
> *Chief Executive Officer*

How we deliver our strategy

We operate in selected specialist mortgage markets where we can deploy our deep credit knowledge	£5.4bn	mortgage balances
	£21.3bn	mortgages analysed since 2008
We deliver a quality service and product proposition to mortgage brokers and their customers	#1	UK's leading specialist mortgage lender
	21,000	intermediaries registered with the Group
	8 minutes	average time to Decision in Principle
We deploy consistent underwriting decisions to effectively mitigate credit risk	£27k	aggregate losses on mortgage lending since inception
	0.1%	of the total loan book in arrears of three months or more
	0.01%	cost of risk of total portfolio in 2017
We have an efficient and scalable, bespoke operating platform	34.1%	cost income ratio
	31.2%	underlying cost income ratio
We have a dynamic and sophisticated funding strategy	£4.4bn	retail deposits
	8	securitisation transactions since 2013
	£977.8m	drawn from the Bank of England's Term Funding Scheme in 2017
We aim to deliver strong growth and sustainable returns to our shareholders	28.6%	return on equity
	30.4%	underlying return on equity

All figures as at 31 December 2017, unless stated otherwise.

"Our aim is to maintain our position as the UK's leading specialist mortgage lender through excellence in all aspects of our operations. We plan to accomplish our strategic objective by delivering sustainable balance sheet growth within our risk appetite, supported by a diverse funding mix. Our future success is dependent on our relationship with our customers, intermediaries and employees – all of whom we value highly."

Ian Lonergan, Chief Executive Officer

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 credit consultancy and proprietary data analytics. Precise Mortgages draws on this expertise to adapt quickly to shifting market conditions, identifying niche lending opportunities and tailoring its product offering accordingly. By drawing on a large product development pipeline Precise Mortgages can rapidly deploy its tailored products in attractive lending segments where we can secure significant market share.

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 and develop our established retail savings business as a growing and predictable source of funding

Charter Court's fast-growing 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.

Exploit wholesale funding markets opportunistically to deliver optimal cost of funds

Charter Court uses its securitisation platform as an alternative financing tool, to optimise the balance of the Group's funding sources and to secure low cost of funds when market conditions are favourable.

Charter Court is able to access, but does not depend on, securitisation funding. Instead, the Group is able to use securitisation opportunistically in a competitive retail deposit market to rebalance the weighted average life of the Group's liabilities.

Since 2013, Charter Court has been a programmatic issuer of high quality residential mortgage-backed securities through the Precise Mortgage Funding and Charter Mortgage Funding franchises. By the end of 2017, the Group had completed a total of eight securitisations since 2013 worth £2.2 billion and has proven its ability to utilise RMBS as a means of generating significant funding and capital.

Charter Court selectively 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 view of the level of fair value that can be achieved. Alternatively, if Charter Court requires additional capital for other uses, a sale of residual positions can quickly provide this capital. Furthermore, derecognition of the underlying mortgage assets facilitates the subsequent release of the associated risk weighted assets.

Strategic targets

Deliver high quality growth and sustainable and attractive risk-adjusted returns

In pursuing its strategy, 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:

Strategic goal	KPIs	2017 Target	Delivery in 2017
Origination Deliver sustainable balance sheet growth	Originations	Stable from 2016 into 2017	£2.7 billion (2016: £2.5 billion)
	Loan book growth	At least 20% growth in the medium term	40.9% (2016: 95.7%)
Risk management Maintain disciplined risk management	Cost of risk	Sector leading through the cycle	0.011% (2016: -0.002%[1])
Profitability Conduct rigorous margin management	Net interest margin	Broadly flat or marginally higher year-on-year in 2017	3.19% (2016: 3.08%)
	Cost income ratio	Low 30s (%) in the short to medium term	Statutory: 34.1% (2016: 47.6%) Underlying: 31.2% (2016: 46.4%)
Shareholders Deliver shareholder value	Return on equity	Mid 20s (%)	Statutory: 28.6% (2016: 18.7%) Underlying: 30.4% (2016: 19.3%)

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

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. Our efforts in this respect are reflected in our combined NPS of 67 (57 for mortgage customers and 70 for 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 2017 we were ranked as the third best place to work in the 'mid' sized business category.

Chief Financial Officer's review

Group highlights

Continued balance sheet growth

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

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

For Financial statements, see pages 90 to 151.

Disciplined risk management

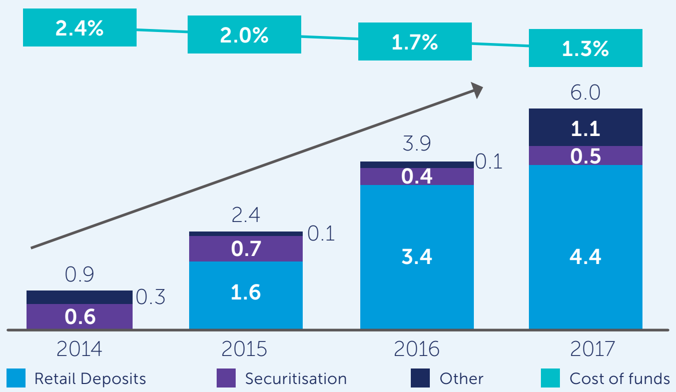
Despite significant loan growth, Charter Court maintained strong credit performance across its lending portfolio throughout the year. As a result of rigorous credit standards, only 0.1% of the Group's loan book was three months or more in arrears at 31 December 2017 (2016: 0.1%).

Our disciplined risk management and extensive experience in specialist mortgage risk evaluation are reflected in our sector-leading cost of risk of 0.011% for 2017 (2016: -0.002%[1]).

Diversified funding strategy in action

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

Diversified funding base with declining cost of funding



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

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

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

Profit after tax up 117.7%

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

Underlying profit before tax excluding IPO related and similar costs of £5.0 million (2016: £1.2 million), was £116.7 million, up 133.0% on the £50.1 million achieved in 2016. This trend is attributable to the significant increase in our net interest income, supported by a gain on the sale of loans in the amount of £17.7 million. The increase in our tax charge to £30.4 million in 2017 (2016: £11.6 million) was principally a result of increased profits. The effective tax rate in 2017 was 27.23% (2016: 23.63%). Profit after tax for the year ended 31 December 2017 was up 117.7% year-on-year to £81.3 million (2016: £37.3 million).

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

Total net income up 82.5%

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

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

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

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

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

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

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

Increasing operational efficiency

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

The statutory cost income ratio decreased from 47.6% in 2016 to 34.1% in 2017. Administrative expenses include costs incurred in connection with the IPO and a project to sell the Group to private bidders in 2017 of £5.0 million (2016: £1.2 million). Given their material and one-off nature, these costs are excluded from our cost income ratio to provide an "underlying" view of our performance. Our underlying cost income ratio decreased from 46.4% in 2016 to 31.2% in 2017, reflecting the scalability of our operations and our high operating leverage.

Prudent liquidity management

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

Under our treasury policy the individual liquidity guidance is met by maintaining a liquid asset buffer that is determined by the Board, and is larger than any regulatory requirements. At 31 December 2017 the Group held £848.0 million (2016: £130.0 million) of liquid assets in Bank of England reserve account balances and £34.5 million (2016: £13.2 million) of liquid assets in balances held with tier 1 UK banking institutions.

Preparations for IFRS 9 completed

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

See note 3 to the Consolidated financial statements on page 103.

> "We delivered strong returns for our shareholders in 2017 through continued earnings and balance sheet growth."
>
> *Sebastien Maloney,*
> *Chief Financial Officer*

Well capitalised for future growth

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

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

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

The capital position of the Group at 31 December 2017 is set out in note 40 to the Consolidated financial statements on pages 140 to 141.

Delivery against targets

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

As shown on page 12, Charter Court met all its financial targets in 2017 helping to support the Group's overall strategy.

Sebastien Maloney
Chief Financial Officer

Business review by segment
Lending

Outperforming the market in specialist mortgage origination.

"Drawing on our strong product development pipeline, we launched a number of new products in 2017 that proved highly successful. These products supported our growth in completion volumes across both buy to let and specialist residential mortgage lending, and helped us retain our position as the UK's leading specialist mortgage lender."

Alan Cleary - Managing Director, Precise Mortgages

Highlights

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

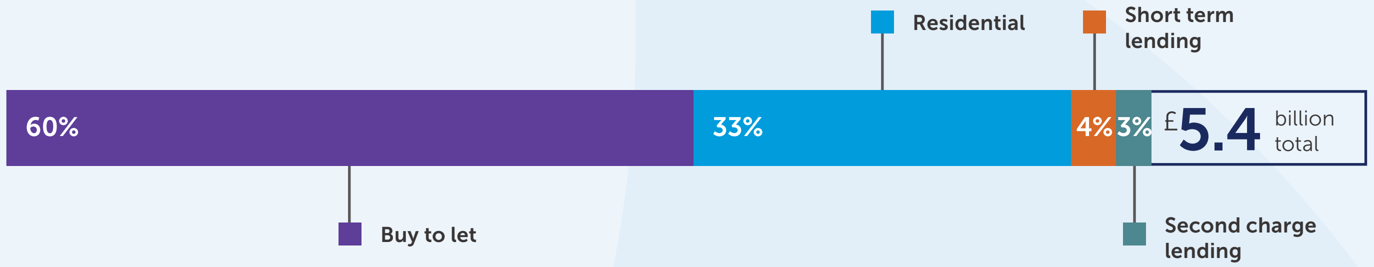
Profit by lending segment

Year ended 31 December 2017	Buy to let £m	Residential £m	Short term lending £m	Second charge lending £m	Total £m
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
Year ended 31 December 2016					
Net interest income	35.7	31.7	14.4	4.1	85.9
Fees and commissions income	1.3	1.8	0.2	-	3.3
Provision for loan impairments	-	(0.1)	0.2	-	0.1
Profit contribution	37.0	33.4	14.8	4.1	89.3

Profit contribution is equal to segment profit as per note 6 to the Consolidated financial statements on page 113.

Precise Mortgages

Loan book by product



Lending competitive environment

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

Buy to let

Highlights

- New originations £1.6 billion (2016: £1.5 billion).
- Loan book up by 49.5% to £3.2 billion (2016: £2.2 billion).
- Net interest income of £69.8 million (2016: £35.7 million).
- Profit contribution up 91.1% to £70.7 million (2016: £37.0 million).

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

As a result of such measures, the number of purchases in the buy to let segment in 2017 declined by 27% year-on-year to around 6,250 per month. An estimated 232,000 buy to let mortgages were issued, down 10.4% year-on-year. Meanwhile, buy to let re-mortgage volumes declined 0.6% year-on-year[1].

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

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

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

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

1 UK Finance, Mortgage Trends Update, 13 February 2018.

Business review by segment
Lending

Residential

Highlights

- New originations £0.8 billion (2016: £0.7 billion).
- Loan book up by 35% to £1.7 billion (2016: £1.3 billion).
- Net interest income of £49.2 million (2016: £31.7 million).
- Profit contribution up 53.3% to £51.2 million (2016: £33.4 million).

According to UK Finance[1], in 2017, residential owner-occupied mortgage loan origination was around £214 billion, up by 10.3% over 2016.

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

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

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

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

Second charge lending

Highlights

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

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

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

During 2017 the market experienced solid growth with gross new lending increasing 14% to £1 billion[2].

During 2017 this market became increasingly competitive. Charter Court focused on controlled originations and prioritised credit quality over origination volumes. As a result, second charge loan origination slowed to £60.4 million and balances grew at a slower rate of 13.9% year-on-year (2016: 85.6%) to £170.8 million.

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

1 UK Finance, Mortgage Trends Update, 13 February 2018.
2 Source FLA press release 09/02/2018 https://www.fla.org.uk/index.php/second-charge-mortgage-new-business-volumes-grow-in-2017.

Precise Mortgages

Short term lending ("Bridging")

Highlights

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

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

During 2017, bridging loans increased by 6.4% year-on-year to £218.9 million, with new originations of £314.2 million. This growth was achieved whilst maintaining our strong credit risk management, with no losses suffered in 2017.

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

Reinforcing distribution and service standards

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

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

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

Business review by segment
Funding - retail deposits

Strong growth in retail deposits.

"We have successfully developed our multi award-winning savings business by diversifying our product offering, providing excellent customer service and continuing to provide a competitive range of notice accounts, fixed rate savings bonds and our recently launched cash ISA savings accounts."

Paul Whitlock - Director of Savings, Charter Savings Bank

Highlights

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

Retail deposits competitive environment

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

Strong growth in retail deposits

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

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

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

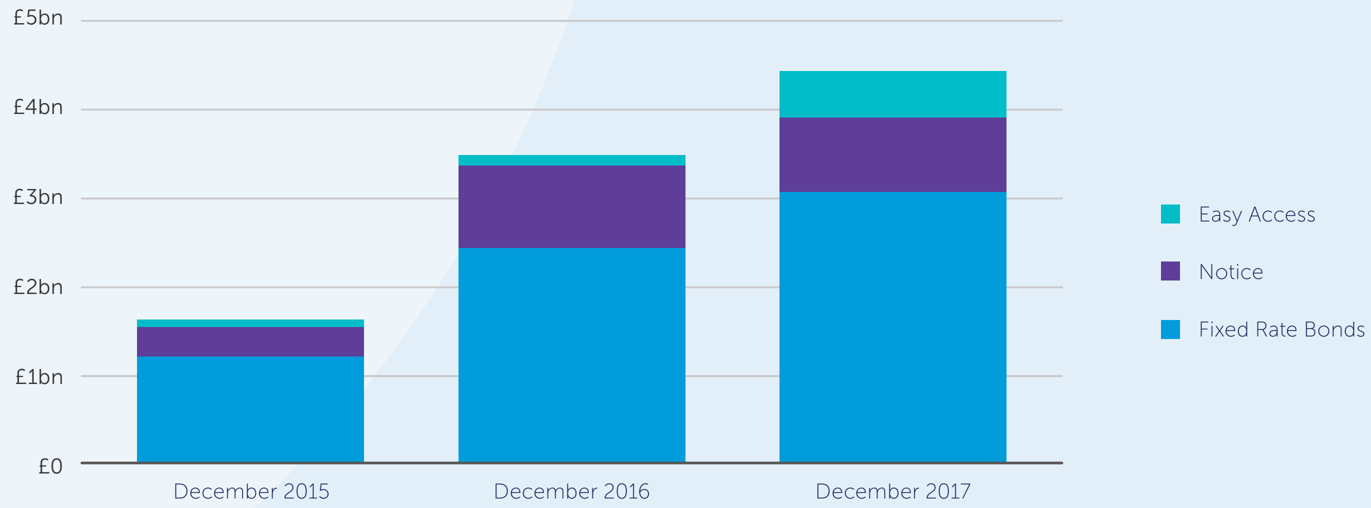
As at 31 December 2017, the Group had 102,394 savings customers (2016: 77,474), operating 122,825 savings accounts (2016: 85,956), with an average balance per account of £36,000 (2016: £40,000). Charter Court's retail deposits grew by 28.8% year-on-year to £4.4 billion (2016: £3.4 billion). The Group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

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

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

Retail deposit book composition

Proactive liquidity management to match duration; low share of easy access deposits.



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

With a Net Promoter Score of 70[1] and with 99% of customers agreeing that our accounts are straightforward and easy to understand, Charter Savings Bank has worked hard to maintain high levels of customer satisfaction and retention.

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

1 Charter Savings Bank.

Business review by segment
Funding - securitisation

Opportunistic securitisations

> "In 2017 Charter Court successfully diversified its funding strategy through opportunistic securitisation transactions and by accessing funding available from the Bank of England."
>
> *Simon Allsop - Director of Capital Markets*

Highlights

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

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

2017 was a particularly successful year from a securitisation standpoint, with the Group able to take advantage of strong UK RMBS markets by securing £597.3 million of term funding through two transactions. In April it closed PMF 2017-1B, a securitisation of £300.0 million of buy to let mortgage assets, and followed that up in July with CMF 2017-1, the Group's inaugural £297.3 million prime residential securitisation. Both transactions benefitted from favourable market conditions, resulting in very attractive pricing: PMF 2017-1B closed with a senior margin of 0.75% over three month sterling LIBOR; the tightest pricing on a senior note the Group had achieved to that date.

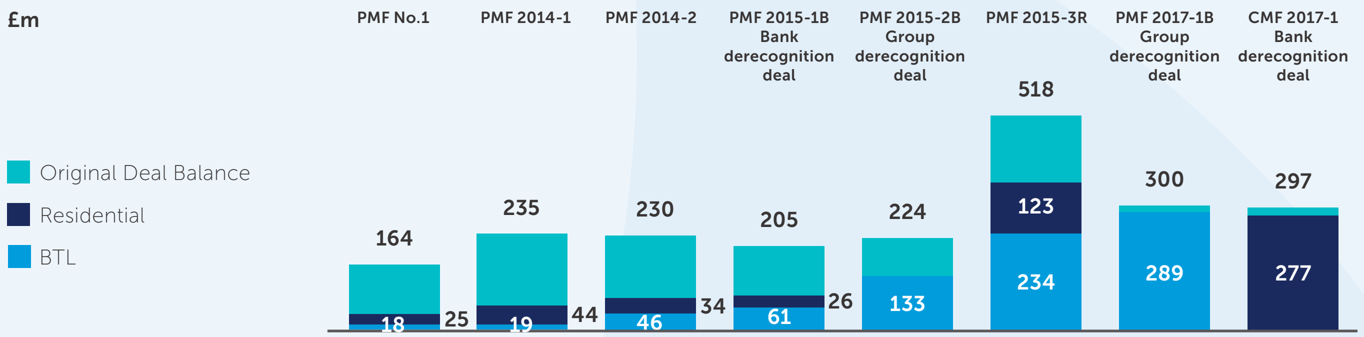
That landmark was then surpassed in July 2017, with the closing of the heavily oversubscribed CMF 2017-1 (see case study on page 23), which priced at three month sterling LIBOR plus 0.50% on the senior note, with an all-in closing cost of funds across the rated notes placed of LIBOR plus 0.64%.

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

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

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

Issuances to 31 December 2017



	PMF No.1	PMF 2014-1	PMF 2014-2	PMF 2015-1B	PMF 2015-2B	PMF 2015-3R	PMF 2017-1B	CMF 2017-1
Number of 3 MIA+ accounts	1	4	1	1	3	13	0	0
Losses to date (£)	-	-	-	-	-	-	-	-
Weighted average mortgage interest rate	5.38%	5.42%	5.02%	4.79%	4.60%	4.47%	3.95%	4.31%
Senior note spread (over LIBOR)	1.15%	0.80%	0.95%	0.95%	1.25%	n/a	0.75%	0.50%

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

Towards the end of the year, the Group added additional warehouse funding capacity through the closing of a committed senior funding line of £350.0 million. The line, secured on attractive terms, provides the Group with incremental wholesale funding capacity above and beyond that available to the bank entity, Charter Court Financial Services Limited.

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

Case study: CMF 2017-1

Charter Court completed its first prime residential securitisation with the issuance of the £297.3 million CMF 2017-1 transaction. The deal was noteworthy given the complexity of its execution and the favourable pricing achieved. The senior notes in the deal achieved Bank of England Type B eligibility status, meaning that they are eligible to be held in the liquidity buffers of other banks. Such deals, often referred to as "Prime LCR" deals on the basis that the bonds can be used to form part of the liquidity portfolio used in determining a bank's Liquidity Coverage Ratio (or "LCR"), typically have a larger demand base and price significantly tighter than comparable non-prime or buy to let transactions. To achieve this status, the Group had to demonstrate to key accounts and rating agencies that the mortgages were advanced to prime borrowers with largely clean credit histories. Having successfully attained this status, the transaction was heavily oversubscribed and priced extremely competitively. The senior note priced at three month sterling LIBOR plus 0.50%, the Group's tightest pricing to date, and in fact one of the tightest senior price points achieved for a standalone UK RMBS issuance post-crisis. The transaction provided very competitive cost of funds for Charter Court and marked the eighth successful securitisation completed in just four years.

Risk management

> During 2017, we strengthened risk management with investments in people, systems and infrastructure to further improve the rigour of our control framework and to support prudent business growth.
>
> *Peter Elcock - Chief Risk Officer ("CRO")*

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

Our approach to risk management

Clearly articulated risk appetite

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

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

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

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

A strong, clearly defined and effective risk management framework

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

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

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

Risk management framework

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

Culture, values and ethics - Respect, Excellence, Attention, Challenge, Honesty (REACH) see page 37

- Customer service orientated
- Loyal staff
- High staff satisfaction
- Strong risk culture
- Clear business model - stick to what we do well
- #3 The Sunday Times Best 100 companies to Work For

Governance: Board, Risk Committees

- Board Risk Committee
- Audit Committee
- Product management committee, ALCO
- Risk Committees

Organisational design

- Independent 2nd line
- Executive accountability
- High quality staff

Risk appetite statements

- Treasury
- Business
- Capital
- Corporate
- Credit
- Conduct
- Operational
- Liquidity

Three lines of defence

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

Controls

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

Documentation

- ICAAP
- ILAAP
- Corporate plan
- Enterprise risk management framework ("ERMF") document
- Stress testing
- Business continuity planning
- Recovery plan and resolution pack
- Liquidity funding plan

Models & systems

- Probability default models
- Financial crime software
- Treasury / Asset and liability management control
- IFRS 9 compliant risk models

Risk and assurance processes

- Formal risk acceptances
- Risk Control Self Assessment ("RCSA")
- Annual risk framework review
- Internal audit plan
- Compliance checks and reports
- Operational risk event reporting

Management information

- Full Key risk indicator suite for all risks
- Board Risk Committee quarterly compliance reports
- Corporate risk register
- Financial crime dashboard
- Stress testing output reporting
- Risk pack Monthly risk indicator reports

Corporate plan

Shareholders

External environment and economy

Experienced risk management team

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

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

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

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

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

Effective risk governance and control

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

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

First line of defence

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

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

Second line of defence

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

Third line of defence

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

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

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

Stress testing

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

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

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

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

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

Priorities for 2018

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

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

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

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

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

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

Principal risks

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

Business risk

Risk	Monitoring 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 EU. • Potential for a property price bubble in parts of London and the South East. • New technological innovations in mortgages and savings markets.

Risk appetite

The Group only offers mortgages in the UK and does not currently have an appetite for extending activities into other business or geographic areas.

Risk exposure

It is too early to assess the impact on the market and the wider economy of the decision by the UK to leave the European Union. This matter and any emerging risks continue to be kept under close review.

Credit risk

Risk	Monitoring 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. • Group's origination process consists of prescriptive, automated filtering of decisions and robust manual underwriting assessment. • Significant levels of both first and second Line Quality Assurance work undertaken to ensure Credit Risk is written in accordance with risk appetite and prevailing policies. • Dedicated Financial Crime team to ensure deterrence of and protection from fraud and money laundering risks. • CRO reviews all cases with an exposure above £750,000 (monthly). **Wholesale Credit Risk** • Treasury team assesses the level of credit risk from holdings with individual counterparties with limits set for each counterparty. • Exposure overseen by the Assets and Liabilities Committee. • Cash balances held at Central Banks and other highly rated banks. • Treasury counterparties subject to Board approval and must meet minimum external credit ratings. • Exposures to single counterparties monitored on an ongoing basis (overseen weekly by Liquidity Working Group).	• Potential for a property price bubble in parts of London and the South East. • Increased competitor activity and tightening of margins leading to pressure to widen criteria. • Ongoing political uncertainty in the UK – including the pending Brexit. • Increasing levels of unsecured borrowing.

Risk appetite

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

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

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

Risk exposure

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

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

Counterparty risk (audited)

There is a minimum counterparty risk rating for wholesale funding and limits on maximum allowable exposures are imposed. The assets of the Group subject to credit risk are set out below:

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

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

Analysis of loans by LTV

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

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

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

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

Forbearance (audited)

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

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

The table below shows loans subject to active forbearance strategies:

	Transfers to interest only	Payment holiday	Term extensions	Arrangements	Total	
As at 31 December 2017	**£m**	**£m**	**£m**	**£m**	**£m**	**% of loan book**
Current	**2.1**	**4.1**	**19.1**	**14.8**	**40.1**	**0.75**
Past due up to 3 months	**0.2**	**0.2**	**1.2**	**5.8**	**7.4**	**0.14**
Past due from 3 months up to 6 months	**-**	**-**	**0.6**	**0.7**	**1.3**	**0.02**
Past due from 6 months up to 12 months	**-**	**-**	**-**	**0.2**	**0.2**	**0.00**
Past due over 12 months	**-**	**-**	**-**	**0.5**	**0.5**	**0.01**
	2.3	**4.3**	**20.9**	**22.0**	**49.5**	**0.92**
As at 31 December 2016						
Current	1.3	1.2	15.0	10.9	28.4	0.75
Past due up to 3 months	-	-	1.1	2.5	3.6	0.09
Past due from 3 months up to 6 months	-	-	0.3	0.3	0.6	0.02
	1.3	1.2	16.4	13.7	32.6	0.86

Treasury risk

Risk	Monitoring and control	Emerging risks
Treasury risk, comprising: **Liquidity risk** - the risk that the Group fails to meet its financial obligations as they fall due. **Funding risk** - the adverse impact of higher funding costs and/or lack of available funds on the Group's cash flow. **Interest rate risk** - the risk that movement in interest rates adversely impacts net interest income and capital if inadequate hedging of interest rate risk is in place. **Basis risk** - when financing an asset with a liability which re-prices from a different interest rate reference point, such as BBR and LIBOR. **Wholesale credit risk** - as described under credit risk above.	• 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.

Risk appetite

The Group's Liquidity Risk Appetite Statement is consistent with the PRA's Overall Liquidity Adequacy Rule.

The credit and market risk of the Liquid Asset Buffer is minimal as it is limited to balances with the Bank of England or short-dated government debt securities.

The Group aims to hold sufficient quantity and quality of liquid assets to ensure that all liabilities will be met when they fall due under normal market conditions and under the most severe of Charter Court's liquidity stress tests.

The Group does not seek to take a significant interest rate position and is exposed to interest rate risk only as a consequence of the provision of its financial services products. Interest rate risk is managed to ensure that the level of risk from shifts in the yield curve does not exceed a maximum percentage of capital resources or that earnings at risk do not exceed a specified percentage of projected earnings and CET1 capital in the following twelve 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. The Group has developed a successful retention programme for customers with maturing fixed term bonds, and the Group structures its retail deposit products and production mix so as to provide maximum foresight on customer withdrawals. The Group also considers utilisation of secured funding and other wholesale funding (dependent on market conditions), which, provide longer term or matched funding for the assets.

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

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

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 2017	**£m**	**£m**	**£m**	**£m**	**£m**
Trade and other payables	**15.2**	**-**	**-**	**-**	**15.2**
Corporation tax payable	**-**	**17.0**	**-**	**-**	**17.0**
Deposits from banks	**1.0**	**4.7**	**997.8**	**-**	**1,003.5**
Deposits from customers	**1,294.3**	**2,393.3**	**732.4**	**-**	**4,420.0**
Derivative financial instruments	**6.5**	**-**	**-**	**-**	**6.5**
Debt securities in issue	**0.5**	**41.5**	**585.4**	**-**	**627.4**
As at 31 December 2016					
Trade and other payables	8.2	-	-	-	8.2
Corporation tax payable	-	5.3	-	-	5.3
Deposits from banks	20.0	-	20.0	-	40.0
Deposits from customers	392.7	2,240.4	799.5	-	3,432.6
Derivative financial instruments	8.3	-	-	-	8.3
Debt securities in issue	0.4	-	425.7	-	426.1

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

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

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

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.

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

Operational risk

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 with KPMG to focus on key risk areas. • RCSA framework established within first line of defence. • ICAAP with detailed analysis of operational risk losses. • Reinforced IT resource due to cybercrime threat and invested in: cybercrime detection software, expanded penetration testing / reporting, external monitoring tools. • Attempted attacks or suspicious activity reported to Board Risk Committee with research undertaken to understand tactics.	• Increase of financial crime, fraud and cybercrime in the financial services industry. • Poor service delivery by third party supplier and reputational damage, as well as financial losses and reduced ability to raise retail deposits.

Risk appetite
The Group has a very low appetite for operational risk and has a policy and control environment which aims to restrict losses arising from operational risk breaches across the business in any financial year.

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

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

Regulatory risk

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 Assets and Liabilities Committee ("ALCO"), Operational Risk management and Conduct Risk management Committees, and overseen by the Risk management Committee and the Board Risk Committee.	• Impact of General Data Protection Regulation ("GDPR"). • Increasing focus of the FCA on Vulnerable Customers. • Impact of FCA reviews of Outsourcing, Second Charge Lending and Retail Banking Business Models. • Developments from the BCBS particularly in relation to changes in risk weightings and associated regulatory capital requirements. • Uncertainty of achieving an IRB approach waiver from the PRA.

Risk appetite
The Group has a very low appetite for conduct risk breaches and a policy which aims to restrict losses arising from conduct risk breaches across the business in any financial year. The Group's approach is to treat all customers fairly, whether or not the individual product is regulated by the FCA, in order to maintain a reputation as a fair financial services provider consistent with the statutory objectives of the FCA.

The Group aims to hold sufficient quantity and quality of liquid assets to ensure that all liabilities will be met when they fall due under normal market conditions and under the most severe of Charter Court's liquidity stress tests. The Group seeks to maintain an appropriate level of capital above the minimum Individual Capital Guidance set by the PRA plus an agreed Capital Planning Buffer.

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

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

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

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

The buy to let sector has seen significant regulatory change in recent years and it remains possible that regulators make further changes or a revision of rules to the detriment of the Group's markets.

Prudential risk exposures are considered under Liquidity and Funding above.

Other risks

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

Risk factor - Global economy

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

Risk factor - UK macro-economy and housing market

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

Risk factor - Competition

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

Risk factor - Cybercrime, fraud

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

Risk factor - IT failure

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

Risk factor - Key employee dependency

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

Risk factor - Outsourcing

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

Risk factor - Regulatory risks

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

Risk factor - 'Brexit'

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

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 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 limited to the following:

- the Group's financial performance for 2017 and statement of financial position as at the year-end.
- the Group's business plan including the assumptions therein and historical performance against plan.
- the Internal Capital Adequacy Assessment Process.
- the Internal Liquidity Adequacy Assessment Process.
- the principal risks and uncertainties the business faces.
- the Board's approach to risk management.
- the Group's liquidity and funding profile.
- the Group's 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 in all aspects of its business model in 2017. Factors such as a growing loan book, stable net interest margins, a diversified funding strategy and improved cost efficiency have contributed to the Group's track record of year on year growth in underlying profitability. Furthermore, the successful premium listing on the London Stock Exchange in October 2017 is a clear endorsement of the Group's track record, strategy and future prospects.

As part of the annual planning cycle the Group prepares regular 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 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).
- Reverse Stress Test.

The ICAAP and ILAAP documents 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 24 to 25. Such assessments inform the Board of the impact of these risks crystallising both individually and collectively. These risks are more fully discussed on pages 26 to 33 and in the Other risks on page 34.

As described in the Risk management section on page 24 of this report, the Group has a comprehensive risk appetite framework which addresses risk capacity and sets risk appetite and associated risk limits for they 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 reporting 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 and accounts:

- the Group's business model, strategy and emerging risks are described in the Strategic report on pages 1 to 23.
- financial performance, including income statement and statement of financial position is included in pages 90 to 151.
- the Group's approach to risk management is described in the Risk management report and can be found in pages 24 to 34.

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

Going concern statement

Profit before tax for the year ended 31 December 2017 was £111.7 million (2016: £48.9 million). At 31 December 2017, the Consolidated statement of financial position shows a net asset position of £335.0 million (2016: £233.5 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 2017 the Group held £886.9 million (2016: £145.8 million) of liquid assets consisting mainly of £848.0 million (2016: 130.0 million) of Bank of England reserve account balances and £34.5 million (2016: £13.2 million) of balances held with tier 1 UK banking institutions.

The Group also has access to an uncommitted wholesale funding facility provided by a tier 1 investment bank and to the Bank of England's Term Funding Scheme 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 conducts an annual 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 how we do business. We are committed to integrating responsible business practices throughout our operations for the benefit of our shareholders, customers, employees and the community in which we operate.

With this in mind, we have set 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.

During 2017, we demonstrated our commitment to corporate responsibility through numerous initiatives described below under the categories of Customers, People, Community and Environment.

2017 highlights

Customers	People	Community
67	**#3**	**£80,000**
High Net Promoter Score of 67[1]	#3 in Sunday Times Best 100 Companies to work for (highest placed bank)[2]	Over £80,000 donated to Socks & Chocs, a local charity supporting the homeless

1 NPS is measured out of 100. Group NPS is determined by combining the NPS for Precise Mortgages and Charter Savings Bank, weighted by customer numbers.
2 Among medium sized companies (250-3,000 employees).

Customers

Precise Mortgages

16,093 customers served in 2017 (2016: 13,834)

94% happy to recommend us[1]

57 Net Promoter Score[1]

As a specialist mortgage lender, our aim is to help customers underserved by the high street banks. In 2017, we provided 16,093 customers with buy to let and residential mortgages, as well as short term loans and second charge loans, collectively worth £2.7 billion (2016: £2.5 billion).

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

To achieve this goal, in 2017, we continued to invest in a project aimed at improving the service provided to mortgage intermediaries, with a number of adjustments implemented to our procedures and communication protocols. We also expanded our sales team to ensure higher levels of engagement with existing and potential customers.

Our customers continued to benefit from our dynamic product development aimed at providing solutions tailored to their changing needs. During the year, we saw strong uptake of our solutions for limited companies and houses in multiple occupation, as well as our specialist Right-to-Buy, Help-to-Buy and New Build schemes.

The results of our survey conducted in June 2017 showed that over 94% of our customers were happy to recommend Precise Mortgages to others and 95% felt that their individual circumstances were taken into account during the application process.

In 2017, 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 an excellent score of 57 , which reflects our efforts to always treat our customers fairly, deliver consistently high service and continually improve the way we do things.

Case study: Rapid product development to support customers

Buy to let portfolio landlords

In September 2016, the PRA proposed new underwriting standards for the buy to let market, under which borrowers with four or more mortgaged buy to let properties would be classified as "portfolio landlords" and subjected to more stringent underwriting standards, including the need to supply an increased level of information when applying for a new mortgage. Precise Mortgages identified the need to enhance its existing service proposition in the portfolio landlord segment, ahead of the implementation of the new standards in September 2017.

In January 2017 Precise Mortgages began a full review of the portfolio landlord niche to understand the potential opportunity and to inform new product development. Precise Mortgages determined that there should be a seamless transition for the Broker regarding the additional PRA requirements and a minimal amount of change for the portfolio landlord when applying for lending. It was also agreed that the additional data capture process should be made as painless as possible.

Within just 15 weeks Precise Mortgages developed a full solution for portfolio landlords, including a bespoke portfolio information management system to support additional data capture requirements. The product was well received with 92% of brokers confident in their understanding of Precise Mortgages' portfolio proposition, according to a Pulse Check report conducted by BDRC in November 2017. Furthermore, in the Mercury Q4 2017 Report, Precise Mortgages ranked third in lenders most likely to be recommended for landlords with four or more buy to let properties, behind BM Solutions (part of Lloyds Banking Group) and TMW (part of Nationwide Building Society).

1 Precise Mortgages Customer Satisfaction Survey, June 2017.

Customers (continued)

Charter Savings Bank

102,394 customers served in 2017 (2016: 77,474)

98% had a Good or Excellent experience with us[2]

70 Net Promoter Score

Charter Savings Bank offers simple and straightforward savings products to the UK market, with competitive interest rates supported by excellent service. During 2017, our attractive offering helped us grow customer numbers by 24,920, while deposits grew 28.8% to £4.4 billion (2016: £3.4 billion).

We continued to offer our customers competitive new savings products in our existing range of notice accounts, fixed rate savings bonds and cash ISA savings products.

During 2017, our customers benefited from our continuing commitment to offering attractive and competitive products that meet their savings needs as we maintained our strong performance in the best savings rates tables across our product range. Our innovative new "Mix-and-Match ISA" proposition, launched in June 2017, was well received and attracted deposits of over £467.4 million in 17,540 new accounts over its first six months of operation.

Our continued efforts are reflected in the positive feedback received from customers. Over 98% of our customers who took part in our feedback survey in 2017 rated their experience with Charter Savings Bank as Good or Excellent.

Charter Savings Bank's NPS of 70 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 2017.

People

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.

Coming third in The Sunday Times Best 100 Companies to Work For 2017 was a great achievement for Charter Court, having been ranked tenth place in 2016.

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2017

#3 in The Sunday Times Best 100 Companies to Work For 2017

91%

of employees are proud to work for Charter Court[1]

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 the opportunity to apply for roles that interest them and support their progression. In 2017, 48 roles were filled internally.

We also have a very successful "Recommend a Friend" recruitment scheme, which resulted in 27 appointments during 2017. The scheme gives employees the opportunity to benefit from a cash award when they introduce candidates for advertised roles. This is also a great sign that our employees are engaged with us, proud to work for us 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 two-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 provide comprehensive training and development opportunities for our employees, with online compliance training ensuring that they understand all mandatory procedures and a dedicated central training team, supporting the development of our managers. During 2017, mandatory training covered 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. The average number of training hours recorded per full time employee in 2017 was 54.

Our Aspiring Supervisors and Managers Programme ("ASMP") is endorsed by the Institute of Leadership and Management ("ILM"), the 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.

1 Sunday Times 100 Best Companies 2017 Survey.

People (continued)

Consumer Moneyfacts Awards Online Savings Provider of the Year 2017

CCFS internal annual launch

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.

In 2017, all eligible employees were given an award of shares following the IPO. In doing this, we sought to recognise the support of all our people, many of whom were either working directly on the IPO project, or taking additional responsibilities from others who were.

The IPO also 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 Group 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 choose to participate in the scheme, demonstrating confidence in the business and a high level of employee engagement and commitment.

Engagement and support

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

Our Employee Representative Committee, which met four times in 2017, 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 lives.

We use a number of communication 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.

In line with our commitment to reducing the stigma of mental health within the workplace, in 2017 we signed the "Pledge to Change". As a result, 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 "Mind", UK's leading mental health charity.

We are proud to have a low attrition rate, of only 6.7% in 2017, which reflects the high level of loyalty among our employees.

People (continued)

Promoting diversity

The majority of our employees work at our Wolverhampton headquarters where we have been based since inception.

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.

One of our key priorities for 2018 and beyond is delivering further improvement in gender diversity across the Group. As of 31 December 2017, 55.2% of our employees are female. 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	516
Number of female employees	285
Percentage of female employees	55.2%
Number of Board Directors	9
Number of female Board Directors	1
Percentage of female Board Directors	11.1%
Number of senior managers	52
Number of female senior managers	11
Percentage of female senior managers	21.1%
Percentage of employees who are proud to work for Charter Court	91.0%
Percentage of new joiners hired through the 'Refer a Friend' scheme	20.9%

Gender pay gap

The mean gender pay gap	51.3%
The median gender pay gap	21.6%
The mean bonus gender pay gap	79.6%
The median bonus gender pay gap	30.8%
Proportion of male employees receiving a bonus	89.0%
Proportion of female employees receiving a bonus	91.5%
Male employees in lower quartile band	28.2%
Female employees in lower quartile band	71.8%
Male employees in lower middle quartile band	40.4%
Female employees in lower middle quartile band	59.6%
Male employees in upper middle quartile band	50.5%
Female employees in upper middle quartile band	49.5%
Male employees in upper quartile band	70.9%
Female employees in upper quartile band	29.1%

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 within Charter Court.

People (continued)

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 - 49 employees, 47 of which 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.
- 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.

To date, 58% of the managers that have been through our Leadership Development Program are female and 50% of the initial intake of our "Aspiring Managers" Program were female.

In 2017, we committed to signing HM Treasury's Women in Finance Charter and became a signatory on 2 January 2018. As a result, in early 2018 we have committed to specific targets with respect to gender diversity, appoint a senior manager to run initiatives aimed at reaching our targets and establish a link between executive remuneration and the achievement of the targets set.

However, recognising that diversity and inclusion span a number of areas, our priorities for 2018 will also include lending further support to the inclusion of our LGBT population and those with disabilities. To this end, we have pledged to become recognised as "Disability Confident Employer" in 2018.

Recognition and awards

We are pleased to report that both Precise Mortgages and Charter Savings Bank maintained their strong reputation in 2017, as evidenced by industry recognition received during the year.

In addition, over 50 industry awards have been received to date by Charter Court as a Group for innovation, products, marketing and service, we are proud to be named by the London Stock Exchange Group as one of the 1,000 Companies to Inspire Britain.

Precise Mortgages awards received during 2017

• **Bridging and Commercial Awards**	Service Excellence Lender Relationship Manager of the Year Regulated Lender of the Year
• **Specialist Finance Introducer Awards**	Public Speaker of the Year Service to the Industry Specialist Buy to Let Lender of the Year Bridging Lender of the Year
• **Mortgage Strategy Awards**	Best Short-Term Bridging Lender Best Buy to Let Lender
• **Mortgage Introducer Awards**	Buy to Let Lender of the Year Short-Term Lender of the Year Secured Loan Lender of the Year Marketing Campaign of the Year
• **FT Adviser**	Online Innovation and Service, 5 stars
• **Your Mortgage Awards**	Best Self-Employed Mortgage Lender
• **Legal & General Mortgage Club Awards**	Best Specialist Lender
• **British Specialist Lending Awards**	Marketeer of the Year
• **Sesame Group**	Best Specialist Lender

Charter Savings Bank awards received during 2017

• **Moneyfacts Consumer Awards**	Online Savings Provider of the Year
• **Moneyfacts Awards**	Best Internet Account Provider Best Savings Provider
• **Moneynet Awards**	Best Online Savings Provider Best Monthly Interest Savings Provider
• **Your Money Awards**	Best Online Savings Account Provider
• **Savings Champion**	Best Notice Account Provider

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 238 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.

Sponsor of Wolverhampton Rugby Club Juniors

Sponsor of Alvechurch Cricket Club

Giving back

Charter Court has established itself as one of the areas' largest and fastest growing employers and was named by BDO as the 2nd fastest growing company in the Black Country in 2017[1].

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 provide to support. This decision is made by the Charity Committee with final approval from the CEO.

In 2017, we raised over £80,000 for a local charity that supports the homeless in the West Midlands and beyond. In addition to our existing charitable contributions which have totalled £213,465 since inception, 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 a longstanding relationship with Wolverhampton Rugby Club and Fillongley and Alvechurch Cricket 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 2017, we implemented procedures to identify and assess potential risk areas in our supply chains, grading the risks accordingly. We also enhanced the due diligence undertaken on suppliers considered to be high risk and incorporated appropriate anti-Modern Slavery provisions in our contracts with them.

1 BDO, The Black Country Growth Barometer 2017.

Community (continued)

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 law 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 level of risk which the Group accepts in relation to taxation is consistent with its overall objective of achieving certainty in the Group's tax affairs. At all times 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 has therefore a low risk appetite.

The Group acknowledges the importance of maintaining an open and honest relationship with HMRC in relation to its tax affairs. Where the Group considers that there is potential for the tax treatment to be uncertain, it will discuss its plans with HMRC in advance. In the event of an issue arising the Group will engage with HMRC to ensure the issue is resolved promptly and satisfactorily.

Environment

Maintaining a minimal environmental footprint

We believe that 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 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 618 trees being saved in 2017[2].

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.

Greenhouse gas emissions

This is the first year that we have been obliged to report greenhouse gas emissions and we have chosen to take a beyond-compliance approach that includes operational control of facilities, purchased electricity and business travel associated with the business activities of the Group. 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 2017 (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.

Our largest greenhouse gas emissions are related to purchased electricity (68% of the total) and combustion of fuel due to business travel (30%, primarily related to car mileage). Operation of facilities accounts for less than 1%.

2017 Greenhouse gas emissions

Emission source	Tonnes CO_2e
Combustion of fuel	128.69
Operation of facilities	3.86
Purchased electricity	290.69
Total greenhouse gas emissions	**423.24**
Total emissions per employee (FTE)	**0.86**

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

2 Shred-IT report 2017.

Corporate governance

Contents

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 4 October 2017, when the Group's shares were first listed on the primary market of the London Stock Exchange 2017, to the 31 December 2017, the Group has complied with the requirements of the UK Corporate Governance Code ("the Code"). The Code was published in September 2014 and updated in 2016 to reflect forthcoming 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 in the Code with the exception of the B.6.2 which is discussed below. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook.

B.6.2 The Board has not carried out an annual evaluation of its own performance or of the committees. This is because Charter Court did not list on the Stock Exchange until 4 October and the Board considered that an evaluation should be carried out following a period of time post the new listing. An external evaluation has been commissioned for 2018, and a report will be provided in the 2018 annual report.

Board of Directors

Sir Malcolm Williamson
Chairman

Appointed to the Board:
June 2017 (Chairman as of 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 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 Member

Principal external appointments:
Chairman, NewDay Group UK Limited
Chairman Youth Business International and CSFI

Executive Directors

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

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.

Board committee membership:
Disclosure Committee Chair

Principal external appointments:
None

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 38 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 also held the role of Chief Risk Officer at Coventry Building Society.

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

Non-Executive Directors

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

Noël Harwerth
Senior Independent Non-Executive Director

Appointed to the Board:
June 2017 (Senior Independent Director as of 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 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 and Alent plc.

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

Principal external appointments:
Chair of the UK Export Finance Board
Senior Independent Director of Sirius Minerals Plc
Non-Executive Director of The London Metal Exchange
Non-Executive Director of the British Horseracing Authority Limited
Member of the advisory Board of CHAPS Clearing Company Limited
Board member of Standard Life Assurance Limited, a subsidiary of Standard Life Aberdeen plc

Board of Directors (continued)

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. 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
Audit Committee Member
Risk Committee Member
Nomination Committee Chair

Principal external appointments:
Non-Executive Director of Newcastle Building Society
Chairman of Newcastle Systems Management Limited
Chairman of Newcastle Financial Advisors Limited
Senior Independent Director of Harrogate & District NHS Foundation Trust and a member of the audit and finance committees.

Tim Brooke
Independent Non-Executive Director

Appointed to the Board:
January 2015

Key skills and experience:
Tim has strong risk management 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 Risk Assurances Services. Together with Tim's internal audit experience gained in the early part of his career and his non-executive experience 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

Principal external appointments:
Non-Executive Director of Butterfield Mortgages Limited
Senior Independent Non-Executive Director of Monzo Bank Limited
Non-Executive Director of Marsden Building Society
Chairman of Capita Employee Benefits Limited

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:
None

Chairman's introduction

"2017 has been a transformational year for Charter Court as we took a number of actions to further strengthen our corporate governance framework ahead of listing on the London Stock Exchange."

Sir Malcolm Williamson, Chairman

Dear Shareholders,

I am delighted to welcome you to our first Corporate governance report in which we provide a description of the corporate standards that the Board has committed to.

Governance
At Charter Court, we are committed to achieving our business objectives in an honest, transparent and accountable way. We regard corporate governance as a key element underpinning the sustainable, long-term growth of our business. As such, we regularly challenge our business practices to develop and improve accountability, leadership, transparency, probity, and the systems 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 since the IPO in October 2017.

The Board
2017 was a milestone year for Charter Court. As mentioned in my statement above, in preparation for the Group's IPO on the London Stock Exchange, we took a number of actions to further strengthen our corporate governance framework.

Diversity
In 2017, we committed to signing HM Treasury's Women in Finance Charter and became a signatory on 2 January 2018. In line with this commitment we have set out specific targets with respect to gender diversity in early 2018 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; however, as we transition through 2018 we will develop a succession plan that will address all aspects of diversity in the widest sense.

As stated on page 47, the Board did not undertake an evaluation during 2017. However, the Board has discussed the benefits of undertaking a review and has commissioned an independent evaluation of our Board effectiveness that will be undertaken in the first half of 2018. The review will play a key role in identifying any areas for further improvement in our corporate governance framework, which we will strive to address during the latter half of 2018. I will report on the outcomes of the review in the 2018 Report and Accounts.

Engagement with shareholders
We place a great deal of emphasis on active engagement with our shareholders. In the first few months following the IPO I held a series of very positive meetings with major shareholders on governance matters. In the normal course of the year the executive team will hold meetings with shareholders to discuss performance measures and targets.

Looking ahead, I expect 2018 to be another important year for Charter Court as the Group continues to grow and navigate further market challenges. In this context, maintaining and developing the high standards of governance established to date will be of critical importance.

I look forward to engaging with as many shareholders as possible throughout the year and welcoming shareholders to our first Annual General Meeting in 2018.

Sir Malcolm Williamson
Chairman
19 March 2018

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 2018.

▶ The skills and experience of the current Directors and the value they bring to the Board is described on pages 48 to 50.

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 has overall authority 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 systems. In addition, the Board approves changes to the capital, corporate and or 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 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 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 succession planning, including Board composition. They utilise the expertise and experience of their members and make recommendations to the Board where required.

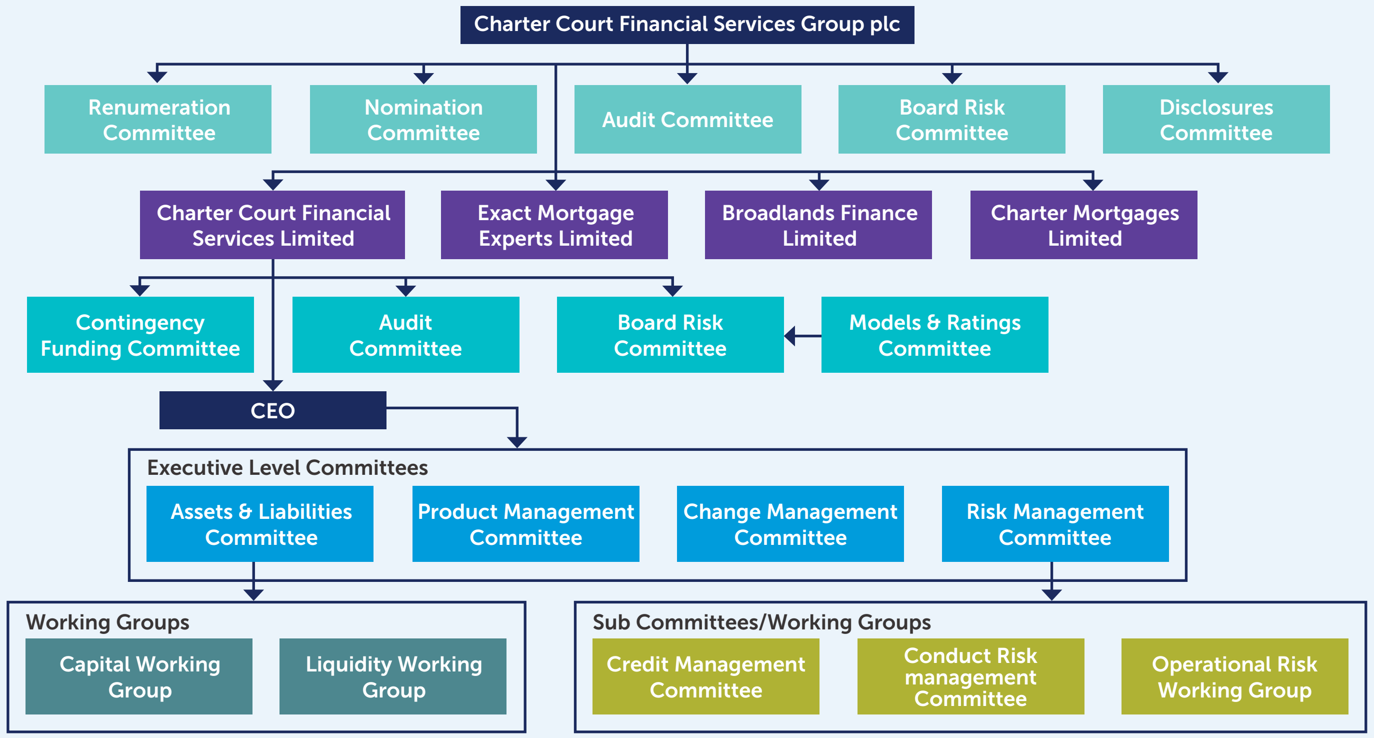
▶ See pages 59 to 65 for further details on the committees.

The Group also has a wholly owned operating subsidiary called 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 an Audit and Risk Committee, the membership of which mirrors the Group committees. In addition there is a Models and Ratings Committee, the membership of which includes three Non-Executive Directors.

There are a number of committees at the executive level which also support the CEO in his decision-making process such as the Risk Management Committee, Credit Management Committee, Operational Risk Committee and the Assets and Liabilities Committee. There is also a 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 www.chartercourtfs.co.uk/InvestorRelations/BoardCommittees.

The governance framework



A description of Board activities in 2017

The Board, during 2017, had a schedule of matters reserved and a new schedule was adopted in October 2017 at the IPO which outlines its key responsibilities. Key items in the matters reserved schedule are as follows:

- Approval of the Group's strategy
- Monitoring of the Group's operational and financial performance
- Approval of the internal control framework and the risk management system
- Approval of the Group's annual business plan and key capital expenditure
- Approval of financial statements both interim and annual results and trading updates
- Approval of remuneration policies
- Approval of ILAAP and ICAAP
- Approval of any extension of the Group's activities into new business areas
- Approval of the dividend policy
- Changes to the Group's capital structure

Key topics discussed in 2017

During 2017 the Board spent a significant amount of their time preparing for the IPO. In addition to the IPO the Board also reviewed the following:

- Corporate governance & Board Composition in preparation for the IPO including the appointment of a Non-Executive Chairman and Senior Independent Director.
- Strategy.
- Annual Financial Results.
- Financial Performance and the 2018 Business Plan.
- Internal financial controls.
- Risk management and internal financial controls.
- Reports from the Company brokers on the beneficial shareholdings post IPO.
- Remuneration policy in preparation for the IPO.
- Sale of an economic interest in CMF 2017-1 announced on 16 January 2018.
- Culture review and employee engagement survey.
- Customer surveys.
- External Board Effectiveness Evaluation.
- Succession planning.
- Approval of ILAAP and ICAAP.

Board activities in 2017 (continued)

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 have visibility over the views and objectives of the major shareholders and other key stakeholders, ensures the values and culture in the organisation are reflective of the vision and values of the whole organisation.
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 assists 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 activities in 2017 (continued)

Board meetings attendance

The attendance of Directors at Board and committee meetings of which they were members during the financial year ended 31 December 2017 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[1]	Risk Committee[1]	Remuneration and Nominations Committee[2]	Remuneration Committee[2]	Nomination Committee[2]
Sir Malcolm Williamson[3]	3/3	n/a	n/a	n/a	n/a	1/1
Noël Harwerth[4]	3/3	n/a	2/3	n/a	4/4	1/1
Philip Jenks[5]	9/9	n/a	3/3	6/6	n/a	n/a
Ian Ward[6]	9/9	4/4	3/3	6/6	4/4	1/1
Tim Brooke[7]	8/9	4/4	3/3	5/6	4/4	n/a
Rajan Kapoor[8]	8/9	4/4	3/3	5/6	4/4	n/a
Ian Lonergan	9/9	n/a	n/a	n/a	n/a	n/a
Sebastien Maloney	9/9	n/a	n/a	n/a	n/a	n/a
Peter Elcock	8/9	n/a	n/a	n/a	n/a	n/a

1 The Audit Committee and the Risk Committee were created on 27 June 2017.
2 The Remuneration and Nominations Committee was split into two separate committees on 27 June 2017.
3 Sir Malcolm Williamson was appointed as Chairman on 16 August 2017.
4 Noël Harwerth was appointed as Senior Independent Director on 16 August 2017.
5 Philip Jenks served as Chairman for the period 1 January 2017 until 16 August 2017 when he was appointed as Deputy Chairman.
6 Ian Ward served as Senior Independent Director for the period 1 January 2017 until 16 August 2017 and was appointed Chair of the Remuneration and Nomination Committee on 11 May 2017.
7 Tim Brooke served as Chair of the Remuneration and Nominations Committee for the period 1 January 2017 until 11 May 2017.
8 Rajan Kapoor was appointed as a member of the Remuneration and Nominations Committee on 16 February 2017.

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 Secretary. The Board has a schedule of Matters Reserved (see page 53) 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 Secretary 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 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 is also discussed at the Board which includes regulatory matters and conduct risks. The Board also receives regular updates from external advisors including auditors, corporate lawyers and the Company's brokers. In November 2017 the Board held a strategy meeting which approved the business plan for 2018 and the strategic objectives. The Group has a strategy day scheduled for 2018.

On the rare occasion when a Director may be 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 2017

The Board held nine scheduled meetings and one planning meeting in 2017. Additional meetings were called during the year, including two Board committees, in order to approve the accounts and to consider matters related to the IPO and other significant transactions involving the capitalisation of the Group's subsidiaries, and warehouse funding and securitisation transactions. The IPO was a key component of the Board agenda prior to October 2017, since the listing the Board has since focused on trading updates, the year end financial statements, the governance structure, composition of the Board for the future, including a review of succession planning, and commissioning an external Board evaluation, as well as reviewing and approving the sale of the Group's residual interest in Charter Mortgage Funding 2017-1 plc, announced in January 2018.

Board activities in 2017 (continued)

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 with regard to the balance of skills, Board diversity, knowledge and experience.

Sir Malcolm Williamson was appointed as a Non-Executive Director on 27 June 2017 and assumed the position as Chairman in August; Noël Harwerth joined the Board on the same date and assumed the role as Senior Independent Director in August. The Deputy Chairman, Philip Jenks led the recruitment process for both these positions and was assisted by Korn Ferry, an independent search consultancy with no other connection to the Group. A role specification was recommended to the Board by the Nomination Committee and agreed by the Board. The key criteria for the role specifications were listed company and financial services experience, amongst other attributes. A shortlist was agreed from a long-list and each of the candidates met the Chairman, the NEDs, CEO and CFO and a number of other senior executives. Following the meetings, the Remuneration and Nominations Committee (the precursor to the Nomination Committee) reviewed the feedback and recommended the candidates to the Board for final approval.

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 of three terms (nine years). Each of the Directors will stand for election at the first AGM of the Group in accordance with the Code. At subsequent AGMs all directors will either stand for re-election again or election if they have been appointed since the last AGM. Prior to the re-election of the Non-Executive Directors the Nomination Committee assesses the 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. This year the Nomination Committee also reviewed and took into account the outcome of the annual review with the Chairman. During the annual review the Chairman discusses the time commitment which is detailed in the Non-Executive Directors' letters of appointment, their training and development needs and ensures that the Non-Executive Directors are able to discharge their duties effectively. The Committee formally assessed each of the Directors and recommended to the Board that each continues to be effective and have demonstrated they have sufficient time to carry out their role on the Board effectively. Therefore, the Board is of the view that each of the Directors should be subject to election at the 2018 AGM. Further biographical details of the Directors can be found on pages 48 to 50.

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. The outcome of these votes will be announced following the 2018 AGM.

Independence of Directors

The Board consists of six Non-Executive Directors (including the Chairman who was independent on appointment) four of whom are considered to be independent since the IPO in October 2017.

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 to that each of the Non-Executive Directors are independent. In reaching this determination the Board considered the following.

- Ian Ward is a director of Newcastle Building Society, the parent company of the 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 nine years in July 2018.

The Board has determined that Mr Ward continues to be independent notwithstanding the connection to 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 deemed as a non-independent Non-Executive Director at the time of the IPO 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 the correct 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. The Board has therefore commissioned a third party independent report to assist in compiling a matrix of key skills and attributes that the Board members should bring to the boardroom. This skills matrix will form the basis of the independent analysis for non-executive positions when succession planning. The process will be conducted by a way of interviews with each of the Board members and external benchmarking exercise.

Independent professional advice

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

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 any negligence, default, breach of duty or trust and any other liability incurred in the execution of their duties and the Directors have (and during the year ended 31 December 2017 had) the benefit of the qualifying third party indemnity provision contained in Article 184 of the Group's Articles of Association. In addition, the Group maintains Directors and Officers liability insurance for the Directors and Company Secretary.

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 impact on their ability to act in the best interests of the Group. These are reported quarterly to the Board.

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 as an interest 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 provided 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 can add value to the way the Board and committees operate. As two new Directors joined the Board in June immediately prior to the listing in October 2017, the Board believed that an effective evaluation could only take place once the Board had spent a meaningful amount of time working together; in addition the Board also felt that an external evaluation in the first six months would provide a good foundation for future success. During December 2017 the Board approved the appointment of Advanced Board Room Excellence to conduct an external valuation. This evaluation will take place during Q2 2018 with the final report and any subsequent recommendations to be discussed by the Board during the second half of 2018. The process will involve face-to-face interviews with each of the Directors, members of the senior executive team and a number of external stakeholders. The Chairman will also be provided with a report on the performance of each Director and the Senior Independent Director will receive a report on the Chairman. In addition, each of the committee Chairs will receive a report on the performance of the Board committees.

A summary of the report and recommendations will be provided in the 2018 Report and Accounts. The Nomination Committee will oversee the implementation of the action plan as agreed with the Chairman of the Board.

ABE is and independent consultant with no other connection to the Group.

The effectiveness of the performance of the Chairman and the Non-Executive Directors is assessed alongside the external review which will take place in 2018. For 2017, the Chairman met with each of the Non-Executives to discuss their time commitments, contribution and general performance. In doing so he took into account a review undertaken by the Deputy Chairman for the performance prior to June 2017.

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 Secretary together with the Chairman, taking into account the Directors' preferences.

Throughout 2017, Board members were provided with training on a number of topics as follows: a briefing from the Chief Risk Officer on the impact of IFRS 9, a training session from the external lawyers on their obligations under the Listing Rules, Prospectus Rules, The Disclosure & Transparency Rules and the Market Abuse Code following the IPO, and annual training in respect of the Senior Manager Regime. A training programme has been developed for 2018.

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 Secretary in consultation with the Chairman and the new Director.

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

The objective of each induction programme is to provide an overview of the business, strategy, finances, relationship with the regulator, the 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. As a newly listed company, it has commenced engagement with its key shareholders. As part of the IPO process 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. Early in 2018 the Chairman wrote to the Group's top shareholders, offering a face-to-face meeting with himself and the Company Secretary to discuss corporate governance matters.

The CEO and CFO have developed a calendar of investor events for the year which includes the post-financial results roadshows for all shareholders. They will regularly attend industry and investor conferences and host regular meetings with financial analysts to discuss the Group's performance. Institutional shareholders have a consistent dialogue with the investor relations team. All of the announcements, presentations, and regulatory news can be found on our website in the Investor Relations section, which is in 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 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 Secretary for response.

Annual General Meeting

The AGM in 2018 will be the Group's first and will form a key part of the annual calendar. It is a particularly important event for our retail shareholders and enables them to meet the Board and ask any questions they may have regarding the Group's business. The majority of Board members will be present, as will representatives from senior management.

This year the AGM will be held at the offices of Linklaters, 1 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 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 shareholders, for so long as the major shareholder holds a legal or beneficial interest in more than 30% of the of the ordinary shares. The Relationship Agreement enables the shareholder to appoint one Non-Executive Director to the Board for as long as they hold indirectly or directly 30% or more of the ordinary share capital and a further Non-Executive Director should they hold 50% or more of the ordinary shares. The major shareholders have not yet exercised this right and do not intend to do so over the near term.

Nomination Committee report

Committee members

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

Ian Ward

Sir Malcolm Williamson

Noël Harwerth

Regular attendees include the CEO, CRO, CFO, Director of HR and Group Operations.

Role of the Committee

- Succession Planning for the Chairman, the Board and Executive Directors.
- Succession planning and diversity in the senior management team.
- Review the Board's size and structure and gender and ethnic diversity.
- Lead the appointment process for NEDs and EDs.
- Review the governance framework.
- Commission an external evaluation and ensure the outputs from this exercise are actioned.
- Ensure the principal shareholder complies with the Relationship Agreement.
- Oversee the annual effectiveness of the committee.
- Monitor the Board diversity policy.
- Board Nomination Committee Report.

Number of meetings

- Since the IPO the Nomination Committee has held one meeting. Prior to the IPO the Committee held a number of meetings as part of the Group Remuneration and Nominations committee. Details of the skills and experience of the committee and its members can be found on pages 48 to 50.

What the Committee discussed in 2017

- Appointment of Chairman and SID.
- Recommended the re-appointment of Directors – following assessment of their time commitments and independence.

Post IPO it discussed
- Board composition including skills and diversity.
- Directors conflicts.
- External Board Evaluation.

Dear Shareholders,

I am pleased to present my first report as Chairman of the Nomination Committee. Following the successful IPO in October 2017, the Committee has primarily focused on building the foundations necessary to ensure the composition of the Board can effectively support the Group's strategy in a listed environment. Key areas of focus last year were appointing new Board members with listed and financial services experience and, following the listing, ensuring the governance framework, Board composition, evaluation process and succession planning are robust.

Board and succession planning

In June 2017 the Board welcomed Sir Malcolm Williamson as Chairman and Noël Harwerth as Senior Non-Executive Directors, from August 2017. Their appointment process is detailed on page 56.

Diversity

The Committee's key area of responsibility is to ensure the composition of the Board is appropriate for oversight of the strategic direction of the Group and this includes reviewing the right balance of skills and knowledge. The Nomination Committee 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. However, with the appointment of Noël Harwerth, female representation now stands at 11%. Diversity and gender balance will also be considered as part of the succession planning process. In 2015 the Board adopted a Diversity Policy which stated that it would consider during 2018, whether measurable targets should be set. This will be an important consideration for the Committee during 2018 and I will report further on this in next year's report. The review of this policy will also extend to the senior management bodies within the organisation as a whole.

However, in identifying suitable candidates for appointment to the Board, the Nomination Committee will always consider candidates on merit against objective criteria, whilst having due regard to the benefits of diversity among Board members. The Committee consider the current composition of the Board and the committees to be appropriate, given the recent appointments. However, as mentioned earlier, the Committee is keen to ensure there is an orderly succession process for both the Board and executive team, and has commissioned an independent skills based review to assist in objectively identifying the attributes required by the Board to support the Group's strategy.

Review of Board and Board Committee effectiveness

The Group last undertook an internal Board review in 2015. As reported earlier on page 47, the Committee recommended to the Board that an external evaluation takes place during 2018. Advanced Board Room Excellence ("ABE") were therefore appointed in December 2017 to conduct an externally facilitated self-assessment of the Board and committees. I will report the findings and actions to shareholders in next year's annual report.

Committee performance

The performance of the Committee will be formally assessed as part of the external evaluation process, however I consider that good progress has been made in overseeing the transition to a listed company.

Ian Ward
Chairman of the Nomination Committee
19 March 2018

Audit Committee report

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").

The Board has determined that Rajan Kapoor is the financial expert and meets the Code requirements for having recent and relevant financial experience, being a qualified chartered accountant with a comprehensive 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 ensures that the agendas are aligned.

Role of the Committee

- Monitors the integrity of the Group's external reporting process and financial management.
- Reviews the effectiveness and performance of the external auditor.
- Ensures the Group has a robust system of internal controls and an effective risk management framework and oversees the work of the outsourced internal audit function.
- Reviews the full year and half year financial results.

Dear Shareholders,

I am pleased to present the first report of the Audit Committee following the listing of the Group in October 2017. I was appointed Chairman of the Audit Committee in June 2017 on creation of the Committee.

The Committee has responsibility for monitoring and reviewing the Group's financial reports and disclosures, its accounting policies and practices and standards of internal controls. This report provides an overview of the issues considered and debated by the Committee in 2017 and our expected priorities in 2018.

Financial reporting

The Committee's primary focus is the integrity and quality of the Group's financial statements, comprising interim and full year results announcements, in addition to the 2017 annual report. In 2017 a key priority for the Committee was supporting the IPO process. The Committee considered the historical and current financial statements included in the Prospectus and satisfied itself that the Group's financial reporting processes and controls were appropriate for a listed company. The Committee also ensured that additional resources were in place as the Group prepared for listing, so that the control environment was not compromised because of the additional workload placed on the business, in particular on the finance function.

The Committee received detailed reports from management on the key assumptions underpinning the Group's financial results. The Committee also reviewed reports from the external and internal auditors and provided robust challenge and detailed feedback on the financial results.

The Committee invested considerable time in 2017 reviewing and discussing the key assumptions, judgements and processes underpinning the Group's IFRS 9 calculations, in anticipation of the accounting standard coming into effect on 1 January 2018.

System of Internal Controls

Maintaining a sound system of internal controls is essential to the achievement of the Group's strategic objectives. The Committee, in conjunction with the Risk Committee, oversees the Group's control environment. In particular, it monitors the system of internal controls relating to the financial reporting, accounting and financial management. During the year the Committee received reports from external and internal auditors on control matters.

Deloitte has been the external auditor of the Group since 2009. They attend each meeting of the Committee providing, semi annual audit reports and updates on other topics as appropriate. Deloitte also acted as the Reporting Accountant in relation to the IPO.

Key priorities for 2018

Looking forward to 2018, the Committee will continue to ensure the integrity of the financial statements of the Group. We will continue to monitor the impact of the economic environment on the Group's loan portfolios and financial results.

I would like to thank all the Committee members and attendees for their support and commitment during 2017.

Rajan Kapoor
Chairman of Audit Committee
19 March 2018

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. They can be found on the Group's website.

Allocation of Audit Committee time in 2017

- Financial affairs of the Group.
- Standards of internal controls.
- Internal audit.
- External audit.
- Regulatory and compliance.

Performance evaluation

The Committee operates effectively. However, its performance has not been formally evaluated. Such an evaluation will be undertaken in the first half of 2018 as part of the independent evaluation of the Board.

Matters considered by the Committee in 2017

Accounting and financial reporting

The Committee focused on a number of key judgements and reporting issues in the preparation of the full year results and the annual report. In particular, the Committee considered, discussed and where appropriate challenged:

- The adequacy of the provision for loan impairments, focusing in particular on key judgements and methodologies applied. The Committee was satisfied that the overall provision for loan impairments and underlying assumptions and methodologies were reasonable and applied consistently.
- Accounting for securitisation 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 two securitisations undertaken by the Group in 2017, the Group derecognised assets in one but not the other. The Committee considered the facts and agreed with the assessment that the Group controlled one SPV 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 the reasonableness of these assumptions and satisfied itself that they had been applied consistently.
- The key judgements made in interpreting IFRS 9, the key features of the IFRS 9 impairment process and the impact of IFRS 9 on the Group's financial results, capital and stress testing.
- The quality and transparency of financial risk disclosures.
- The viability statement in the 2017 annual report and the going concern basis of accounting including considered of evidence of the Group's capital, liquidity and funding position. The Committee considers the assessment of principal risks; assessed the Group's prospects in the light of its current position and reviewed the disclosures on behalf of the Board. The Committee supported the Viability Statement and the Directors' Going Concern conclusion. The review process which supports the Committee and the Board in reaching the conclusion that the disclosures in the annual report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performances, business model and strategy. The external auditor also considered the fair balanced and understandable statement as part of the audit process.

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.
- 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.

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.

Audit Committee report (continued)

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 24 to 25. The Group's principal risks and uncertainties, which provide a framework to the Committee's focus, are discussed on pages 26 to 34. 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 have 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.

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

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.

As part of preparing for the listing a review of the existing controls in place was performed and additional controls were implemented to ensure compliance with the UK Corporate governance Code. The Directors confirm these processes have been in place since admission and up to date as of the approval of the annual report.

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 2017 financial year.

External auditors

Deloitte were appointed auditors in 2009 and undertook the first audit for the year ended 31 December 2009. Charter Court Financial Services 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. 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 be required to step down following completion of the 2018 audit. The Committee will satisfy itself on the suitability of his replacement and to ensure that the transition is managed smoothly.

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 their 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 effectiveness of the external audit, their contribution during the IPO process, 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 2018.

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 September 2015, 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 most significant appointment was in relation to the IPO. Deloitte were selected as reporting accountant for the IPO due to the cumulative knowledge they have obtained from being external auditor of the Group, which meant that they were best placed to support with the Historical Financial Information and Financial position and prospects procedures workstreams. 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 £5,000 can be approved by the Chief Financial Officer, any non-audit services where the expected fee is between £5,000 and £25,000 requires the prior approval of the Chairman of the Audit Committee and any non-audit fee above £25,000 requires prior approval by the Audit Committee.

Details of fees charged can be found in note 12 to the financial statements. Total fees for non-audit services, including services relating to corporate finance advisory work and other assurance related services was £0.4 million. The firm was also paid £0.7 million for work in connection with the IPO. Work undertaken by Deloitte for non-audit services, excluding the IPO work, was as follows:

- profit verifications.
- accounting opinions regarding the analysis and validation of the securitisation structures and accounting impact.
- support on the impact for the implementation of IFRS 9.

The Audit Committee viewed that it was most economical for Deloitte to provide these services and that it did not compromise their independence.

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.

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.

In 2018 the Committee will undertake a review of the effectiveness of the outsourced internal audit function as part of the annual calendar.

Taxation

The Committee considered and recommended to the Board the formal articulation of the Group's tax strategy. The Group 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 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 2017 was considered by the Committee. There were no areas of concern or material weaknesses in internal controls.

Risk Committee report

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.

Dear Shareholders,

I became Chair of the Risk Committee in June in preparation for the IPO in October 2017. I am pleased to present our first report for the year ended 31 December 2017 as a listed company.

The report that follows describes the key activities of the Risk Committee and the work that has been undertaken throughout the year within the Group to strengthen its risk management processes. As described by the Chair of the Audit Committee, the Committee works closely with the Audit Committee to ensure that there is appropriate communication on matters where there is commonality. In order to facilitate this, I am also a member of the Audit Committee and the Chair of the Audit Committee is also a member of the Risk Committee.

The focus of the Committee's work prior to the listing in October 2017 was on ensuring that the Group's Risk management framework and controls not only reflected and supported the business model but that they were sufficiently robust to support a listed entity and furthermore took a forward looking view to ensure business growth could continue according to plan within a prudent risk management framework.

During the year the Committee has overseen more comprehensive and detailed risk reporting, the establishment of a Risk Controls Self-Assessment framework to ensure all risks taken by our operational, front line and sales teams are documented with control standards agreed against each of them and a more dynamic corporate risk register. Like the Audit Committee, it monitored the internal project to prepare the Group for the implementation of IFRS 9, the new international financial reporting standard which will impact the classification, measurement and disclosures of financial instruments, including the modelling of twelve month and lifetime expected losses of a mortgage portfolio, which was of itself an innovative and important development, consistent with Charter Court's sophisticated and analytical approach to credit risk management.

Another important initiative in 2017 involved careful consideration of and preparation for different scenarios likely to result from the new bank capital framework to be introduced by the Basel Committee on Banking Supervision. This project was of strategic importance to Charter Court in 2017, with a significant amount of resources dedicated to preparing the Group for a potential transition to an internal ratings based approach which I am delighted to say is now progressing and a project incepted accordingly. Aside from the significant credit risk management enhancements, IRB will bring important business and capital benefits.

Committee performance

The performance of the Committee will be formally assessed as part of the external evaluation process, however I consider that good progress has been made by the Committee in overseeing the transition to a listed company.

Tim Brooke
Chairman of Risk Committee
19 March 2018

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 our first remuneration report as a listed company. This report sets out the Group's remuneration policy for Executive Directors, what we paid our Executive 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 remuneration policy for the Executive Directors, the Chairman and the Non-Executive Directors. The Directors' remuneration policy will be put to a binding shareholder vote at the forthcoming AGM and is consistent with that set out in the Admission Prospectus. If approved, the remuneration policy will become effective from the date of the AGM, 16 May 2018.
- **Annual report on remuneration** – this sets out in detail, the remuneration received by Directors in 2017 and how the new Directors' remuneration policy will be applied in 2018. The Annual report on remuneration together with the Annual Statement will be subject to a single advisory shareholder vote at the AGM.

Key activities of the Committee

The Group's remuneration policy was reviewed extensively in the lead up to the IPO to ensure appropriate remuneration arrangements were in place to support Group strategy following the listing of the Group.

In forming the remuneration policy, the Committee took independent advice and considered carefully how the policy would support the Group's objectives and the good practice features that are expected of a main market company. This has resulted in a policy which has an appropriate balance between fixed and performance-related pay and adheres to practice that we believe is fit for purpose for a listed company. The overall remuneration structure is fairly typical with an annual bonus and awards of performance shares made under a long term incentive plan. The overall value of Directors' packages is competitive, but not excessive.

The Committee's key activities during the 2017 financial year and in early 2018 included:

- a comprehensive review of pay practices in the FTSE market and at other relevant financial services companies in advance of Listing;
- formulation of the Group's first remuneration policy as a listed company and related Prospectus disclosures;
- implementing and making the first set of awards under the Group's new Performance Share Plan;
- determining the level of bonus payments in respect of the 2017 financial year; and
- drafting the Group's first Directors' remuneration report as a listed company.

Performance and reward for the 2017 financial year

During the year the Group listed successfully on the main market and delivered a robust financial performance over the year which included two successful securitisation transactions. At the same time, the Group significantly expanded its funding options and delivered well against non-financial KPIs.

These business results are reflected in the remuneration outcomes:

- The robust company scorecard which assesses performance against five categories, namely financial, risk management, business strategy, customers & clients and people & culture, produced a score of 87.68%. Also assessed during the year was the strong personal performance of our Directors which included a successful Main Market listing on the London Stock Exchange. This resulted in annual cash bonuses of 125% of salary (out of 125% maximum) for the CEO and CFO and 97% of salary (out of 100%) for the CRO.
- The first Performance Share Plan awards were granted on IPO with a face value of 125% of salary for the CEO and CFO and 100% of salary for the CRO. These awards will vest after three years subject to achievement of Earnings per Share ("EPS"), relative Total Shareholder Reward ("TSR"), risk measures and continued employment.

How the policy will be implemented for the 2018 financial year

▶ The remuneration policy is set out on pages 68 to 77.

The Committee will implement the policy in the following way for financial year 2018.

- Base salaries are reviewed annually with increases normally effective from 1 July each year with the next review taking place in June 2018. The review will take into account individual and Group performance over the preceding twelve months and the general increase for employees across the Group.
- The 2018 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 against a simplified and 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. A personal performance adjuster will apply to the scorecard outcome which can vary the scorecard outcome from nil to 125%.

  ▶ Further details of the measures and their weightings can be found on pages 78 and 79.
- Performance share awards will be made to Executive Directors at 125% of salary for the CEO and the CFO and at 100% of salary for the CRO. Consistent with the awards made in 2017, 40% will be subject to Earnings per Share targets, 40% on relative TSR against a basket of other financial services companies and the remaining 20% on a rounded assessment of risk over the three-year performance period.

The Remuneration Committee has spent considerable time developing the executive remuneration policy to ensure a smooth transition from private to public ownership and is keen to understand the views of our new shareholders on all matters including remuneration. I welcome any comments or feedback you may have either in the lead up to or at the AGM and throughout the year.

I hope that you find the information in this report helpful and I look forward to your support on the two remuneration resolutions that will be presented to shareholders at the Group's AGM.

Ian Ward
Chairman of the Remuneration Committee
19 March 2018

Directors' remuneration policy

This part of the Directors' 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 will be put forward for approval in a binding vote of shareholders at the 2018 AGM on 16 May 2018. The policy will take formal effect from that date, subject to shareholder approval. It is intended that the remuneration policy applies for three years following approval, subject to any changes that would require re-approval before then.

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 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 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 bonus cap (i.e. the limit on the ratio of variable to fixed remuneration). The Group proposes to disregard 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 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 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 and 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.

Policy table (continued)

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Benefits			
To provide 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 from time to time by the Committee 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.
Pension			
To provide market competitive and appropriate pension package to help to recruit, retain and reward executives 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.
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 the 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 (from 2019 in respect of 2018 performance) 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 2018 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 payout is inconsistent with the Group's overall performance or risk appetite taking account of any factors it considers relevant. This will help ensure that payouts reflect overall Group performance during the period. Awards under the DBP are not subject to further performance conditions.

Policy table (continued)

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. For awards granted in 2018 and beyond, performance will normally be measured over a three year period. Vesting is subject to the achievement of performance measures and continued service. For awards made in 2018 and beyond, the normal vesting period will generally be three years and 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 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 forward looking 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 Total Shareholder Return ("TSR") and financial measures such as Earnings Per Share, and also measures used in the Group'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.

Policy table (continued)

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.
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 period 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 2017 and 2018 can be found in the Annual report on remuneration on pages 78 and 79.

The threshold and maximum levels of performance are set to reflect minimum acceptable levels at threshold and very stretching but achievable levels at maximum. At the end of each performance period the Committee reviews performance against the targets. The Committee reviews the bonus and PSP target 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 promotion 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 is payable in October 2018. The second tranche is approved as part of the terms of this policy.

Incentive plan discretions

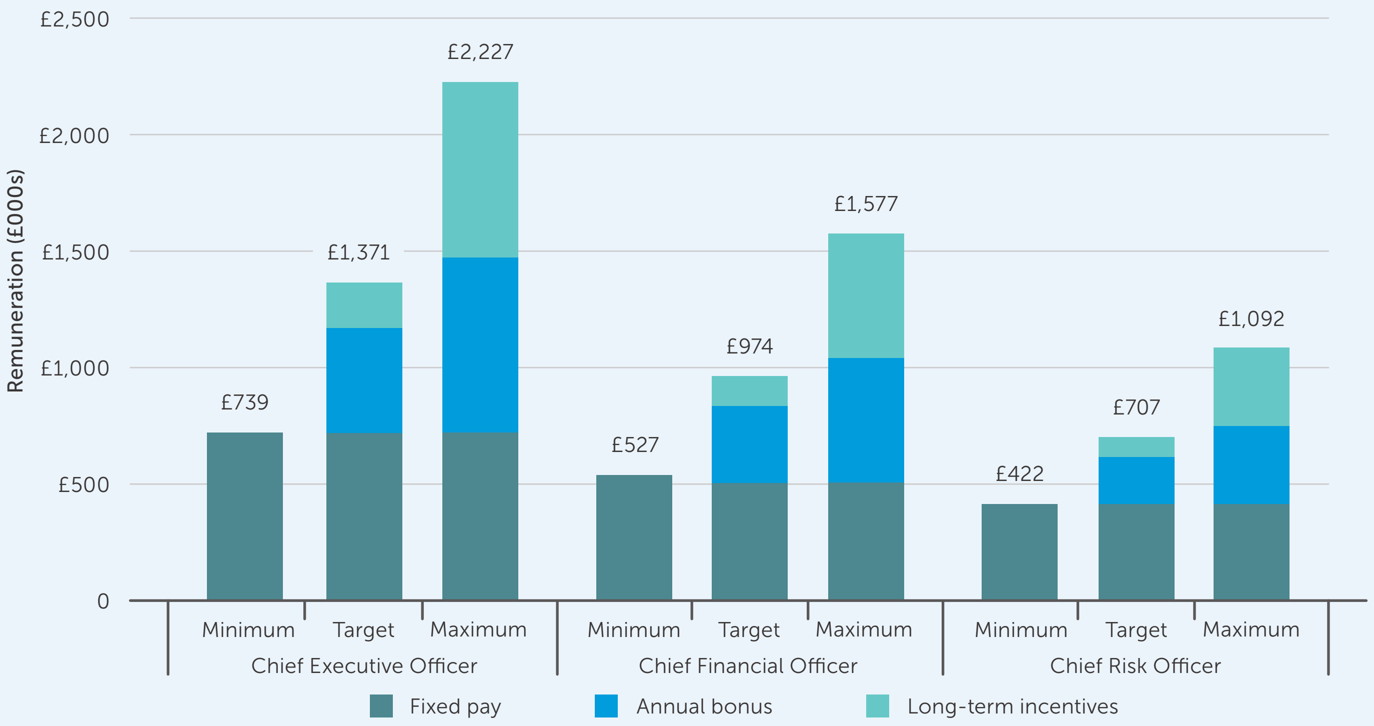
The Committee will operate the ABP, DBP and PSP according to their respective rules. To ensure the efficient operation and administration of these plans, the Committee retains discretion in relation to a number of areas. This is consistent with market practice and these include (but are not limited to) 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 how 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 1 July 2017 and benefits are based on the single figure value for 2017.
- On-target = fixed pay as above plus 60% payout of the maximum annual bonus opportunity and 25% of maximum PSP award.
- Maximum = fixed pay as above plus 100% or maximum payout 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. Furthermore, no account has been taken of any share price increase or potential dividend equivalent payments.

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).

Service contracts (continued)

Plan (continued)	
PSP	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 if 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 six 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 Group'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.

The Chairman's appointment may be terminated by either party with six months' notice. He 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. He 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 he/she is 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 2017 and, together with the Chairman's Annual Statement, 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 Group listed in September 2017, part of the 2017 remuneration relates to the period when the Group was privately owned.

£'000	Salary and fees[1]	Benefits[2]	Employer Pension Contribution	Annual Bonus[3]	LTIP/PSP[4]	Other[7]	Total
Executive							
Ian Lonergan	476	17	95	744	–	–	1,332
Sebastien Maloney	350	19	69	525	–	–	963
Peter Elcock	270	20	54	326	–	42[6]	712
Total	**1,096**	**56**	**218**	**1,595**	**–**	**42**	**3,007**
Non-Executive							
Sir Malcolm Williamson[5]	102	–	–	–	–	50	152
Philip Jenks	181	–	–	–	–	104	285
Tim Brooke	110	–	–	–	–	50	160
Noël Harwerth[5]	51	–	–	–	–	50	101
Rajan Kapoor	105	–	–	–	–	50	155
Ian Ward	117	–	–	–	–	50	167
Total	**666**	**–**	**–**	**–**	**–**	**354**	**1,020**

1 Salaries for Executives were increased during the year, effective 1 July 2017.
2 Benefits include company car / car allowance, car insurance, private medical insurance, critical illness insurance, and dental cover.
3 The 2017 bonus which was agree prior to IPO is payable in cash.
4 There were no long term incentive awards vesting based on a performance period ending in 2017.
5 Sir Malcolm Williamson, 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 Charter Court, 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 will be paid in October 2018.
7 In recognition of the considerable additional and incremental work, above their normal time commitments, undertaken by the Non-Executive Directors (including the Chairman) to prepare Charter Court for listing all Non-Executive Directors received a supplemental fee in addition to their normal fees detailed above.

2017 Annual bonus outcome

The 2017 bonus plan was approved in early 2017 when the Group was in private ownership. The bonus is based on performance against a robust balanced scorecard of quantitative and qualitative measures covering the following categories:

1. Financial 40%
2. Risk management 30%
3. Business strategy 20%
4. Customer & clients 5%
5. People & culture 5%

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 125%.

2017 balanced scorecard

The original 2017 balanced scorecard included 27 different measures across the five categories covering all aspects of performance and in a drive to reduce complexity, the scorecard was simplified during the year whilst retaining the category weightings set out above. The revised scorecard will form the basis of assessment in 2018, although business strategy has been removed as a measure and a greater emphasis has been placed on financial performance.

The Remuneration Committee assesses the non-financial elements by way of both internal, quantifiable targets and a broader qualitative assessment. Some of the measures remain commercially sensitive and cannot be disclosed in full. However, 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.

The assessment of the metrics is summarised in the tables below.

1. Financial (40%)

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Profit before Tax	16%	£77.93m	£82.87m	£92.40m	£111.7m	16%
Return on equity	12%	22.40%	23.63%	25.99%	28.6%	12%
Cost income ratio	6%	44.78%	40.71%	38.67%	34.1%	6%
Net loan growth	6%	£887.7m	£934.4m	£1,027.9m	£1,556.3m	6%
Total	**40%**					**40%**

The Committee believes financial performance during the year has been exceptional and therefore is consistent with the scorecard outcome.

2. Risk management (30%)

The Group's Risk Appetite is set and owned by the Board and the Group operates 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.

Risk management assessment is through a detailed risk assessment scorecard which assesses nine key areas of risk – balance sheet growth, internal capital and liquidity adequacy, regulatory, operational, conduct, liquidity, funding, market and credit risks.

A full and objective assessment of the risk scorecard 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 determined that a score of 24% out of 30% is warranted.

In arriving at this outcome the Committee considered the following:

- Very low cost of risk amongst other challenger banks;
- Strong balance sheet growth during the year in a well-managed environment whilst operating within risk appetite;
- The Group maintained its strong relationship with the PRA and FCA;
- Operational and Conduct risk – operated well within risk appetite limits;
- Market risk – was well managed with more sophisticated modelling and analysis; and
- Funding – good diversification, range and use of funding options.

3. Business strategy (20%)

Business strategy comprised an assessment of strategic planning and development and business development, focusing on the successful delivery of the IPO. Following the successful management of the business over the year and listing of the business on the main market, the Committee awarded a score of 15% out of 20%.

The IPO was delivered on time to budget and within the target pricing range. There was high support from investors with the offer twice subscribed and performance since listing to date has been positive. The syndicate of banks and advisors were well managed throughout the process. Inevitably, the significant resources utilised in the delivery of the IPO led to a reduction in the number of non-essential projects completed during the year.

4. Customer & clients (5%) and **5. People & culture (5%)**

The Group carries out Customer and Broker surveys through a net promoter score assessment. The feedback from customers and brokers was strong with some scope for improvement. The outcome for the year was 3.75% out of 5%.

Charter Court places great importance on its employees and maintaining its employee focused culture. Staff engagement demonstrated by the employment survey results continues to remain high, supported by low staff turnover and absence rates. Furthermore, service standards were maintained during high period of growth and recruitment, and the Group was ranked the third best company to work for in the UK by the Sunday Times Best Companies to work for (medium sized firm), and the number one bank. The Committee determined that a full score of 5% should be awarded.

The 2017 balanced scorecard aggregate outcome was 87.68%.

Individual performance assessment

The 2017 bonus plan includes a personal performance multiplier. Based on an individual's performance, the balanced scorecard can be flexed by a factor ranging from nil to 125%.

	Performance during the year	Personal performance factor (0% – 125%)
Ian Lonergan	Mr Lonergan led the Group through a year of significant transition, delivering against all personal objectives to the highest standards. Mr Lonergan's performance was rated by the Committee as "Outstanding".	125%
Sebastien Maloney	Mr Maloney is credited with a number of outstanding deliveries in 2017. He demonstrated excellence in the delivery of the IPO in which he took a significant amount of responsibility. He delivered successfully on project, advisor and syndicate management, financial planning and accounting accuracy. During the year he also significantly expanded the funding options available to the business. Mr Maloney's performance was rated by the Committee as "Outstanding".	125%
Peter Elcock	Mr Elcock performed to a high level in 2017, making a significant contribution to the successful IPO and driving strong risk outcomes. Mr Elcock exceeded expectations during the year.	100%

The Committee determined that in respect of the year to 31 December 2017, the resulting Annual Bonus awards were as follows:

	Maximum opportunity % salary	Actual % of salary	Total awarded
Ian Lonergan	125%	125%	£743,750
Sebastien Maloney	125%	125%	£525,000
Peter Elcock[1]	100%	97%	£325,731

1 Peter Elcock's salary for H1 was £204k and his bonus opportunity was 200% of salary. For H2, his salary was £335k with a 100% bonus opportunity. Applying a 87.68% balanced scorecard outcome and a personal performance factor of 100% gives a £325,991 bonus for the year (or 97% of current salary).

In accordance with the annual bonus plan agreed at the start of the financial year prior to listing, the 2017 bonus is payable in cash.

Awards vesting in the year (audited)

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

Awards granted in the year (audited)

On Admission and as disclosed in the Prospectus, the following PSP awards were granted to Executive Directors:

	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.
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.

Awards granted in the year (audited) (continued)

The performance conditions applying to PSP awards are:

- Earnings per Share (40%) – Based on aggregate EPS in financial years 2018 and 2019. None of this part of the award will vest if EPS is below 81 pence; at 81 pence, 25% of the award will vest increasing to full vesting for 94 pence or higher.
- Relative TSR (40%) – total shareholder return performance against a peer group comprising Aldermore, OneSavings Bank, Paragon, Virgin Money, CYBG, Close Brothers, CYBG, 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. Appropriate disclosure of the targets and outcomes will be disclosed on a retrospective basis.

Following Admission, the following SAYE options were granted to Executive Directors:

	Type of award	Date of grant	Number of shares[3]	Face value[3]	Face value as a % of salary	Threshold vesting %	Performance measures	End of performance period[4]	End of holding period
Ian Lonergan	SAYE option	26 October 2017	9,625	£22,017	3.7%	N/A	None	N/A	N/A
Peter Elcock	SAYE option	26 October 2017	9,625	£22,017	6.6%	N/A	None	N/A	N/A

3 SAYE options were granted when the share price was 228.75p and have an option exercise price of 187p. As permitted by the relevant legislation, 187p is 80% of the share price on the date that invitations to participate were issued to all employees. This is the maximum number of shares that could be received assuming the associated savings contract is completed.
4 SAYE options are exercisable following the maturity of the associated three year savings contract.

Pension payments (audited)

Executive Directors have the right to participate in one of the 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.

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 is paid a fee of £22,850 per annum for undertaking this role, which he retains.

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 2017	Shareholding guideline achieved	PSP	DBP	SAYE
Ian Lonergan	2,857,804	Yes	323,369	–	9,625
Sebastien Maloney	2,763,221	Yes	228,260	–	–
Peter Elcock	90,018	No	145,652	–	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	**5,863,215**	**–**	**697,281**	**–**	**19,250**

Statement of Directors' shareholding and share interests (audited) (continued)

To align the interests of the Executive Directors with shareholders, each Executive Director should build up and maintain a shareholding in Charter Court 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.

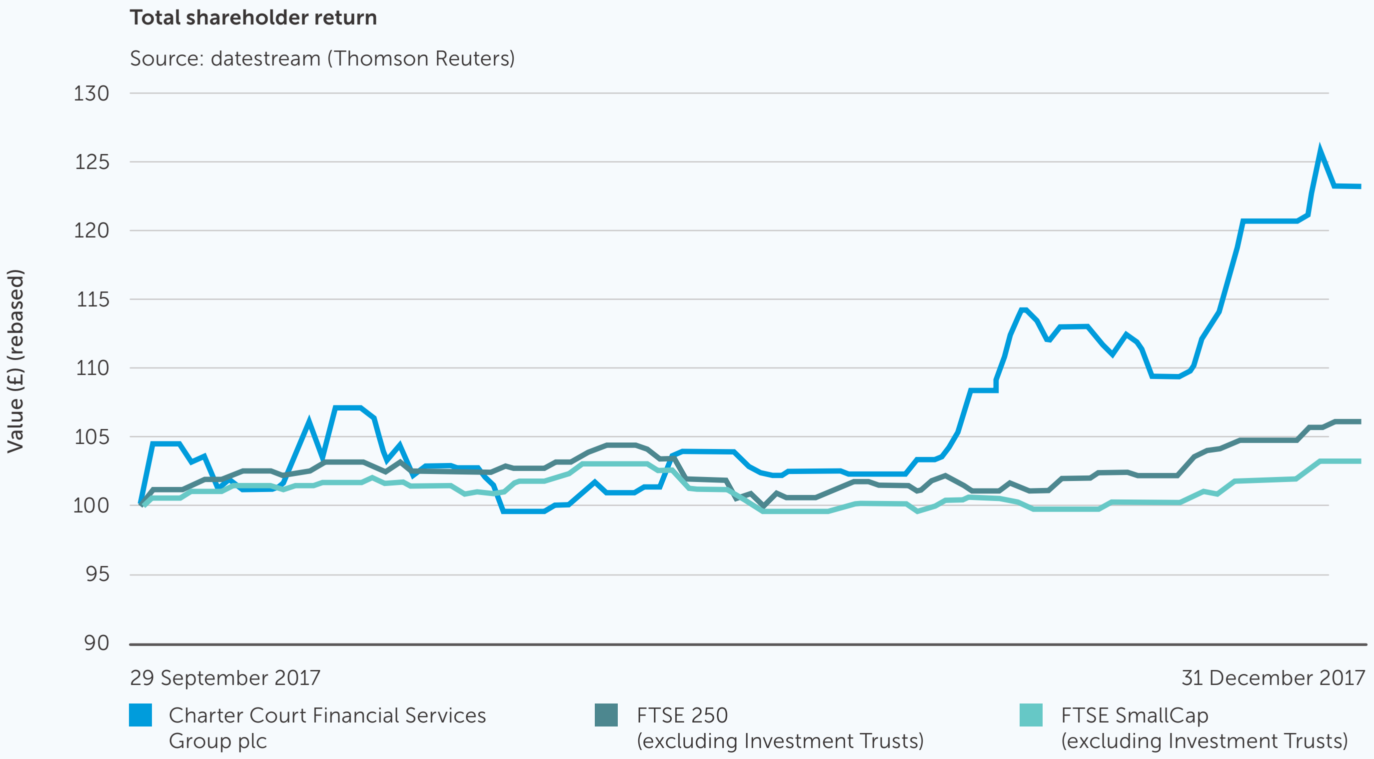
There have been no changes in the share interests of the current Directors between 31 December 2017 and March 2018.

As set out in the Prospectus, a 365 day lock up period from the date of Admission applies to shares held by Directors and Senior Managers.

Performance graph and table

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 2017. The SmallCap Index has been chosen as an appropriate comparator as it is the index of which the Group is a constituent, and the FTSE 250 has also been shown as the Group currently falls within this index by market capitalisation.

TSR 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.



This graph shows the value, by 31 December 2017, of £100 invested in Charter Court Financial Services on 29 September 2017, compared with the value of £100 invested in the FTSE SmallCap (excluding Investment Trusts) and FTSE 250 (excluding Investment Trusts) Indices on a daily basis.

Aligning pay with performance

The total remuneration figure for the CEO in 2017 is 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	2017
Total remuneration (£000)	£1,332
Actual bonus (% of the maximum)	100%
LTIP vesting (% of the maximum)	N/A[1]

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

Percentage change in remuneration of the Chief Executive Officer

As this is the first period reported since listing there has been no change in remuneration of the CEO. It is therefore not possible to provide meaningful comparative data. However, full disclosure of the year on year movement will be provided in future remuneration reports.

Relative importance of Executive Director remuneration

As the Group listed during 2017, there is no disclosure relating to the percentage change in dividend distributions between 2016 and 2017. However, full disclosure of the year on year movement will be provided in future remuneration reports.

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 Tim Brooke, Noël Harwerth and Rajan Kapoor.

External advisors

The Committee sought independent advice from New Bridge Street ("NBS") (Aon plc's executive remuneration consultancy) who act as the Committee's advisor.

NBS 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 free of undue influence. The Committee intends to review the performance and independence of its advisors on an annual basis. During the period, the Group incurred fees of £68,424 (2016: £nil) from New Bridge Street. They have no other connection with the Group.

Eversheds Sutherland (International) LLP provided legal advice to the Group in relation to incentive arrangements prior to and since IPO.

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 2018

Base salaries

Current salaries as at 1 July 2017 are set out in the table below. The next salary review date will be 1 July 2018.

	Salary as of 31 December 2017 (set at 1 July 2017)
	Base salary
Ian Lonergan	£595,000
Sebastien Maloney	£420,000
Peter Elcock	£335,000

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 2017, annual bonuses for Executive Directors will be determined based on a balanced scorecard of financial and non-financial objectives. The following balanced scorecard categories and weightings shall apply:

- 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 1.0 assigned to achieving 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 2018 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 2018 will be subject to the following performance conditions, measured over the three financial years to 31 December 2020:

- Earnings per Share (40%) – based on aggregate EPS in financial years 2018, 2019 and 2020. None of this part of the award will vest if aggregate three-year EPS is below 137 pence; at 137 pence, 25% of the award increasing on a straight line basis to full vesting for 157 pence or higher.
- Relative TSR (40%) – total shareholder return performance against a peer group comprising . OneSavings Bank, Paragon, Virgin Money, 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 Board fees

Non-Executive Director fees were set at the time of IPO. They remain unchanged in 2018.

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

Approval

This report was approved by the Board of Directors on 19 March 2018 and signed on its behalf by:

Ian Ward
Chairman of the Remuneration Committee
19 March 2018

Directors' report / other statutory information

The Directors present their report and the financial statements of the Group for the year ended 31 December 2017. 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 99 of the financial statements.

Dividend

As advised in the prospectus at the time of the Group's listing on the London Stock Exchange the Directors do not intend to propose a final dividend for the year ended 31 December 2017, at the Annual general Meeting ("AGM") to be held on 16 May 2018, but will consider paying an interim dividend at announcement of the half year results planned for 21 August 2018.

Directors

The names of the Directors of the Group at the date of this report, together with biographical details, are given on pages 48 to 50 of this annual report. In accordance with the UK Corporate governance Code ("the Code"), all Directors will retire at the 2018 AGM and offer themselves for reappointment at that meeting.

All Directors listed on pages 48 to 50 were Directors during the year apart from Sir Malcolm Williamson and Noël Harwerth, who were appointed on 27 June 2017.

Further details on the Directors' remuneration and service agreements or appointment letters (as applicable) can be found in the Directors' remuneration report on pages 66 to 84 of this annual report.

Directors' interests

The Directors' interests in the share capital of the Group as at 31 December 2017 and 19 March 2018 are set out on page 81 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 in subsequent years 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 1p per share. As at 31 December 2017, 239,130,419 ordinary shares were in issue.

The Group's share capital on 31 December 2016, was 1,507,782 ordinary shares in issue 1,252,125 of which had a nominal value of £0.001 and 255,657 of which had a nominal value of £0.0001 and 255,657 had a nominal value of £0.00001.

On 28 September 2017 a capital reorganisation took place prior to the IPO and the Group issued 8,695,652 ordinary shares of £0.01 each, par value £86,956.52, at £2.30 per share. Full details of the reorganisation are shown in note 31 on pages 134 to 135 of the Financial statements.

On 28 September 2017, Immediately following Admission, the Group's share capital was as follows:

	Issued	**Number**
Ordinary Shares of £0.01	£2,391,304	239,130,419

Pursuant to an ordinary resolution passed at a general meeting on 28 September 2017, 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) as required for the purposes of the Global Offer, up to an aggregate nominal amount of £85,435;

(b) as required to satisfy subscriptions by certain Non-Executive Directors to be issued on Admission, up to an aggregate nominal amount of £1,522; and

(c) for any purpose other than that set out at (a) and (b) above, up to an aggregate nominal amount of £797,101, such power being expressed to expire at the conclusion of the next annual general meeting of the Group or on 27 September 2018, 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.

The existing authority given to the Group on 28 September 2017 to allot shares will expire at the conclusion of the forthcoming AGM. Details of the resolution to be proposed renewing this authority will be included in the notice of the AGM.

Rights attaching to shares

The Group's articles of association set out the rights and obligations attaching to the Group's 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 16 May 2018, will be set out in the notice of the AGM.

Restrictions on the transfer of shares

There are no special 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 724 of the Companies Act 2006 a company may purchase its own shares to be held in treasury ("Treasury Shares").

The existing authority given to the Group on 28 September 2017 to purchase Treasury Shares of up to 10% of its issued share capital will expire at the conclusion of the next AGM.

The Board considers it would be appropriate to renew this authority and intends to seek shareholder approval to purchase Treasury Shares of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment.

Details of the resolution renewing the authority will be included in the notice of the AGM.

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 35 on pages 136 to 138 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:

	% of total voting rights
Elliott Capital Advisors L.P.	47.93
Old Mutual	18.19
JPMorgan Asset Management Holdings Inc.	5.31

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 66 to 84 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 1 to 45 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 on pages 37 to 45 of the Strategic report.

Greenhouse gas emissions

Greenhouse gas emissions is set out in the Corporate responsibility on page 45 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 16 to 20, and 25 to 27 to the financial statements. The notes begin on page 103.

Financial risk management

The Group has procedures in place to identify, monitor and evaluate the significant risks it faces. The Group's risk management objectives and policies and the risks associated with the Group's financial instruments are described and analysed on pages 24 to 34.

Post-balance sheet events

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

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

Political donations

No political donations were made during the year (2016: £nil).

Disclosure of information under listing rule 9.8.4R

As required by Listing Rule 9.8.4CR, 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 2017 LR 9.8.4R (1)	**£nil**

Relationship agreement

Elliot International L.P and Elliott Associates L.P ("The Major Shareholders") own 47.93 per cent of the issued share capital of the Group. The Major Shareholders have 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 19 March 2018, 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 2018 AGM

The Group's AGM will be held on 16 May 2018. Resolutions to be proposed at the AGM 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 2018 AGM will be set out in the notice of 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 2018 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.

Fair, balanced and understandable

A requirement of the UK code is that the annual report is fair, balanced and understandable to shareholders, and indeed this was one of the key criteria the Audit Committee requested in the planning process for the annual report. This is the Group's first annual report and in order to support the assessment the Committee reviewed the principal risks to ensure these were representative of the business and consistent throughout the report and that areas requiring significant judgement and explanation had due prominence and that the description of the Group's business was balanced and clearly articulated. This was achieved by providing clear brief to the contributors to the report, a robust verification process and editorial review by the senior managers in the business. The Audit Committee concluded that the report was 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 behalf of the Board.

Ian Martin Lonergan
Chief Executive Officer
19 March 2018

Sebastien Maloney
Chief Financial Officer
19 March 2018

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report and the Directors' Report, Directors' Remuneration 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 ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts 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, International Accounting Standard 1 requires that Directors:

- 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.
- 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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

Ian Martin Lonergan
Chief Executive Officer
19 March 2018

Sebastien Maloney
Chief Financial Officer
19 March 2018

The Board

Sir Malcolm Williamson	Ian Lonergan	Sebastien Maloney
Peter Elcock	Philip Jenks	Noël Harwerth
Ian Ward	Tim Brooke	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 give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 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 of Charter Court Financial Services Group plc (the "Parent Company") and its subsidiaries (the "Group") which comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated statement of financial position;
- the Consolidated statement of changes in equity;
- the Consolidated statements of cash flows;
- the Company statement of financial position;
- the Company statement of changes in equity;
- the Company statement of cash flows;
- the related notes 1 to 60; 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 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: • effective interest rate ("EIR") accounting; • loan loss provisioning; and • securitisation accounting.
Materiality	The materiality that we used for the Group in the current year was £4.9 million which was determined on the basis of 5% of adjusted profit before tax. In calculating adjusted profit before tax, we excluded the £17.7 million gain recognised in the derecognition securitisation transaction in the year, and the £4.9 million costs relating to the Group's initial public offering. The materiality that we used for the Parent Company in the current year was £4.7 million which was determined on the basis of 95% 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 on page 36 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 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 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 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 24 to 34 that describe the principal risks and explain how they are being managed or mitigated; • the Directors' confirmation on page 64 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 Directors' explanation on page 35 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.

Effective interest rate ("EIR") accounting

Key audit matter description

The Group holds loans and receivables which meet the criteria of financial assets under IAS 39. The recognition of interest income on loans under IAS 39 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 associated directly attributable cash flows (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 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 £20.0 million (2016: £14.6 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 on pages 107 and 110, with detail about critical accounting estimates on page 113. The corresponding area in the Audit Committee report is on page 61.

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 changes in key judgements.

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 per the model back to the general ledger.

We challenged the behavioural life assumptions used by management by reference to the Group's historical behavioural life experience, the macroeconomic environment and benchmarking to peers.

Where appropriate, we involved our IT specialists in reviewing the completeness and accuracy of data used in management's behavioural life estimates. For a sample of loans, our specialists also independently re-created the expected EIR adjustment.

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.

Our review and testing of the on-going treatment of fees and charges did not identify any material issues.

Overall we consider the judgements applied by management to be reasonably stated.

Loan loss provisioning

Key audit matter description

The Group held £1.0 million of impairment provisions at year-end (2016: £0.5 million) against loans and advances to customers of £5,385.2 million (2016: £3,823.0 million).

IAS 39 requires the carrying value of financial assets to be impaired where there is objective evidence of a loss event at the balance sheet date. This is calculated by estimating the expected future cash flows that will be recovered.

Specific loan loss provisions are based on a case by case assessment for individual accounts considered to be in default. The remainder of losses that have been incurred but not yet reported are considered by a collective provision based on individually assessed credit risk factors.

The key assumptions applied in the impairment model are the probability of default and the expected loss on impaired loans. As such our significant risk for loan loss provisioning focusses on the validity of these particular assumptions.

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 on page 110. The corresponding area in the Audit Committee report is on page 61.

Loan loss provisioning (continued)

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 validity of changes in key estimates.

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 then challenged management's key assumptions, including consideration of impairment overlays, and benchmarked these assumptions to peers where appropriate.

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 impairment models were determined and applied appropriately and the recognised specific and collective provisions were 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 derecognised from the Group. The outcome of this assessment has a material impact on the assets and liabilities recognised within the Group.

During the year two securitisations were completed. Firstly, a £300.0 million buy to let securitisation, and secondly, a £297.3m residential securitisation.

Of the two transactions completed during the year, management has concluded that derecognition of mortgage assets from the Group has been achieved in one instance, and has not been achieved in the other instance.

The securitisations are detailed within note 27. Management's associated accounting policies are detailed on page 110 with detail about judgements in applying accounting policies on page 113.

How the scope of our audit responded to the key audit matter

We first understood management's process and key controls around securitisation accounting by undertaking a walkthrough. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the 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 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. In forming our view we considered whether the Group retained the residual rights to the cash flows within the SPV.

Where it was deemed that mortgage assets should be derecognised 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 also 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.

Key observations

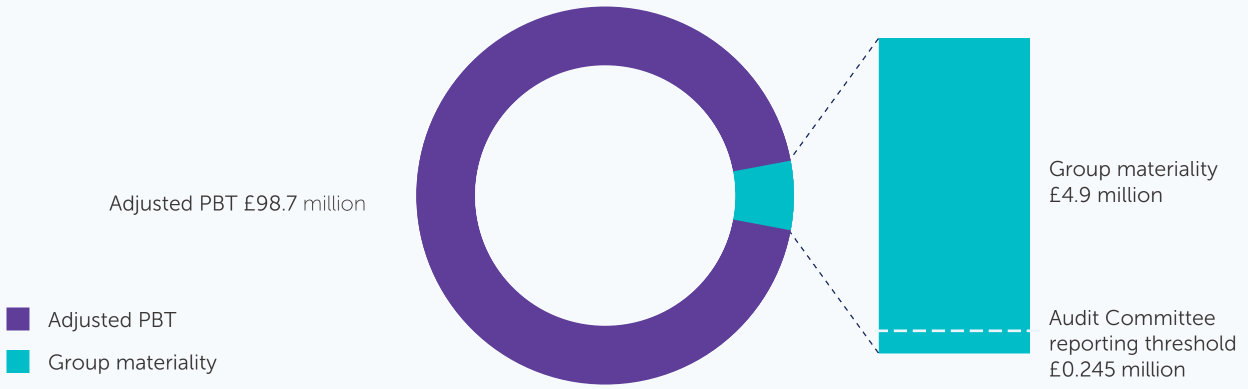
We concurred with management's conclusions regarding continued recognition and derecognition for the securitisation transactions in the year. We also found the derecognition journals posted were in accordance with the accounting requirements.

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	£4.9 million (2016: £2.4 million)	£4.7 million (2016: £2.3 million)
Basis for determining materiality	5% of adjusted profit before tax. In calculating adjusted profit before tax, we excluded the £17.7 million gain recognised in the derecognition securitisation transaction in the year, and the £4.9 million costs relating to the Group's initial public offering. In 2016, materiality for the Group was based on 5% of profit before tax.	95% of Group materiality.
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 investment in subsidiaries 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 95% of Group materiality.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £245,000 (2016: £48,000) for the Group and £233,000 (2016: £46,000) for the Parent Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Following agreement with the Audit Committee, we increased the threshold for reporting misstatements from 2% to 5% of materiality. 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

The Group comprises the Parent Company and other wholly owned subsidiaries and SPVs which operate in the UK to provide retail savings products, specialist mortgage products, mortgage administration services and credit analysis. 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 Income Statement and Balance Sheet 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 applicable to each individual entity which were 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 accounts 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 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.

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

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.

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 144 for the financial year ended 31 December 2017 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 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 9 years, covering the years ending 31 December 2009 to 31 December 2017.

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).

K. J. Cooper

Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
19 March 2018

Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	Year ended 31 December 2017	Year ended 31 December 2016
		£m	**£m**
Interest income and similar income	7	**211.1**	143.8
Interest expense and similar charges	8	**(67.0)**	(56.5)
Net interest income		**144.1**	87.3
Non-interest income	9	**8.5**	6.2
Gain on sale of loans		**17.7**	-
Net loss from derivative financial instruments	10	**(0.1)**	(0.2)
Total income (net)		**170.2**	93.3
Administrative expenses		**(58.0)**	(44.5)
Provision for loan impairments – net (charge) / release	18	**(0.5)**	0.1
Profit before tax	11	**111.7**	48.9
Tax charge	14	**(30.4)**	(11.6)
Profit for the year		**81.3**	37.3
Other comprehensive income for the year		**-**	-
Profit and total comprehensive income for the year attributable to equity holders for the Parent Company		**81.3**	37.3
Earnings per share (pence per share)			
Basic	15	**35.0**	16.8
Diluted	15	**34.9**	16.8

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

Consolidated statement of financial position
As at 31 December 2017

	Note	As at 31 December 2017	As at 31 December 2016 Restated[1]	As at 31 December 2015 Restated[1]
		£m	£m	£m
Assets				
Cash and cash equivalents	16	**966.8**	214.0	537.7
Investment in debt securities	17	**78.4**	119.5	114.3
Customer loans and receivables	18	**5,364.2**	3,807.9	1,945.4
Fair value adjustment for hedged risk	18	**(6.2)**	4.4	1.7
Derivative financial instruments	19	**11.9**	7.1	1.1
Other assets held at fair value	20	**0.2**	0.2	0.3
Trade and other receivables	21	**4.6**	2.5	2.6
Deferred tax asset	22	**2.2**	0.2	0.2
Property, fixtures and equipment	23	**0.9**	0.9	0.9
Intangible assets	24	**1.4**	0.6	0.4
Total assets		**6,424.4**	4,157.3	2,604.6
Liabilities				
Deposits from banks	25	**1,003.5**	40.0	60.1
Deposits from customers	26	**4,420.0**	3,432.6	1,562.1
Fair value adjustment for hedged risk	26	**(0.2)**	3.3	0.4
Debt securities in issue	27	**627.4**	426.1	804.5
Derivative financial instruments	19	**6.5**	8.3	2.3
Trade and other payables	28	**15.2**	8.2	8.0
Corporation tax payable	29	**17.0**	5.3	1.2
Total liabilities		**6,089.4**	3,923.8	2,438.6
Net assets		**335.0**	233.5	166.0
Equity				
Share capital	31	**2.4**	-	-
Share premium	32	**19.0**	195.1	165.0
Retained earnings	33	**313.6**	38.3	1.0
Equity-settled employee benefits reserve	34	**-**	0.1	-
Equity attributable to equity holders of the Parent Company and total equity		**335.0**	233.5	166.0

The notes on pages 103 to 144 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 19 March 2018. They were signed on its behalf by:

Ian Martin Lonergan
Chief Executive Officer

Sebastien Maloney
Chief Financial Officer

Company number: 06712054

1 See note 2. Basis of preparation

Consolidated statement of changes in equity
For the year ended 31 December 2017

	Share capital	Share premium	Retained earnings	Equity-settled employee benefits reserve	Total
Note	31	32	33	34	
	£m	£m	£m	£m	£m
At 1 January 2016	-	165.0	1.0	-	166.0
Share issue	-	30.1	-	-	30.1
Profit and total comprehensive income for the year	-	-	37.3	-	37.3
Recognition of share-based payments	-	-	-	0.1	0.1
At 31 December 2016	-	195.1	38.3	0.1	233.5
Cancellation of share premium	**-**	**(195.1)**	**195.1**	**-**	**-**
Bonus issue	**3.0**	**-**	**(3.0)**	**-**	**-**
Cancellation of deferred shares	**(0.7)**	**-**	**0.7**	**-**	**-**
Share issue	**0.1**	**19.9**	**-**	**-**	**20.0**
Share issue costs	**-**	**(0.9)**	**-**	**-**	**(0.9)**
Profit and total comprehensive income for the year	**-**	**-**	**81.3**	**-**	**81.3**
Recognition of share based payments (note 35)	**-**	**-**	**0.4**	**0.7**	**1.1**
Transfer of equity-settled employee benefits reserve	**-**	**-**	**0.8**	**(0.8)**	**-**
At 31 December 2017	**2.4**	**19.0**	**313.6**	**-**	**335.0**

Consolidated statement of cash flows
For the year ended 31 December 2017

	Note	Year ended 31 December 2017	Year ended 31 December 2016
		£m	£m
Net cash generated by operating activities	36	**189.6**	30.8
Purchases of property, fixtures and equipment	23	**(0.4)**	(0.5)
Expenditure on product system development and software	24	**(1.0)**	(0.5)
Proceeds from sale of loans		**300.0**	-
Purchases of debt securities	17	**(44.7)**	(19.5)
Disposals and redemptions of debt securities		**88.9**	14.3
Net cash generated/(utilised) by investing activities		**342.8**	(6.2)
Proceeds on issue of debt securities	37	**394.4**	0.5
Costs associated with issue of debt securities	37	**(1.5)**	-
Repayment of debt securities	37	**(191.6)**	(378.9)
Proceeds from the issue of shares		**20.0**	30.1
Share issue costs		**(0.9)**	-
Net cash generated by/(utilised by) financing activities		**220.4**	(348.3)
Net increase/(decrease) in cash and cash equivalents		**752.8**	(323.7)
Cash and cash equivalents at beginning of the year		**214.0**	537.7
Cash and cash equivalents at end of the year	16	**966.8**	214.0

At 31 December 2017 cash and cash equivalents includes £79.9 million (2016: £68.2 million) of restricted cash (see note 16).

Notes to the consolidated financial statements

For the year ended 31 December 2017

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

2. Basis of preparation
The 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 are presented in pounds sterling. The IFRS, as adopted by the EU, applied for all periods herein presented are those that are effective for accounting periods beginning on or after 1 January 2017. The Group's consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of derivative financial instruments, available for sale and other assets held at fair value through profit or loss. The functional currency of the Group 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.

The presentation of the Consolidated statement of financial position (on page 100) has been amended from the format previously reported in the audited statutory consolidated financial statements for the year ended 31 December 2016. The revised presentation removes the distinction between current and non-current assets and liabilities and instead presents assets and liabilities in descending order of liquidity. This format is in line with IAS 1 Presentation of Financial statements, as it applies to certain financial institutions which do not have a clearly defined operating cycle. Also, the fair value adjustment for hedged risk related to both customer loans and receivables and deposits from customers has now been disclosed separately in the Consolidated statement of financial position.

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 on page 36.

3. International financial reporting standards issued but not yet adopted which are applicable to the Group
The following financial reporting standards were in issue but have not been applied in the consolidated financial statements, as they were not yet effective on 31 December 2017 (and in some cases have not yet been adopted by the EU):

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

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

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

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

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

IFRS 9 Financial instruments is the replacement of IAS 39 "Financial Instruments: recognition and measurement" and will be applied for the first time in the Group's financial statements for the year ended 31 December 2018. The new standard has three components, classification and measurement, impairment, hedge accounting and will see significant changes from existing requirements. The Group has elected not to restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7.

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

Impairment

IFRS 9 introduces a new impairment model for financial instruments which will require entities to recognise expected credit losses based on unbiased forward-looking information. This replaces the existing incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and measures the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts (these were covered by IAS 37). In addition, IAS 39 requires the impairment of available for sale debt to be based on the fair value loss rather than estimated future cash flows as for amortised cost assets. Intercompany exposures, including loan commitments and financial guarantee contracts, are also in scope in the stand-alone reporting entity accounts.

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.

It is expected that the impairment charge under IFRS 9 will tend to be more volatile than under the incurred loss model of IAS 39. It is also expected to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least a 12-month expected credit losses and the population of financial assets to which lifetime expected credit losses applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Impairment: Key concepts and management judgements

The impairment requirements 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. 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.

Exposures are moved back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk.

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

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 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.

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.

c) Forward-looking information

The calculation of expected credit losses incorporates requires 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.

Where scenarios have a forecasted outlook shorter than the lifetime, the relevant metrics are unchanged through the life of the loan.

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 either been achieved through wider market analysis sourced by the bank or internal analysis of the bank's portfolios.

In addition to the base economic scenario, other possible scenarios along with scenario likelihood are sourced externally. The number of other scenarios is set based on the analysis of each major product type to ensure non-linearities are captured. For the estimate of expected credit losses as at 1 January 2018 the Group concluded that 4 scenarios appropriately captured non-linearities across the portfolios.

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

The scenario weightings are informed by external sources and determined through management judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

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 or an approximation thereof. 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: Estimated impact on loan loss allowance as at 1 January 2018

The estimated impairment allowance measured in accordance with the IFRS 9 expected loss model is £1.7 million, an increase of £0.7 million, 70%, compared with £1.0 million closing impairment allowance as at 31 December 2017 measured in accordance with the IAS 39 incurred loss model. The £0.7 million relates to loans and receivables and there is an immaterial amount relating to loan commitments and guarantees.

Classification and measurement

IFRS 9 will require financial assets to be 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").

Financial assets will be 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 will be 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 measurement category and carrying amount of financial assets and liabilities in accordance with IAS 39 as at 31 December 2017, and the equivalent under IFRS 9 at 1 January 2018, are as follows:

	IAS 39		IFRS 9	
	Measurement category	Net carrying amount	Measurement category	Net carrying amount
Financial assets		**£m**		**£m**
Cash and cash equivalents	Amortised cost	966.8	Amortised cost	966.8
Loans and receivables	Amortised cost	5,340.1	Amortised cost	5,339.4
Loans and receivables	Amortised cost	24.1	FVTPL	24.1
		5,364.2		5,363.5
Derivative financial instruments	FVTPL (Hedging instruments)	11.9	FVTPL (Hedging instruments)	11.9
Investments in debt securities	Amortised cost (Held to maturity)	78.4	Amortised cost	78.4
Financial liabilities				
Deposits from banks	Amortised cost	1,003.5	Amortised cost	1,003.5
Deposits from customers	Amortised cost	4,420.0	Amortised cost	4,420.0
Debt securities in issue	Amortised cost	627.4	Amortised cost	627.4
Derivative financial instruments	Amortised cost	6.5	Amortised cost	6.5

IFRS 9 is applied retrospectively, although comparatives are not restated, with adjustments arising from classification and measurement changes recognised in opening equity.

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

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. These requirements replace the current quantitative effectiveness test with a simpler version, and mandate that an economic relationship exist between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations are not allowed.

Adoption of the IFRS 9 hedge accounting requirements is optional, and certain aspects of IAS 39, being the portfolio fair value hedge for interest rate risk, would continue to be available for entities (while applying IFRS 9 to the remainder of the entity's hedge accounting relationships) until the IASB completes its accounting for dynamic risk management project.

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

IFRS 15 Revenue from Contracts with Customers sets the principles to be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges.

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

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, it removes the distinction between operating and finance leases and requires recognition of a right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payment, as well as the impact of lease modifications, amongst others. In summary, there will be a change in the overall expense profile once IFRS 16 becomes effective. The Group is currently assessing the new standard but due to the short term nature of the Group's leases (less than ten years) it does not expect the impact to be material.

4. Accounting policies

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Group 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 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 50.

4. Accounting policies (continued)

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.

Interest income on debt securities classified as available for sale investments are included in interest income and similar income 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.

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.

Non-interest income comprises fees received from the mortgage administration services, the sale of investment in debt securities, the sale of residual interest in securitisations 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.

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 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.

4. Accounting policies (continued)

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.

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
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value though profit or loss ("FVTPL"), held to maturity ("HTM") investments, available for sale ("AFS") financial assets and loans and receivables. The classification on the nature and purpose of the financial assets is determined at the time of initial recognition.

4. Accounting policies (continued)

Financial instruments at FVTPL
Financial instruments are classified as at FVTPL when the financial instruments are either held for trading or they are designated as at FVTPL.

A financial instrument is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated or effective as a hedging instrument.

A financial instrument, other than a financial instrument held for trading, may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

AFS financial assets
AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) HTM investments or (c) financial assets at FVTPL.

Treasury bills and gilts held by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Interest income on AFS financial is calculated using the EIR method and recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of AFS reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS reserve is reclassified to profit or loss.

HTM investments
HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

HTM investments are initially recognised at fair value including direct and incremental transactions costs and measured subsequently at amortised cost using the EIR method (as described in the interest income and expense policy above), less any provision for impairment.

A sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments to AFS financial assets.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as AFS or FVTPL. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the EIR method. Loans and receivables consist of customer loans and receivables (principally residential mortgage loans) and trade and other receivables.

The Group incurs transaction costs and fees for the origination of financial assets. Specifically for mortgage advances, the Group incurs direct and incremental costs and fees, such as application fees and broker commissions. This costs and fees are included within customer loans and receivables and are amortised over the expected life of those assets using the EIR method.

Loan portfolios acquired, rather than originated by the Group, are initially recognised at fair value, being the price paid, plus acquisition costs. Loan portfolios acquired are held to generate repayments of principal and payments of interest and are consequently carried at amortised cost using the EIR method, less any impairment. The premium or discount arising on the acquisition of a loan portfolio, that is, the difference between the amounts owed by mortgagors and the initial fair value of the loan portfolio, is recognised through interest income and similar income in the Consolidated statement of comprehensive income over the expected life of the portfolio.

Impairment of financial assets held at amortised cost
At each Consolidated statement of financial position date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For financial assets held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment loss allowances for loans and receivables, less amounts released and recoveries of amounts written off are charged to the line item "Provision for loan impairments – net (charge) / release" in the Consolidated statement of comprehensive income. The impairment loss allowances are deducted from the "Customer loans and receivables" line item on the Consolidated statement of financial position.

4. Accounting policies (continued)

Residential mortgage loan customers are assessed either individually or collectively for impairment. Potential indicators of loss events which may be evidence of impairment for residential mortgage loan customers include:

- Missed payments of capital or interest
- The borrower notifying the Group of current or likely financial distress
- Request from a borrower to change contractual terms as a result of the borrower's financial difficulty (i.e. forbearance)
- Arrears on other accounts held by the borrower.

Individual assessment
For individually assessed assets, the Group measures the amount of the loss as the difference between the carrying amount of the asset and the present value of the estimated future cash flows from the asset discounted at the asset's original EIR.

Collective assessment
In making a collective assessment for impairment, financial assets are grouped together according to their credit risk characteristics. These can include grouping by product, loan-to-value, brand, geography, type of customer and previous insolvency events. For each such portfolio or sub-segment of the portfolio, future cash flows are estimated through the use of historical loss experience. The historical loss experience is adjusted to include the effects of changes in current economic, behavioural and other conditions that cannot be successfully depicted solely from historical experience. Loans for which evidence of potential loss have been specifically identified are grouped together for the purpose of calculating an allowance for observed losses. Loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an allowance for incurred but not reported ("IBNR") losses. Such losses will only be individually identified in the future.

Derecognition of financial assets
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 16; this includes cash collected in the securitisation vehicle prior to paying down loan notes.

Retail deposits
Retail deposits are carried in the 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.

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 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 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 instruments above) or other financial liabilities.

Other financial liabilities
Other financial liabilities consist of trade payables and accruals and corporation tax payable. All other financial liabilities are initially recognised at fair value net of transaction costs incurred. They are subsequently stated 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.

4. Accounting policies (continued)

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 1 positions include available for sale investments in debt securities.

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 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 statement of financial position (note 16. Cash and cash equivalents), together with the corresponding obligation to return it, which is recognised as a liability at amortised cost (note 25. Deposits from Banks) 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 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 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).

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.

4. Accounting policies (continued)

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 Consolidated statement of comprehensive income 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 35.

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.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 4, 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.

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 April 2017, the Group securitised £300.0 million of buy to let mortgages through the SPV, Precise Mortgage Funding 2017-1B 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 £17.7 million was recognised.

In July 2017, the Group securitised £297.3 million of residential mortgages through the SPV, Charter Mortgage Funding 2017-1 Plc. Since the residual rights to the cash flows were retained by the Group and the criteria for derecognition were not met and the related customer loans and receivables continue to be recognised in the Group's Consolidated statement of financial position. Following the year end the residual rights to the cash flows were sold by the Group and the criteria for derecognition were met, see note 45.

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 27 for more information on the Group's securitisation arrangements.

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

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the Consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Application of the EIR method
In order to determine the EIR applicable to each loan an estimate must be made of the life of the loan and the cash flows attributable to it. A critical assumption in the EIR calculation is the expected life of the Group's loan products, therefore, as this determines the assumed period over which customers may be paying various differentiated interest rates. 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. The Group considers that it is reasonably possible for expected lives to vary by six months from the estimates made in the EIR calculations. As a consequence of these reviews, in the year ended 31 December 2017 adjustments of £0.2 million were made, increasing net interest income and customer loans and receivables. In the year ended 31 December 2016 adjustments of £1.3 million were made, decreasing net interest income and customer loans and receivables.

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 reduce the cumulative profit before tax recognised as at 31 December 2017 by £0.6 million (2016: £1.4 million). The effect of reducing the expected lives would increase the cumulative profit before tax recognised as at 31 December 2017 by £0.6 million (2016: £0.2 million) and increase customer loans and receivables by £0.6 million (2016: £0.6 million).

6. Segment information

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

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

- Buy to let ("BTL") lending: Long term first charge loans to landlords;
- Residential lending ("Residential"): Long term first charge loans to owner-occupiers;
- Short term lending ("STL"): Short term bridging finance to owner-occupiers, landlords and property developers;
- Second charge lending ("SCL"): Long term second charge loans; and
- Other: The central functions of the Group, including treasury and third party mortgage servicing. Other also includes the results of the Bridestone portfolio acquired in 2017 (see note 43) plus, in 2017, income from the sale of the PMF 2017-1B securitisation.

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

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

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

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

6. Segment information (continued)

Year ended 31 December 2017	BTL	Residential	STL	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

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

7. Interest income and similar income

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

8. Interest expense and similar charges

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

9. Non-interest income

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

10. Net loss from derivative financial instruments

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

11. Profit before tax

Profit before tax for the year has been arrived at after charging:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
Depreciation of property, fixtures and equipment	0.4	0.5
Amortisation of intangible assets	0.2	0.3
Operating lease costs	1.0	0.6
Research and development costs	0.1	0.4
Staff costs (see note 13)	31.3	24.5
IPO costs	4.9	0.1

Total costs associated with the IPO for the year ended 31 December 2017 are £5.8 million (2016: £0.1 million), comprising £4.9 million (2016: £0.1 million) charged to the income statement and £0.9 million (2016: £nil) charged to equity.

The auditor's remuneration for audit and other services is detailed in note 12.

12. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
Fees payable to the Group's auditor for the audit of the Company's financial statements	-	-
Fees payable to the Group's auditor and for other services to the Group's companies		
-The audit of the Group's consolidated financial statements	-	-
-The audit of the subsidiaries within the Group	0.4	0.2
Total audit fees	0.4	0.2
Audit related assurance services	0.7	-
Other assurance services	0.1	0.1
Total assurance services	0.8	0.1
Services relating to corporate finance advisory	0.3	0.4
Other non-audit services	-	0.2
Total other non-audit services	0.3	0.6
Total non-audit services	1.1	0.7
Total fees	1.5	0.9

Fees for IPO related services charged in the year ended 31 December 2017 were £0.7 million (2016: £nil) of which £0.4 million (2016: £nil) is included within Audit and related assurance services and £0.3 million (2016: £nil) is included within services relating to corporate finance advisory. Other non-audit services charged in the year ended 31 December 2016 includes £0.2 million for services related to a project to sell the Group to private bidders.

Fees for the audit of the Group's consolidated financial statements charged in the year ended 31 December 2017 were £30,000 (2016: £21,000).

13. Staff costs

The average monthly number of employees (including Executive Directors) was:

	Year ended 31 December 2017	Year ended 31 December 2016
Processing, collections and recovery	172	166
Sales and marketing	37	28
Compliance	21	12
Finance	55	47
Operations and administrative support	177	117
	462	370

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
Their aggregate remuneration comprised:		
Wages and salaries	26.0	20.9
Social security costs	3.1	2.5
Share based payments (see note 35)	1.1	0.1
Other pension costs (see note 39)	1.1	1.0
	31.3	24.5

There are no staff employed by the Parent Company.

The remuneration of the Directors and key management personnel is disclosed in note 43.

14. Tax

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

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

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

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

Change in tax rate

Reductions in the UK corporation tax rate from 21% to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and a further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the 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.

15. Earnings per share

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

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

The Group reorganised its share capital during the year in preparation for the IPO, as disclosed in note 31. As there were no changes in equity as a result of the reorganisation, earnings per share for all periods have been prepared on the basis of the new structure after the reorganisation, in accordance with IAS 33.

16. Cash and cash equivalents

	As at 31 December 2017 £m	As at 31 December 2016 £m
Unrestricted cash	**34.5**	13.2
Bank of England cash ratio deposit	**4.4**	2.6
Reserve with the Bank of England	**848.0**	130.0
	886.9	145.8
Restricted cash	**79.9**	68.2
Total cash and cash equivalents	**966.8**	214.0

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 (see note 27).

The reserve with the Bank of England forms part of the Group's liquid assets, there are no restrictions on access to this reserve.

Analysis of cash and cash equivalents by currency:

	As at 31 December 2017 £m	As at 31 December 2016 £m
Sterling	**966.8**	213.9
Euro	**-**	0.1
Total cash and cash equivalents	**966.8**	214.0

17. Investment in debt securities

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

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

Movements in the debt securities held during the year were:

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

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

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

18. Customer loans and receivables

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

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

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

18. Customer loans and receivables (continued)

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

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

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

	Note	As at 31 December 2017	As at 31 December 2016
		£m	£m
In respect of:			
Bank of England Term Funding Scheme ("TFS")	25	**1,326.1**	26.6
Asset backed loan notes	27	**654.0**	444.0
		1,980.1	470.6

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

Ageing of past due but not impaired customer loans and receivables

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

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

Ageing of past due and impaired customer loans and receivables

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

At 31 December 2017, there was a specific provision of £0.4 million (2016: £nil) of impaired mortgage loan receivables. As at 31 December 2017 mortgage loans which were not past due but considered to be impaired totalled £40.1 million (2016: £28.4 million) and a specific provision of £nil (2016: £nil) is held against these mortgages. This includes loans subject to forbearance as disclosed in the Risk management section on page 29.

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

18. Customer loans and receivables (continued)

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

	As at 31 December 2017 £m	As at 31 December 2016 £m
At the beginning of the year	**3,807.9**	1,945.4
Originations	**2,737.3**	2,496.8
Acquisition	**26.0**	-
EIR adjustments	**(5.4)**	(8.6)
Sales to third parties	**(300.0)**	-
Interest charged and other debits	**209.0**	140.9
Repayments and redemptions	**(1,110.1)**	(766.7)
Movement on provision for loan impairments	**(0.5)**	0.1
At the end of the year	**5,364.2**	3,807.9

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

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

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

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

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

19. Derivative financial instruments

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

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

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

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

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

The caps and the majority of interest rate swaps are Level 2 fair value measurements, being derived from inputs which are not quoted in active markets but are based on observable market data. The fair value is based on discounted future cash flows using a forecast future interest rate curve derived from market data.

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

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

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

20. Other assets held at fair value

	As at 31 December 2017	As at 31 December 2016
	£m	£m
Other assets held at fair value	**0.2**	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.

21. Trade and other receivables

	As at 31 December 2017	As at 31 December 2016
	£m	£m
Amounts receivable for the rendering of services	**0.2**	0.4
Prepayments and other receivables	**4.4**	2.1
	4.6	2.5

22. Deferred tax asset

Movement on deferred taxation balance in the year is shown below:

	As at 31 December 2017	As at 31 December 2016
	£m	£m
Opening balance	**0.2**	0.2
Credit to the Consolidated statement of comprehensive income	**2.1**	-
Adjustments in respect of prior periods	**(0.1)**	-
Closing balance	**2.2**	0.2

Analysis of deferred tax balance

	As at 31 December 2017	As at 31 December 2016
	£m	£m
Short term timing differences	**2.2**	0.2

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.

At 31 December 2017, the Group has no unused tax losses. At 31 December 2016 £0.1 million of unused tax losses were available for offset against future trading profits, which gave rise to a recognised deferred tax asset of £0.02 million, following a tax rate change to 17% enacted in 2016 (see note 14).

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. The net deferred tax credit of £2.0 million (2016: £nil) has been recognised in the Consolidated statement of comprehensive income and the corresponding net deferred tax asset has been recognised in assets.

23. Property, fixtures and equipment

	Leasehold property improvements	Fixtures and equipment	Computer equipment	Total
	£m	£m	£m	£m
Cost				
At 1 January 2016	0.5	0.3	0.9	1.7
Additions	-	0.2	0.3	0.5
At 31 December 2016	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**
Accumulated depreciation				
At 1 January 2016	0.2	0.1	0.5	0.8
Charge for the year	0.1	0.1	0.3	0.5
At 31 December 2016	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**
Carrying amount				
At 31 December 2017	**0.2**	**0.3**	**0.4**	**0.9**
At 31 December 2016	0.2	0.3	0.4	0.9
At 1 January 2016	0.3	0.2	0.4	0.9

24. Intangible assets

	Development costs	Computer software and licenses	Total
	£m	£m	£m
Cost			
At 1 January 2016	2.0	0.6	2.6
Additions	0.4	0.1	0.5
At 31 December 2016	2.4	0.7	3.1
Additions	0.1	0.9	1.0
At 31 December 2017	**2.5**	**1.6**	**4.1**
Amortisation			
At 1 January 2016	1.9	0.3	2.2
Charge for the year	0.1	0.2	0.3
At 31 December 2016	2.0	0.5	2.5
Charge for the year	-	0.2	0.2
At 31 December 2017	**2.0**	**0.7**	**2.7**
Carrying amount			
At 31 December 2017	**0.5**	**0.9**	**1.4**
At 31 December 2016	0.4	0.2	0.6
At 1 January 2016	0.1	0.3	0.4

Amortisation of internally generated intangible assets begins at the point the asset is developed and is capable of being used. At 31 December 2017 the total assets included in development costs and not being amortised was £0.4 million (2016: £0.4 million).

The development costs relate to the internally generated asset which is in the development as at 31 December 2017 and therefore not being amortised during the year.

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at 31 December 2017.

25. Deposits from banks

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

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

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

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

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

26. Deposits from customers

Deposits from customers are retail deposits held by the Group which were received from customers in the UK and denominated in pounds sterling. The deposits comprise principally term deposits and 30-120 day notice accounts.

The contractual maturity of these deposits is analysed below.

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

Fair value adjustment for hedged risk ("FVAHR")

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

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

27. Debt securities in issue

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

All borrowings are payable in pounds sterling.

The contractual maturity of debt securities is disclosed in the Risk management section on page 31.

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

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

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

27. Debt securities in issue (continued)

Notes are issued through eight funding vehicles.

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

PMF No. 1 Plc, PMF 2014-1 Plc, PMF 2014-2 Plc and PMF 2015-1 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).

Buttermere asset backed loan notes

A revolving vehicle; Buttermere Plc can fully redeem any outstanding notes in the event of the vehicle being wound up.

The net proceeds received from the issue of Buttermere Plc loan notes have been wholly classified as liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	0.5	-
Proceeds on issue of asset backed loan notes	-	0.5
Interest chargeable and accrued	-	-
Interest and principal paid	(0.5)	-
At 31 December	-	0.5

Buttermere Plc notes in issue at each Consolidated statement of financial position date are:

	Principal Balance		Margin over LIBOR
	As at 31 December 2017	As at 31 December 2016	
	£m	£m	
A Note	-	0.4	0.80%
B Note	-	0.1	3.60%
	-	0.5	

27. Debt securities in issue (continued)

During the year ended 31 December 2017 there were no issuances of mortgage backed floating rate notes (2016: £0.5 million) and the Group repaid principal of £0.5 million (2016: £nil). The final maturity date of the notes is 12 June 2045. Principal on the notes can be repaid before the final repayment date without penalty.

PMF No. 1 asset backed loan notes

A pass through publically rated securitisation; PMF No.1 Plc, closed on 5 December 2013 and issued external to the Group, £160.9 million of sterling mortgage backed floating rate notes at par. £134.5 million of the notes were rated AAA, £6.5 million rated AA, £6.5 million rated A, £10.4 million rated BBB, and £3.0 million rated BB. The Group retained and continues to hold £8.2 million of unrated and subordinated notes, equal to 5% of the issue amount.

The net proceeds received from the issue of PMF No. 1 loan notes have been wholly classified as liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	54.5	99.8
Interest chargeable and accrued	1.3	2.0
Interest and principal paid	(14.3)	(47.3)
At 31 December	41.5	54.5

PMF No. 1 notes in issue to external investors at each Consolidated statement of financial position date are:

	Principal Balance		Margin over LIBOR
	As at 31 December 2017	As at 31 December 2016	
	£m	£m	
A Note	15.1	28.2	1.15%
B Note	6.5	6.5	1.75%
C Note	6.5	6.5	2.15%
D Note	10.4	10.4	3.25%
E Note	3.0	3.0	5.25%
	41.5	54.6	

The final maturity date of the notes is 12 March 2047. The call date is 12 December 2018.

PMF 2014-1 asset backed loan notes

A pass through publically rated securitisation; PMF 2014-1 Plc, closed on 22 July 2014 and issued external to the Group, £230.1 million of sterling mortgage backed floating rate notes at par. £199.7 million of the notes were rated AAA, £10.0 million rated AA, £15.0 million rated A and £5.4 million rated BBB. The Group retained and continues to hold £11.8 million of unrated and subordinated notes, equal to 5% of the issue amount.

As at 31 December 2017, the Group also held £1.1 million (2016: £2.3 million) of the A notes, £1.5 million (2016: £1.5 million) of the C notes and £2.7 million (2016: £2.7 million) of the D notes.

The net proceeds received from the issue of PMF 2014-1 loan notes have been wholly classified as liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	83.3	205.5
Notes purchased by the Group	-	(11.0)
Interest chargeable and accrued	1.1	2.5
Interest and principal paid	(29.7)	(113.7)
At 31 December	54.7	83.3

27. Debt securities in issue (continued)

PMF 2014-1 notes in issue to external investors at the Consolidated statement of financial position date are:

	Principal Balance		Margin over LIBOR
	As at 31 December 2017	As at 31 December 2016	
	£m	£m	
A Note	**28.5**	57.3	0.80%
B Note	**10.0**	10.0	1.15%
C Note	**13.5**	13.5	1.40%
D Note	**2.7**	2.7	1.90%
	54.7	83.5	

The final maturity date of the notes is 12 September 2047. The call date is 12 June 2019.

PMF 2014-2 asset backed loan notes

A pass through publically rated securitisation; PMF 2014-2 Plc, closed on 25 November 2014 and issued external to the Group, £225.2 million of pounds sterling mortgage backed floating rate notes at par. £189.8 million of the notes were rated AAA, £10.9 million rated AA, £12.0 million rated A and £12.5m rated BBB. The Group retained and continues to hold £11.5 million of unrated and subordinated notes, equal to 5% of the issue amount.

As at 31 December 2017, the Group also held £2.3 million (2016: £5.7 million) of the A notes and £7.0 million (2016: £7.0 million) of the C notes and £2.5 million (2016: £nil) of the D notes.

The net proceeds received from the issue of PMF 2014-2 loan notes have been wholly classified as liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	**112.1**	202.7
Notes purchased by the Group	**(2.5)**	(7.0)
Interest chargeable and accrued	**1.4**	3.4
Interest and principal paid	**(47.2)**	(87.0)
At 31 December	**63.8**	112.1

PMF 2014-2 notes in issue to external investors at each Consolidated statement of financial position date are:

	Principal Balance		Margin over LIBOR
	As at 31 December 2017	As at 31 December 2016	
	£m	£m	
A Note	**38.0**	83.9	0.95%
B Note	**10.9**	10.9	1.50%
C Note	**5.0**	5.0	1.90%
D Note	**10.0**	12.5	2.40%
	63.9	112.3	

The final maturity date of the notes is 12 December 2047. The call date is 12 December 2019.

27. Debt securities in issue (continued)

PMF 2015-1 asset backed loan notes

A pass through publically rated securitisation; PMF 2015-1 Plc, closed on 10 March 2015 and issued external to the Group £201.2 million of pounds sterling mortgage backed floating rate notes at par. £167.5 million of the notes were rated AAA, £11.8 million rated AA, £10.2 million rated A and £11.7 million rated BBB. The Group retained and continues to hold £10.4 million of unrated and subordinated notes, equal to 5% of the issue amount.

The net proceeds received from the issue of PMF 2015-1 loan notes have been wholly classified as liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	**175.2**	196.4
Interest chargeable and accrued	**2.1**	3.6
Interest and principal paid	**(91.6)**	(24.8)
At 31 December	**85.7**	175.2

PMF 2015-1 notes in issue to external investors at each Consolidated statement of financial position date are:

	Principal Balance		Margin over LIBOR
	As at 31 December 2017	As at 31 December 2016	
	£m	£m	
A Note	**52.2**	141.9	0.95%
B Note	**11.8**	11.8	1.35%
C Note	**10.2**	10.2	1.75%
D Note	**11.7**	11.7	2.40%
	85.9	175.6	

The final maturity date of the notes is 12 March 2048. The call date is 12 June 2020.

CCFS Warehouse No.1 Plc asset backed loan notes

CCFS Warehouse No.1 Plc issued external to the Group £115.8 million of unrated sterling mortgage backed floating rate notes at par on 18 December 2015 of which the Group retained £15.8 million. As at 31 December 2017 the balance of these notes was £1.1 million (2016: £1.1 million), of which the Group retains £0.6 million (2016: £0.6 million).

The net proceeds received from the issue of CCFS Warehouse No.1 Plc loan notes have been wholly classified as liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	**0.5**	100.1
Interest chargeable and accrued	**-**	0.6
Interest and principal paid	**-**	(100.2)
At 31 December	**0.5**	0.5

CCFS Warehouse No.1 Plc notes in issue to external investors at each Consolidated statement of financial position date are:

	Principal Balance		Margin over LIBOR
	As at 31 December 2017	As at 31 December 2016	
	£m	£m	
A Note	**0.5**	0.5	1.85%

At 31 December 2016, the final maturity date of the notes was 16 February 2018. Since then, the final maturity has been extended to 16 February 2019.

27. Debt securities in issue (continued)

CMF 2017-1 Plc

A pass through publically rated securitisation; CMF 2017-1 Plc, closed on 27 July 2017 and issued external to the Group £294.4 million of pounds sterling mortgage backed floating rate notes at par. £260.2 million of the notes were rated AAA, £12.6 million rated AA, £9.7 million rated A- and £11.9 million rated BBB. The Group retained and continues to hold £8.9 million of unrated and subordinated notes, equal to 5% of the issue amount and this balance remains unchanged throughout the period covered by the consolidated financial statements.

The net proceeds received from the issue of CMF 2017-1 Plc loan notes have been wholly classified as liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	-	-
Proceeds on issue of asset backed loan notes	294.4	-
Deferred deal costs	(1.5)	-
Interest chargeable and accrued	1.5	-
Interest and principal paid	(13.3)	-
At 31 December	281.1	-

CMF 2017-1 Plc notes in issue to external investors at each Consolidated statement of financial position date are:

	Principal Balance		Margin over LIBOR
	As at 31 December 2017	As at 31 December 2016	
	£m	£m	
A Note	247.9	-	0.50%
B Note	12.6	-	1.30%
C Note	9.7	-	1.70%
D Note	11.9	-	2.20%
	282.1	-	

The final maturity date of the notes is 12 June 2054. The call date is 12 September 2021.

CML Warehouse Number 1 Limited

CML Warehouse Number 1 Limited closed on 1 December 2017 with a first drawdown on 13 December 2017 of £100.0 million under the senior loan and £8.7 million under the subordinated loan. At 31 December 2017, the Group held a subordinated loan of £8.7 million.

The net proceeds of CML Warehouse Number 1 Limited loan have been wholly classified as liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	-	-
Proceeds on issue of senior loan	100.0	-
Interest chargeable and accrued	0.1	-
At 31 December	100.1	-

The senior loan funding provided is for a term of twelve months with an option to extend for a further three months, the funding term can be re-negotiated annually.

27. Debt securities in issue (continued)

Interest Rates

The weighted average interest rates paid during the year were as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
	%	%
Buttermere asset backed loan notes	1.97	1.88
PMF No. 1 asset backed loan notes	2.40	2.34
PMF 2014-1 asset backed loan notes	1.35	1.35
PMF 2014-2 asset backed loan notes	1.60	1.58
PMF 2015-1 asset backed loan notes	1.53	1.50
CCFS Warehouse No.1 asset backed loan notes	2.18	2.23
CMF 2017-1 Plc	0.96	-
CML Warehouse Number 1 Limited	1.32	-

28. Trade and other payables

	As at 31 December 2017	As at 31 December 2016
	£m	£m
Trade and other payables within one year	15.2	8.2

29. Corporation tax payable

	As at 31 December 2017	As at 31 December 2016
	£m	£m
Corporation tax payable within one year	17.0	5.3

30. Financial guarantee

On 10 December 2015, Charter Court Financial Services Limited entered into a financial guarantee in favour of GIFS Capital Company LLC acting as original class A variable funding noteholder to CCFS Warehouse No.1 Plc, and Elavon Financial Services Limited. Charter Court Financial Services Limited and CCFS Warehouse No. 1 Plc are both consolidated subsidiaries of the Group, acting in its capacity as agent to the same transaction. The guarantee covers interest, default interest, principal, tax gross up and break costs as they fall due, should CCFS Warehouse No.1 Plc be unable to meet its obligations due in relation to the class A variable funding notes issued. As at 31 December 2017, the fair value of the guarantee was £nil (2016: £nil). The guarantee has been terminated post year end.

31. Share capital

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

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

The movements in the number of shares through the year is shown below.

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**

2016

Share Class	A	A1	A2	B	C	D	E	F	G
As at 1 January	741,386	-	-	242,330	16,334	252,000	-	-	-
Share issue	50	25	-	-	-	-	55,657	100,000	100,000
Reclassifications	(741,436)	873,340	7,229	(131,904)	(7,229)	-	-	-	-
As at 31 December	-	873,365	7,229	110,426	9,105	252,000	55,657	100,000	100,000

31. Share capital (continued)

As described below the Group reorganised its share capital (Capital reorganisation) in order to prepare for the public listing:

A bonus issue of shares in each existing class of shares pro rata to existing shareholdings by way of a capitalisation of approximately £3.0 million of retained profits, such that the aggregate nominal value of the share capital increased to £2,960,303.20.

New A1, A2 and B shares were created with 2,259 new shares issued for each existing A1, A2 and B share of £0.001 each and these were then consolidated on a 1:10 basis, resulting in A1, A2 and B shares of £0.01 each.

New C and D shares were created with 2,359 new shares issued for each existing C and D share of £0.001 and these were then consolidated on a 1:10 basis, resulting in C and D shares of £0.01 each.

New E, F and G shares were created with 144,999, 12,999 and 9,999 new shares issued for each existing E, F and G share of £0.00001 respectively, these were then consolidated on a 1:1,000 basis, resulting in E, F and G shares of £0.01 each.

Following the share consolidation a portion of each class of the shares were re-designated as deferred shares, totalling par value of £655,955.53, and immediately cancelled. The remaining A1, A2, B, C, D, E and F shares were then re-designated as ordinary shares on a 1:1 basis.

As part of the IPO the Group issued 8,695,652 ordinary shares of £0.01 each, par value £86,956.52, at £2.30 per share, raising £19.1 million net of expenses.

32. Share premium

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

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

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

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

33. Retained earnings

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	**38.3**	1.0
Cancellation of share premium (see note 32)	**195.1**	-
Bonus issue	**(3.0)**	-
Cancellation of deferred shares	**0.7**	-
Profit for the year	**81.3**	37.3
Recognition of share based payments	**0.4**	-
Transfer of equity-settled employee benefits reserve	**0.8**	-
At 31 December	**313.6**	38.3

34. Equity-settled employee benefits reserve

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	**0.1**	-
Arising on share based payments	**0.7**	0.1
Transfer to retained earnings	**(0.8)**	-
At 31 December	**-**	0.1

The equity-settled employee benefits reserve relates 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, as set out in note 35. The holders of these shares are only able to sell the shares at an exit event, such as an IPO. Accordingly, the cost of the share based incentives is spread over the period from their issue to the date of the Group's IPO in October 2017.

35. Share based payments

Post-IPO share awards

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

Performance Share Plan ("PSP")

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

Free share awards under the PSP

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

Sharesave (SAYE) Scheme

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

Deferred Bonus Plan ("DBP")

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

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

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

35. Share based payments (continued)

Movements in the number of share based awards, average fair value per award and weighted average remaining contractual life are shown below:

2017	Awards / options outstanding at 1 January	Number of awards / options Granted	Exercised	Vested	Awards / options outstanding at 31 December	Average fair value per award (£)	Weighted average
PSP	-	1,429,796	-	-	**1,429,796**	1.81	2.3
Free share awards	-	180,756	-	-	**180,756**	2.33	0.8
Sharesave (SAYE)	-	1,437,141	-	-	**1,437,141**	0.63	3.5
Total	-	3,047,693	-	-	**3,047,693**		2.8

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. 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:

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	£0.00	£0.00
Risk-free rate	0.52%	N/A
Expected dividend yield	1.97%	1.97%
Expected volatility	34%	N/A
Fair value of one share	**£1.20**	**£2.22**

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 scheme have no entitlement to dividends until they are exercised. The grant date fair value of the options was determined to be £0.63 using a Binomial Model 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%
Expected employee cancellations	5%

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 is a newly listed company expected volatility was based on historic volatility of comparable companies over a term commensurate with the expected life of each option.

Pre-IPO share awards

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

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

35. Share based payments (continued)

Details of share based incentive plan

The Group had a share based incentive plan which commenced during 2016 for certain employees where F and G shares have been granted to and have the opportunity to grow in value during their vesting period. These shares were issued initially as options in November 2016, but were exercised in December 2016, as set out below. The holders of these shares are only able to sell the shares at an exit event, such as an IPO. Accordingly, the cost of the share based incentives is being spread over the period from their issue to the date of the Group's IPO.

During 2016, the Company granted 55,657 E shares to certain employees. The grant has been treated as a modification under IFRS 2 as they replace previously granted B and C share awards to the employees. The fair value of the E shares on the grant date was determined to be the same as the B and C shares immediately prior to the modification and therefore no incremental expense has been recognised. The fair value of the B and C shares issued to the employees in 2008 and 2009 was deemed to be £nil, and therefore no expense has been recognised since the grant date.

Details of the share based incentive plan in existence during 2016 are disclosed below:

	Number	Grant date	Expiry date	Exercise price	Fair value per share at grant date
F shares	100,000	28/11/2016	30/09/2017	£0.10	£5.65
G shares	100,000	28/11/2016	30/09/2017	£0.05	£2.82

Fair value of share incentives granted

Equity share based payments are measured in accordance with IFRS 2 at their market-based measure at the grant date. Incentives were priced using the Monte Carlo pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the exit event. Expected volatility is based on listed comparators over a period commensurate with the expected vesting period of one year.

Inputs into the model

Grant date share price – F shares	£0.10
Grant date share price – G shares	£0.05
Exercise price – F shares	£0.10
Exercise price – G shares	£0.05
Expected volatility	44%
Option life	1 year
Dividend yield	0%
Risk-free interest rate	0.1%

Movements in share incentives during 2016

2016	Awards / options outstanding at 1 January	Number of awards / options: Granted	Exercised	Vested	Awards / options outstanding at 31 December	Average fair value per award (£)	Weighted average	Weighted average remaining contractual life (Years)
F shares	-	100,000	100,000	-	-	5.65	0.10	0.75
G shares	-	100,000	100,000	-	-	2.82	0.05	0.75
Total	-	200,000	200,000	-	-			0.75

The rights to acquire F and G shares were initially issued as options to acquire shares on 28 November 2016 and these options were exercised on 18 December 2016.

Prior to the IPO the Group reorganised its share capital in order to prepare for the public listing. The reorganisation involved a bonus issue of shares, re-designation, repurchase and cancellation, and change of denomination as disclosed in note 31. Ultimately, the F shares were exchanged for 922,083 ordinary shares of £0.01 each vesting on IPO and the G shares cancelled.

36. Net cash flows from operating activities

	Note	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Profit before tax		**111.7**	48.9
Non-cash items			
Provision for loan impairments	18	**0.5**	(0.1)
Depreciation of property, fixtures and equipment	23	**0.4**	0.5
Amortisation of intangible assets	24	**0.2**	0.3
Gain on sale of investment in debt securities	9	**(2.1)**	-
EIR adjustment		**4.4**	8.6
Movement in fair value hedge		**7.1**	(2.7)
Recognition of equity-settled employee benefits payments		**1.1**	0.1
Operating cash flows before movements in working capital		**123.3**	55.6
Movement in derivatives		**(6.6)**	-
Increase in receivables		**(2.1)**	-
Increase in residential mortgages		**(1,862.2)**	(1,871.0)
Increase in payables		**7.0**	0.2
Increase in retail deposits		**987.4**	1,873.4
Increase/(decrease) in deposits from banks		**963.5**	(20.1)
Cash generated by operations		**210.3**	38.1
Tax paid		**(20.7)**	(7.3)
Net cash generated by operating activities		**189.6**	30.8

37. Gross debt reconciliation

The table below shows the changes in liabilities from financing activities for the year.

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
At 1 January	**426.1**	804.5
Proceeds on issue of debt securities	**394.4**	0.5
Deal costs associated with issue of debt securities	**(1.5)**	-
Principal and interest repaid	**(191.6)**	(378.9)
At 31 December	**627.4**	426.1

38. Operating lease arrangements

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
The Group as lessee		
Minimum lease payments under operating leases recognised as an expense in the period	1.0	0.6

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 2017 £m	As at 31 December 2016 £m
Within one year	1.4	0.5
In the second to fifth years inclusive	4.5	-
More than five years	5.5	-
	11.4	0.5

Operating lease payments represent rent expense for office premises in Wolverhampton, 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 rental is fixed for 24 months, expiring September 2018.

39. 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 2017, the total cost of £1.1 million (2016: £1.0 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 2017, there was £0.1 million (2016: £nil) due in respect of the current reporting year, which had not been paid over to the schemes. There was one Director (2016: 2) participating in Group pension plans during the period.

40. 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 individual capital guidance which specifies the level of regulatory capital which the Group is required to hold relative to its risk weighted assets as well as a PRA designated capital buffer.

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.

40. Capital risk management (continued)

The following table, which is unaudited and therefore not in scope of the independent auditor's report, shows the regulatory resources of the Group:

	As at 31 December 2017 £m
Share capital	2.4
Retained earnings	313.6
Share premium	19.0
Deferred tax asset	(2.2)
Intangible assets	(1.4)
Total Tier 1 Capital	331.4
Collective impairment allowance	0.6
Total Tier 2 Capital	0.6
Total Regulatory Capital	332.0
Risk weighted assets	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 auditors report, shows the Group's minimum Pillar 1 requirement as at 31 December 2017.

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

41. 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 2017 £m	Carrying value As at 31 December 2016 £m
Financial assets held at amortised cost		
Cash and cash equivalents	**966.8**	214.0
Investment in debt securities - held to maturity	**78.4**	119.5
Customer loans and receivables	**5,364.2**	3,807.9
Trade and other receivables	**4.6**	2.5
Financial liabilities held at amortised cost		
Deposits from banks	**1,003.5**	40.0
Deposits from customers	**4,420.0**	3,432.6
Debt securities in issue	**627.4**	426.1
Trade and other payables	**15.2**	8.2
Financial instruments held at fair value		
Other financial assets – designated as FVTPL	**0.2**	0.2
	348.1	237.2
Derivative financial instruments – assets	**11.9**	7.1
Derivative financial instruments – liabilities	**6.5**	8.3

Financial instruments held at fair value	Carrying value £m	Level 2 £m	Level 3 £m
As 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**	**-**
As at 31 December 2016			
Other financial assets – designated as FVTPL	0.2	-	0.2
Derivative financial instruments – assets	7.1	7.1	-
Derivative financial instruments – liabilities	8.3	8.0	0.3

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 20.

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 more information see note 19.

41. Financial instruments (continued)

Fair values of financial instruments carried at amortised cost

The fair values for financial assets and liabilities held at amortised cost is summarised below.

	Carrying value £m	Fair value £m
2017		
Financial assets held at amortised cost		
Cash and cash equivalents	**966.8**	**966.8**
Investment in debt securities - held to maturity	**78.4**	**79.2**
Customer loans and receivables	**5,364.2**	**5,565.0**
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**
2016		
Financial assets held at amortised cost		
Cash and cash equivalents	214.0	214.0
Investment in debt securities - held to maturity	119.5	119.5
Customer loans and receivables	3,807.9	3,859.0
Trade and other receivables	2.5	2.5
Financial liabilities held at amortised cost		
Deposits from banks	40.0	40.0
Deposits from customers	3,432.6	3,432.6
Debt securities in issue	426.1	426.1
Trade and other payables	8.2	8.2

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 asset backed loan notes 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 31.

42. 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 24 to 34.

43. Related party transactions

Until 4 October 2017, the joint controlling parties of Charter Court Financial Services Group plc were Elliott International L.P. and Elliott Associates L.P. by virtue of their combined controlling interest in the Group's issued share capital and voting rights. On this date, the controlling parties sold a proportion of their shareholding such that they no longer had a controlling interest in the Group's issued share capital and voting rights. In addition, the controlling parties entered into a relationship agreement with the Group. For further details see the relationship agreement disclosure contained in the Directors report on pages 85 to 87. As a result, from 4 October 2017, Elliott International L.P. and Elliott Associates L.P. are no longer controlling parties of the Group.

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

43. Related party transactions (continued)

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

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

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 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**
Year ended 31 December 2016		
Short-term employee benefits	1.1	2.8
	1.1	2.8

During the year ended 31 December 2017 fees of £1.2 million (2016: £0.4 million) were paid to Non-Executive Directors for services provided to the Group.

44. Ultimate controlling party of the Group

Until 4 October 2017, the joint controlling parties of Charter Court Financial Services Group plc were Elliott International L.P. and Elliott Associates L.P. by virtue of their combined controlling interest in the Group's issued share capital and voting rights. On this date, the controlling parties sold a proportion of their shareholding such that they no longer had a controlling interest in the Group's issued share capital and voting rights. In addition, the controlling parties entered into a relationship agreement with the Group. For further details see the relationship agreement disclosure contained in the Directors report on pages 85 to 87. As a result, from 4 October 2017, Elliott International L.P. and Elliott Associates L.P. are no longer controlling parties of the Group.

45. Post balance sheet events

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

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

46. 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 for the year ended 31 December 2017:

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	462
Turnover*	£219,600,000
Pre-tax profit	£111,700,000
Corporation tax payable	£30,400,000
Public subsidies received	£nil

* Turnover is derived from the Consolidated statement of comprehensive income as interest income and similar income plus non-interest income.

47. Contingent liability

The Group has a contingent liability in respect of contributions to the Financial Services Compensation Scheme provided by the Financial Services and Markets Act 2000. The FSCS provides compensation to depositors in the event that a financial institution is unable to repay amounts due and is funded by contributions from the financial services industry. Following the failure of a number of financial institutions, the FSCS raised borrowings from the UK Government to cover compensation in relation to protected deposits. These borrowings are anticipated to be largely repaid from the realisation of the assets of the failed institutions. During the year ended 31 December 2017 there was no FSCS specific capital element levied separately as sufficient levies had been paid in previous years to fund the shortfalls arising. It is possible that capital levies may be required in the event of institutional failures in the future. These levies are based on eligible liabilities of the Group and cannot be estimated reliably.

Company financial statements

Company statement of financial position
For the year ended 31 December 2017

	Note	As at 31 December 2017 £m	As at 31 December 2016 Restated[1] £m	As at 31 December 2015 Restated[1] £m
Assets				
Cash and cash equivalents		**1.2**	0.1	-
Trade and other receivables	49	**0.1**	0.2	-
Investment in subsidiaries	50	**214.0**	171.3	136.8
Total assets		**215.3**	171.6	136.8
Liabilities				
Trade and other payables	51	**0.2**	0.2	-
Corporation tax payable	52	**0.5**	-	-
Net assets		**214.6**	171.4	136.8
Equity				
Share capital	53	**2.4**	-	-
Share premium	54	**19.0**	195.1	165.0
Retained earnings	55	**193.2**	(23.8)	(28.2)
Equity settled employee benefits reserve	56	**-**	0.1	-
Total equity		**214.6**	171.4	136.8

The profit after tax for the year ended 31 December 2017 of Charter Court Financial Services Group plc as a Company was £23.0 million (2016: £4.4 million). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The notes on pages 148 to 151 form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 19 March 2018. They were signed on its behalf by:

Ian Martin Lonergan
Chief Executive Officer

Sebastien Maloney
Chief Financial Officer

Company number: 06712054

1 See note 48. Basis of preparation, significant accounting policies and critical judgements and estimates

Company statement of changes in equity
For the year ended 31 December 2017

	Share capital	Share premium	Retained earnings	Equity-settled employee benefits reserve	Total
Note	53	54	55	56	
	£m	**£m**	**£m**	**£m**	**£m**
At 1 January 2016	-	165.0	(28.2)	-	136.8
Share issue	-	30.1	-	-	30.1
Profit and total comprehensive income for the year	-	-	4.4	-	4.4
Recognition of share based payments	-	-	-	0.1	0.1
At 31 December 2016	-	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**

The notes on pages 148 to 151 form an integral part of the Company financial statements.

Company statement of cash flows
For the year ended 31 December 2017

	Note	Year ended 31 December 2017	Year ended 31 December 2016
		£m	**£m**
Net cash generated by operating activities	57	**24.0**	4.7
Investing activities			
Investment in shares of subsidiaries		**(42.0)**	(34.7)
Net cash utilised by investing activities		**(42.0)**	(34.7)
Financing activities			
Proceeds from issue of the shares		**20.0**	30.1
Share issue costs		**(0.9)**	-
Net cash generated by financing activities		**19.1**	30.1
Net increase in cash and cash equivalents		**1.1**	0.1
Cash and cash equivalents at beginning of year		**0.1**	-
Cash and cash equivalents at end of year		**1.2**	0.1

The notes on pages 148 to 151 form an integral part of the Company financial statements.

Notes to the Company financial statements

For the year ended 31 December 2017

48. Basis of preparation, significant accounting policies and critical judgements and estimates

The presentation of the Company statement of financial position has been amended from the format previously reported in the audited statutory consolidated financial statements for the year ended 31 December 2016. The revised presentation removes the distinction between current and non-current assets and liabilities and instead presents assets and liabilities in descending order of liquidity. This format is in line with IAS 1 Presentation of Financial Statements, as it applies to certain financial institutions which do not have a clearly defined operating cycle. Also, corporation tax payable is disclosed separately from trade and other payables in the Consolidated statement of financial position.

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 2017.

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 4 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.

49. Trade and other receivables

At the Statement of Financial Position date, amounts receivable from subsidiaries included in the trade and other receivables balances were £0.1 million (2016: £0.2 million) due from Charter Court Financial Services Limited, see note 59 for further details. There are no past due or impaired receivable balances.

50. Investment in subsidiaries

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
Cost		
At 1 January	**214.9**	180.1
Investment in shares of subsidiaries	**42.0**	34.7
Capital contribution to subsidiaries	**1.1**	0.1
At 31 December	**258.0**	214.9
Impairment		
At 1 January	**43.6**	43.3
Charge for the year	**0.4**	0.3
At 31 December	**44.0**	43.6
Carrying amount		
At 1 January	**171.3**	136.8
At 31 December	**214.0**	171.3

During the year the Company subscribed to 2 shares (2016: 2 shares) in Charter Court Financial Services Limited for £20.0 million (2016: £34.7 million). The Company subscribed to 2 shares (2016: nil shares) in Charter Mortgages Limited for £22.0 million (2016: £nil). The Company invested £1.1 million (2016: £0.1 million) in Exact Mortgage Experts Limited in relation to the equity-settled employee benefit scheme.

50. Investment in subsidiaries (continued)

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	-	-
Charter Mortgage Funding 2017-1 Plc[2]	Special Purpose Vehicle	-	-
Charter Mortgage Holdings 2017-1 Limited[2]	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

The investments in subsidiaries are all stated at cost less impairment.

Special purpose vehicles which the Group is deemed to control 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.

The Company sold its residual interest in Charter Mortgage Funding 2017-1 Plc during January 2018 see note 45.

51. Trade and other payables

	As at 31 December 2017	As at 31 December 2016
	£m	£m
Trade and other payables	**0.2**	0.2

All trade and other payables are payable within one year.

52. Corporation tax payable

	As at 31 December 2017	As at 31 December 2016
	£m	£m
Corporation tax payable	**0.5**	-

All corporation tax is payable within one year.

53. Share capital
Details of the Company's share capital are disclosed in note 31 to the consolidated financial statements.

54. Share premium
Details of the Company's share premium are disclosed in note 32 to the consolidated financial statements.

55. Retained earnings

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
At 1 January	(23.8)	(28.2)
Bonus issue	(3.0)	-
Share premium cancellation (see note 32)	195.1	-
Cancellation of deferred shares (see note 31)	0.7	-
Net profit for the year	23.0	4.4
Recognition of share based payments	0.4	-
Transfer of equity-settled employee benefits reserve	0.8	-
At 31 December	193.2	(23.8)

56. Equity-settled employee benefits reserve
Details of the Company's equity-settled employee benefits scheme are disclosed in note 34 to the consolidated financial statements.

57. Notes to the Company statement of cash flows

	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m
Profit before tax	23.5	4.4
Adjustments for:		
Write off investment in subsidiaries	0.4	0.3
Operating cash flows before movements in working capital	23.9	4.7
Decrease/(increase) in receivables	0.1	(0.2)
Increase in payables	-	0.2
Net cash generated by operating activities	24.0	4.7

58. Capital risk management
The Company manages its capital to ensure that it will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, retained earnings and reserves as disclosed in notes 53 to 56.

The Group's Risk management Committee reviews the capital structure on an annual basis, see note 40.

59. Related parties
Prior to the IPO on 4 October 2017 the joint controlling parties of Charter Court Financial Services Group plc were Elliott International L.P. and Elliott Associates L.P. by virtue of their combined controlling interest in the Group's issued share capital and voting rights.

Transactions between the Company and its related parties are disclosed below:

Management services

	Servicing fees received		Debtor outstanding	
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
	£m	£m	£m	£m
Charter Court Financial Services Limited	2.9	0.4	0.1	0.2

The Company provides holding company services to its subsidiaries and recharges any group costs to them. The agreement commenced on 29 November 2016.

Remuneration of key management personnel
Details of remuneration of key management personnel is shown in note 43 to the consolidated financial statements.

60. Immediate and ultimate controlling party
Details of the immediate and ultimate controlling party are shown in note 44 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, and a glossary indicating the APMs we use, an explanation of how they are calculated and why we use them.

A. 2017 highlights (pages 4 to 5)

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

All ratios have been calculated using unrounded data.

	2015 £m	2016 £m	2017 £m
Profit before tax			
Statutory profit before tax	27.1	48.9	**111.7**
IPO costs	-	0.1	**4.9**
Private sale costs	1.2	1.1	**0.1**
Underlying profit before tax	28.3	50.1	**116.7**
Return on Equity			
Statutory profit after tax (i)	21.4	37.3	**81.3**
IPO costs	-	0.1	**4.9**
Private sale costs	1.2	1.1	**0.1**
Underlying profit after tax (ii)	22.6	38.5	**86.3**
Opening equity	(20.4)	166.0	**233.5**
Add back:			
Share issue on 6 January 2015[1]	165.0	n/a	**n/a**
Opening equity for RoE	144.6	166.0	**233.5**
Closing equity	166.0	233.5	**335.0**
Average equity for RoE (2 point average[2]) (iii)	155.3	199.8	**284.3**
Statutory RoE (i) / (iii)	13.8%	18.7%	**28.6%**
Underlying RoE (ii) / (iii)	14.6%	19.3%	**30.5%**
Net interest margin			
Net interest income (i)	44.9	87.3	**144.1**
Average customer loans and receivables (13 point average[3]) (ii)	1,385.6	2,831.7	**4,520.5**
Net interest margin (i) / (ii)	3.24%	3.08%	**3.19%**

	2015 £m	2016 £m	2017 £m
Cost Income Ratio			
Statutory administrative expenses (i)	31.7	44.5	**58.0**
IPO costs	-	(0.1)	**(4.9)**
Private sale costs	(1.2)	(1.1)	**(0.1)**
Underlying administrative expenses (ii)	30.5	43.3	**53.0**
Statutory total income (iii)	59.3	93.3	**170.2**
Statutory cost income ratio (i) / (iii)	53.4%	47.6%	**34.1%**
Underlying cost income ratio (ii) / (iii)	51.4%	46.4%	**31.2%**
Cost of Risk			
Provision for loan impairments – net (charge) / release (i)	(0.5)	0.1	**(0.5)**
Average customer loans and receivables (13 point average[3]) (ii)	1,385.6	2,831.7	**4,520.5**
Cost of risk (i) / (ii)	0.034%	-0.002%	**0.011%**

B. Other financial APMs

Percentage of loan book in arrears of three months of more
This APM is a measure of the amount of arrears in the mortgage portfolio and is an indicator of the quality of the Group's mortgage portfolio.

Past due and impaired customer loans and receivables in arrears of three months or more (note 18)	2016 £m	2017 £m
90-120 days	1.3	**2.1**
> 120 days	1.0	**4.0**
Total in arrears of three months or more (i)	2.3	**6.1**
Customer loans and receivables (ii) (note 18)	3,807.9	**5,364.2**
Percentage of loan book in arrears of three months or more (i) / (ii)	0.1%	**0.1%**

Percentage increase in mortgage originations
This APM demonstrates the growth in the Group's mortgage origination activity.

	2016 £m	2017 £m
Customer loans and receivables originations (note 18)	2,496.8	**2,737.3**
Increase (2017 originations less 2016 originations)		**240.5**
Percentage increase (Increase / 2016 originations)		**9.6%**

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

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

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

Alternative performance measures (continued)

Percentage loan book growth

This APM demonstrates the growth in the Group's mortgage portfolio.

	2016 £m	2017 £m
Opening balance of customer loans and receivables (note 18)	1,945.4	**3,807.9**
Closing balance of customer loans and receivables (note 18)	3,807.9	**5,364.2**
Increase	1,862.5	**1,556.3**
Percentage increase	48.9%	**40.9%**

Loan deposit ratio

This APM is used in assessing the Group's liquidity.

	2016 £m	2017 £m
Customer loans and receivables (note 18)	3,807.9	**5,364.2**
Deposits from customers (note 26)	3,432.6	**4,420.0**
Loan deposit ratio	110.9%	**121.4%**

Originations by segment

This APM shows the level of mortgage origination activity by segment

	2016 £m	2017 £m
BTL originations	1,452.3	**1,592.1**
Residential originations	663.2	**770.6**
Bridging loans originations	286.5	**314.2**
Second charge loans originations	94.8	**60.4**
Total originations (note 18)	2,496.8	**2,737.3**

Cost of funds

This APM measures the average interest rate payable on all funding and is an indicator of the efficiency with which the Group sources funding.

	2016 £m	2017 £m
Interest expense and similar charges (note 8) (i)	56.5	**67.0**
Average funding (13 point average) (ii)[1]	3,295.5	**5,116.5**
Cost of funds (i) / (ii)	1.7%	**1.3%**

[1] 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 a 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	Asset 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.
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 CCFSG Board.
BoE	Bank of England.
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.
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.
Common Equity Tier 1 capital ratio	Common equity tier 1 capital divided by risk-weighted assets.
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 impairment provision.
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.
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.

Term	Definition
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 in arrears 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 an impairment allowance. 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.
LTV	Loan to value
Loan book	Outstanding balance of loans we provided to customers
Loan to value ratio ("LTV")	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.

Term	Definition
Overall Liquidity Adequacy Rule ("OLAR")	A 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.
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.
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).
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.
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.
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 Credit 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.

Shareholder information

Annual General Meeting

The annual general meeting ("AGM") will be held on Wednesday, 16 May 2018 at 11am at the offices of Linklaters, 1 Silk Street, London, EC2Y 8HQ. The Notice of Meeting and all other details for the AGM are available at www.chartercourtfs.co.uk (our website).

Communications

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

Investor relations

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

Institutional investors can contact CitigateDeweRogerson.

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
20 March 2018	Preliminary announcement of 2017 financial results	✓		✓	
15 May 2018	First quarter trading update	✓		✓	
21 August 2018	Half year 2018 financial results	✓		✓	
13 November 2018	Third quarter trading update	✓		✓	

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

01920 (59)