Charter Court Financial Services Group Limited

Annual report and consolidated financial statements for the year ended 31 December 2016

Registered number: 06712054

Charter Court Financial Services Group Limited

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Charter Court Financial Services Group Limited

Group Strategic Report

The Directors present their Strategic Report of Charter Court Financial Services Group Limited (the Company) for the year ended 31 December 2016.

Principal activities

Charter Court Financial Services Group Limited together with its subsidiary undertakings' (the Group) principal activities includes the provision of buy to let and residential mortgage loans, secured short term lending, second charge loans, savings products, mortgage administration services and a range of analytical services within the UK residential mortgage sector. The Group largely operates under three brands: Charter Savings Bank; Precise Mortgages and Exact Mortgage Experts.

Business review

As shown in the Consolidated Statement of Comprehensive Income on page 15, the profit after taxation for the year improved from £21.4m to £37.3m. The drivers of increased profitability were growth in the Group's mortgages origination activities. Costs continue to increase in line with business activity.

The net assets of the Group increased from £166.0m to £233.5m. This increase was driven by the Group's retained profits for the year and a capital injection. No dividend has been proposed or paid in respect of the year (2015: £nil).

During the year there was a reorganisation of share capital and new classes of shares have been introduced (see note 26 for full details). £30.1m (2015: £165.0m) was recognised as share premium in the year.

2016 has seen Charter Savings Bank grow to over £3,436m of deposits (2015: £1,563m) from 71,673 (2015: 30,650) online customers in total, holding a range of term deposits, instant access and notice accounts. The Group has also seen the first maturities of term deposits in 2016 and to date has consistently achieved c. 80% customer retention at maturity. There is now a wider awareness of the Charter Savings Bank brand through continued positive press. Charter Savings Bank is a multi-award-winning customer focused bank which has appeared in best buy tables throughout 2016.

Precise Mortgages continues to grow and originated loans of £2,497m (2015: £1,609m) during 2016 and also achieved a record number of applications for mortgages during the year. During 2016 Precise Mortgages continued to expand its mortgage products as well as introducing automated application processing solutions that reduce turnaround times.

The Group manages a primary servicing portfolio comprising 33,471 loans (2015: 26,075 loans) with an outstanding balance of £4,749m (2015: £3,039m) and a special servicing portfolio comprising 1,202 loans (2015: 1,204 loans) with an outstanding balance of £154m (2015: £148m). Exact Mortgage Experts received a Fitch Primary Servicing rating upgrade from RPS2- to RPS2 during 2016, matching its Special Servicer rating. Exact Mortgage Experts continues to manage a portfolio of 3rd party client assets along with Precise Mortgages originations covering both securitised and non-securitised loan portfolios.

The Group has a dynamic funding strategy designed to optimise its cost of funds whilst prudently managing funding and liquidity risks. The Group has a growing retail deposit customer base, together with wholesale funding through securitisations, short term repo lines, an uncommitted warehouse facility with a Tier 1 bank, and has access to the Bank of England's Sterling Monetary Framework and the Bank of England's Term Funding Scheme (TFS). The TFS was introduced in 2016 to promote net additional lending through 2016 and 2017 through the provision of lower cost funding.

Charter Court Financial Services Group Limited

Group Strategic Report (continued)

Business review (continued)

The Board believe that the Group is in a sound funding position and through its executive committee governance structure is committed to developing existing channels through product and system innovations and exploring the potential for further funding strategy diversification.

The majority of the Group's funding now comes from retail deposits. The Group uses wholesale funding to supplement its retail deposits, as and when required.

The Group has maintained coverage above regulatory capital ratios throughout 2016 by holding a buffer above the minimum requirement and has successfully raised additional capital in the year to support balance sheet growth. Additionally the Company adopts a prudent approach to liquidity risk and maintains a significant liquid asset buffer and access to contingent liquidity at all times.

Employees

In March 2017 Charter Court Financial Services Limited (CCFS) was ranked 3rd in the Sunday Times 100 Best Companies to work for 2017 list and continues to promote the welfare, development and engagement of its employees.

Future developments

Charter Savings Bank

The Group continues to explore opportunities to further diversify its retail funding base, seeking out new products, markets and channels to enhance its range and reduce cost of funds whilst continuing to meet consumer needs.

Precise Mortgages brand

From a lending perspective the Group has a full and ongoing program of new product development that is expected to continue meeting consumer demands, deliver ongoing enhancements to existing product offering and widen its proposition into new products throughout 2017 and into the following years.

Exact Mortgage Experts brand

Exact Mortgage Experts continues to manage a portfolio of 3rd party client assets along with Precise Mortgages originations, covering both securitised and non-securitised loan portfolios.

Charter Mortgages Limited

Charter Mortgages Limited, a subsidiary company, has received regulatory permissions during January 2017 to originate and administer consumer buy-to-let and regulated mortgage contracts with a view to increasing its activities in the future.

Principal risks and uncertainties

The Group's activities expose it to a number of financial risks and uncertainties; primarily credit risk, liquidity and funding risk, market risk, business risk, operational risk and assurance of compliance with regulations which are explained in more detail below:

Credit risk

Credit risk is 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. Credit risk arises on the Group's financial assets consisting of investments in debt securities, residential mortgages, derivative financial instruments, trade and other receivables and cash and cash equivalents. Credit risk is reviewed by the Credit Management Committee and overseen by the Executive Risk Management Committee and Board Risk Committee.

Charter Court Financial Services Group Limited

Group Strategic Report (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

The assets of the Company subject to credit risk are set out below:

Class	2016 £000	2015 £000
Investment in debt securities	119,481	114,238
Residential mortgages	3,812,362	1,947,154
Derivative financial instruments	7,081	1,133
Trade and other receivables	2,524	2,594
Cash and cash equivalents	213,998	537,706
Potential exposure to credit risk (as restricted below)	4,155,446	2,602,825

The Group internally assesses the level of credit risk from holdings with individual counterparties. Holding limits are set for each counterparty in order to control the risk.

Mortgages are held in CCFS and also the Group's securitisation vehicles Precise Mortgage Funding No.1 Plc (PMF No.1 Plc), Precise Mortgage Funding 2014-1 Plc (PMF 2014-1 Plc), Precise Mortgage Funding 2014-2 Plc (PMF 2014-2 Plc), Precise Mortgages Funding 2015-1 Plc (PMF 2015-1 Plc), Precise Mortgage Funding 2015-3R Plc (PMF 2015-3R Plc) and CCFS Warehouse No.1 Plc. For mortgages held in PMF No.1 Plc, PMF 2014-1 Plc, PMF 2014-2 Plc and PMF 2015-1 Plc the Group's credit risk is limited to its holding in each of the securitisations. However, there is also exposure to losses in income through excess spread being otherwise used to cure principal losses. Loss expectations are significantly less than the Group's holdings in each securitisation. For mortgages held in PMF 2015-3R Plc and CCFS Warehouse No.1 Plc, the Group is also exposed to losses arising through excess spread.

At 31 December 2016, the average loan to value percentage of underlying mortgage assets to which the loans relate was 70% (2015: 69%) and only £263,000 (2015: £99,000) of the total balance represented arrears (amounts quoted being the actual amount in arrears). The estimated fair value of collateral held against residential mortgages is £7,394,304,000 (2015: £3,934,721,000) which consists of the property's the loans are secured on. The collateral cannot be sold unless it is in possession. At the year-end date there was 1 (2015: none) property in possession with a value of £120,000 (2015: £nil).

Analysis of loans by Loan to Value (LTV)

Current LTV	2016 £000	2015 £000
≥ 80%	595,063	351,729
70 to 79.99%	1,883,220	827,203
60-69.99%	686,352	353,773
<60%	658,403	419,274
	3,823,038	1,951,979

The analysis by LTV above does not include accounting adjustments such as effective interest rate adjustments, mortgages fair value hedge adjustments or impairment provisions, which are included in the figure quoted in the Consolidated Statement of Financial Position of £3,812,362,000 (2015: £1,947,154,000).

Principal risks and uncertainties (continued)

Credit risk (continued)

The Group offers secured borrowers who are in financial difficulties a range of account management and forbearance options including capitalisation of arrears, temporary interest only concessions, payment holidays and term extensions. Term extensions are available on short term loans typically for no more than 3 months; the period of time is dependent upon the individual circumstances. These are granted on a discretionary basis by the Group. The arrangements in place at year end are to pay back arrears amounts.

The table below presents an analysis of mortgages subject to forbearance indicators at 31 December 2016.

2016	Transfers to interest only £000	Payment holiday £000	Term extensions £000	Arrangements £000	Total £000
Current	1,248	1,240	15,037	10,913	28,438
Past due up to 3 months	-	-	1,105	2,510	3,615
Past due from 3 months up to 6 months	-	-	269	316	585
2015					
Current	211	237	4,554	5,528	10,530
Past due up to 3 months	100	-	-	1,537	1,637
Past due from 3 months up to 6 months	-	-	-	205	205

Wholesale credit risk

The Group's investments, derivatives and cash counterparties are primarily large financial institutions and there is no significant history of credit/bad debt losses and no provisions have been made for bad or doubtful receivables. Details of trade and other receivables are shown in note 18.

The Group's cash balances are held at UK based banks in current accounts. Further details of cash and cash equivalents are shown in note 18 to the financial statements.

Wholesale Credit Risk is managed by ensuring Treasury counterparties are subject to Board approval, and continue to meet minimum external credit ratings. Exposures to single counterparties are assigned and monitored on an ongoing basis against the underlying instruments, such as cash or derivative exposures which are used to manage risk, or provide liquidity.

As part of the Liquidity and Treasury Investment Policies, the Group holds cash balances at central banks, and in high quality assets such as residential mortgage backed securities (RMBS) which meet minimum rating requirements. These investments are held to maturity and therefore not part of any trading portfolio.

Regulatory developments is also monitored as part of the responsibilities within the Treasury Risk oversight.

Liquidity, funding, interest rate and market risks are overseen by the Assets and Liabilities Committee and Board Risk Committee.

Principal risks and uncertainties (continued)

Liquidity and funding risk

Liquidity risk is the risk that the Group fails to meet its financial obligations as they fall due; funding risk is the adverse impact of higher funding costs and/or lack of available funds on the Group's cash flow.

Liquidity and funding risks are centrally managed by Treasury in line with group policies and risk appetites, and any regulatory guidance.

The Groups Liquidity Risk Appetite Statement is consistent with the PRA's Overall Liquidity Adequacy Rule (OLAR).

The Group has established an Internal Liquidity Buffer Requirement (ILBR) for its operational level of required liquidity. ILBR is a stronger measure than the industry standard Liquidity Coverage Ratio (LCR) measure and is calculated on a stressed deposit outflow basis, frequent stress testing is undertaken to ensure ongoing adherence.

The Group conducts an annual internal liquidity adequacy assessment process (ILAAP), which is approved by the Board with the current version as at September 2016.

The ILAAP is used to assess the Group's liquidity adequacy and determine the levels of liquidity required to support the current and future risks in the business derived from the three year corporate plan.

The main funding risk for the Group is that of 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 maturing fixed term bonds customers, 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.

Details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods is analysed in note 37.

Market risk

Market risk is the risk of losses in both on and off balance sheet positions, resulting from movements in market prices or other external factors. The most significant market risk for the Group is interest rate risk.

Interest rate risk

The Group is exposed to interest rate risk only as a consequence of the provision of banking products, often referred to as Interest Rate Risk in the Banking Book (IRRBB). The Group manages interest rate risk, the risk that interest margins will be adversely affected by movements in market interest rates, by maintaining floating rate liabilities and matching those with floating rate assets, and hedging fixed rate assets and liabilities through the purchase of interest rate swaps from large financial institutions with strong credit ratings. Interest rate risk is managed to ensure that the value at risk does not exceed 2% of capital resources or that earnings at risk do not exceed 3% of projected net interest income in the following twelve months.

Principal risks and uncertainties (continued)

Interest rate sensitivity analysis

In measuring the impact on the Group's position at the year end, account is taken of the Group's assets, liabilities and derivatives and their maturity and repricing arrangements. Account is also taken of pipeline and repayments. IFRS 7 requires a sensitivity analysis for a reasonably possible change. A 0.5% parallel shift in interest rates has been used, as, in the current interest rate environment, it would seem most reasonable. The impact on the expected profitability of the Group in the next 12 months of a 0.5% parallel shift in interest rates prevalent at the year end is set out below.

	2016 £000	2015 £000
+ 0.5%	(7)	(158)
- 0.5%	77	154

This is due to the Group's net exposure to interest rates on its floating rate mortgage assets, floating rate investments, floating rate savings products and floating rate borrowings.

Business risk

The Group provides a number of services, including the provision of mortgage lending, to the UK mortgage market.

Whilst lending activity continues to grow within the UK mortgage market, the Group's ability to meet its future forecasts is partially dependent upon any future changes in the level of activity in the economy and mortgage market as a whole.

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.

Developments emanating from the Basel Committee of Banking Supervisors (BCBS) and discussions being held under the auspices of the Global Heads of Supervision (GHOS), particularly in relation to possible changes in risk weights and associated regulatory capital requirements, have been closely followed and expect to be an area of focus during the coming year.

The Directors believe that the Group's products and services are targeted at specific segments of the market and are confident that growth can be achieved independently of changes in market activity levels.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Of late, the press and media have reported on IT risk issues and cyber-crime related activity has affected a number of firms. The Group is alert to these risks and they are assessed, monitored and controlled as part of the Group's IT strategy and operational risk management activities.

The Group has an operational risk management framework to support the identification, measurement, management and reporting of operational risks and is managed and controlled by senior management having the responsibility for understanding the operational risks within their respective business area and for putting in place appropriate controls and mitigating actions to further strengthen the control environment.

Charter Court Financial Services Group Limited

Group Strategic Report (continued)

Principal risks and uncertainties (continued)

Operational risk (continued)

Operational risk and the broader framework is reviewed by the Operational Risk Working Group which comprises senior members of risk management and all business areas and is overseen by the Executive Risk Management Committee and Board Risk Committee.

Regulatory compliance

The Group closely monitors compliance with regulatory requirements of the Financial Conduct Authority and the Prudential Regulation Authority is monitored by the Compliance team. These matters, along with conduct risks, are reported into the Operational Risk Working Group and Conduct Risk Management Committee and overseen by the Executive Risk Management Committee and Board Risk Committee.

Performance and position

Key performance indicators (KPIs)

	Year ended 31 December 2016	Year ended 31 December 2015
Financial		
Net interest income (1)	£87,258,000	£44,867,000
Return on capital employed (2)*	20.9%	10.0%
Operating profit margin (3)*	52.4%	33.6%
Deposits held (4)	£3,435,896,000	£1,562,509,000
New securitisation funding during year (5)	-	£947,600,000
*2015 excludes gain on sale to securitisation		
Non-financial		
Number of mortgage and loan originations (6)	13,833	9,595
Number of savings customers (7)	71,673	30,650
Number of loans held (8)	23,141	13,024

1 - Net interest income = interest income and similar income less interest expense and similar charges

Interest income and similar income and interest expense and similar charges are per the Consolidated Statement of Comprehensive Income.

As the key revenue stream for the business is from the interest income from customer mortgages the net interest income is a key figure in the consolidated financial statements that management use to assess the performance of the Group. On a monthly basis the net interest margin over the London Inter Bank Offer Rate (LIBOR) is monitored for the different types of mortgages assets: buy-to-let; homeowner; short term lending and second charge revenue streams.

Performance and position (continued)

Key performance indicators (KPIs) (continued)

2 - Return on capital employed = operating profit as a percentage of capital employed

Operating profit is per the Consolidated Statement of Comprehensive Income less any gain on sale to securitisations.

Capital employed being total assets less total liabilities per the Consolidated Statement of Financial Position.

The purpose of this measure is to show how efficiently the Group is making use of resources available to it.

3 – Operating profit margin = operating profit as a percentage of total income

Operating profit and total income are as per the Consolidated Statement of Comprehensive Income. Management use operating profit margin to control the costs and expenses associated with their normal business operations.

4 – Deposits held = deposits from customers

Deposits from customers are as per the Consolidated Statement of Financial Position. Charter Savings Bank is a key source of funding for the Group and has assisted in the growth of residential lending. Deposit balances have grown strongly and is a measure of the growth in the Charter Saving Bank brand.

5 – New securitisation funding during year

Management uses this to judge the value of mortgage assets funded through securitisations as per the Group's diverse funding strategy.

6 – Number of mortgage and loan originations

This measure enables management to monitor and control the growth of this business activity throughout the year.

7 – Number of savings customers

This measure enables management to monitor and control the growth of this business activity throughout the year.

8 – Number of loans held

This measure enables management to monitor stability and growth of this business activity and monitor the level of funding sourced from securitisation vehicles.

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the impact on the environment include recycling and reducing energy consumption.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Charter Court Financial Services Group Limited

Group Strategic Report (continued)

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and various business updates on the Group's intranet. Employees are consulted regularly on a wide range of matters affecting their current and future interests. In addition, all employees on permanent contracts of employment are eligible for an annual bonus related to performance appraisals, subject to the overall performance of the Company and its fellow subsidiaries within the Group.

Approval

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

Ian Martin Lonergan
Chief Executive Officer
2 Charter Court
Broadlands
Wolverhampton
West Midlands, WV10 6TD

16 March 2017

Charter Court Financial Services Group Limited

Directors' Report

The Directors present their Annual Report on the affairs of Charter Court Financial Services Group Limited, together with the audited financial statements and Auditor's Report, for the year ended 31 December 2016.

Information presented in other sections

Information relating to future developments, dividends, employees, financial instruments and principal risks and uncertainties has been included in the Strategic Report.

Going concern

The profit before tax for the year was £48.9m (2015: £27.2m). The Consolidated Statement of Financial Position shows a net asset position of £233.5m (2015: £166.0m) but a net current liability position of £2,251.7m (2015: £523.4m) at 31 December 2016 largely as a result of retail deposits repayable within one year. 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 stressed basis. The appropriateness of the Group's liquidity risk appetite and risk management framework and controls is subject to an at least an annual view through the Internal Liquidity Adequacy Assessment Process (ILAAP). At 31 December 2016 the Group held £214.0m (2015: £537.6m) of liquid assets consisting of £132.6m (2015: £461.3m) of Bank of England Reserve Account balances and £81.4m (2015: £76.3m) 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 is a participant in the Bank of England's Term Funding 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 internal capital adequacy assessment process (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 Group is exposed to, 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 annual report and consolidated financial statements.

Directors

The Directors who served throughout the year (unless stated otherwise) and up to the date of this report were as follows:

Name of Director	
Ian Martin Lonergan	Chief Executive Officer
Philip Anthony Jenks	Chairman
Jean-Sebastien Maloney	Chief Financial Officer
Timothy Tracy Brooke	Independent Non-Executive Director
Ian William Ward	Independent Non-Executive Director
Peter Charles Elcock	Chief Risk Officer
Rajan Kapoor (appointed 23 September 2016)	Independent Non-Executive Director

Charter Court Financial Services Group Limited

Directors' Report (continued)

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Capital structure

Details of issued share capital of the Group, together with details of movements in issued share capital in the year, are given in note 26 to the consolidated financial statements. The Group company has eight classes of ordinary shares A1, A2, B, C, D, E, F and G shares. A1, A2, B, C, E, F and G shares carry no right to fixed income, whereas D shares carry a right to cumulative cash dividend on aggregate nominal value of issued D shares at a rate equal to LIBOR. The rights and obligations attaching to ordinary shares are set out in the Articles of Association of the Company.

Post balance sheet event

The controlling entities of Bridestone Financing Plc, a related party, have agreed to sell the mortgage portfolio held by Bridestone Financing Plc to CCFS. Details of the transaction are given in note 41 to the consolidated financial statements.

Audit disclosure

Each person who is a director 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 Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Deloitte LLP was appointed as auditor for the year and has expressed its willingness to continue in office as auditor.

By order of the Board,

Ian Martin Lonergan
Chief Executive Officer
2 Charter Court
Broadlands
Wolverhampton
West Midlands, WV10 6TD

16 March 2017

Charter Court Financial Services Group Limited

Directors' Responsibilities Statement

The Directors are responsible for preparing the annual report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) 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 IFRS as adopted by the European Union. Under company law the Directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these consolidated 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated 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 in this report.

Independent Auditor's Report to the Members of Charter Court Financial Services Group Limited

We have audited the financial statements of Charter Court Financial Services Group Limited for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flows and the related notes 1 to 56. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS 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.

Independent Auditor's Report to the Members of Charter Court Financial Services Group Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on our 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 light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

In our opinion the information given in note 42 to the consolidated financial statements for the financial year ended 31 December 2016 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country) Regulations 2013.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

K. J. Cooper

Kieren Cooper (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
16 March 2017

Charter Court Financial Services Group Limited

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Continuing operations			
Interest income and similar income	5	143,761	78,244
Interest expense and similar charges	6	(56,503)	(33,377)
Net interest income		87,258	44,867
Non-interest income	7	6,255	4,229
Gain on sale to securitisation		-	10,993
Net (loss)/gain from derivative financial instruments	8	(225)	443
Total income		93,288	60,532
Administrative expenses		(44,445)	(32,888)
Operating profit	9	48,843	27,644
Impairment gains/(losses)	17	57	(474)
Profit before tax		48,900	27,170
Tax	12	(11,557)	(5,749)
Profit after tax		37,343	21,421
Other comprehensive income for the year		-	-
Total comprehensive income for the year		37,343	21,421
Attributable to:			
Equity holders of the parent	28	37,343	21,421
Minority interests	31	-	-
		37,343	21,421

The notes on pages 19 to 66 form an integral part of the consolidated financial statements.

Charter Court Financial Services Group Limited
Consolidated Statement of Financial Position
As at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets	13	633	420
Property, fixtures and equipment	14	900	900
Investment in debt securities	16	119,481	114,238
Loans and receivables	17	3,612,919	1,767,832
Deferred tax asset	21	171	176
		3,734,104	1,883,566
Current assets			
Loans and receivables	17	199,443	179,322
Trade and other receivables	18	2,524	2,594
Cash and cash equivalents	18	213,998	537,706
Other assets	18	220	268
Derivative financial instruments	19	7,081	1,133
		423,266	721,023
Total assets		4,157,370	2,604,589
Current liabilities			
Trade and other payables	22	(13,532)	(9,164)
Deposits from banks	23	(20,000)	(60,094)
Deposits from customers	24	(2,633,068)	(1,172,832)
Derivative financial instruments	19	(8,326)	(2,343)
		(2,674,926)	(1,244,433)
Net current liabilities		(2,251,660)	(523,410)
Non-current liabilities			
Debt securities in issue	20	(426,074)	(804,489)
Deposits from banks	23	(20,000)	-
Deposits from customers	24	(802,828)	(389,677)
		(1,248,902)	(1,194,166)
Total liabilities		(3,923,828)	(2,438,599)
Net assets		233,542	165,990
Equity			
Share capital	26	1	1
Share premium	27	195,120	165,006
Retained earnings	28	38,327	984
Available for sale reserve	29	-	(1)
Equity-settled employee benefits reserve	30	94	-
Equity attributable to equity holders of the parent		233,542	165,990
Minority interest	31	-	-
Total equity		233,542	165,990

Company Number: 06712054

The notes on pages 19 to 66 form an integral part of the consolidated financial statements. The financial statements were approved by the board of Directors and authorised for issue on 6 March 2017. They were signed on its behalf by:

Ian Martin Lonergan – Chief Executive Officer

Jean-Sebastien Maloney – Chief Financial Officer

Charter Court Financial Services Group Limited

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

	Share capital £000	Share premium £000	Retained earnings £000	Available for sale reserve £000	Equity-settled employee benefits reserve £000	Total £000
At 1 January 2015	1	6	(20,437)	-	-	(20,430)
Share issue	-	165,000	-	-	-	165,000
Profit and total comprehensive income for the year	-	-	21,421	-	-	21,421
Fair value loss	-	-	-	(1)	-	(1)
At 31 December 2015	1	165,006	984	(1)	-	165,990
Share issue	-	30,114	-	-	-	30,114
Profit and total comprehensive income for the year	-	-	37,343	-	-	37,343
Fair value gain	-	-	-	1	-	1
Recognition of share-based payments	-	-	-	-	94	94
At 31 December 2016	1	195,120	38,327	-	94	233,542

The notes on page 19 to 66 form an integral part of the consolidated financial statements.

Charter Court Financial Services Group Limited

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Net cash generated by operating activities	32	30,782	564,958
Net cash utilised by investing activities	33	(6,189)	(114,725)
Net cash (utilised)/generated by financing activities	34	(348,301)	47,621
Net (decrease)/increase in cash and cash equivalents		(323,708)	497,854
Cash and cash equivalents at beginning of year		537,706	39,852
Cash and cash equivalents at end of year		213,998	537,706

The notes on pages 19 to 66 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2016

1. General information

Charter Court Financial Services Group Limited is a company incorporated in the United Kingdom 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 private company limited by shares. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 9.

These consolidated financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. There are currently no foreign operations within the Group.

2. Adoption of new and revised standards

The Group has elected to adopt International Financial Reporting Standards (IFRS) as applied in the EU in force as at the Consolidated Statement of Financial Position date of 31 December 2016. In the current year, the Group has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

IAS/IFRS standards

IAS 1 (amendments)	Disclosure Initiative
Annual Improvements to IFRS: 2012-2014 Cycle	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures and IAS 19 Employee Benefits
IAS 16 and IAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation
IAS 27 (amendments)	Equity method in separate financial statements
IFRS 10, IFRS 12 and IAS 28 (amendments)	Investment entities: applying the consolidation exception. Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures

At the date of authorisation of these consolidated financial statements, the following standards and interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IAS/IFRS standards

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 2 (amendments)	Classification and measurement of share-based payments
IAS 7 (amendments)	Disclosure Initiative.
IAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses

2. Adoption of new and revised standards (continued)

The Directors do not expect that the adoption of the standards and interpretations listed above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 16 will require leases to be recognised on the Consolidated Statement of Financial Position.

IFRS 9 Financial instruments is the replacement of IAS39 'Financial Instruments: recognition and measurement' and will be applied for the first time in the Group's year ended 31 December 2018. The new standard is split into three phases, classification and measurement, impairment and hedge accounting and will see some significant changes from existing requirements.. The Group is reviewing potential classification and measurement changes to financial assets based on the composition of the Consolidated Statement of Financial Position as at 31 December 2016. The recognition and measurement of impairment under IFRS 9 is an expected credit loss (ECL) model and the Group is currently developing the systems required to implement this model. It is expected that the impairment charge under IFRS 9 will tend to be more volatile than under the incurred loss model in IAS 39 Financial instruments: Recognition and Measurement. 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 ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. Based on the analysis performed to date, the Group expects to exercise the IFRS 9 accounting policy choice to continue IAS 39 hedge accounting and, therefore, is not currently planning to change hedge accounting, although the Group will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 Financial Instruments: Disclosures.

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 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 under the adoption of IFRS 16, however, due to the short term nature of the Company's leases (less than five years) the impact is considered insignificant.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed, however, the effect is not expected to be material.

3. Accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with IFRS adopted by the European Union and therefore the Group consolidated financial statements comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

3. Accounting policies (continued)

Going concern

The profit before tax for the year was £48.9m (2015: £27.2m). The Consolidated Statement of Financial Position shows a net asset position of £233.5m (2015: £166.0m) but a net current liability position of £2,251.7m (2015: £523.4m) at 31 December 2016 largely as a result of retail deposits repayable within one year. 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 stressed basis. The appropriateness of the Group's liquidity risk appetite and risk management framework and controls is subject to an at least an annual view through the Internal Liquidity Adequacy Assessment Process (ILAAP). At 31 December 2016 the Group held £214.0m (2015: £537.6m) of liquid assets consisting of £132.6m (2015: £461.3m) of Bank of England Reserve Account balances and £81.4m (2015: £76.3m) 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 is a participant in the Bank of England's Term Funding 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 annual report and consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2016. The Company's year end of 31 December is co-terminus with its subsidiaries for the purposes of preparing consolidated financial statements. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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. Therefore, the Directors have determined that the Company exercises control over, and takes the majority of the risks and rewards of the activities of special purpose vehicles, Buttermere Plc, PMF No. 1 Plc, PMF 2014-1 Plc, PMF 2014-2 Plc, PMF 2015-1 Plc, PMF 2015-3R Plc and CCFS Warehouse No.1 Plc, incorporated to provide long term funding to the mortgages originated by the Group. Accordingly, these companies are also classified as subsidiaries of the Company for consolidation purposes despite the lack of direct legal ownership of these entities. For a full list of the Company's subsidiaries and the special purpose entities consolidated into these consolidated financial statements refer to note 45.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3. 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 not future credit losses. Origination fees received and paid on loans to customers are included within loans and advances to customers and are amortised over the expected life of those assets using the EIR method. Interest income on available for sale investments is included in interest income and similar income. Net interest on derivatives is included in interest income and similar income or interest expense and similar charges following the underlying instrument it is hedging.

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.

Income from the rendering of services is recognised when the services are delivered and benefits are transferred to clients and customers. Turnover from services supplied is recognised upon completion of services on a monthly basis under the terms of contracts held with key clients.

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.

Rental 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 spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of these consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, 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 Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Statement of Financial Position date.

Exchange differences are recognised in the Consolidated Statement of Comprehensive Income in the year in which they arise.

3. Accounting policies (continued)

Operating profit

Operating profit is stated after charging administrative expenses but before impairment gains/losses.

Retirement benefit costs

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 net profit 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 it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted Consolidated by the 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 and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset 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.

3. 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 or valuation of assets, 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 tangible fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income or expense.

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 or valuation of assets 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 expenditure

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

3. Accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each Consolidated Statement of Financial Position date, the Group reviews the carrying amounts of its tangible 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).

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 for impairment annually and whenever there is an indication that the asset may be impaired.

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.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, 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 in income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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 and 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 of the nature and purpose of the financial assets is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset 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 and effective as a hedging instrument.

3. Accounting policies (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

A financial asset other than a financial asset 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 *Financial Instruments*: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Fair value hierarchy

In accordance with IFRS 7, the Company groups financial instruments, that are measured at fair value subsequent to initial recognition, into fair value hierarchy levels based on the degree to which the fair value is observable in a manner that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (e.g. as prices) or indirectly (e.g. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial instrument is categorised, is determined on the basis of the lowest level input that is significant to the fair value measurement.

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 year. Changes in the carrying amount of AFS monetary financial assets relating to changes in interest income calculated using the effective interest method are 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.

3. Accounting policies (continued)

Financial assets (continued)

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than (a) those that the Group upon initial recognition designates as at FVTPL, (b) those that the Group designate as AFS and (c) those that meet the definition of loans and receivables. HTM investments are measured at amortised cost using the EIR method (as described in the loans and receivables policy below).

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the EIR method, less any impairment. Interest income is recognised by applying the EIR.

Mortgage assets

Mortgage assets are classified as loans and receivables and accounted for on an amortised cost basis using the EIR method as described further below.

Effective interest rate

The EIR is the method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The EIR is the rate which exactly discounts the expected future cash flows over the expected life of the financial asset, to the net carrying value of the financial asset. The main impact for the Group relates to mortgage advances where fees such as application fees and costs are incorporated into the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historical data and management judgement and the calculation is adjusted when actual experience differs from estimates with changes in deferred amounts being recognised immediately in the Consolidated Statement of Comprehensive Income.

Impairment of financial assets held at amortised cost

Financial assets are assessed for indicators of impairment at each Consolidated Statement of Financial Position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For loans that are considered individually significant, the Group assesses on a case by case basis if there is any evidence that a loan is impaired. All loans 90 days or more in arrears are classified as impaired and credit risk management will assess the likelihood of default and severity of loss should a default occur. A provision is made on this basis.

Impairment is assessed on a collective basis in the following circumstances:

- to estimate losses which have been incurred but have not yet been reported on loans subject to individual assessment; and
- to estimate losses for homogeneous groups of loans that are considered individually significant such as those with forbearance strategies in place or those that are in arrears.

3. Accounting policies (continued)

Financial assets (continued)

Impairment of financial assets held at amortised cost (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. This includes cash collected in the securitisation vehicle prior to paying down loan notes.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Retail deposits

Retail deposits are carried in the Consolidated Statement of Financial Position on an amortised cost basis. The initial fair value recognised represents the cash amount received from the customer.

Interest payable to the customer is expensed to the Statement of Comprehensive Income as interest payable over the deposit term on an EIR basis.

Other financial liabilities

Other financial liabilities and borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the EIR method, with interest expense recognised on an effective yield basis. The EIR method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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 entered into derivative financial instruments, specifically interest rate 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.

3. Accounting policies (continued)

Derivative financial instruments (continued)

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 designates certain hedging instruments as fair value hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item.

Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of certain mortgage assets and certain retail deposits. 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 any changes in the fair value of the hedged item that are attributable to the hedged risk.

Share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 30.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. The impact of revisions of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

As the employees receiving awards are employed by the Group's subsidiary, Exact Mortgage Experts Limited, the Company's investment in the subsidiary is debited to account for the Company remunerating the subsidiary's employees.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Consolidated Statement of Comprehensive Income over the remaining vesting period. The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the replaced equity instruments at the date the replacement equity instruments are granted. The net fair value of the replaced equity instruments is their fair value, immediately before the modification, less the amount of any payment made to the employee that is accounted for as deduction from equity.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, 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.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or, in the year of the revision and future years if the revision affects both current and future years.

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.

Recoverability of internally-generated intangible asset

During the year, management considered the recoverability of its internally-generated intangible asset which is included in its Consolidated Statement of Financial Position at £434,000 (2015: £111,000), see note 13.

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.

Effective interest rates (EIR)

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. Estimates are based on historical data and current market analysis. Estimates are reviewed regularly. The accuracy of the EIR rates applied would be compromised by any differences in actual borrower behaviour and that predicted.

A critical assumption in the EIR calculation is the expected life, 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 historic experience of similar products. These assumptions are monitored to ensure their ongoing appropriateness. See note 17 for details of the EIR balance at the year-end date.

Derivative financial instruments

The Group fair values its interest rate swaps using observable market data which is used to construct zero coupon curves and derive the necessary forward interest cash flows and discount rates. See note 19 for the fair value of derivative financial instruments at the year-end date. For balance guarantee swaps taken out to hedge interest rate risk on portfolios of fixed rate mortgages there is uncertainty regarding the future behaviour of the underlying mortgages which will affect the notional value at which a balance guarantee swap accrues and pays interest. Expectations of future behaviour of the underlying portfolios is reviewed periodically by management and factored into the balance guarantee swap's valuation calculations. Uncertainty regarding credit valuation adjustments for swaps is mitigated through the requirement for Group external counterparties to maintain minimum rating levels at all times. In the event of a rating downgrade counterparties are required to post collateral or, should the downgrade be below a certain level replace themselves as counterparty to the swap.

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

Key sources of estimation uncertainty (continued)

Impairment losses on mortgage loans

Impairment losses on mortgage loans are calculated based on statistical models. Key assumptions are made about the expected cash flows from borrowers including expected proceeds from realisable security. The key assumptions are based on historical data and market analysis.

The accuracy of impairment calculations will be affected by unexpected changes in the economic environment which could impact upon cash flows and borrower behaviour. Key macro-economic factors which could result in losses exceeding those expected, to the extent that they vary from those assumed in management's impairment models, could include increases in unemployment and falling house prices. See note 17 for details of the impairment provision at the year -end date.

5. Interest income and similar income

	2016 £000	2015 £000
Interest on residential mortgages	143,039	78,746
Interest and other income on debt securities	3,925	934
Interest and other income on liquid assets	1,638	1,904
Net expense on derivative financial instruments hedging assets	(4,841)	(3,340)
	143,761	78,244

6. Interest expense and similar charges

	2016 £000	2015 £000
Interest expense on asset backed loan notes	12,184	20,076
Interest on non-convertible loan notes	-	476
Interest expense on deposits and other borrowings	46,890	13,781
Net income on derivative financial instruments hedging liabilities	(2,571)	(956)
	56,503	33,377

7. Non-interest income

An analysis of the Group's income is as follows:	2016 £000	2015 £000
Revenue from the rendering of mortgage administration services under client contracts	2,887	3,333
Revenue from the rendering of credit analytical services under client contracts	-	2
Revenue from mortgage origination activities	3,368	894
	6,255	4,229

All revenues are generated within the UK from a single income generating unit.

The Group holds legal title to residential mortgages under the terms of third party service contracts. At 31 December 2016 the Group held legal title to 291 (2015: 308) of such mortgage loans with an aggregate current balance of £33,411,000 (2015: £35,863,000). The economic benefit of these mortgage loans is held by third parties; accordingly the mortgage loans are not included in the Group's Consolidated Statement of Financial Position. Income from legal title housing services for the year was £51,000 (2015: £55,000) is included within "*Revenue from the rendering of mortgage administration services under client contracts*" above. After the year end the income from legal title income ceased due to the sale of the portfolio to CCFS, see note 41.

8. Net (loss)/gain from derivative financial instruments

	2016 £000	2015 £000
Gain on derivatives designated as fair value hedges	50	354
Loss in fair value of hedged items attributable to hedged risk	(72)	(598)
	(22)	(244)
Change in fair value of interest rate swaps	-	631
Net (loss)/gain on disposal of interest rate swaps	(203)	56
	(225)	443

9. Operating profit

Operating profit for the year has been arrived at after charging:

	2016 £000	2015 £000
Net foreign exchange losses	13	5
Depreciation of property, fixtures and equipment	456	383
Amortisation of intangible assets	185	135
Amortisation of internally developed software	55	103
Intangible assets written off	-	21
Operating lease costs	637	312
Loss on disposal of property, fixtures and equipment	37	-
Research and development costs	434	-
Staff costs (see note 11)	24,499	17,008

The auditor's remuneration for audit and other services is disclosed in note 10.

10. Auditor's remuneration

The analysis of auditor's remuneration is as follows:	**2016 £000**	**2015 £000**
Fees payable to the Group's auditor for the audit of the Company's financial statements	21	17
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 and subsidiaries within the Group	217	158
Total audit fees	238	175
Audit related assurance services	40	59
Other assurance services	72	10
Total assurance services	112	69
Tax compliance services	-	50
Tax advisory services	-	45
Total services relating to taxation	-	95
Services relating to corporate finance advisory	359	145
Securitisation due diligence services	-	77
Risk and regulation services	66	117
Other non-audit services	210	-
Total other non-audit services	635	339
Total non-audit services	747	503

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

11. Staff costs

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

	2016 Number	2015 Number
Collections and recovery and processing	166	133
Sales and marketing	28	17
Compliance	12	7
Finance	47	34
Operations and administrative support	117	91
	370	282

Their aggregate remuneration comprised:	2016 £000	2015 £000
Wages and salaries	20,879	14,526
Social security costs	2,478	1,669
Share based payment	94	-
Other pension costs (see note 36)	1,048	813
	24,499	17,008

The remuneration of the Directors and key management personnel is disclosed in note 39.

12. Tax

	2016 £000	2015 £000
Current tax:		
Current tax on profits for the year	10,060	2,450
Bank surcharge on profits for the year	1,548	-
Adjustment in respect of prior years	(56)	108
Total current tax	11,552	2,558
Deferred tax:		
Current year	(65)	3,358
Adjustments in respect of prior years	51	(139)
Effect of changes in tax rates	19	(28)
Total deferred tax charge	5	3,191
Tax per Consolidated Statement of Comprehensive Income	11,557	5,749

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year.

12. Tax (continued)

The charge for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

	2016 £000	2015 £000
Profit before tax:		
Continuing operations	48,900	27,170
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	9,780	5,501
Banking surcharge	1,548	-
Adjustments in respect of prior years	(6)	(30)
Expenses not deductible for tax purposes	186	526
Securitisation regulations	2	(94)
Income not taxable	-	(126)
Effect of differences in tax rate	20	(28)
Deferred tax asset not recognised	27	-
Tax charge for the year	11,557	5,749

The effective tax rate for the 2016 financial year was 23.63% (2015: 21.16%).

Deferred tax balances are in respect of tax losses and timing differences of capital allowances in excess of depreciation and other short term differences. The net deferred tax charge of £5,000 (2015: £3,191,000) has been recognised in the Consolidated Statement of Comprehensive Income and the corresponding net deferred tax asset has been recognised in non-current assets. For further details refer to note 21.

Change in tax rate

A reduction in the UK corporation tax rate from 21% to 20% (effective 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset as at 31 December 2016 has been calculated based on these rates.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

13. Intangible assets

	Development costs £000	Computer software and licenses £000	Total £000
Cost			
At 1 January 2015	2,083	391	2,474
Additions	-	191	191
Disposals*	(21)	-	(21)
At 31 December 2015	2,062	582	2,644
Additions	378	75	453
At 31 December 2016	2,440	657	3,097
Amortisation			
At 1 January 2015	1,848	138	1,986
Charge for the year	103	135	238
At 31 December 2015	1,951	273	2,224
Charge for the year	55	185	240
At 31 December 2016	2,006	458	2,464
Carrying amount			
At 31 December 2016	434	199	633
At 31 December 2015	111	309	420
At 1 January 2015	235	253	488

*Write-offs in the prior year relate to costs previously capitalised but not amortised as the project did not go live. The project has since been aborted, hence the write-off of previously capitalised cost.

Amortisation of internally generated assets begins at the point the asset is developed and is capable of being used. At the year end the total assets included in development costs and not being amortised was £369,000 (2015: £nil).

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

Charter Court Financial Services Group Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

14. Property, fixtures and equipment

	Leasehold property improvements £000	Fixtures and equipment £000	Computer equipment £000	Total £000
Cost				
At 1 January 2015	447	178	823	1,448
Additions	21	117	158	296
At 31 December 2015	468	295	981	1,744
Additions	-	196	297	493
Disposals	-	-	(68)	(68)
Reclassification*	-	20	(20)	-
At 31 December 2016	468	511	1,190	2,169
Accumulated depreciation				
At 1 January 2015	93	91	277	461
Charge for the year	87	39	257	383
At 31 December 2015	180	130	534	844
Charge for the year	89	72	295	456
Elimination in respect of disposals	-	-	(31)	(31)
Reclassification*	-	4	(4)	-
At 31 December 2016	269	206	794	1,269
Carrying amount				
At 31 December 2016	199	305	396	900
At 31 December 2015	288	165	447	900
At 1 January 2015	354	87	546	987

*During the 2016 £20,000 (2015: £nil) of assets included in computer equipment were reclassified to fixtures and equipment.

15. Subsidiaries

A list of the investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 45 to the Company's separate financial statements.

Charter Court Financial Services Group Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

16. Investment in debt securities

	2016 £000	2015 £000
Available for sale debt securities	-	1,997
Held to maturity debt securities	119,481	112,241
	119,481	114,238

All available for sale debt securities are held at fair value and are level 1 fair value measurements being derived from observable quoted prices, in active markets.

Movements in the debt securities held during the year were:

	Available for sale £000	Held to maturity £000	Total £000
At 1 January 2015	-	-	-
Additions	1,998	116,040	118,038
Disposals and redemptions	-	(4,172)	(4,172)
Changes in fair value	(1)	-	(1)
Amortisation	-	220	220
Accrued interest	-	153	153
At 31 December 2015	1,997	112,241	114,238
Additions	-	19,543	19,543
Disposals and redemptions	(2,000)	(13,421)	(15,421)
Changes in fair value	1	-	1
Amortisation	2	1,079	1,081
Accrued interest	-	39	39
At 31 December 2016	-	119,481	119,481

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

17. Loans and receivables

	2016 £000	2015 £000
Loans and receivables – non current	3,612,919	1,767,832
Loans and receivables – current	199,443	179,322
	3,812,362	1,947,154

	2016 £000	2015 £000
Residential mortgages	3,823,038	1,951,979
Fair value adjustment for hedged mortgages	4,414	1,734
EIR adjustment	(14,572)	(5,984)
Impairment provision	(518)	(575)
	3,812,362	1,947,154

An analysis of the types of residential mortgage loans at 31 December 2016 is set out below.

	2016 £000	2015 £000
Buy-to-let mortgage assets	2,163,460	849,678
Long term homeowner mortgage assets	1,292,928	828,035
Short term bridging mortgage assets	205,818	188,656
Second charge mortgage assets	150,156	80,785
	3,812,362	1,947,154

Residential mortgages are secured on residential property within the United Kingdom.

Mortgage loans have a contractual term of up to thirty five years. Borrowers are entitled to settle the loan at any point and in most cases early settlement 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.

The fair value of residential mortgages is not considered to be materially different to the amortised cost value at which they are disclosed.

Fair value adjustment for hedged risk (FVAHR)

The Group has entered into interest rate swaps that protect it from changes in interest rates on the floating rate liabilities that fund its portfolio of fixed rate mortgages. Changes in the fair value of these swaps are offset by changes in the FVAHR of the fixed rate mortgages.

17. Loans and receivables (continued)

The residential mortgage loans above pledged as collateral for the liabilities described in note 20 were:

	2016 £000	2015 £000
In respect of:		
Asset backed loan notes	444,042	831,059

Ageing of past due but not impaired mortgage loans

	2016 £000	2015 £000
0-30 days	18,725	7,534
31-60 days	6,008	1,494
61-89 days	2,213	1,154
	26,946	10,182

A collective provision of £497,000 (2015: £309,000) is held against loans and advances to customers which have not been specifically provided against.

Ageing of past due and impaired mortgage loans

	2016 £000	2015 £000
90-120 days	1,274	217
> 120 days	1,016	374
	2,290	591

A specific provision of £21,000 (2015: £14,000) is held against past due and impaired receivables. Mortgage loans which are not past due but considered to be impaired totalled £28,438,000 (2015: £11,034,000) and a specific provision of £nil (2015: £252,000) is held against these mortgages. This includes loans subject to forbearance indicators which are not past due as disclosed in the Strategic Report on page 4.

Loans which are neither past due or impaired have been rated internally with average credit scores of 314 for homeowner mortgage assets, 316 for buy-to-let mortgage assets, 316 for short term bridging mortgage assets and 469 for second charge mortgage assets. Based on this there are no concerns over the credit quality of the loans.

17. Loans and receivables (continued)

Residential Mortgages

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

	2016 £000	2015 £000
At 1 January	1,947,154	860,897
Additions	2,496,808	1,609,446
Effective interest rate adjustments	(8,588)	(2,177)
Sales to third parties	-	(224,187)
Interest charged and other debits	140,984	74,241
Repayments and redemptions	(766,732)	(370,589)
Write-offs	(1)	(1)
Movement on impaired allowance	57	(474)
Fair value gains/(losses)	2,680	(2)
At 31 December	3,812,362	1,947,154

Other debits include, primarily, interest charged to customers on loans outstanding and impairment movements on these loans.

Impairment provisions on residential mortgages

The following amounts in respect of impairment provisions have been deducted from the appropriate assets in the Consolidated Statement of Financial Position:

	2016 £000	2015 £000
Collective impairment provision		
At 1 January	309	86
Charge for the year	188	223
At 31 December	497	309
Specific impairment provision		
At 1 January	266	15
Charge for the year	(245)	251
At 31 December	21	266
Total impairment provision	518	575

18. Current assets

Trade and other receivables

	2016 £000	2015 £000
Amounts receivable for the rendering of services	367	773
Prepayments and other receivables	2,157	1,821
	2,524	2,594

Amounts receivable for the rendering of services are made up of fees invoiced at the year end of £42,000 (2015: £312,000) and accrued income in respect of fees not invoiced at the year end of £325,000 (2015: £461,000).

Ageing of past due but not impaired trade receivables

	2016 £000	2015 £000
30-60 days	-	127
61-90 days	5	109
	5	236

No provision (2015: none) is held against past due receivables.

Prepayments and other receivables

Included in the prepayments and other receivables balance is £570,000 (2015: £300,000) representing amounts held by banks. This consists of £350,000 (2015: £300,000) deposited with Barclays and £220,000 (2015: £nil) deposited with HSBC under interest rate swap collateralisation agreements.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

18. Current assets (continued)

Cash and cash equivalents

	2016 £000	2015 £000
Free cash	13,263	11,764
Securitisation cash	68,168	64,603
Balances with the Bank of England other than mandatory reserve deposits	2,586	36,813
Mandatory reserve with the Bank of England	129,981	424,526
	213,998	537,706

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

Only free cash is unrestrictedly available for the Group's general purposes. Securitisation cash is not freely available to the Group under the terms of securitisation agreements. The mandatory reserve with the Bank of England forms part of the Groups liquid assets but are not used in the Group's day to day operations.

Analysis of cash and cash equivalents by currency

	GBP £000	EUR £000	Total £000
2016			
Cash and cash equivalents	213,876	122	213,998
2015			
Cash and cash equivalents	537,706	-	537,706

Other assets	2016 £000	2015 £000
Other assets held at fair value	220	268

Other assets held at fair value relate to the fair value gain 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. The movement in fair value of £48,000 has been recognised in revenue from mortgage origination activities in the Consolidated Statement of Comprehensive Income. During the year, there have been no new purchases or settlements of Level 3 assets and no transfers into or out of the Level 3 category.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

19. Derivative financial instruments

	Notional £000	Positive MV £000	Negative MV £000
Derivatives designated as fair value hedges			
Interest rate swaps at 31 December 2016	4,175,358	7,081	8,326
Interest rate swaps at 31 December 2015	2,059,318	1,133	2,343

The interest rate swap agreements, 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.

The interest rate swap agreements, 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.

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.

20. Debt securities in issue

	2016 £000	2015 £000
Secured borrowing		
Asset backed loan notes	426,074	804,489
Amount due for settlement within 12 months	374	719
Amount due for settlement after 12 months	425,700	803,770
	426,074	804,489

The fair values of borrowings are not considered significantly different to their carrying values and the effective rates of interest are not materially different to the rates charged, as the borrowings are stated using rates that would be readily available in active markets. All borrowings are payable in pounds sterling.

The other principal features of the Group's borrowings are as follows.

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 these notes will be repaid within five years.

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

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

20. Debt securities in issue (continued)

Notes are issued through six funding vehicles.

	2016 £000	2015 £000
Buttermere Plc asset backed loan notes	500	33
PMF No. 1 asset backed loan notes	54,452	99,828
PMF 2014-1 asset backed loan notes	83,307	205,494
PMF 2014-2 asset backed loan notes	112,121	202,644
PMF 2015-1 asset backed loan notes	175,194	196,397
CCFS Warehouse No.1 asset backed loan notes	500	100,093
	426,074	804,489

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

A pass through publically rated securitisation; PMF No.1 Plc, closed on 5 December 2013 and issued £163.8m of pounds sterling mortgage backed floating rate notes at par. £134.5m of the notes were rated AAA, £6.5m rated AA, £6.5m rated A, £10.4m rated BBB, and £3.0m rated BB. The Group retained £8.2m of unrated and subordinated notes, equal to 5% of the issue amount.

A pass through publically rated securitisation; PMF 2014-1 Plc, closed on 22 July 2014 and issued £235.0m of pounds sterling mortgage backed floating rate notes at par. £199.7m of the notes were rated AAA, £10.0m rated AA, £15.0m rated A and £5.4m rated BBB. The Group retained £11.8m of unrated and subordinated notes, equal to 5% of the issue amount. At the year end date the Group held £2,296,000 (2015: £nil) of the A notes, £1,483,000 (2015: £nil) of the C notes and £2,700,000 (2015: £nil) of the D notes.

A pass through publically rated securitisation; PMF 2014-2 Plc, closed on 25 November 2014 and issued £230.0m of pounds sterling mortgage backed floating rate notes at par. £189.8m of the notes were rated AAA, £10.9m rated AA, £12.0m rated A and £12.5m rated BBB. The Group retained £11.5m of unrated and subordinated notes, equal to 5% of the issue amount. At the year end date the Group also held £5,660,000 (2015: £11,151,000) of the A notes and £7,000,000 (2015: £nil) of the C notes.

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

CCFS Warehouse No.1 Plc issued £115.8m of unrated pounds sterling mortgage backed floating notes at par on 18 December 2015. At the year end date the balance of these notes was £1,048,000 of which the Group retains £500,000 (2015: £15,800,000).

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 on all of their notes on or after an earlier date (the call date).

The Group publishes detailed information on the performance of its publically rated securitisations, links to which are can be accessed through www.chartercourtfs.co.uk.

20. Debt securities in issue (continued)

Buttermere asset backed loan notes

The net proceeds received from the issue of Buttermere Plc loan notes have been wholly classified as liabilities, representing the value of the liability at its amortised cost amount:

	£000
Liability at 31 December 2015	33
Proceeds on issue of asset backed loan notes	500
Interest chargeable and accrued	8
Interest paid	(41)
Liability at 31 December 2016	500

Buttermere Plc notes in issue at 31 December are:

	Principal balance		Margin over LIBOR
	2016 £000	2015 £000	%
A Note	375	-	0.80
B Note	125	-	3.60
	500	-	

During the year, the Group issued £500,000 (2015: £596,000,000) mortgage backed floating rate notes and repaid principal of £nil (2015: £848,449,000). 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

The net proceeds received from the issue of PMF No 1 loan notes have been wholly classified as liabilities, representing the value of the liability at its amortised cost amount:

	£000
Liability at 31 December 2015	99,828
Interest chargeable and accrued	1,953
Interest and principal paid	(47,329)
Liability at 31 December 2016	54,452

Charter Court Financial Services Group Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

20. Debt securities in issue (continued)

PMF No. 1 asset backed loan notes (continued)

PMF No. 1 notes in issue to external investors at 31 December are:

	Principal balance		Margin over LIBOR
	2016	2015	
	£000	£000	%
A Note	28,231	73,830	1.15%
B Note	6,500	6,500	1.75%
C Note	6,500	6,500	2.15%
D Note	10,400	10,400	3.25%
E Note	2,975	2,975	5.25%
	54,606	100,205	

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

The net proceeds received from the issue of PMF 2014-1 loan notes have been wholly classified as liabilities, representing the value of the liability at its amortised cost amount:

	£000
Liability at 31 December 2015	205,494
Notes purchases by the Group	(10,953)
Interest chargeable and accrued	2,449
Interest and principal paid	(113,683)
Liability at 31 December 2016	83,307

PMF 2014-1 notes in issue to external investors at 31 December are:

	Principal balance		Margin over LIBOR
	2016	2015	
	£000	£000	%
A Note	57,263	175,582	0.80%
B Note	10,000	10,000	1.15%
C Note	13,517	15,000	1.40%
D Note	2,700	5,400	1.90%
	83,480	205,982	

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

Charter Court Financial Services Group Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

20. Debt securities in issue (continued)

PMF 2014-2 asset backed loan notes

The net proceeds received from the issue of PMF 2014-2 loan notes have been wholly classified as liabilities, representing the value of the liability at its amortised cost amount:

	£000
Liability at 31 December 2015	202,644
Notes purchased by the Group	(7,000)
Interest chargeable and accrued	3,475
Interest and principal paid	(86,998)
Liability at 31 December 2016	112,121

PMF 2014-2 notes in issue to external investors at 31 December are:

	Principal balance		Margin over LIBOR
	2016	2015	
	£000	£000	%
A Note	83,845	167,760	0.95%
B Note	10,925	10,925	1.50%
C Note	5,029	12,029	1.90%
D Note	12,535	12,535	2.40%
	112,334	203,249	

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

PMF 2015-1 asset backed loan notes

The net proceeds received from the issue of PMF 2015-1 loan notes have been wholly classified as liabilities, representing the value of the liability at its amortised cost amount:

	£000
Liability at 31 December 2015	196,397
Interest chargeable and accrued	3,593
Interest and principal paid	(24,796)
Liability at 31 December 2016	175,194

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

20. Debt securities in issue (continued)

PMF 2015-1 asset backed loan notes (continued)

PMF 2015-1 notes in issue to external investors at 31 December are:

	Principal balance		Margin over LIBOR
	2016	2015	
	£000	£000	%
A Note	141,851	163,517	0.95%
B Note	11,800	11,800	1.35%
C Note	10,200	10,200	1.75%
D Note	11,700	11,700	2.40%
	175,551	197,217	

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

The net proceeds received from the issue of CCFS Warehouse No.1 plc loan notes have been wholly classified as liabilities, representing the value of the liability at its amortised cost amount:

	£000
Liability at 31 December 2015	100,093
Interest chargeable and accrued	645
Interest and principal paid	(100,238)
Liability at 31 December 2016	500

CCFS Warehouse No.1 plc notes in issue to external investors at 31 December are:

	Principal balance		Margin over LIBOR
	2016	2015	
	£000	£000	%
A Note	500	100,000	1.85%
	500	100,000	

The final maturity date of the notes is 16 February 2018. Since the Consolidated Statement of Financial Position date the final maturity has been extended to 16 February 2019.

20. Debt securities in issue (continued)

Interest Rates

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

	2016 %	2015 %
Buttermere asset backed loan notes	1.88	2.09
PMF No. 1 asset backed loan notes	2.34	2.18
PMF 2014-1 asset backed loan notes	1.35	1.47
PMF 2014-2 asset backed loan notes	1.58	1.70
PMF 2015-1 asset backed loan notes	1.50	1.69
CCFS Warehouse No.1 asset backed loan notes	2.23	2.44

21. Deferred tax

At the Consolidated Statement of Financial Position date, the Group has unused tax losses of £12,000 (2015: £198,000) available for offset against future trading profits, which would give rise to a deferred tax asset of £2,000 (2015: £36,000), following a tax rate change to 17% (2015: 18%) enacted in advance of the year end (see note 12).

Movement on deferred taxation balance during the year

	2016 £000	2015 £000
At 1 January	176	3,367
Charge to the Consolidated Statement of Comprehensive Income	(5)	(3,191)
At 31 December	171	176

Analysis of deferred tax balance

	2016 £000	2015 £000
Capital allowances in excess of depreciation	27	41
Losses	2	36
Short term timing differences	142	99
	171	176

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

22. Other financial liabilities

Trade and other payables

	2016 £000	2015 £000
Trade payables and accruals	8,169	8,018
Corporation tax payable	5,363	1,146
	13,532	9,164

23. Deposits from banks

As at 31 December 2016 deposits from banks include £20,000,000 (2015: £60,094,000) in respect of sale and repurchase agreements included within current liabilities. The carrying value of assets of £26,563,000 (2015: £83,301,000) sold under sale and repurchase agreements is included within debt securities (see note 16).

As at 31 December 2016 deposits from the Bank of England's Term Funding Scheme totalled £20,000,000 (2015: £nil) included within non-current liabilities. The carrying value of assets pledged as collateral was £26,565,000 (2015: £nil).

Analysis of deposits from banks by currency

	GBP £000	EUR £000	Total £000
2016			
Deposits from banks – current liabilities	19,878	122	20,000
Deposits from banks – non-current liabilities	20,000	-	20,000
	39,878	122	40,000
2015			
Deposits from banks – current liabilities	60,094	-	60,094
Deposits from banks – non-current liabilities	-	-	-
	60,094	-	60,094

24. Deposits from customers

	2016 £000	2015 £000
Deposits from customers – current	2,633,068	1,172,832
Deposits from customers – non current	802,828	389,677
	3,435,896	1,562,509

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.

	2016 £000	2015 £000
Amounts repayable		
On demand	68,941	21,892
In less than 3 months	323,714	26,492
In more than 3 months but less than 1 year	2,240,413	1,124,448
In more than 1 year but less than 2 years	715,817	200,867
In more than 2 years but less than 5 years	83,676	188,430
Total deposits	3,432,561	1,562,129
Fair value adjustment for hedged risk	3,335	380
	3,435,896	1,562,509

Fair value adjustment for hedged risk (FVAHR)

The Group has entered into interest rate swaps that protect it from changes in interest rates on the floating rate assets that are funded by its portfolio of fixed rate customer deposits. Changes in the fair value of these swaps are offset by changes in the FVAHR of the fixed rate customer deposits.

25. 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 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 2016 the fair value of the guarantee was £nil (2015: £nil).

Charter Court Financial Services Group Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

26. Share capital

	2016 Number	2016 £	2015 Number	2015 £
Authorised, issued, called up and fully paid up:				
'A' Class ordinary shares of £0.001 each	-	-	741,386	742
'A1' Class ordinary shares of £0.001 each	873,365	873	-	-
'A2' Class ordinary shares of £0.001 each	7,229	7	-	-
'B' Class ordinary shares of £0.001 each	110,426	110	242,330	242
'C' Class ordinary shares of £0.001 each	9,105	9	16,334	16
'D' Class ordinary shares of £0.001 each	252,000	252	252,000	252
'E' Class ordinary shares of £0.00001 each	55,657	1	-	-
'F' Class ordinary shares of £0.00001 each	100,000	1	-	-
'G' Class ordinary shares of £0.00001 each	100,000	1	-	-
	1,507,782	1,254	1,252,050	1,252

The class A shares had full voting, dividend and capital distribution rights. The class A1 and B ordinary shares have full voting, dividend and capital distribution rights but the shares do not carry any rights of redemption. The class A2, C and E shares have full dividend and capital distribution rights but do not carry any rights to redemption or any voting rights.

The class D shares have full voting rights, with each D shareholder entitled to exercise 5% of the total voting rights in the Company. The shares do not carry dividend and capital distribution rights and do not carry any rights of redemption. D shareholders are entitled to D dividends, which shall be distributed to them before further profits are distributed amongst the holders of A1, A2, B, C, E, F and G ordinary shares on a pro rata basis. The D shares are held by 4 individuals.

The class F and G shares carry no voting, capital distribution or redemption rights. Provided the value of the Company is above the first hurdle amount, as defined in the Articles of Association, F shareholders may participate in dividends pro rata at the sole discretion of the Directors of the Company. Provided the value of the Company is above the second hurdle amount, as defined in the Articles of Association, G shareholders may participate in dividends pro rata at the sole discretion of the Directors of the Company.

During the year the Company granted 55,657 promote 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.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

26. Share capital (continued)

The movements in shares throughout the year is shown below

	Number of shares								
Share class	**A**	**A1**	**A2**	**B**	**C**	**D**	**E**	**F**	**G**
Nominal value (£)	*0.001*	*0.001*	*0.001*	*0.001*	*0.001*	*0.001*	*0.00001*	*0.00001*	*0.00001*
At 1 January 2016	741,386	-	-	242,330	16,334	252,000	-	-	-
8 August 2016 50 A shares issued for £20,000,000	50	-	-	-	-	-	-	-	-
25 August 2016 B shares transferred and reclassified as A shares	114,516	-	-	(114,516)	-	-	-	-	-
18 November 2016 A shares reclassified as A1 shares	(855,952)	855,952	-	-	-	-	-	-	-
21 November 2016 B shares transferred and reclassified as A1 shares	-	17,388	-	(17,388)	-	-	-	-	-
21 November 2016 C shares transferred and reclassified as A2 shares	-	-	7,229	-	(7,229)	-	-	-	-
21 November 2016 55,657 E shares issued for £99,069	-	-	-	-	-	-	55,657	-	-
6 December 2016 25 A1 shares issued for £10,000,000	-	25	-	-	-	-	-	-	-
15 – 20 December 2016 100,000 F shares issued for £10,000	-	-	-	-	-	-	-	100,000	-
15 – 20 December 2016 100,000 G shares issued for £5,000	-	-	-	-	-	-	-	-	100,000
At 31 December 2016	-	873,365	7,229	110,426	9,105	252,000	55,657	100,000	100,000

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

27. Share premium

	2016 £000	2015 £000
At 1 January	165,006	6
Share premium arising in the year	30,114	165,000
At 31 December	195,120	165,006

The share premium arose in the year due to the issue of 50 A class shares in August 2016 for consideration of £20,000,000, 25 A1 class shares in December 2016 for consideration of £10,000,000, 55,567 E class shares in November 2016 for consideration of £99,069, 100,000 F class shares in December 2016 for consideration of £10,000 and 100,000 G class shares in December 2016 for consideration of £5,000. The share premium arose in the prior year due to the issue of 50 A class shares in January 2015 for consideration of £165,000,000.

28. Retained earnings

	2016 £000	2015 £000
At 1 January	984	(20,437)
Net profit for the year	37,343	21,421
At 31 December	38,327	984

29. Available for sale reserve

	2016 £000	2015 £000
At 1 January	(1)	-
Fair value gain/(loss)	1	(1)
At 31 December	-	(1)

This is the fair value movement on revaluation of treasury bills (level 1 fair value measurements) that are available for sale.

30. Equity-settled employee benefits reserve

	2016 £000	2015 £000
At 1 January	-	-
Arising on share based payments	94	-
At 31 December	94	-

The equity-settled employee benefits reserve relates to incentive growth shares granted by the Group to certain employees under a share based incentive plan.

30. Equity-settled employee benefits reserve (continued)

Details of share based incentive plan

The Group has a share based incentive plan which commenced during 2016 for certain employees where growth shares have been subscribed to and have the opportunity to grow in value during their vesting period.

The following share-based incentive plan in existence during the current year was:

	Number	Grant date	Expiry date	Exercise price	Fair value per share at grant date
F shares	100,000	18/11/2016	30/09/2017	£0.10	£5.65
G shares	100,000	18/11/2016	30/09/2017	£0.05	£2.82

Fair value of share incentives granted during 2016

Equity share-based payments were measured in accordance with IFRS 2 at their market-based measure at the grant date. The average fair value of the share incentives granted during 2016 was £847,000. 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 1 year.

Inputs into the model

Acquisition date share price - F shares	£0.10
Acquisition 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 the year

	2016 Number of shares	Weighted average exercise price
At 1 January	-	
Granted during the year - F shares	100,000	£0.10
Granted during the year - G shares	100,000	£0.05
Exercised during the year - F shares	(100,000)	£0.10
Exercised during the year - G shares	(100,000)	£0.05
Balance at 31 December	-	

Charter Court Financial Services Group Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

31. Minority interest

	£
At 31 December 2015 and at 31 December 2016	1

32. Net cash flow from operating activities

	Note	2016 £000	2015 £000
Profit before tax		48,900	27,170
Non-cash profit and loss items			
Impairment provisions		(57)	474
Finance costs		-	476
Depreciation of property, fixtures and equipment	14	456	383
Amortisation of intangible assets	13	240	238
Loss on disposal of property, fixtures and equipment		37	-
Write off of intangible assets		-	21
EIR adjustment		8,588	2,177
Movement in fair value hedge		(2,680)	2
Recognition of equity-settled employee benefits payments		94	-
Movement in AFS reserve	29	1	(1)
Operating cash flows before movements in working capital		55,579	30,940
Movement in derivatives		35	(1,236)
Change in assets held at fair value		48	(94)
Decrease/(increase) in receivables		70	(703)
Increase in residential mortgages		(1,871,059)	(1,088,910)
Increase in payables		151	3,715
Increase in retail deposits		1,873,387	1,562,509
Deposits (to)/from banks		(20,094)	60,094
Cash generated by operations		38,117	566,315
Tax paid		(7,335)	(1,357)
Net cash generated by operating activities		30,782	564,958

Cash and cash equivalents (which are presented as a single class of assets on the face of the Consolidated Statement of Financial Position) comprise cash at bank and securitisation cash (note 18).

Charter Court Financial Services Group Limited

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

33. Net cash flow from investing activities

	Note	2016 £000	2015 £000
Purchases of property improvements and equipment	14	(493)	(296)
Expenditure on product system development	13	(453)	(191)
Investment in debt securities		(5,243)	(114,238)
Net cash utilised by investing activities		(6,189)	(114,725)

34. Net cash flow from financing activities

	Note	2016 £000	2015 £000
Repurchase of preference shares		-	(1,500)
Proceeds on issue of non-convertible loan notes		-	53,118
Repayment of non-convertible loan notes		-	(119,642)
Proceeds on issue of asset backed loan notes	20	500	897,200
Repayment of asset backed loan notes	20	(378,915)	(946,555)
Proceeds on issue of shares	27	30,114	165,000
Net cash (utilised)/generated by financing activities		(348,301)	47,621

35. Operating lease arrangements

The Group as lessee	2016 £000	2015 £000
Minimum lease payments under operating leases recognised as an expense in the year	637	312

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:	2016 £000	2015 £000
Within one year	497	677
In the second to fifth years inclusive	49	96
	546	773

Operating lease payments represent rent expense payable by the Group for the use of office premises of Charter Court, Midlands Technology Centre and London Executive and rental of a company car. The premises leases are negotiated for between one and three 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.

36. 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.

The total cost of £1,048,000 (2015: £813,000) charged to income represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2016, contributions of £nil (2015: £nil) were due in respect of the current reporting year and had not been paid over to the schemes. There were 2 Directors (2015: 2) participating in Group pension plans during the year.

37. Financial instruments

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 resources, for regulatory purposes, of the Group consists of debt, as disclosed in the Group's consolidated financial statements and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Group's consolidated financial statements.

CCFS conducts an annual ICAAP, which is approved by the Board with the current version as at October 2016.

The ICAAP is used to assess CCFS' 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.

Capital Requirement Directive 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 £50bn of retail deposits, whilst not publically disclosed the Group reports its leverage ratio through its COREP returns to the Prudential Regulation Authority (PRA).

CCFS 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 CCFS is required to hold relative to its risk weighted assets as well as a PRA designated capital buffer.

CCFS regulatory capital is reviewed on a monthly basis by the Board of Directors and the Assets and Liability Committee on both a current and forward looking basis.

The future regulatory capital requirements are also considered as part of CCFS' forecasting and strategic planning process.

Gearing ratio

The Group's risk management committee reviews the capital structure on an annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end is as follows:

	2016 £000	2015 £000
Debt	426,074	804,489
Cash and cash equivalents	(213,998)	(537,706)
Net Debt	212,076	266,783
Equity	233,542	165,990
Net debt to equity ratio	0.91:1	1.61:1

Debt is defined as long-term borrowings, as detailed in note 20.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

37. Financial instruments (continued)

Gearing ratio (continued)

Equity includes all capital and reserves of the Group attributable to equity holders of the Company.

Categories of financial instruments

	Carrying value	
	2016	**2015**
	£000	**£000**
Financial assets held at amortised cost		
Loans and receivables	3,812,362	1,947,154
Held to maturity debt securities	119,481	112,241
Trade and other receivables	2,524	2,594
Cash and cash equivalents	213,998	537,706
Financial liabilities held at amortised cost		
Trade and other payables	(13,532)	(9,164)
Debt securities in issue	(426,074)	(804,489)
Deposits from banks	(40,000)	(60,094)
Deposits from customers	(3,435,896)	(1,562,509)
Financial instruments held at fair value		
Other financial assets - designated as FVTPL	220	268
Available for sale debt securities	-	1,997
Derivative financial instruments - assets	7,081	1,133
Derivative financial instruments - liabilities	(8,326)	(2,343)

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements are approximately equal to their fair values.

37. Financial instruments (continued)

The Group's maturity analysis of its liabilities as at the year end are summarised as follows:

At 31 December 2016	Not more than 3 months £000	More than 3 months but not more than one year £000	More than one year but not more than 5 years £000	More than 5 years £000	Total £000
Liabilities					
Trade and other payables	8,169	5,363	-	-	13,532
Deposits from banks	20,000	-	20,000	-	40,000
Deposits from customers	392,655	2,240,413	802,828	-	3,435,896
Derivative financial instruments	8,326	-	-	-	8,326
Debt securities in issue	374	-	500	425,200	426,074

At 31 December 2015	Not more than 3 months £000	More than 3 months but not more than one year £000	More than one year but not more than 5 years £000	More than 5 years £000	Total £000
Liabilities					
Trade and other payables	8,018	1,146	-	-	9,164
Deposits from banks	-	60,094	-	-	60,094
Deposits from customers	48,384	1,124,448	389,677	-	1,562,509
Derivative financial instruments	2,343	-	-	-	2,343
Debt securities in issue	728	-	100,000	703,761	804,489

38. 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 Strategic Report on pages 1 to 9.

39. Related party transactions

The controlling parties, as stated below, are Elliott International L.P., a partnership organised in the Cayman Islands, and Elliott Associates L.P., a partnership organised in Delaware in the United States. Transactions with other entities controlled by Elliott International L.P. and Elliott Associates L.P. are shown below. Manchester Securities Corp operates as a brokerage firm. Bridestone Financing Plc is a related party owing to shared control by Elliott International L.P. and Elliott Associates L.P.

	Mortgage administration fees £000	Legal title income £000	Loan notes subscribed £000	Interest and similar charges £000	Balance due from the Company £000
Year ended 31 December 2016					
Manchester Securities Corp.	-	-	500	8	500
Bridestone Financing Plc	129	51	-	-	-
Year ended 31 December 2015					
Manchester Securities Corp.	-	-	596,000	5,082	33
Bridestone Financing Plc	130	55	-	-	-

As at 31 December 2016, the Group's joint controlling parties 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.

The loans from the related parties are unsecured borrowings through the issue of non-convertible loan notes (loan stock) listed on the Channel Islands Stock Exchange. The loans are stated at amortised cost, equivalent to their fair value. Further details of these borrowings are stated in note 20.

39. Related party transactions (continued)

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 2016 £000	Total key management personnel 2016 £000	Highest paid Director 2015 £000	Total key management personnel 2015 £000
Short-term employee benefits	1,108	2,789	784	1,753
Other long-term benefits	7	47	30	35
	1,115	2,836	814	1,788

During the year ended 31 December 2016 fees of £363,000 (2015: £273,000) were paid to Non-Executive Directors for services provided to the Group.

40. Ultimate controlling party of the Group

As at 31 December 2016, the Group's joint controlling parties 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.

Charter Court Financial Services Group Limited is the ultimate parent entity of the Group.

41. Post balance sheet event

The controlling entities of Bridestone Financing Plc, Elliott International L.P and Elliott Associates L.P (see note 39), have agreed to sell its mortgage portfolio to CCFS. The transaction was approved on 21 December 2016 and was legally closed on 12 January 2017 at a price of £26,108,000. The Group will recognise the mortgage assets in its Consolidated Statement of Financial Position from this date.

42. 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 CDR 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 2016:

Name	Charter Court Financial Services Group Limited
Type of entity	Credit institution
Nature of activities	Mortgage lending and deposit taking
Geographical location	United Kingdom
Number of employees	370
Turnover*	£150,016,000
Pre-tax profit	£48,900,000
Corporation tax paid	£7,335,000
Public subsidies received	£nil

*Turnover is derived from the Consolidated Statement of Comprehensive Income as interest income and similar income plus non-interest income.

43. 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 2016 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.

Charter Court Financial Services Group Limited

Company Statement of Financial Position
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Investment in subsidiaries	45	171,310	136,851
Deferred tax asset	46	2	8
		171,312	136,859
Current assets			
Trade and other receivables	47	158	-
Cash and cash equivalents		114	1
		272	1
Total assets		171,584	136,860
Current liabilities			
Trade and other payables	48	(157)	(1)
Net current assets		115	-
Total liabilities		(157)	(1)
Net assets		171,427	136,859
Equity			
Share capital	49	1	1
Share premium	50	195,120	165,006
Retained earnings	51	(23,788)	(28,148)
Equity settled employee benefits reserve	52	94	-
Total equity		171,427	136,859

Company number: 06712054

The result for the financial year of Charter Court Financial Services Group Limited as a Company was a profit of £4,360,000 (2015: loss of £645,000). 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 70 to 75 form an integral part of the company financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 6 March 2017. They were signed on its behalf by:

Ian Martin Lonergan
Chief Executive Officer

Jean-Sebastien Maloney
Chief Financial Officer

Charter Court Financial Services Group Limited

Company Statement of Changes in Equity
For the year ended 31 December 2016

	Share capital £000	Share premium £000	Retained earnings £000	Equity-settled employee benefits reserve £000	Total £000
At 1 January 2015	1	6	(27,503)	-	(27,496)
Share issue	-	165,000	-	-	165,000
Loss and total comprehensive income for the year	-	-	(645)	-	(645)
At 1 January 2016	1	165,006	(28,148)	-	136,859
Share issue	-	30,114	-	-	30,114
Profit and total comprehensive income for the year	-	-	4,360	-	4,360
Recognition of share based payments	-	-	-	94	94
At 31 December 2016	1	195,120	(23,788)	94	171,427

The notes on pages 70 to 75 form an integral part of the company financial statements.

Charter Court Financial Services Group Limited

Company Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Net cash generated by operating activities	53	4,699	34,907
Investing activities			
Purchase of shares in subsidiaries		(34,700)	(133,740)
Net cash utilised by investing activities		(34,700)	(133,740)
Financing activities			
Proceeds from issue of shares		30,114	165,000
Proceeds from issue of non-convertible loan notes		-	53,118
Repayment of non-convertible loan notes		-	(119,215)
Repurchase of preference shares		-	(1,500)
Net cash generated by financing activities		30,114	97,403
Net increase/(decrease) in cash and cash equivalents		113	(1,430)
Cash and cash equivalents at beginning of year		1	1,431
Cash and cash equivalents at end of year		114	1

The notes on pages 70 to 75 form an integral part of the company financial statements.

Charter Court Financial Services Group Limited

Notes to the Company financial statements

For the year ended 31 December 2016

44. Significant accounting policies

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.

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 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

45. Investment in subsidiaries

	Total £000
Cost	
At 1 January 2016	180,135
Additions	34,794
At 31 December 2016	214,929
Impairment	
At 1 January 2016	43,284
Charge for the year	335
At 31 December 2016	43,619
Carrying amount	
At 1 January 2016	136,851
At 31 December 2016	171,310

During the year the Company subscribed to 2 shares in Charter Court Financial Services Limited for £34,700,000. The Company invested £94,000 in Exact Mortgage Experts Limited in relation to the equity-settled employee benefit scheme.

Charter Court Financial Services Group Limited

Notes to the Company financial statements (continued)
For the year ended 31 December 2016

45. Investment in subsidiaries (continued)

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name	Principal Activity	Proportion of ownership interest %	Proportion of voting power held %
Charter Court Financial Services Limited[1]	FCA regulated Mortgage Administration	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]	Special Purpose Vehicle	0	0
Issuer Purchase Holdings Limited[2]	Special Purpose Vehicle Holding Company	0	0
Precise Mortgage Funding No 1 Plc[2]	Special Purpose Vehicle	0	0
Precise Mortgage Holdings No 1 Limited[2]	Special Purpose Vehicle Holding Company	0	0
Precise Mortgage Funding 2014-1 Plc[2]	Special Purpose Vehicle	0	0
Precise Mortgage Holdings 2014-1 Limited[2]	Special Purpose Vehicle Holding Company	0	0
Precise Mortgage Funding 2014-2 Plc[2]	Special Purpose Vehicle	0	0
Precise Mortgage Holdings 2014-2 Limited[2]	Special Purpose Vehicle Holding Company	0	0
Precise Mortgage Funding 2015-1 Plc[2]	Special Purpose Vehicle	0	0

Notes to the Company financial statements (continued)

For the year ended 31 December 2016

45. Investment in subsidiaries (continued)

Name	Principal Activity	Proportion of ownership interest %	Proportion of voting power held %
Precise Mortgage Holdings 2015-1 Limited[2]	Special Purpose Vehicle Holding Company	0	0
Precise Mortgage Funding 2015-3R Plc[2]	Special Purpose Vehicle	0	0
Precise Mortgage Holdings 2015-3R Limited[2]	Special Purpose Vehicle Holding Company	0	0
CCFS Warehouse No.1 Plc[2]	Special Purpose Vehicle	0	0
CCFS Warehouse No.1 Holdings Limited[2]	Special Purpose Vehicle Holding Company	0	0

[1]Registered offices 2 Charter Court, Broadlands, Wolverhampton, West Midlands, WV10 6TD

[2]Registered offices 35 Great St. Helen's, London, EC3A 6AP

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.

46. Deferred tax

	2016 £000	2015 £000
Deferred tax asset	2	8

At the Statement of Financial Position date, the Company has unused tax losses of £11,000 (2015: £47,000) available for offset against future trading profits, which would give rise to a deferred tax asset of £2,000 (2015: £8,000) following a tax rate of 17% enacted in advance of the year end (2015: 18%).

Notes to the Company financial statements (continued)
For the year ended 31 December 2016

46. Deferred tax (continued)

Movement on deferred taxation balance in the year

	2016 £000	2015 £000
Opening balance	8	-
(Charge)/credit to the Statement of Comprehensive Income	(6)	8
	2	8

Analysis of deferred tax balance

	2016 £000	2015 £000
Losses	2	8
	2	8

47. Financial assets

Trade and other receivables

At the Statement of Financial Position date, amounts receivable from fellow group entities included in the trade and other receivables balances were £158,000 (2015: £nil) due from CCFS, see note 55 for further details. The carrying amount of these assets approximates their fair value. There are no past due or impaired receivable balances.

48. Financial liabilities

Trade and other payables

	2016 £000	2015 £000
Trade and other payables	157	1

Loans from other group entities

At the Statement of Financial Position date, amounts payable to fellow group entities were £nil (2015: £1,000). The carrying amount of these assets approximates their fair value.

49. Share capital

Details of the Company's share capital are disclosed in note 26 to the consolidated financial statements.

50. Share premium

Details of the Company's share premium are disclosed in note 27 to the consolidated financial statements.

51. Retained earnings

	2016 £000	2015 £000
At 1 January	(28,148)	(27,503)
Net profit/(loss) for the year	4,360	(645)
At 31 December	(23,788)	(28,148)

52. Equity-settled employee benefits reserve

Details of the Company's equity-settled employee benefits scheme are disclosed in note 30 to the consolidated financial statements.

53. Notes to the Statement of Cash Flows

	2016 £000	2015 £000
Profit/(loss) before tax	4,366	(653)
Adjustments for:		
Finance costs	-	50
Recognition of equity-settled employee benefit payments	94	-
Write off investment in subsidiaries	335	549
Investment in subsidiary for share-based payment scheme	(94)	-
Operating cash flows before movements in working capital	4,701	(54)
Increase in receivables	(158)	-
Increase/(decrease) in payables	156	(8)
Decrease in loans to undertakings for working capital	-	34,969
Net cash generated by operating activities	4,699	34,907

54. Financial instruments

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 cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in notes 49 to 51.

The Group's Risk Management Committee reviews the capital structure on an annual basis, see note 37 of the consolidated financial statements.

Notes to the Company financial statements (continued)
For the year ended 31 December 2016

55. Related parties

As at 31 December 2016, Charter Court Financial Services Group Limited's joint controlling parties were Elliott International L.P. and Elliott Associates L.P. by virtue of their combined controlling interest in the Company'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	
	2016 £000	2015 £000	2016 £000	2015 £000
Charter Court Financial Services Limited	375	-	158	-

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 39 to the consolidated financial statements.

56. Immediate and ultimate controlling party

Details of the immediate and ultimate controlling party are shown in note 40 to the consolidated financial statements.