

Chief Executive Officer's review

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

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

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

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

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

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

Outperforming the market in balance sheet growth

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

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

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

Building on our award-winning savings business

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

Enhancing our customer experience

Our continued success is based on the trust our customers place in Charter Court. We continually invest across our lending and savings operations to make sure our products are attractive and high standards of customer service are maintained. To ensure we consistently improve our relationship with both borrowers and savers, in 2017, we set out to measure customer satisfaction using Net Promoter Scores ("NPS"). I am delighted to report that a majority of our customers were "promoters", as reflected in our combined NPS of 67 for the Group¹.

Delivering a solid financial performance

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

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

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

Investing in risk management

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

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

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

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

Outlook

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

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

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

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



Ian Lonergan
Chief Executive Officer

“ Our resilient performance during a period of regulatory change and political uncertainty is down to our strong business model, specialist focus and talented employees. ”

Ian Lonergan,
Chief Executive Officer



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