How we comply with the UK Corporate Governance Code (“the Code”)

The Board is committed to the highest standards of corporate governance and confirms that, in the period from the last annual report and accounts, to 31 December 2018, the Group has continued to comply with the requirements of the UK Corporate Governance Code (“the Code”). The Code was published in September 2014 and updated in 2016 and 2018 to reflect legislation on audit committees and auditor appointments, and is available in full at www.frc.org.uk. The following report provides a greater understanding of how the Group has applied the principles and complied with the provisions of the Code. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook.

Contents

58  How we comply with the UK Corporate Governance Code (“the Code”)
59  Board of Directors
61  Chairman’s introduction
63  Corporate Governance report
71  Nomination Committee report
74  Audit Committee report
79  Risk Committee report
81  Directors’ remuneration report
104 Directors report / other statutory information
107 Directors’ responsibilities statement
Board of Directors

Chairman
Sir Malcolm Williamson
Appointed to the Board: June 2017 (Chairman from August 2017)

Key skills and experience:
Sir Malcolm has gained significant leadership experience on the boards of a number of publicly listed companies, having served in a variety of roles, latterly as the Senior Independent Director at Aviva plc and as Chairman of弘金Life Enburo plc. These roles together with his executive experience as the former Group Chief Executive of Standard Chartered Bank and former President and CEO of Visa International ensure he is well placed to lead the Board effectively. Sir Malcolm's previous roles include Chairman of Signet Jewellers, Clydesdale Bank plc, CDC, a government business and the National Australia Group Europe (2012-2014) and a Non-Executive Director of National Australia Bank until 2012. He has been a Non-Executive Director of JP Morgan Cazenove Holdings, C4S and the National Grid Group and has served as a member of the Board of Trustees for the International Business Leaders Forum.

Board committee membership:
Non-Executive Committee Chair, Stakeholder Committee Member

Principal external appointments:
Chairman Youth Business International and CSI
Non-Executive Director, New Day Group UK Limited

Executive Directors
1. Ian Loneragan
   Chief Executive Officer
   Appointed to the Board: November 2016
   Key skills and experience:
   As CEO and co-founder of the business, Ian leads the senior team and is responsible for delivering the Group strategy, ensuring risk management is a core focus and setting the values and standards to which employees work. He has over 20 years of experience in financial services, focusing mainly on strategy, financial analysis and management functions. Ian qualified as a Chartered Accountant with Ernst & Young where he worked in the Financial Services Practice as both an auditor and a management consultant in Europe and the Asia Pacific region.
   Principal external appointments: None

2. Sebastien Maloney
   Chief Financial Officer
   Appointed to the Board: January 2017
   Key skills and experience:
   In his role as CFO, Sebastien has executive responsibility for all aspects of finance, including the production of management and statutory accounts, financial planning and analysis, corporate finance, treasury operations, capital markets activities, and asset liability management. He previously held senior roles at Merrill Lynch, GMAC-RFC and Morgan Stanley, working in a range of roles focusing on portfolio valuation analytics, financial planning and liability management through to mortgage securitisation structuring and sales.

Non-Executive Directors
1. Philip Jenks
   Deputy Chairman
   Appointed to the Board: October 2009 (Deputy Chairman as of August 2017)
   Key skills and experience:
   Philip has over 43 years of experience in retail banking services, including 37 years at Halifax Bank of Scotland (and previously Halifax plc and Halifax Building Society), one of the UK’s largest mortgage and savings businesses. He has worked closely with the Department for Communities and Local Government and been an adviser to the Housing Finance Select Committee. Since his appointment to the Charter Court Board, Philip has made a valuable contribution in building the governance infrastructure and regulatory relationships.
   Board committee membership:
   Risk Committee Member
   Principal external appointments:
   Non-Executive Director at Leeds Building Society

2. Peter Elcock
   Chief Risk Officer
   Appointed to the Board: November 2016
   Key skills and experience:
   Peter is responsible for the risk, legal and compliance teams. He has over 39 years of experience in financial services, having held a number of senior positions in financial institutions, including 27 years at Barclays plc in a variety of roles and most latterly at director level leading risk management strategy and change. He was previously the Chief Risk Officer at Coventry Building Society.
   Principal external appointments:
   Non-Executive Director of Ipswich Building Society

3. Noël Harwarth
   Senior Independent Director
   Appointed to the Board: June 2015 (Senior Independent Director from August 2017)
   Key skills and experience:
   Noel has extensive experience in both the public sector with government bodies and the private sector with global banking companies, which brings valuable insight to the Boardroom debate. Noël is a former executive director of Standard Life Aberdeen plc and RSA Insurance Group plc, prior to which he held a variety of senior roles with Citigroup for 15 years, latterly serving as the Chief Operating Officer of Citibank International. Noël’s prior non-executive roles include Citigroup Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe, Avant Mining, Allianz plc, Conoco, Logica, The London Metal Exchange and Standard Life Assurance Limited.
   Board committee membership:
   Audit Committee Chair, Remuneration Committee Member
   Principal external appointments:
   Non-Executive Director, Chairman of Remuneration Committee of Atlica Limited

4. Ian Ward
   Independent Non-Executive Director
   Appointed to the Board: January 2015
   Key skills and experience:
   Ian has over 40 years of experience in financial services including 16 years as Chief Executive Officer of Leeds Building Society. He was formerly a Director of Leeds, York and North Yorkshire Building Society and Chairman of its property forum and the Senior Independent Director of Harrogate & District NHS Foundation Trust. Ian has considerable experience in non-executive roles and his understanding of the regulated financial services market brings valuable regulatory insight to the Board.
   Board committee membership:
   Remuneration Committee Chair, Stakeholder Committee Member, Audit Committee Member, Risk Committee Member, Nomination Committee Member
   Principal external appointments:
   Non-Executive Director of Newcastle Building Society, Chairman of Newcastle Systems Management Limited, Chairman of Newcastle Financial Advisors Limited

5. Tim Brooke
   Independent Non-Executive Director
   Appointed to the Board: February 2015
   Key skills and experience:
   Tim has strong risk management and commercial experience gained within the financial services sector through executive roles with JPMorgan Chase & Co, Yorkshire Building Society and latterly as a former partner with PricewaterhouseCoopers LLP. Tim is the former Chairman of Capital Employee Benefits Limited and Non-Executive Director of Marsden Building Society. Together with Tim’s operational and internal audit experience gained in the early part of his career and his non-executive roles with Risk and Audit Committees, Tim is well placed to lead the Risk Committee. Tim holds non-executive roles with a number of other financial and non-financial institutions operating in the UK and abroad.
   Board committee membership:
   Risk Committee Chair, Audit Committee Member, Remuneration Committee Member, Stakeholder Committee Member
   Principal external appointments:
   Non-Executive Director of Butterfield Mortgages Limited, Senior Independent Director of Monzo Bank Limited, Chairman of TPF Schemes Limited, Chairman of PFI Risk Services Limited, Chairman of Thistle Insurance Services

6. Rajan Kapoor
   Independent Non-Executive Director
   Appointed to the Board: September 2016
   Key skills and experience:
   Rajan was Financial Controller of the Royal Bank of Scotland Group and held a number of senior finance positions in a 28-year career with RBS. He has wide-ranging experience of all aspects of banking including external reporting, financial planning and analysis, asset and liability management, taxation and stress testing. He also has extensive experience of financial and regulatory reporting in the UK and US with a strong background in internal financial controls, governance and compliance. Rajan is a Fellow of the Institute of Chartered Accountants and of the Chartered Institute of Bankers in Scotland.
   Board committee membership:
   Audit Committee Chair, Risk Committee Member, Remuneration Committee Member
   Principal external appointments:
   Non-Executive Director, Chairman of Audit Committee, Chairman of Remuneration Committee of Atlica Limited

Rajan is a Fellow of the Institute of Chartered Accountants and of the Chartered Institute of Bankers in Scotland.

Corporate governance
Financial statements
Appendices
Strategic report
Dear Shareholders,

I am delighted to welcome you to our 2018 corporate governance report. Throughout the year, the Group’s Board has provided critical oversight of executive management to ensure successful execution of Charter Court’s long-term strategy.

Governance

I consider corporate governance as a key element underpinning the sustainable, long-term growth of any business. At Charter Court, we are committed to achieving our business objectives in an honest, transparent and accountable way. As such, we regularly challenge our business practices to develop and improve accountability, leadership, transparency, probity, and the process by which the Group is directed and controlled. This allows us to maintain the trust placed in us by our customers, employees, regulators and the wider public.

In this report, we describe our corporate governance arrangements and outline how the Group has applied the principles of the Code in 2018.

The Board

During 2018 we took a number of actions to further strengthen our corporate governance framework, including changes to Board committee leadership to reinforce the independence of each committee and enhance their effectiveness, and the establishment of a Stakeholder Committee to facilitate greater stakeholder involvement in our governance.

Diversity

In line with our commitment to promoting diversity across all levels of our organisation, on 2 January 2018, we became a signatory to the HM Treasury’s Women in Finance Charter. As such, we have set out specific targets with respect to gender diversity and put in place arrangements needed to support their delivery. We are aware that representation of women on our Board currently falls short of the Hampton-Alexander guidelines and are working hard to address this.

Board effectiveness

To ensure that our Board, including all its members, continues to provide effective oversight of executive management, during 2018 we commissioned an external review of our performance against the FTSE Listed and Governance Code standards.

I am pleased to report that the results of the findings showed high levels of effectiveness across many of the areas reviewed. Given that Charter Court has only recently entered the listed market, this was viewed as commendable by our independent evaluator, Advanced Boardroom Excellence.

For further details regarding the Board review process and election and re-election of Directors are set out on page 67 of this report.

Stakeholder engagement

At Charter Court, we place a great deal of emphasis on active engagement with all our stakeholders and expect our newly-formed Stakeholder Committee to play a critical role in facilitating this process. The Stakeholder Committee has been formed to consider matters in relation to environment, social responsibility, reputation, diversity (other than Board diversity), culture, conduct, employee relations, ethics and investor relations with Ian Ward as Chairman together with Tim Brooke, Noël Harwerth and myself as members.

Looking ahead

In addition to addressing key themes emerging from our board effectiveness evaluation, during 2019 we look forward to embracing the new Corporate Governance Code published by the Financial Reporting Council on 16 July 2018.

In many respects, our key focus areas in 2018 with regard to engagement with stakeholders, succession planning and diversity are in line with the changes introduced by the new Code.

Through continued evolution of our corporate governance framework and practices, our key objective remains to discharge our duties effectively and to the highest of standards into 2019.

Sir Malcolm Williamson
Chairman
13 March 2019
Corporate governance report

Leadership

The role of the Board and its committees

The Board understands the importance of having the right balance of skills, experience and diversity. As such, the composition of the Board is regularly reviewed by the Nomination Committee.

The Board is chaired by a Non-Executive Chairman, Sir Malcolm Williamson and has a majority of Non-Executive Directors. Each Non-Executive Director will stand for election at the Annual General Meeting (“AGM”) in May 2019.

The skills and experience of the current Directors and the value they bring to the Board is described on pages 59 to 60.

The Board of Directors is responsible for promoting the highest standards of corporate governance across the Group. The Board ensures the long-term success of the Group, sets the values and culture of the organisation, agrees the strategic objectives and establishes a relationship with the shareholders.

The Board is collectively responsible for leading and controlling the Group and for the management and conduct of the Group’s business, strategy and development. The Board is also responsible for ensuring the Group has an appropriate system of internal controls and risk management (including financial, operational and compliance controls) and for reviewing the effectiveness of these controls. In addition, the Board approves changes to the capital, corporate and management structure of the Group. Ultimately, the Board is accountable to shareholders for creating and delivering sustainable value by ensuring that management not only delivers on short-term objectives but promotes the long-term growth of the Group.

The Senior Management team support the Chief Executive in implementing the strategic objectives set by the Board and do so within the internal control systems and risk appetites established by the Board.

The Board’s responsibilities are set out in a formal schedule of matters reserved for the Board and are reviewed annually in light of regulatory and corporate governance developments and other matters that may have an impact on the Group’s business performance.

The Board has delegated a number of its responsibilities to Board Committees, which are responsible for maintaining effective governance in the key areas of audit, remuneration, risk and stakeholders succession planning, including Board composition.

They utilise the expertise and experience of their members and independent advisors and make recommendations to the Board where required.

See pages 71 to 82 for further details on the committees.

The Group has a wholly owned operating subsidiary Charter Court Financial Services Limited which transacts the Group’s banking business. It is authorised by the PRA and regulated by the FCA and the PRA. The Board of the Bank mirrors that of the Group and comprises the same Directors; separate Board meetings are held immediately following meetings of the Group’s Board. The Bank also has Audit and Risk Committees, which is chaired by a non-executive director and includes two other non-executive directors.

There are a number of Risk committees at the executive level which also support the CEO in his decision-making process as the Risk Management Committee, Credit Management Committee, Operational Risk Committee and the Assets and Liabilities Committee. There is also an Executive Disclosure Committee, comprised of senior managers and the Executive Directors, which monitors price sensitive information.

Further information on the role and activities of each of the Board committees can be found in this report. Their individual terms of reference, which have been approved by the Board, are available at http://www.chartercourtfs.co.uk/InvestorRelations/BoardCommittees.
A description of Board activities in 2018
The Board, during 2018, had a schedule of matters. Key items in the matters reserved schedule are as follows:

- Approval of a Stakeholder Committee
- Approval of the Board Independence Policy
- Approval of the Group’s Disclosure Policy
- Approval of the Group’s Anti-Bribery Policy
- Approval of the Group’s Capital Structure
- Approval of the Dividend Policy
- Approval of the Terms of Reference of Board Committee
- Approval of Market Abuse Policy
- Approval of financial statements including interim and annual results and quarterly trading updates
- Approval of the Payment Practice Report
- Approval of Financial Risk Management Policy

Key topics discussed in 2018
During 2018 the Board reviewed the following:

- Charter Court Financial Services Group plc Annual Report and Accounts 2018
- Approval of a Stakeholder
- Operational and Financial
- Succession Planning
- Customer Surveys
- Culture Review and Employee Engagement Survey
- Risk Management and Internal Financial Controls
- Financial Performance and the 2019 Business Plan
- Interim and Annual Financial Results, and Quarterly Trading Updates
- Finances, and the Board understand and have visibility over the views and objectives of the major shareholders and other key stakeholders, ensure the values and culture in the organisation are reflected.
- Dividend Policy
- Gender Pay Gap Reporting
- GDPR Updates
- Changes to Share Capital
- Grant of Performance Share Plan Awards
- Changes to the Group’s capital structure
- Budget statements including interim and annual results and quarterly trading updates
- Approval of Market Abuse Policy
- Approval of the Group’s Disclosure Policy
- Approval of the Group’s Anti-Bribery Policy
- Approval of the Group’s Capital Structure
- Approval of the Dividend Policy
- Approval of the Terms of Reference of Board Committee
- Key topics discussed in 2018
- Approval of a Stakeholder Committee
- Operational and Financial
- Succession Planning
- Customer Surveys
- Culture Review and Employee Engagement Survey
- Risk Management and Internal Financial Controls
- Financial Performance and the 2019 Business Plan
- Interim and Annual Financial Results, and Quarterly Trading Updates
- Financial Performance and the 2019 Business Plan
- Risk Management and Internal Financial Controls
- Culture Review and Employee Engagement Survey
- Customer Surveys
- External Board Effectiveness Evaluation
- Succession Planning

Roles on the Board
A clear division of responsibilities between Executive and Non-Executive Directors has been established, in line with the principles of the Code.

The Group’s Chairman leads and manages the work of the Board. The Non-Executive Director’s role is to independently challenge and review while the Chief Executive Officer carries responsibility for the day-to-day management of the business.

The Chief Executive Officer is supported in this role by the Chief Financial Officer, the heads of each of the divisions and by the Chief Risk Officer.

The roles are defined as follows:

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Sir Malcolm Williamson</td>
<td>Leads the Board and ensures its effectiveness, measures performance against strategy, responsible for the performance of the CEO, facilitates the effective contribution of the Non-Executive Directors, including identification of training needs, ensures the Board understand and have visibility over the views and objectives of the major shareholders and other key stakeholders, ensure the values and culture in the organisation are reflected.</td>
</tr>
<tr>
<td>CEO</td>
<td>Ian Lonergan</td>
<td>Responsible for developing the strategic direction of the Group for approval by the Board, accountable for the implementation and delivery of the strategy, and the day-to-day performance of the Group, leads the executive team to deliver the strategic vision, close working relationship with the Chairman.</td>
</tr>
<tr>
<td>CFO</td>
<td>Sebastien Maloney</td>
<td>Responsible for delivering the Group’s financial performance and assisting the CEO in delivering the strategic vision.</td>
</tr>
<tr>
<td>CRO</td>
<td>Peter Elcock</td>
<td>Responsible for managing, controlling and reporting risks, compliance and ensuring operation within risk appetite.</td>
</tr>
<tr>
<td>Senior Independent Director</td>
<td>Noël Harwerth</td>
<td>Act as a sounding board for other Non-Executive Directors and the Chairman, meets with other Non-Executive Directors without the Chairman or executives present to collate feedback from the Non-Executive Directors on the Chairman’s performance. Available to discuss with shareholders any concerns they may have that cannot be resolved through the normal channels with the Chairman.</td>
</tr>
<tr>
<td>Independent Non-Executives</td>
<td>Ian Ward</td>
<td>Responsible for providing independent and constructive challenge, sound judgement and objectivity to the Board’s decision making, monitor the delivery of the strategy and financial performance within the parameters of the risk management framework.</td>
</tr>
</tbody>
</table>

Board meetings attendance
The attendance of Directors at Board and committee meetings, of which they were members during the financial year ended 31 December 2018 is shown in the table below. Directors are expected to attend, and to be well prepared for, all Board and Board committee meetings, and to make time to understand the business, meet with executives and regulators, and complete ongoing training.

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
<th>Audit Committee</th>
<th>Remuneration Committee</th>
<th>Nomination Committee</th>
<th>Stakeholder Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Malcolm Williamson</td>
<td>8/8</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>2/2</td>
</tr>
<tr>
<td>Noël Harwerth</td>
<td>8/8</td>
<td>n/a</td>
<td>5/5</td>
<td>5/5</td>
<td>2/2</td>
</tr>
<tr>
<td>Philip Jenks</td>
<td>8/8</td>
<td>n/a</td>
<td>5/5</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Ian Ward</td>
<td>8/8</td>
<td>7/7</td>
<td>5/5</td>
<td>5/5</td>
<td>2/2</td>
</tr>
<tr>
<td>Tim Brooke</td>
<td>7/8</td>
<td>7/7</td>
<td>5/5</td>
<td>5/5</td>
<td>n/a</td>
</tr>
<tr>
<td>Rajan Kapoor</td>
<td>7/8</td>
<td>7/7</td>
<td>5/5</td>
<td>4/5</td>
<td>n/a</td>
</tr>
<tr>
<td>Ian Lonergan</td>
<td>8/8</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Sebastien Maloney</td>
<td>8/8</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Peter Elcock</td>
<td>8/8</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

1 Sir Malcolm Williamson was appointed as Chairman of the Nomination Committee with effect from 1 December 2018.
2 Ian Ward stepped down as Chair of the Nomination Committee on 5 March 2019. He was appointed as Chairman of the Stakeholder Committee with effect from 1 December 2018.
3 The Stakeholder Committee was created on 1 December 2018.

References:
- Director Attendance and Board Committee Participation 2018
- Corporate Governance Report 2018
- Strategic Report 2018
Information provided to the Board

In order to effectively monitor the performance of the Group against its strategy and agreed risk appetite, as well as to support the achievement of strategic objectives by providing advice, the Board requires accurate and timely information. The Chairman is assisted in ensuring the Board receives such information by the Company Secretary. The Board has a schedule of matters reserved (see page 65) and annual agendas for the Board and each of the committees. The agendas for each meeting are discussed with the Executive Directors and the Chairman, a similar process takes place for Board committee meetings where the committee chair discusses the agenda with the Company Secretary and relevant function heads. In addition, the Board has access to an online resource centre which provides updates on analyst reports, corporate governance matters and other miscellaneous reports which help the Board in carrying out their duties as Directors.

The Group’s financial performance is reviewed at every Board meeting and, members of the senior management team make regular presentations to the Board. The CEO presents progress against the agreed strategic objectives throughout the year. A regular risk report from the CRO is also discussed at the Board which includes regulatory and conduct matters. The Board also receives regular updates from external advisors including auditors, corporate lawyers and the Company’s brokers. The Group held a strategy day on 19 September 2018 in which the Directors and Executive managers discussed key strategic themes.

On the rare occasion when a Director is unable to participate in a meeting, they are encouraged to provide comments to the Chairman on key items of business in advance of the relevant meeting, so that their views can be shared at the meeting and their opinions taken into account during discussions.

The Non-Executive Directors meet without management present to discuss performance and other matters on a regular basis.

Board activities 2018

The Board held eight scheduled meetings in 2018. In 2018, the Board has focused on compliance with new regulations and codes, GDPR, the year end and interim financial statements, the governance structure, composition of the Board for the future, including a review of succession planning, training, commissioning an external board evaluation and the appointment of a new Company Secretary. Further focus was on risk reports and updating the Committees Terms of Reference.

Appointment of Directors

The Nomination Committee is responsible for making recommendations to the Board regarding the appointment of new Directors. Such recommendations are provided taking into account the structure and composition of the Board having regard to the balance of skills, diversity, knowledge and experience.

In addition, the Nomination Committee carried out an assessment of the skills and diversity the Board requires going forward.

Election and re-election of Directors

Non-Executive Directors are appointed for terms of three years which may be renewed, subject to satisfactory performance and approval by shareholders, for up to a maximum period of three terms (nine years). Each of the Directors stood for election at the first AGM of the Group in accordance with the Code and all Directors were elected. At subsequent AGMs all Directors will either stand for re-election again or election if they have been appointed since the last AGM.

The Nomination Committee assesses:

• their performance;
• time commitments;
• confirmation from the Chairman that, following formal performance evaluation, the individual’s performance continues to be effective and demonstrates commitment to the role; and
• independence of each of the Non-Executive Directors,

in order to recommend their re-election to the Board.

Further biographical details of the Directors can be found on pages 59 to 60.

The Group has a controlling shareholder as defined under the Listing Rules and as a result the independent Non-Executive Directors of the Group must be elected or re-elected by both a majority of the votes cast by all of the Group’s shareholders and a majority of the votes cast by the Group’s independent shareholders.

Independence of Directors

The Board consists of six Non-Executive Directors (including the Chairman who was independent on appointment) five of whom are considered to be independent.

The Nomination Committee assesses the independence of the Directors annually. In doing so it uses the criteria in the Code and also reviews any potential and actual conflicts. The Nomination Committee recommended that each of the Non-Executive Directors are independent, except as noted below. In reaching this determination the Board considered the following:

• Ian Ward is a director of Newcastle Building Society, the parent company of Newcastle Strategic Solutions Limited, which provides outsourced services to the Charter Savings Bank. Mr Ward does not participate in the discussion of and voting on matters related to the outsourcing arrangement in his role on either of the Charter Court and Newcastle Building Society boards.

• Philip Jenkins will have served on the Board for more than nine years in March 2019. The Board has determined that Mr Ward continues to be independent notwithstanding his connection with Newcastle Building Society and is of independent character and judgement and should be regarded as an independent Director for the purposes of the Code. Mr Jenkins was previously deemed as a non-independent Non-Executive Director and the situation remains unchanged.

Skills, knowledge and experience

The Nomination Committee reviewed the Board composition in March 2018 and whilst the Board is considered sufficiently diversified with an appropriate balance of skills and experience, it is an important part of the Committee’s role to ensure there is effective succession planning at both Board and executive levels. Early in the year the Board commissioned Korn Ferry, an external executive search and leadership consulting firm, to conduct an independent review to assist in compiling a matrix of key skills and attributes that the Board members should bring to the boardroom. The process was conducted by a way of interviews with each of the Board members and external benchmarking exercise. The Board has appointed Korn Ferry to recommend candidates for non-executive positions.

Independent professional advice

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

Conflicts of interest

The Board has procedures in place to deal with potential or actual conflicts of interest, which are governed by both company law and the Group’s Articles of Association.

Conflicts of interests and external appointments registers are maintained for all Directors. Directors are requested to keep the Company Secretary informed of external appointments and possible conflicts that could affect their ability to act in the best interests of the Group.

Under the Group’s Articles, the Board is permitted to authorise such conflicts and to impose any conditions on that authorisation that it considers to be necessary, for example to leave Board meetings when certain matters are discussed.

Ian Ward has disclosed his directorship of the Newcastle Building Society, the parent of Newcastle Strategic Solutions Limited (on the Board of which Mr Ward does not sit) which provides outsourced services relating to Charter Savings Bank. Mr Ward does not participate in the discussion of and voting on matters related to the outsourcing arrangement in his role on either of the Charter Court and Newcastle Building Society boards and his access to related Board papers is restricted.

Leadership
Effectiveness

Evaluations

The Board is committed to undertaking an annual review of its effectiveness and believes such a process adds value to the way the Board and its committees operate.

In 2018 an independent, external Board review was undertaken to provide a benchmark against the FTSE Listed Governance Code standards. This reflects the Group’s drive to create “excellence in all aspects of operations” and its focus on “delivering sustainable, profitable growth” by developing positive relationships with all stakeholders. The next external independent review will be in 2021.

The review was carried out by Advanced Boardroom Excellence Ltd (“ABE”), a specialist board effectiveness consultancy, and led by Helen Pitcher OBE, its Chairman, who undertakes no other business for the company. ABE was chosen to provide a clear focus on the best practice in board governance within the listed environment and a developmental approach on board effectiveness.

The Chairman and Company Secretariat provided a comprehensive briefing to ABE ahead of the review in March 2018. In addition, detailed one-to-one interviews were held with each Director against a tailored agenda. A number of external advisors were also interviewed for their view on the Board and Committee effectiveness. A final report and recommendations were presented to the Board in July 2018 and considered by the Directors. A Separate Documentation Report provided a detailed review of the Board and Committees documentation covering terms of reference, agendas and Board and Committee information. As part of the Board review the Chairman also received a report on each Director and the Senior Independent Director received a report on the Chairman.

The Charter Court Financial Services Board was seen to have shown strong levels of effectiveness across many of the areas of board effectiveness set out in the FRC Guidance on Board Effectiveness, part of the Governance Code. This was viewed as commensurate by Advanced Boardroom Excellence, given that the company has only recently entered the listed market.

A strong theme of the report was the development of the Board governance infrastructure following the successful IPO in October 2017. This development is primarily focused on the requirements of the listed market and the FRC’s revised ‘Code’ due for implementation in January 2019.

Many of the Group’s underlying business processes were viewed as good, and having undergone the rigour of the IPO process, the conclusion reached was that the Board was in a position where its development should focus on consolidating its oversight role, offering the executive team the level of support and challenge required of a listed company. The Group was considered ambitious, and its positive relationship with shareholders and investor markets was seen as a key ingredient in the success of its growth plans.

A development focus for the Board was seen to be to continue maximising all the individual strengths of the Board members to accelerate the overall development of the Board. Much of what was recommended in the report has been recognised by the Board, and in many cases is already in progress.

The Board has discussed the findings and recommendations and developed an action plan with assigned responsibilities to address the agreed developments for the Board. This will be regularly reviewed as part of the Board’s on-going agenda.

Four key areas for the Board’s development identified in the report are: the Board working with the Senior Independent Director, Board future strategic engagement, Company Secretariat function and the effectiveness of the Nomination Committee.

Training and development

Board members are provided with ongoing training and development opportunities. Development needs are discussed during annual performance reviews with the Chairman. The training schedule for the year is subsequently devised by the Company Secretariat together with the Chairman, taking into account the Directors’ preferences.

Throughout 2018, Board members were provided with training on a number of topics including: General Data Protection, Regulation, Cyber Security, investor relations for Non-Executive Directors, the Senior Manager Regime and IFRS 9.

Induction

On joining the Board all new Directors receive a comprehensive induction programme that is tailored to their individual requirements. The induction schedule is facilitated by the Human Resources team and the Company Secretariat in consultation with the Chairman and the new Director.

The programme generally consists of one-to-one meetings with key members of the management and heads of functions, the Group’s external advisors, access to relevant Group polices and minutes of previous Board meetings.

The objective of the induction programme is to provide an overview of the business, strategy, finances, relationship with the regulator, Group’s history and culture and values and to ensure that the new Director gains sufficient knowledge of the business to allow them to carry out their role effectively.
Nomination Committee report

Dear Shareholders,

I am pleased to present the Nomination Committee (the “Committee”) report.

As announced on 8 March 2019, I succeeded Ian Ward as Chair of the Committee. Ian was very supportive during the handover process and I am grateful for, and look forward to, his continued support as a member of the Committee throughout 2019.

Responsibilities

The Committee’s key area of responsibility is to ensure the composition of the Board is appropriate for the effective oversight of the strategic direction of the Group. This includes reviewing the balance of skills and knowledge of the Directors and leading the director appointment process to ensure plans are in place for orderly succession to the Board and senior management.

The following report provides an overview of the work carried out by the Committee during 2018.

Committee evaluation

The Committee’s performance was internally evaluated by the members of the Committee by way of a self-assessment questionnaire, which considered the effectiveness of the Committee and the individual members’ contribution to the Committee and its communications to the Board. The results were considered by the Committee Chairman and shared with the Board.

This evaluation concluded that the Committee operates effectively and each member is contributing effectively and demonstrates commitment to their role.

Action plan for 2019

In the year ahead the Committee will focus on the Board and Board Committee composition and long-term succession plans, and conflicts of interest, and will continue to monitor developments in corporate governance practices. The Committee intends to look at succession planning for the senior management team alongside succession planning for the Board.

Following the introduction of the 2018 UK Corporate Governance Code (the “Code”), which became effective from 1 January 2019, the role of the Nomination Committee has been widened and during 2019 the Committee will consider its approach to succession planning and how this and the process used in relation to Board appointments support the development of a diverse pipeline. It will also consider the diversity policy and its objectives to ensure it is linked to the Company’s strategy. It will also consider the gender balance of those in senior management and their direct reports to ensure there is a balanced and diverse pipeline within the Company.

I will report on these matters in next year’s annual report.

Malcolm Williamson
Chairman of the Nomination Committee
13 March 2019

Annual Report of the Nomination Committee

Principal activities during the year

Board composition

As disclosed in the Company’s Annual Report & Accounts for 2017, a third party independent report was commissioned at the start of 2018 to help the Committee to ensure that the composition of the Board collectively possesses a diverse range of skills, expertise, industry knowledge, business and other experience necessary for the effective oversight of the Group.

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I will report on these matters in next year’s annual report.
Nomination Committee report (continued)

Stakeholder Committee
The establishment of a Stakeholder Committee, consisting four Non-Executive Directors, was approved by the Board in December 2018. The role of the Stakeholder Committee is as follows:

• to inform the Board on general policy, objectives and programmes in relation to key areas within the Stakeholder Committee’s remit;
• to ensure the adoption and effective application of relevant policies and monitor compliance;
• to ensure fair outcomes for all stakeholders consistent with being a trusted and responsible business;
• to assist the Board in its role in monitoring compliance with the Group’s code of conduct and whistle-blowing policy;
• to ensure that all stakeholders are informed of issues raised and to ensure that all stakeholders are informed of their responsibilities.

Succession planning
During the year the Committee reviewed a formal succession plan for the Board. The plan covers short-term emergency cover in the event that a Director is incapacitated or unavoidably unavailable on a temporary basis.

Board diversity
The Board is aware of the benefits of diversity in the boardroom and believes that a wide range of experience, backgrounds, perspectives and skills generates effective decision-making. The Board currently does not comply with the 33% target of female representation on boards, as recommended by the Hampton-Alexander Review. The Board believes that diversity of its Board should collectively possess a diverse range of skills, expertise, industry knowledge, business and other experience necessary for the effective oversight of the Group. Accordingly, the Board has not set gender targets but recognises that there is a low representation of female directors on the Board (11%). This is not reflective of the Group as a whole, as female representation below Board level is 50% of senior management and 59% of the overall workforce.

The Board’s policy remains that director selection should be based on the best person for the role. The Committee has an important role in, and is committed to, ensuring that the Board’s structure, size and composition is suitable to deliver the Group’s strategy taking into account wider stakeholder views. The recruitment of an additional Non-Executive Director in 2019 to strengthen the existing capability and good dynamics of the Board (see above) presents an opportunity to take female representation at Board level to 20%.

The Committee envisages that further progress to improve the gender balance of the Board will be made within the next two years, and diversity will be a key factor considered during its focus on longer-term succession planning in 2019.

For details of diversity as it applies to the Group’s wider workforce, please see page 53.

Board evaluation
Following the external Board evaluation carried out at the start of 2018, the Board has agreed to undertake an internal evaluation during 2019. Further details of the review and the recommendations arising can be found in the Corporate Governance section of the Annual Report on page 69.

The effectiveness of individual directors is an important component of the Board evaluation.

Directors’ personal performance reviews
All Directors have an annual performance review. During the year the Committee considered the process of Chairman and Non-Executive Director performance reviews.

The process for the Executive Directors is the same as for other employees.

The Non-Executive Director performance assessment is formalised at the end of each year. While no specific objectives are set for Non-Executive Directors, they are assessed against quality of contributions, strategic and risk debates, effectiveness of decision making, whether they are committing enough time to carry out the role effectively including consideration of the number of additional board appointments the Non-Executive Directors hold.

Following the Non-Executive Directors’ performance review, the Senior Independent Director meets with Directors to review the Chairman’s performance. This review and any recommendations arising is then shared with the Chairman.

Audit Committee report
Dear Shareholders,

The Audit Committee (the “Committee”) is responsible for monitoring and reviewing the Group’s financial reports and disclosures, its accounting policies and practices and systems of internal controls, including internal financial controls. I am pleased to provide an overview of the issues considered and debated by the Committee in 2018 and our expected priorities in 2019.

Financial reporting
The most significant activity of the committee in 2018 was to oversee the Group’s transition from IAS 39 to IFRS 9 – Financial Instruments. This standard introduces a forward-looking expected credit loss model which is designed to recognise impairment losses earlier. We debated and challenged the critical judgements and estimates made by management and provided input on material disclosures relating to IFRS 9. The Committee is responsible for ensuring the integrity of the Group’s published financial information, the Committee invested a considerable time debating and challenging judgements made by management. The Committee also reviewed reports from the external and internal auditors and provided robust challenge and detailed feedback on the financial results.

System of internal controls
In conjunction with the Risk Committee, we continued to oversee the Group’s control environment with particular focus on monitoring the system of internal controls relating to financial reporting, accounting and financial management. The Committee reviewed reports from external and internal auditors on control matters throughout the year.

As the Group’s external auditor, Deloitte attended each meeting of the Committee, providing semi-annual audit reports and updates on other topics as appropriate. During the second half of the year, the Committee engaged with Deloitte on the selection of a new audit partner responsible for the Group’s audits, in line with the requirement to rotate the audit firm every five years. My Committee colleagues and I are satisfied that our new external audit partner from 2019, Matt Perkins, has the right combination of sectoral experience, technical knowledge and quality track record to provide fresh challenge and insight on the Group’s control framework and accounting matters. I would like to take this opportunity to thank Kieran Cooper, the outgoing audit partner, for his contribution to the Group, especially as we transitioned to a listed environment and in our preparation and implementation of IFRS 9.

Committee performance
The Committee’s performance during 2018 was assessed as part of an overall board effectiveness review. The conclusion of this review was that the Committee, thanks to its appropriate balance of skills and experience, strong support for executive management and the high level of commitment from all its members, is very effective and the Board takes a high level of assurance from the technical competence and diligence. A number of minor recommendations put forward by the review have been implemented.

Committee members
The Audit Committee (the “Committee”) is composed of independent Non-Executive Directors:

• Rajan Kapoor (Chair and financial expert)
• Tim Brooke
• Ian Ward

Regular attendees include the CEO, CFO and representatives from both HPMG (outsourced internal auditor) and Deloitte LLP (external auditor) (“Deloitte”). Rajan Kapoor is a financial expert and meets the Code requirements for having recent and relevant financial experience, being a qualified chartered accountant with a strong financial services background. Each of the Committee members also have significant sectoral experience.

The Committee meets at least four times a year in line with the Group financial reporting calendar and meets both the external and outsourced internal audit function privately without the management present at each meeting.

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All members of the Committee are also members of the Risk Committee, and the Remuneration Committee. This cross-committee membership facilitates effective group input across all governance, risk and compensation issues. It also helps ensure that agendas are aligned and that overlaps and gaps in responsibilities are avoided.

Role of the committee
The Committee’s remit broadly covers the following areas:

• Reviews the accounting policies and the external financial reports including the annual and interim accounts.
• Monitors the internal control environment including internal financial controls.
• Considers the adequacy, effectiveness and the scope of internal and external audit and monitors their independence and objectivity.
• Reviews and monitors the Group’s whistleblowing policy.
Audit Committee report

Key priorities for 2019
Looking ahead to 2019, as we head into uncertain times, the Committee will place strong focus on monitoring the impact of the changing political and macroeconomic environment on the Group’s strategy and performance.

Furthermore, we will continue to focus on ensuring the integrity of the financial statements of the Group.

I would like to thank all the Committee members and attendees for their support and commitment during 2018.

Responsibility of the Audit Committee
The Committee responsibilities are set out in more detail in its terms of reference which are reviewed annually by the Committee and approved by the Board. This can be found on the Group’s website.

Allocation of Audit Committee time in 2018
- Pillar 3 Disclosure policy
- Recovery plan
- Internal audit
- External audit
- Regulatory and compliance
- Financial Statements

Performance evaluation
An evaluation of the Committee was undertaken in 2018 as part of the independent evaluation of the Board. The evaluation, conducted by ABE, concluded that the Committee is functioning exceptionally well, with a new Chairman, who has significant experience of the listed environment. The Chairman is also viewed as interacting well with external advisors. The Committee has established itself as a well-formed entity and is organised and focused for the listed environment.

Matters considered by the Committee in 2018
Accounting and financial reporting
The Committee’s main responsibility in relation to the Group’s financial reporting is to consider with both management and the external auditor the Group’s annual and interim financial statements. The principal focus is on:
- Assessing whether the Annual Report is fair, balanced and understandable.
- Material areas which require significant assumptions or estimates as well as significant issues discussed with or challenged by the external auditor.
- The appropriateness and acceptability of principal accounting policies and processes.
- The business model assessment of IFRS 9 and agreed with management’s assumption that the business model is held to collect.

The Committee discussed reports from management in relation to the identification of critical accounting judgements and key sources of estimating uncertainty, significant accounting policies and the disclosures in notes 5 and 6 to Consolidated financial statements. Following the discussion with management and the external auditor the Committee approved these.

Report of the Audit Committee

Financial statements

Charter Court Financial Services Group plc Annual Report and Accounts 2018

Audit Committee report (continued)

Significant judgement and estimates
The significant judgements and estimates are outlined below. These are broadly comparable in nature to prior years. Each of these was discussed with the external auditor and where appropriate have been addressed in the Auditor’s report.

The Group is required to ensure that its external reporting is fair, balanced and understandable. The Committee undertakes an assessment on behalf of the Board in order to provide assurance to the Board that it can make the statement required by the UK Corporate Governance Code 2016.

The Committee evaluated the assurances and information provided by management and concluded that the process for the preparation of the 2018 financial statements and Annual Report were appropriate in ensuring that these statements were fair, balanced and understandable and the Committee recommend to the Board that the statement required by the Code could be made.

Measuring impairment in financial instruments is a key accounting judgement. The Group’s impairment provision is dependent on management’s forward looking judgements on areas such as interest rates, employment rates, and house prices. The Group implemented IFRS 9 from 1 January 2018 by developing models to calculate expected credit losses in a range of economic scenarios. The key areas of judgement include setting modelling assumptions, weighting of economic scenarios, the criteria of determining significant deterioration in credit quality and the application of adjustments to model outputs.

The Committee considered the key IFRS 9 assumptions relating to staging criteria and the weighting of the economic scenarios.

The Committee reviewed model adjustments and economic scenario updates made by management to ensure that the impairment allowances were set at adequate and appropriate levels. In particular, the Committee reviewed and approved the basis of adjustment of £3.5 million overlay made to reflect the current economic uncertainty in the UK. IFRS 9 also requires new and additional disclosures. The Committee reviewed these and also discussed these with the external auditor and considers that these give a good explanation of the impact.

The Committee was satisfied that the overall provision for loan impairments and underlying assumptions and methodologies were reasonable and applied consistently.

Application of the ‘business model’ requirements under IFRS 9 requires the Group to conclude on the business models that it operates and is a fundamental aspect in determining the classification of the Group’s financial assets. The Audit Committee considered the business model assessment of IFRS 9 and agreed with management’s assumption that the business model of the Group is ‘held to collect’.

Accounting for securitisation transactions is complex. Judgement is required in determining whether the Group controls the special purpose vehicle following securitisation and therefore whether the mortgage assets transferred should be derecognised from the Group. Of the three securitisations undertaken by the Group in 2018, the Group derecognised assets in one but not the others. The Committee considered the facts and agreed with the assessment that the Group controlled two SPVs but the risks and rewards in the other were outside the Group.

Accounting for effective interest rate requires a number of significant judgements. They are sensitive to certain assumptions, in particular the behavioural lives of assets. The Committee considered and challenged the reasonableness of these assumptions and satisfied itself that they had been applied consistently.

Long term viability
The Directors are required to make a statement in the Annual Report as to the long term viability of the Group. The Committee provides advice to the Board on the form and content of the statement, including the appropriate time frame and underlying assumptions.

The Committee considered the forecast of capital, liquidity and leverage, including the forecast of earnings, outcome of the stress test on capital and liquidity forecast as well as key risks and emerging risks. The Committee agreed that three years continued to be the appropriate time frame for the viability statement. Taking into account the assessment by the Risk Committee of stress testing results and the risk appetite, the Committee agreed to recommend the viability statement to the Board.

Systems of internal control and risk management
The Committee is responsible for the oversight of the Group’s system of internal controls, including the risk management framework and the work of the internal audit function. Details of the risk management framework are discussed within the risk management section on pages 27 to 30. The Group’s principal risks and uncertainties, which provide a framework to the Committee’s focus, are discussed on pages 32 to 43. The Group has a number of processes to support the internal control environment, for example risk management team, internal audit and financial reporting cycle. Oversight of these controls is via reporting to the relevant Board committees.

Management has identified the key operational and financial processes which exist within the business and have developed an internal control framework. This is structured around a number of Group policies and procedures and includes a delegated authority framework.

Rajan Kapoor
Chairman of Audit Committee
13 March 2019
Audit Committee report (continued)

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

During the year the Committee reviewed the risk management and internal control systems, the Board has not identified nor considered any such weaknesses.

Internal control over financial reporting

The Group has specific internal mechanisms that support the financial reporting process including preparation of the Annual Report. The Group has in place a detailed annual budgeting and forecasting process. The budget is prepared annually for Board approval and is regularly reviewed and updated during the year. Performance is monitored against the budget through monthly reporting cycles. Regular reports are received on financial performance including income statements, balance sheets and cash flow.

The Audit Committee and the Risk Committee, reported to the Board on the Group's internal control system and risk framework were appropriate and operated effectively during the year. There have been no significant failures of weaknesses identified for the 2018 financial year.

External auditor

Deloitte were appointed auditors in 2009 and undertook the first audit for the year ended 31 December 2009. Charter Court Financial Services Group plc became a Public Company in 2015 on obtaining its banking licence. It therefore has to comply with EU Audit Directive 2014/56/EU and Audit Regulation (EU) 537/2014 and will be required to put the external audit contract out to tender by 2025, subject to any further regulatory change. In addition, Deloitte will be required to rotate the lead audit partner responsible for the Group audit every five years. Consequently, the current lead audit partner, Kieran Cooper, who was appointed in 2014, will step down following the General Meeting in May 2019. The Committee satisfied itself on the suitability of his replacement and appointed Matt Perkins as lead audit partner from 2019. The process complies with the provisions of the Competition and Markets Authority ("CMA") order for the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Committee undertook an annual review following the audit and concluded that the auditor remained independent and objective. The external auditor attends each meeting of the Committee and reports on audit work and conclusions including the appropriateness of the judgements made by management and their compliance with International Financial Reporting Standards. The Committee has responsibility for the oversight of the external audit plan. This includes monitoring the independence and objectivity of Deloitte, the quality of the audit services and their effectiveness, the level of fees paid, approval of non-audit services provided by Deloitte and re-appointment. The Committee considered a number of factors including the challenge provided by the Group’s effectiveness of the external audit, the quality and scope of planning the audit and the audit process itself taking into consideration the views and experience of the Group finance function, senior management and the Directors.

The Committee concluded that Deloitte remain independent and objective, continue to operate at a high standard and will be recommending to the Board that the auditors be re-appointed at this year’s AGM for the financial year ending 31 December 2019.

Non-audit services

In order to safeguard the auditor's independence and objectivity, the Group has in place a policy setting out the circumstances in which the auditor may be engaged to provide services other than those covered by the Group audit. The Policy complies with the FRC's Ethical Standard for Auditors, published in August 2018, which implemented the EU's revised Statutory Audit Directive. The Policy sets out those types of services that are strictly prohibited and those that are allowable in principle (permissible services). Any service types that do not fall within either list is considered by the Committee Chairman on a case by case basis, supported by a risk assessment provided by management.

The Committee considered and approved the appointment of Deloitte to provide non-audit services. The Committee monitors and approves the audit and concluded that the auditor remained independent and objective, continue to operate at a high standard and will be recommending to the Board that the auditors be re-appointed at this year’s AGM for the financial year ending 31 December 2019.

Non-audit services include monitoring the independence and objectivity of the Group audit, providing any necessary advice on financial performance including income statements, balance sheets and cash flow.

The Committee has pre-approved certain services such as verification reports required by the PRA for inclusion of interim profits in the capital base, review of interim results and accounting opinions. Any other non-audit service where the expected fee is less than £500,000 can be approved by the Chief Financial Officer, any non-audit services where the expected fee is between £25,000 and £500,000 requires the prior approval of the Chairman of the Audit Committee and any non-audit fee above £100,000 requires prior approval by the Audit Committee and is subject to a public tender process.

Details of fees charged can be found in note 13 to the financial statements. Total fees for non-audit services, and other assurance related services, were £0.4 million (2017: £0.4 million; 2018: £0.4 million) for KPMG and £0.4 million (2017: £0.4 million; 2018: £0.4 million) to audit services. In 2017 the firm was also paid £0.7 million for work in connection with the IPO.

Work undertaken by Deloitte for non-audit services, was as follows:

- profit verification;
- accounting opinions regarding the analysis, due diligence and validation of the securitisation structures and accounting impact.

The Audit Committee viewed that it was most effective for Deloitte to provide these services and that their independence was not compromised.

Internal audit

The Group currently outsources its internal audit function to KPMG. The Committee will keep under review the benefits of having an outsourced arrangement for internal audit on a regular basis.

The annual internal audit plan is a risk-based plan developed with the management team and approved by the Committee. The scope of the audit work is also considered by the Committee. The Committee also reviews the budget for internal audit work and was satisfied this was sufficient to enable Internal Audit to deliver the plan. The results of the internal audit reports and management responses are discussed and challenged at Committee meetings. The Committee reviews management actions in response to significant findings and looks at the root causes to identify consistent themes emerging across the Group. The Committee will also review the speed of management’s responses to any internal audit findings that require remediation and consider the adequacy of resources. The Committee monitors any changes to the internal and external operating environment and will make alterations to the plan where necessary.

In 2018, the Committee received a presentation from a business area on issues raised by Internal Audit and these were remediated.

The Group undertook an effectiveness review of the internal audit function. The review found that overall the function was effective and well regarded. A number of improvements were identified and the Committee will monitor their implementation in 2019. KPMG attend all the Audit Committee meetings to report on the progress of the audits and also meet periodically with the Audit Committee in private. The Chairman also has meetings with KPMG ahead of each Audit Committee meeting as well as a regular dialogue.

Taxation

The Committee considered and recommended to the Board the formal articulation of the Group’s tax strategy. The Group is committed to paying the correct amount of tax and will only undertake transactions that have a genuine commercial purpose. The Group is open, proactive and transparent in its dealings with HMRC.

Whistleblowing policy

The Group has a whistleblowing policy in place and the Committee is responsible for overseeing the arrangements and the effectiveness of the policies. The policy exists to enable employees to raise concerns in confidence about wrongdoing or impropriety within the Group. The Group has an anonymous helpline that employees can call and any matters reported through this helpline are referred directly to the Deputy Chairman. There is also a private email address for employees to use which reports directly to each of the Non-Executive Directors.

A report on whistleblowing in 2018 was considered by the Committee. There were no areas of concern or material weaknesses in internal controls.

Following the introduction of the 2018 Corporate Governance Code, the responsibility for overseeing the arrangement and the effectiveness of the processes, will move to the Board.

Activities during the year

Financial reporting

- Quality and appropriateness of the full year and half year results.
- Recommending to the Board the Viability Statement and Going Concern statement, having reviewed and approved the underlying assumptions to enable this recommendation.
- The assessment as to whether the Annual Report is fair, balanced and understandable.
- The financial control environment and compliance with the financial reporting standards and governance reporting requirements.
- Pillar 3 disclosures policy.
- Implementation of IFRS 9.
- Reviews of key accounting judgements.

External audit

Scopes of the external audit plan

- The quality and effectiveness of the external auditor, the audit and re-appointment.
- Level of fees paid for both audit and non-audit services.
- Independence of the auditor.
- Appointment of leak audit partner for 2019.

Internal audit

- Scope of the internal audit plan and resourcing requirements.
- The independence, appropriateness and effectiveness of the outsourced internal audit function.
- The appropriateness of the continuation of outsourcing the internal audit function to KPMG.

Risk management and control

- Scope of the internal control and risk management programme.
- Results of internal audit reviews and progress made.
- Annual review of whistleblowing arrangements, anti-money laundering arrangements.
- Effectiveness of the Group’s internal control and risk management systems.
Role of the Committee
- Overseeing the Group’s risk appetite, risk monitoring and capital management.
- Ensuring that the Group maintains an adequate risk management framework and maintains appropriate levels of liquidity and capital in the Group.
- Advising the Board on the overall risk appetite.
- Overseeing the Group’s risk appetite, risk monitoring and capital management.

Meetings
During 2018 the Risk Committee held five meetings.

Liquidity and capital levels
Throughout the year, the Risk Committee and the Audit Committee continued to seamlessly support one another to ensure that there is appropriate communication on matters where there is commonality.

Committee performance
During 2018, the performance of the Committee was formally assessed as part of the independent evaluation of the Board. The evaluation concluded that, as a result of the IFRS 9 implementation, the Committee was more structured and focused in 2018, leveraging a strong framework to support Charter Court’s risk management function.

While the Committee interacted positively with the PRA throughout the year, the review recommended that further development focused on moving away from a mechanistic approach to risk. This will be a key area of focus during 2019 and beyond as the Committee continues to evolve to ensure it is effective in discharging its responsibilities towards Charter Court’s shareholders and regulators.

Rajan Kapoor
Noël Harwerth
Philip Jenks
Ian Ward
Tim Brooke (Chairman)

Charter Court Financial Services Group plc
Annual Report and Accounts 2018

Tim Brooke
Chairman of Risk Committee
13 March 2019
Annual Statement from the Chairman of the Remuneration Committee

Dear Shareholders,

As the Chair of the Remuneration Committee (“the Committee”), I am pleased to present the second annual Directors’ Remuneration Report. This report sets out the remuneration policy for Directors, what we paid our Directors and why.

This report is split into three sections:

• This Annual Statement, which summarises the key decisions made by the Committee during the year and the context in which those decisions were made.
• Directors’ Remuneration Policy – here we set out the existing remuneration policy for the Executive Directors, the Chairman and the Non-Executive Directors. The policy was approved by a binding shareholder vote at the AGM on 16 May 2018 and became effective on that date. No changes are proposed at this AGM.
• Annual Report on remuneration – this sets out, in detail, the remuneration received by Directors in 2018 and how the new Directors’ Remuneration Policy will be applied in 2019. The Annual Report on remuneration together with the Annual Statement will be subject to a single advisory shareholder vote at the 2019 AGM.

Key activities of the Committee

The Committee carried out an extensive review of remuneration arrangements prior to the IPO and was pleased that our policy was approved by shareholders at our 2018 AGM, with almost universal support. The Committee believes that the policy has provided a good level of alignment with the Group’s strategic objectives and that the policy remains appropriate. No significant changes to the implementation of the policy are proposed.

The Committee’s key activities during the 2018 financial year included:

• Determining the level of bonus payments in respect of the 2017 financial year;
• Setting appropriate performance targets in respect of the bonus for the 2018 financial year;
• Determining 2018 base salary increases, which were effective 1 July 2018 and in line with all employees;
• Setting performance targets for, and granting of, annual awards under the Performance Share Plan, and
• Considering market trends and developments and how these might impact the Group’s remuneration policies and practices, including the new UK Corporate Governance Code which comes into effect 1 January 2019, for reporting in the 2019 report, and changes to shareholder and proxy voting advisers’ guidelines.

Corporate governance code changes, and changes to shareholder and proxy voting agency guidelines

The Committee is considering the impact of the new Corporate Governance Code, and other changes to remuneration guidelines from shareholder and proxy voting agencies. Any changes to our remuneration practices that are required as a result of these developments will be disclosed in the Remuneration Report for 2019. Some aspects of the Code have already been implemented in the Directors’ Remuneration Policy:

• LTP awards granted from 2018 onwards have a 2-year post-vesting holding period
• Malus and clawback provisions are in operation with a range of triggers

The Committee is also considering the impact of changes to the Code in relation to pension and post-employment shareholding for Executive Directors. In line with the new regulations, the Committee will publish the CEO pay ratio in next year’s report.

Performance and reward for the 2018 financial year

Performance in 2018 has again been strong. Profit before tax increased by 41.6% from 2017. Total income increased by 32.1% to £224.9m and the Cost Income Ratio improved by 5.4 percentage points. Profit after Tax increased by 48.6% to £120.8m from £81.3m in 2017 and Return on Equity increased by 2.2 percentage points. The feedback from bank and mortgage customers during the year was good.

Corporate performance

Under the annual bonus plan, the CEO and CFO are eligible for a maximum annual bonus of 125% of base salary, defined as the base salary earned over the course of the financial year. The CRO’s maximum annual bonus is 100% of base salary earned over the course of the financial year.

Performance under the annual bonus plan was measured by way of a robust company scorecard of financial and non-financial measures. The Group’s performance was reflected in outcomes under the financial measures, and under the risk, customer & clients and people & culture measures. Reflecting a strong year, the business scorecard outcome was 93.4% of maximum.

Personal performance

The Executive Directors’ bonuses are subject to a personal performance adjustment factor, of between 0x and 1.25x the corporate performance outcome, but subject to an override that the adjustment factor cannot increase the bonus above the maximum of 125% of base salary for the CEO and CFO, and 100% of base salary for the CRO.

The Committee recognises that the use of an adjustment factor is unusual, compared with the more common ‘additive approach’ in which personal performance is measured as a weighted element of the scorecard. However, it is important to note the more traditional ‘additive approach’ can provide a more generous bonus outcome than our ‘adjustment approach’. For example, up to an outcome of 45% of maximum on the corporate scorecard, maximum personal performance under an ‘additive approach’ (with a 20% weighting on personal performance) would provide a higher bonus outcome than under our ‘adjustment approach’. And, for an outcome of up to 60% of maximum on the corporate scorecard, on-target personal performance under an ‘additive approach’ would provide a higher bonus outcome than under our ‘adjustment approach’.

The Committee was mindful of feedback from proxy bodies in relation to this approach at the 2018 AGM. However, as this was received during 2018, the Committee decided not to change the approach mid-year. The Committee applies the personal performance adjuster with care and rigour, and only awards an adjustment factor of greater than 1x (on-target) if it is clearly justified by above-target personal performance. However, the Committee will continue to keep this approach under review.

In assessing the Executive Directors’ performance for 2018, the Committee determined that the Executive Directors had performed strongly against the targets which were set, and awarded an adjustment factor of 1.25x for the CEO and 1.125x for the CFO and CRO. Details of these metrics and outcomes are provided in this report.

The corporate scorecard outcome, subject to the personal performance adjuster, would have resulted in outcomes of 146%, 131% and 103% of salary for the CEO, CFO and CRO respectively. As noted above, under the policy, awards are capped at 125% of salary for the CEO and CFO, and 100% of salary for the CRO. Accordingly, bonuses were scaled back to 125% of salary for the CEO and CFO, and to 100% of salary for the CRO.

Performance share plan

Awards under the PSP were made to Executive Directors and other members of senior management in March 2018, subject to EPS and relative total shareholder return (“TSR”) and risk metrics. However, in the light of changes to the implementation of these conditions, this award is due to vest in March 2021, with any vesting shares subject to an additional two-year holding period from that date. The first award under the PSP, which was made on admission, is due to vest in March 2020.

How the policy will be implemented for the 2019 financial year

The remuneration policy is set out on pages 83 to 94. The Committee will implement the policy in the following way for financial year 2019:

• Base salaries are reviewed annually with increases normally effective from 1 July each year with the next review taking place in 2019. The review will take into account the general percentage increases for employees across the Group.

• The 2019 annual bonus opportunity will be 125% of salary for the CEO and CFO and 100% of salary for the CRO. The bonus will be based on achievement of a robust balanced scorecard of measures across four categories being financial, risk management, customer & clients and people & culture. For the CRO, performance will be measured against all categories excluding financial.

• Further details of the measures and their weightings can be found on page 95.

Executive Directors will be considered for grants under the Performance Share Plan of 125% of salary for the CEO and 100% of salary for the CFO and CRO. Consistent with the awards made in 2017 and 2018, 40% will be subject to EPS targets, 40% on relative TSR against a basket of other financial services companies and the remaining 20% on a rounded assessment of key risk indicators over the three-year performance period.

As always, the Remuneration Committee remains receptive to the views of our shareholders and we welcome any comments or feedback you may have. I hope that you find the information in this report helpful and I look forward to your support on the remuneration resolution that will be presented to shareholders at the Group’s AGM.

Ian Ward
Chairman of the Remuneration Committee
13 March 2019

Ian Ward
**Directors’ remuneration policy**

This part of the Director’s remuneration report sets out the remuneration policy for the Group and has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended.

The remuneration policy was approved in a binding vote of shareholders at the 2018 AGM on 16 May 2018, becoming formally effective from that date. It was intended that the remuneration policy will apply for a period of three years following approval, subject to any necessary changes that could require re-approval before then. The policy is shown for reference below.

**Purpose and role of the Remuneration Committee**

The Remuneration Committee has responsibilities for determining the overall remuneration policies and practices within the Group, taking into account applicable laws, regulations and the principles of good governance.

In particular, the Committee is responsible for:
- setting the remuneration policy for all Executive Directors, the Board Chairman, and all employees who are designated as Code Staff under the FCA Remuneration Code;
- approving their remuneration packages and service contracts;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- reviewing and approving the overall remuneration spend (fixed and variable) to ensure that evidence exists to demonstrate that awards have been adjusted where appropriate for risk and will not limit the ability to strengthen the capital base;
- approving the design of, and determining targets for, all performance-related incentive plans operated by the Group, and approving the total annual payments made under such plans; and
- reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such plans, the Committee determines each year whether awards will be made and, if so, the overall amount or such awards, the individual awards to Executive Directors and Code Staff and the performance targets to be used.

The Committee’s terms of reference are available on the Group’s website.

**Policy overview**

The remuneration policy has been designed to reflect the Group’s culture and support the delivery of its business strategy. When setting the policy for Directors’ remuneration, the Committee takes into account the overall business strategy, considering the long-term interests of the Group with the aim of delivering rewards to shareholders.

The Group is required to comply with relevant regulatory requirements and principles in relation to remuneration as published by the FCA and must establish, implement and maintain remuneration policies that are consistent with and promote sound and effective risk management.

The Group is in Proportionality Level Three for the purposes of the application of the Remuneration part of the FCA Rulebook and is not therefore required to apply the requirements as to deferral of variable remuneration, payment in shares that are subject to retention, or performance adjustment. The Group is also not required to apply the variable pay cap (i.e., the limit on the ratio of variable to fixed remuneration). The Group proposes to dis-apply the strict requirements of the PRA Remuneration Code in respect of its variable remuneration, and to apply these measures in a proportionate manner, taking into account the size and internal organisation of the Group and the scope and complexity of its activities. This approach may change in the future having regard to the regulatory environment and market sentiment.

The Group’s policy is that the overall remuneration packages offered should:
- attract, retain and motivate high-quality executives;
- align the rewards of the executives with the progress of the Group;
- support the Group’s risk policies and controls to guard against inappropriate risk-taking;
- support an appropriate balance between risk-taking and reward; and
- reward the achievement of the overall business objectives of the Group; and
- align employees’ interests with those of shareholders.

Consistent with these principles, the Committee has agreed on a remuneration policy for Executive Directors, whereby both salaries and total pay potential will be set at competitive levels compared to relevant banking peers and other companies of broadly equivalent size and complexity.

The Committee believes that both the design and the caveats in place in relation to executive pay have worked together to build an appropriate and effective risk management framework, and the Committee is supportive of that framework.

**Consideration of shareholder views**

The Committee will seek to engage with shareholders and their representative bodies when it is proposed that any material changes are to be made to the Remuneration Policy. In addition, we will consider any shareholder feedback received in relation to the AGM. This, plus any additional feedback received from time to time, will be considered as part of the Committee’s annual review of remuneration.

**Consideration of employee views**

The Committee does not consult directly with employees as part of the process for reviewing executive pay. The Committee receives regular updates from the Director of HR and Central Operations in relation to salary and bonus reviews across the Group. As set out in the policy table below, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group and salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce.

**Policy table**

The table below summarises each element of the remuneration policy applicable to Executive Directors.

<table>
<thead>
<tr>
<th>Purpose and link to strategy</th>
<th>Operation</th>
<th>Opportunity</th>
<th>Performance metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>To provide an appropriate level of basic fixed pay to help to recruit, retain and reward executives of a suitable calibre to deliver the Group’s strategic goals and business outputs.</td>
<td>Typically reviewed annually with any changes normally taking effect from 1 July each year.</td>
<td>The general policy is to set salaries around market competitive levels with increases (in percentage terms) typically in line with that of the Group’s workforce. Percentage increases beyond those granted to the wider workforce may be awarded in certain circumstances such as when there is a change in the individual’s role or responsibility or where there has been a fundamental change in the scale or nature of the Group.</td>
</tr>
<tr>
<td>Salaries</td>
<td>Reflects an individual’s experience, performance and responsibilities within the Group.</td>
<td>Salaries are set taking into consideration a number of factors, including:</td>
<td>Performance is reviewed in line with the established performance review process in place across the Group.</td>
</tr>
<tr>
<td>Adjusted for responsibility</td>
<td>– individual and Group performance;</td>
<td>– individual and Group performance;</td>
<td></td>
</tr>
<tr>
<td>and role</td>
<td>– the responsibilities;</td>
<td>– accountabilities of each role;</td>
<td></td>
</tr>
<tr>
<td>and accountability</td>
<td>– the experience of each individual;</td>
<td>– market competitiveness.</td>
<td></td>
</tr>
<tr>
<td>and market size</td>
<td>– the market in which the Group is typically in line with that of the Group’s workforce.</td>
<td>The Committee aims to set levels that are broadly aligned with those in similar positions at relevant peers and other companies of broadly equivalent size and complexity.</td>
<td></td>
</tr>
<tr>
<td>and complexity</td>
<td>– there will be an appropriate balance between short- and longer-term performance targets linked to delivery of the Group’s business plan.</td>
<td>– there will be an appropriate balance between short- and longer-term performance targets linked to delivery of the Group’s business plan.</td>
<td></td>
</tr>
<tr>
<td>Remuneration levels</td>
<td>Remuneration levels for the Executive Directors and senior managers have been set at a level that is consistent with the Committee to be appropriate for the size and nature of the Group.</td>
<td>The Committee aims to set levels that are broadly aligned with those in similar positions at relevant peers and other companies of broadly equivalent size and complexity.</td>
<td></td>
</tr>
<tr>
<td>Risk management</td>
<td>Risk management is core to our business; and the way the Committee takes into account the overall business strategy, considering the long-term interests of the Group with the aim of delivering rewards to shareholders.</td>
<td>Salaries are normally paid monthly and are payable in pounds sterling.</td>
<td></td>
</tr>
<tr>
<td>Balance of remuneration</td>
<td>The balance of remuneration (i.e., both pay levels and the balance between fixed and performance-related pay) is appropriate to our business and risk appetite.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Choice of performance metrics</td>
<td>The choice of performance metrics whereby a broad balance of metrics is used;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of discretion in incentive plans</td>
<td>The use of discretion in our incentive plans, allowing the Committee to take account of the wider risk management framework;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clawback and malus provisions</td>
<td>A significant proportion of performance-related pay is deferred and paid in shares; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incentives</td>
<td>The inclusion of clawback and malus provisions on incentive pay.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Purpose and link to strategy

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Operation</th>
<th>Opportunity</th>
<th>Performance metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide a market-competitive and appropriate benefits package to help to recruit, retain and reward Executive Directors of a suitable calibre.</td>
<td></td>
<td></td>
<td>Not performance related.</td>
</tr>
<tr>
<td>Benefits normally include, but are not limited to, private medical insurance, dental cover, company car (or car allowance), car insurance, critical illness and life assurance. The benefits provided may be subject to minor amendment by the Committee from time to time within this policy. In addition, Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms. Under certain circumstances additional benefits in relation to relocation may be provided. Any reasonable business-related expenses (including tax thereon) incurred in connection with their role may be reimbursed.</td>
<td></td>
<td></td>
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</tbody>
</table>

### Purpose and link to strategy

<table>
<thead>
<tr>
<th>Pension</th>
<th>Operation</th>
<th>Opportunity</th>
<th>Performance metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide a market-competitive and appropriate pension package to help to recruit, retain and reward Executive Directors of a suitable calibre.</td>
<td></td>
<td></td>
<td>Not performance related.</td>
</tr>
<tr>
<td>Each Executive Director may participate in a defined contribution pension scheme operated by the Group. Executive Directors may elect to receive all or some of such benefit as a cash allowance in lieu of pension.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Purpose and link to strategy

<table>
<thead>
<tr>
<th>Annual Bonus Plan (“ABP”)</th>
<th>Operation</th>
<th>Opportunity</th>
<th>Performance metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>To incentivise and reward the execution of key annual goals which are closely linked to the Group’s strategy. Compulsory deferral of a proportion into shares reinforces retention and provides alignment with interests of shareholders over the longer term.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual bonuses are subject to achievement of stretching performance measures, which are set by the Remuneration Committee at the start of the financial year. At least 50% of any bonus earned will be deferred into awards over shares under the Deferred Bonus Plan (“DBP”), with awards normally vesting in tranches after one, two and three years, subject to continued employment. Dividends may accrue on DBP awards over the period from grant until the first date on which the award can be exercised and be paid out either as cash or as shares on exercise. Dividend accrual may assume dividend roll up. Deferral levels, and period of deferral, may be subject to change over the life of the policy, to take account of any changes in financial services (or other) regulatory changes. Recovery and withholding provisions are in operation across the annual bonus and the DBP, as described in the notes section below.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The maximum bonus opportunity under the annual bonus plan is 150% of base salary. The bonus opportunity for each Executive Director in 2019 is set out in the Annual Report on remuneration.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Committee may reduce the bonus outcome if it considers that the pay-out is inconsistent with the Group’s overall performance or risk appetite taking account of any factors it considers relevant. This will help ensure that pay-outs reflect overall Group performance during the period. Awards under the DBP are not subject to further performance conditions.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Long Term Incentive Plan (Performance Share Plan, "PSP")

- **Purpose and Link to Strategy**: To incentivise and reward the achievement of sustained long-term performance and alignment with shareholder interests. Facilitates share ownership to provide further alignment with shareholders.

- **Performance Metrics**: The maximum award level for Executive Directors is 150% of base salary per annum. Actual awards may be lower than this. Details can be found in the Annual Report on Remuneration.

- **Operation**: PSP awards are normally made annually at the discretion of the Committee, taking the form of nil-cost options. Vesting is subject to the satisfaction of performance conditions, as well as continued service, with performance normally over a three-year period. Vesting is subject to the achievement of performance measures and continued service.

- **Opportunity**: A further two-year holding period will generally apply following the end of the normal vesting period. The awards vest and become exercisable at the end of the holding period to the extent that performance conditions are met. Performance periods, normal vesting periods and holding periods may be subject to change over the life of the policy, to take account of any financial services (or other) regulatory changes.

- **Financial Considerations**: Dividends may accrue on PSP awards between grant and the first date on which an award can be exercised, and be paid out either as cash or as shares on exercise of the award. Dividend accrual may assume dividend roll-up. Recovery and withholding provisions are in operation, as described in the notes section below.

- **Notes**: The PSP awards granted to Executive Directors on IPO were made prior to this policy and these may vest on their original terms. Details of these can be found in the Annual Report on Remuneration and also within the Prospectus.

### All-Employee Share Plans

- **Purpose and Link to Strategy**: Encourages share ownership and therefore increases alignment with shareholders. Executive Directors are entitled to participate in the Group’s tax-advantaged all-employee SAYE plan on identical terms as other eligible employees. The SAYE and SIP are subject to the limits set by applicable legislation from time to time. Not performance-related.

- **Performance Metrics**: The SAYE and SIP are subject to the limits set by applicable legislation from time to time. Not performance-related.

- **Operation**: Executive Directors are entitled to participate in the Group’s tax-advantaged all-employee SAYE plan on identical terms as other eligible employees. The operation of the SAYE plan will be in line with the legislative requirements that apply to plans of this type. Executive Directors will not receive any preferential terms compared to the wider employee group.

- **Opportunity**: The Group may in the future operate a tax-advantaged all-employee Share Incentive Plan (SIP) in which Executive Directors will be eligible to participate on identical terms as other eligible employees and up to the relevant legislative limits. The SAYE and SIP are not subject to recovery and withholding provisions.

### Shareholding Guideline

- **Purpose and Link to Strategy**: Encourages Executive Directors to build a meaningful shareholding so as to further align interests with shareholders.

- **Performance Metrics**: Each Executive Director must build up and maintain a shareholding in the Group equivalent to 200% of base salary for the CEO and CFO and 100% of base salary for the CRO. Until the guideline is met, Executive Directors are required to retain at least half of any PSP or DBP awards that vest or are exercised on a net of tax basis.
Notes to the table

Recovery and withholding
Variable pay awards (ABP, DBP and PSP) are subject to malus and clawback provisions. Events which may lead the Committee to apply these are: employee gross misconduct; the discovery of a material misstatement and/or significant downward revision of results; a material breach of contract; an event where any applicable capital valuation has fallen below the required capital ratio (or a breach of regulatory capital); a material failure of risk management by any member of the Group or the business in which the individual is employed; or where there has been a sufficiently significant impact on the reputation of the Group. These provisions apply within two years after payment of a bonus under the ABP, two years after the vesting date of a DBP award, or two years after the normal vesting date of a PSP award (i.e. this may run concurrently with any holding period). In addition, awards may be clawed back if the Group is required to apply these provisions to an Executive Director by any relevant regulator or by any relevant regulation or code of conduct.

Selection of performance measures and targets
The Group strategy and business objectives are the primary consideration when we are selecting performance measures for incentive plans. The Committee has retained some flexibility on the specific measures which will be used to ensure that any measures are fully aligned with the strategy and focus prevailing at the time they are set. The Committee considers that the mixture of financial, strategic and risk measures used across the incentive plans represent an appropriate balance between long-term and short-term performance of the Group.

Details of the performance measures selected for 2018 and 2019 can be found in the Annual Report on Remuneration on pages 95 to 103.

The threshold and maximum targets are set to reflect minimum acceptable levels of performance at threshold and very stretching but achievable levels of performance at maximum. At the end of each performance period the Committee reviews performance against the targets. The Committee reviews the formulaic bonus and PSP results before any payments are made to Executive Directors or any PSP awards vest and, in the case of the ABP, has full discretion to adjust the final payment downwards, including to zero in exceptional circumstances, if they believe the circumstances warrant it.

Differences in remuneration policy between Executive Directors and other employees
In line with Group’s remuneration framework that is intended to ensure consistency and common practice across the Group, and in determining the overall levels of remuneration of the Executive Directors, the Committee also pays due regard to pay and conditions elsewhere in the organisation.

The Committee seeks to ensure that the underlying principles, which form the basis for decisions on Executive Directors’ pay, are consistent with those on which pay decisions for the rest of the workforce are taken. For example, the Committee takes into account the general salary increase for the broader employee population when conducting the salary review for the Executive Directors.

However, there are some structural differences in the Executive Directors’ Remuneration Policy (as set out overleaf) compared to that for the broader employee base, which the Committee believes are necessary to reflect the differing levels of seniority and responsibility. A greater weight is placed on performance-based pay through the quantum and participation levels in incentive plans. This ensures the remuneration of the Executive Directors is aligned with the performance of the Group and therefore the interests of shareholders.

Legacy arrangements
For the avoidance of doubt, the Committee may approve payments to satisfy commitments agreed prior to the approval of this remuneration policy, for example, any outstanding and unvested incentive awards, including the PSP awards granted on the first tranche of the award were paid prior to the approval of this policy in October 2017 and the second tranche of £790,000 was paid in October 2018. The second tranche is approved as part of the terms of this policy.

Incentive plan disclosures
The Committee will operate the ABP, DBP and PSP according to their respective rules. To ensure the efficient operation and administration of these plans, the Committee retains discretion in relation to a number of areas. This is consistent with market practice and these include (but are not limited to) the following:

• the participants;
• the timing of grant and/or payment;
• the size of grants and/or payments (within the limits set out in the Policy table);
• whether dividend equivalents shall be applied to awards;
• the determination of vesting based on the assessment of performance (ABP and PSP only);
• the determination of a “good leaver” and where relevant the extent of vesting in the case of the share-based plans;
• treatment in exceptional circumstances such as a change of control;
• making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends);
• whether malus and clawback shall apply to any award and, if so, the extent to which it shall be applied;
• cash settling PSP and DBP awards; and
• the annual review of performance measures, weightings and setting targets for the discretionary incentive plans from year to year.

The Committee also retains the ability to adjust existing performance conditions on PSP awards for exceptional events so that they can still fulfil their original purpose. Any varied performance condition would not be materially more difficult to satisfy in the circumstances. Any use of discretion would, where relevant, be explained in the Annual Report on Remuneration.

Illustrations of remuneration policy
Under the Directors’ Remuneration Policy, a significant proportion of total remuneration is linked to Group performance. The chart below illustrates the Executive Directors’ total pay package at minimum, on-target and at maximum. These charts are indicative, as share price movement and dividend accrual have been excluded. All assumptions made are noted below the chart.

Assumptions:
• Minimum - fixed pay only (salary + pension + benefits). Salaries are as at the most recent review date and benefits are based on the single figure value for 2018.
• On-target = fixed pay as above plus 60% pay-out of the maximum annual bonus opportunity and 25% vesting of maximum PSP award.
• Maximum = fixed pay as above plus maximum pay-out and vesting of the annual bonus and PSP awards.

The Executive Directors can participate in all-employee share plans on the same basis as other employees. The value that may be received under these plans is subject to legislative limits. For simplicity, the value that may be received from participating in these plans has been excluded from the above charts. No account has been taken of any potential dividend equivalent payments or, for the Minimum, On-target and Maximum scenarios, any share price appreciation.

Illustrations of remuneration policy

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chief Executive Officer</strong></td>
<td>757</td>
<td>1,399</td>
<td>2,263</td>
</tr>
<tr>
<td><strong>Chief Financial Officer</strong></td>
<td>540</td>
<td>994</td>
<td>1,604</td>
</tr>
<tr>
<td><strong>Chief Risk Officer</strong></td>
<td>432</td>
<td>721</td>
<td>1,110</td>
</tr>
</tbody>
</table>

- Fixed pay
- Annual bonus
- Long-term incentives

- £2,000
- £2,500
- £1,500
- £1,000
- £500
- £0
Service contracts

<table>
<thead>
<tr>
<th>Provision</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notice period</td>
<td>The Executive Directors have entered into service agreements governing the performance of their duties for the Group, with an indefinite term that may be terminated by either party on twelve months’ written notice. Contracts for new appointments will be terminable by either party on a maximum of twelve months’ written notice. Executive Directors’ service contracts are available for inspection at the Group’s registered office during normal business hours and will be available for inspection at the AGM.</td>
</tr>
<tr>
<td>Termination payments</td>
<td>An Executive Director’s employment may be terminated at the employer’s discretion by making a payment in lieu of notice equal to basic salary for any unexpired portion of the notice period (&quot;PILON&quot;). The PILON will not include payments in respect of bonus, holiday which would have been accrued during the notice period or other benefits. The employer may pay any PILON in instalments, which will normally be phased. If it exercises its right to pay the PILON in instalments, an Executive Director is obliged to take reasonable steps to seek suitable alternative income which is then applied in mitigation of the PILON payments. The employer also has the discretion to place an Executive Director on garden leave for up to six months during the notice period. An Executive Director’s service contract may be terminated summarily without notice and without any further payment or compensation, except for sums accrued up to the date of termination, if they are deemed to be guilty of gross misconduct or for any other material breach of the obligations under their employment contract. The employer may suspend an Executive Director or put them on a period of garden leave during which they will be entitled to salary, benefits and pension but would not normally be eligible for bonus in respect of the garden leave period. Any statutory entitlements or sums to settle or compromise actual or potential claims in connection with a termination (including, at the discretion of the Committee, reimbursement for legal advice and provision of outplacement services) would be paid as necessary or appropriate.</td>
</tr>
</tbody>
</table>

There will be no automatic entitlement to a bonus under the ABP if an Executive Director has ceased employment or is under notice before the date of payment. However, the Committee may in its discretion pay a bonus to the Executive Director. Any such bonus would be payable in cash and not subject to deferral, and would ordinarily be subject to pro-rata in respect of the proportion of the financial year worked. Any share-based entitlements granted to an Executive Director under the Group’s share plans will be treated in accordance with the relevant plan rules. In certain prescribed circumstances, such as death, ill-health, injury, disability, redundancy, or a transfer of the business for which the Executive Director works out of the Group, “good leaver” status is applied. |

Plan

| PSP | The Committee may determine whether a departing Executive Director should be treated as a “good leaver”. The Committee will take into account the performance of the individual and the Group over the whole period of employment and the reasons for the individual’s departure. |
| CIP | If the award holder has died, the awards may be exercised within twelve months after death. For other “good leavers”, unvested awards will normally be retained and become exercisable during the six months following the original vesting date, unless the Committee exercises discretion to permit the good leaver to exercise within six months after cessation of employment on such terms as the Committee may determine. In all other circumstances, outstanding awards lapse on cessation of employment (or if earlier when notice is given or received), unless the Committee permits the award holder to keep their awards and exercise them within six months after the original vesting date, on such terms as the Committee may determine. Following a change of control or similar corporate event, awards can be exercised in full within six months following cessation on such terms as the Committee may determine. |

All employee share plans: The Committee has no discretion in relation to good or bad leaver treatment under the SAYE or SIP, as the terms are prescribed by applicable legislation and set out in the relevant plan rules. The same leaver and change of control provisions apply to all employees who participate in these plans. In determining whether a departing Executive Director should be treated as a “good leaver”, the Committee will take into account the performance of the individual and the Group over the whole period of employment and the reasons for the individual’s departure. |
Chairman and Non-Executives

Purpose and link to strategy | Operation | Opportunity | Performance metrics
--- | --- | --- | ---
Fees | To attract and retain a high-calibre Chairman, Deputy Chairman and Non-Executive Directors by offering market-competitive fee levels.

The Chairman and Deputy Chairman are paid a single fixed fee.
The Non-Executive Directors are paid a basic fee.
Additional fees are paid for Chairmanship and membership of Board Committees. The Senior Independent Director is paid an additional fee to reflect their extra responsibilities.
Additional fees may be paid where in exceptional circumstances, the normal time commitment is significantly exceeded in any year; fees are reviewed periodically by the Committee and Chief Executive Officer for the Chairman and by the Chairman and Executive Directors for the Non-Executive Directors.
Fees are set taking into consideration market levels in comparably sized companies, the time commitment and responsibilities of the role, and to reflect the experience and expertise required.
The Chairman, Deputy Chairman and the Non-Executive Directors are entitled to reimbursement of reasonable expenses.
They may also receive limited travel or accommodation-related benefits in connection with their role as a Director. The Non-Executive Directors will not participate in the Group’s share, bonus or pension schemes. | The Charter Court Articles of Association place a limit on the aggregate fees of the Non-Executive Directors of £1.5 million p.a.
The Committee is guided by the general increase for the broader employees’ population, but on occasions may need to recognise, for example, changes in responsibility, and/or time commitments.
Current fee levels are disclosed in the Annual Report on Remuneration section.

None.
Annual Report on Remuneration

This part of the Directors’ Remuneration Report sets out a summary of how the Directors’ Remuneration Policy was applied in 2018 and, together with the Annual Statement from the Chairman of the Remuneration Committee, will be subject to a single advisory vote at the AGM. Details of the remuneration earned by Executive and Non-Executive Directors and the outcomes of the incentive plans, together with the link to Group performance, are provided in this section.

Single figure of total remuneration (audited)

The following tables report the total remuneration receivable in respect of qualifying services by each Director. As the Company listed in October 2017, part of the 2017 remuneration relates to the period when the Company was privately owned.

<table>
<thead>
<tr>
<th>Director</th>
<th>Salary (£000)</th>
<th>Benefits¹</th>
<th>Pension</th>
<th>Annual Bonus²</th>
<th>LTIP/PSP³</th>
<th>Other⁴</th>
<th>Total (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Malcolm</td>
<td>200</td>
<td>102</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>302</td>
</tr>
<tr>
<td>Philip Jenks</td>
<td>150</td>
<td>181</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>331</td>
</tr>
<tr>
<td>Tim Brooke</td>
<td>105</td>
<td>110</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>215</td>
</tr>
<tr>
<td>Noël Harwerth⁵</td>
<td>100</td>
<td>51</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>151</td>
</tr>
<tr>
<td>Rajen Kapadia</td>
<td>112</td>
<td>105</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>217</td>
</tr>
<tr>
<td>Ian Ward</td>
<td>107</td>
<td>117</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>224</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>775</strong></td>
<td><strong>666</strong></td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td><strong>1,441</strong></td>
</tr>
</tbody>
</table>

¹ Salaries for Executives were increased during the year, effective 1 July 2018.
² Benefits include company car / car allowance, car insurance, private medical insurance, life assurance, critical illness insurance, and dental cover.
³ The 2017 bonus scheme which was set prior to IPO was payable in cash in early 2018.
⁴ There were no long-term incentive awards vesting based on a performance period ending in 2017 or 2018.
⁵ Sir Malcolm Williamson and Noël Harwerth joined the Board on 27 June 2017.

2018 annual bonus outcome

The 2018 bonus plan was approved in early 2018 and was based on performance against a robust balanced scorecard of quantitative and qualitative measures covering four categories. Weightings described below apply to the CIO and CFO: the CRO’s bonus was based on measures other than the financial.

1. Financial
2. Risk management
3. Customer and clients
4. People and culture

The majority of the balanced scorecard comprises a set of quantitative financial measures which are aligned with the Group’s business priorities for the year. For each measure, the Committee determines threshold, target and maximum targets, with performance measured on a straight-line basis between these points.

The Remuneration Committee assesses the non-financial elements by way of both internal, quantitative targets and a broader qualitative assessment. Although some of the specific details remain commercially sensitive and cannot be disclosed in full, the Committee understands the importance of transparency and therefore has provided as much information as possible to give shareholders the opportunity to assess the link between performance and the bonus outcome.

The assessment of each performance measure is summarised in the table below.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Actual %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>22%</td>
<td>£120.3m</td>
<td>£133.7m</td>
<td>£147.1m</td>
<td>£159.3m</td>
<td>24%</td>
</tr>
<tr>
<td>Return on equity</td>
<td>16.5%</td>
<td>23.54%</td>
<td>26.16%</td>
<td>28.78%</td>
<td>30.90%</td>
<td>16.5%</td>
</tr>
<tr>
<td>Cost income ratio</td>
<td>8.25%</td>
<td>36.27%</td>
<td>32.97%</td>
<td>29.68%</td>
<td>28.70%</td>
<td>8.25%</td>
</tr>
<tr>
<td>Loan book growth</td>
<td>25%</td>
<td>21.40%</td>
<td>23.78%</td>
<td>26.16%</td>
<td>24.2%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55%</strong></td>
<td><strong>52%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Committee has assessed the outcomes set out above and determined that the bonus outcome for this element is aligned with the Group’s overall financial performance in the year.

2. Risk management

The Group’s risk appetite is set by the Board and the Group adopts a disciplined approach to risk management which ensures operation within risk appetite and associated monitoring and control measures. An Enterprise Risk Management Framework is in place which supports prudent growth and the development of a diverse and robust business capable of delivering sustainable returns.

For 2018, the Committee simplified its approach to measuring risk management for the bonus plan, defining three specific measures for the year:

1. Cost of risk – a quantitative measure based on the aggregate cost of our risk management framework in the year.
2. Risk appetite – a quantitative measure based on adherence to the Board’s defined risk appetite limits throughout the year, taking into account each of the nine risk categories of operational, conduct, liquidity, funding, capital, basis, gap, interest rate and trading risks.
3. Risk management – a qualitative measure based on a recommendation from the Chairman of the Risk Committee, which is intended to reflect overall risk management performance. This takes into account a number of factors, such as effectiveness of the risk management framework, quality of ICAAP and ILM, PRA visit feedback, risk reporting, and the ability of the business to grow its balance sheet in line with the plan.

Given that this is the first year in which we have measured risk performance under this framework, and the complexities of the underlying risk management environment, the Committee retained the discretion to adjust the scoring if it believed that the outcome does not properly reflect risk performance in the year.

Full performance results are provided in section 6.2. A full performance assessment was undertaken by the Chief Risk Officer and the views of the Risk Committee were sought to provide comfort on the risk scorecard outcome. Following the Committee’s assessment for the year, it was agreed that a strong risk culture was prevalent throughout the business and accordingly 24% out of 25% was payable under this element. The targets under each measure are set out in the table below, notwithstanding that the Group’s risk appetite parameters remain commercially sensitive.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Actual %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of risk</td>
<td>10%</td>
<td>0.05%</td>
<td>0.04%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>10%</td>
</tr>
<tr>
<td>Risk appetite</td>
<td>75%</td>
<td>15%</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>75%</td>
</tr>
<tr>
<td>Risk management</td>
<td>75%</td>
<td>85%</td>
<td></td>
<td></td>
<td></td>
<td>6.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25%</strong></td>
<td><strong>24%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ The assessment of cost of risk includes a management overlay due to uncertainty over the implementation of the UK’s decision to leave the European Union. The Committee determined that a maximum award should be paid following its assessment of underlying performance.

Financial performance

The Group’s performance was strong throughout 2018, with the pre-tax profit up 41.6% to £120.8 million (2017: £85.2 million) whilst administrative expenses increased by 11.4% to £64.6m (2017: £58.0 million) and Cost income ratio therefore improved from 34.1% in 2017 to 28.7% in 2018. Profit after tax increased by 48.6% to £120.8m from £81.3 million in 2017 and Return on equity increased from 28.6% to 30.8%. Loan book growth was 24.2% year-on-year in 2018 to £6.7 billion (2017: 40.9%: £5.4 billion, this result is negatively affected by structured asset sales. Excluding the impact of structured asset sales, loan book growth would have reached 34.7% in 2018. 52% of a maximum 55% for overall financial performance had been awarded.

The Committee has assessed the outcomes set out above and determined that the bonus outcome for this element is aligned with the Group’s overall financial performance in the year.

The Committee’s assessment of the financial performance elements is described below.

1. Financial (55%)
4. People and culture (10%)

Charter Court places great importance on its employees and maintaining its employee-focused culture. Employee engagement, which is measured annually through our engagement survey, remains high, supported by low staff turnover and absence rates. The Committee determined that the two best measures for people and culture in 2018 were our ranking in the Sunday Times Top 100 Best Companies to work for (reflecting an external view), and the staff attrition rate (reflecting an internal view), and duly set targets for each as shown in the table below. We are pleased to report that the Group was ranked as the 6th best company to work for, which is our third consecutive year in the top ten. Reflecting this, the pay-out under this element was 9.8% out of 10%.

<table>
<thead>
<tr>
<th>Element</th>
<th>Weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Actual %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunday Times Top 100 Best Companies Ranking</td>
<td>75%</td>
<td>Third tercile</td>
<td>Middle tercile</td>
<td>First tercile</td>
<td>8th place</td>
<td>7.5%</td>
</tr>
<tr>
<td>Staff attrition rate</td>
<td>2.5%</td>
<td>15%</td>
<td>12%</td>
<td>9%</td>
<td>9.6%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Total</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9.8%</td>
</tr>
</tbody>
</table>

Based on performance for each element as described above, the 2018 balanced scorecard aggregate outcome was 93% out of a total of 100%, before any adjustment for personal performance.

Individual performance assessment

The bonus plan includes a personal performance multiplier. Based on an individual’s performance with respect to a set of well-defined objectives, the balanced scorecard can be flexed by a factor ranging from 0% to 125%, but subject to the maximum annual bonus permitted under the policy.

<table>
<thead>
<tr>
<th>Objectives for 2018</th>
<th>Performance during the year</th>
<th>Personal performance factor (0% - 125%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ian Lonergan</td>
<td>• Develop the Group’s Company Secretary to ensure smooth working processes.</td>
<td>Outstanding 125%</td>
</tr>
<tr>
<td></td>
<td>• Deliver and implement executive succession plan.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Effectively manage annual report and accounts process.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Effectively manage the Board and Board Committee process.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Effectively manage investor issues and engagement.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Develop and champion the Group’s diversity and inclusion plan.</td>
<td></td>
</tr>
</tbody>
</table>

Mr Lonergan demonstrated outstanding leadership through the Group’s first year as a listed entity. This has included managing relations with the broader investor community and leading effective investor interactions, and upgrading internal functions to a high standard in line with the expectations of a listed company. Additionally, Mr Lonergan has overseen increased focus on diversity/inclusion within the business through commitments to the Women in Finance Charter and joining the Stonewall Diversity Champion programme. Mr Lonergan’s performance was rated by the Committee as ‘Outstanding’.

<table>
<thead>
<tr>
<th>Objectives for 2018</th>
<th>Performance during the year</th>
<th>Personal performance factor (0% - 125%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sebastien Maloney</td>
<td>• Develop the Group’s financial and reporting functions to meet the requirements of a FTSE 250 company.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Effectively manage annual report and accounts process.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Effectively manage investor issues and engagement.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Formulate and execute the Group’s funding strategy.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Work with the CEO in formulating the Group’s medium-term strategy.</td>
<td></td>
</tr>
</tbody>
</table>

Mr Maloney led his team to deliver three well-timed and effective securitisation executions in a short period, and when market conditions were conducive. Mr Maloney has also led proactive work on the broader balance sheet and on the wider capital management agenda. He has demonstrated excellent leadership in the new Investor Relations function and continued to upgrade the finance function to the high standards expected for a listed company. Mr Maloney’s performance was rated by the Committee as ‘Exceeding’.

<table>
<thead>
<tr>
<th>Objectives for 2018</th>
<th>Performance during the year</th>
<th>Personal performance factor (0% - 125%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter Elcock</td>
<td>• Maintain an effective and appropriate risk infrastructure and support the delivery of the risk management objectives.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Own and deliver ICAAP, ILAAP and IRFP to a high standard.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Define the Group’s IRB Strategy and execution plan.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Maintain excellent regulatory relationships and the Group’s strong reputation.</td>
<td></td>
</tr>
</tbody>
</table>

Mr Elcock has led the risk management agenda to a high standard, making strong progress in both the coverage of current and emerging risks, and in the development of the depth of the risk management team. Especially notable has been the excellent progress of the IRB project to clearly define the Group’s IRB Strategy and execution plan. Mr Elcock’s performance was rated by the Committee as ‘Exceeding’.

The Committee determined that in respect of the year to 31 December 2018, the resulting Annual Bonus awards were as follows:

<table>
<thead>
<tr>
<th>Directors</th>
<th>Maximum opportunity % salary</th>
<th>Actual % of salary</th>
<th>Total awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ian Lonergan</td>
<td>125%</td>
<td>125%</td>
<td>£753,047</td>
</tr>
<tr>
<td>Sebastien Maloney</td>
<td>125%</td>
<td>125%</td>
<td>£531,565</td>
</tr>
<tr>
<td>Peter Elcock</td>
<td>100%</td>
<td>100%</td>
<td>£399,188</td>
</tr>
</tbody>
</table>

The Committee considered the value of bonus pay-outs in the context of the performance of the business and individual directors during the year, and concluded that they were appropriate, and represented a good level of alignment between pay and performance. 50% of the annual bonus will be deferred into shares under the DBP, which will vest in three tranches after one, two and three years, subject to continued employment.

Awards vesting in the year (audited)

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

Awards granted in the year (audited)

The following awards were granted to Executive Directors during the year:

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Type of award</th>
<th>Date of grant</th>
<th>Number of shares</th>
<th>Face value</th>
<th>Face value as a % of salary</th>
<th>Threshold vesting %</th>
<th>End of performance period</th>
<th>End of holding period</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2018</td>
<td>PSP</td>
<td>26 March 2018</td>
<td>248,745</td>
<td>£742,504</td>
<td>125%</td>
<td>25%</td>
<td>31 December 2020</td>
<td>26 March 2023</td>
</tr>
<tr>
<td>Sebastien Maloney</td>
<td>PSP</td>
<td>26 March 2018</td>
<td>175,585</td>
<td>£524,121</td>
<td>125%</td>
<td>25%</td>
<td>31 December 2020</td>
<td>26 March 2023</td>
</tr>
<tr>
<td>Peter Elcock</td>
<td>PSP</td>
<td>26 March 2018</td>
<td>112,040</td>
<td>£334,439</td>
<td>100%</td>
<td>25%</td>
<td>31 December 2020</td>
<td>26 March 2023</td>
</tr>
</tbody>
</table>

1. PSP awards were granted at a share price of £3.63p and take the form of nil cost options subject to performance conditions, see page 67 and note 38 of the Consolidated financial statements for further details.
### Statement of Directors’ shareholding and share interests (audited)

Details of the Directors’ interests in shares are shown in the table below:

<table>
<thead>
<tr>
<th>Director</th>
<th>Beneficially owned shares at 31 December 2018</th>
<th>Shareholding guideline achieved</th>
<th>PSP</th>
<th>DBP</th>
<th>SAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ian Lonergan</td>
<td>2,506,712</td>
<td>Yes</td>
<td>572,114</td>
<td>–</td>
<td>9,625</td>
</tr>
<tr>
<td>Sebastien Maloney</td>
<td>2,229,543</td>
<td>Yes</td>
<td>403,845</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Peter Elcock</td>
<td>90,018</td>
<td>No</td>
<td>257,692</td>
<td>–</td>
<td>9,625</td>
</tr>
<tr>
<td>Sir Malcolm Williamson</td>
<td>145,652</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Philip Jenkins</td>
<td>10,869</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Tim Brooke</td>
<td>–</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Noel Harwirth</td>
<td>–</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Rajan Kapoor</td>
<td>10,869</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Ian Ward</td>
<td>43,476</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Total | 4,978,445 | – | 1,233,651 | – | 19,250 |

5 Including personal and closely associated shareholding.

To align the interests of the Executive Directors with shareholders, each Executive Director must build up and maintain a shareholding equivalent to 200% of base salary for the CEO and CFO, and 100% of base salary for the CRO. A policy for minimum shareholding requirements, post termination of employment will be developed in 2019 and the details included within next year’s report. The Executive Director current holding against these guidelines is shown below:

- Chief Executive Officer: 1,027% (achieved)
- Chief Financial Officer: 1,294% (achieved)
- Chief Risk Officer: 100% (achieved)

There have been no changes in the share interests of the current Directors between 31 December 2018 and 13 March 2019.

The following tables set out the outstanding share awards granted to the Executive Directors.

### PSP

<table>
<thead>
<tr>
<th>Director</th>
<th>Award date</th>
<th>Awards held on 31 December 2017</th>
<th>Award granted in the year</th>
<th>Awards lapsed</th>
<th>Awards vested</th>
<th>Award price basis</th>
<th>Awards held on 31 December 2018</th>
<th>End of performance period</th>
<th>Expected vesting date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ian Lonergan</td>
<td>4 October 2017</td>
<td>323,369</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>230p</td>
<td>323,369</td>
<td>31 December 2019</td>
<td>March 2020</td>
</tr>
<tr>
<td>Sebastien Maloney</td>
<td>4 October 2017</td>
<td>228,260</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>230p</td>
<td>228,260</td>
<td>31 December 2019</td>
<td>March 2020</td>
</tr>
<tr>
<td>26 March 2018</td>
<td>–</td>
<td>175,585</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>230p</td>
<td>175,585</td>
<td>31 December 2020</td>
<td>March 2021</td>
</tr>
<tr>
<td>Peter Elcock</td>
<td>4 October 2017</td>
<td>145,652</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>230p</td>
<td>145,652</td>
<td>31 December 2019</td>
<td>March 2020</td>
</tr>
</tbody>
</table>

6 Vesting of the awards made on 26 March 2018 are subject to EPS, Relative TSR and risk performance metrics, as disclosed earlier in this report. They will vest from the date on which the Group’s audited annual accounts for the year ending 31 December 2020 are approved by the Board.

Vesting of the awards made on 4 October 2017 are subject to EPS, Relative TSR and risk performance metrics, as disclosed in last year’s report. They will vest from the date on which the Group’s audited annual accounts for the year ending 31 December 2019 are approved by the Board.
SAYE

<table>
<thead>
<tr>
<th>Director</th>
<th>Award date</th>
<th>Awards held on 31 December 2017</th>
<th>Award granted in the year</th>
<th>Awards lapsed</th>
<th>Awards vested</th>
<th>Award price basis</th>
<th>Awards held on 31 December 2018</th>
<th>End of performance period</th>
<th>Exercisable date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ian Lonergan</td>
<td>26 October 2017</td>
<td>9,625</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>228.75p</td>
<td>9,625</td>
<td>n/a</td>
<td>01/12/2020</td>
</tr>
<tr>
<td>Peter Elcock</td>
<td>26 October 2017</td>
<td>9,625</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>228.75p</td>
<td>9,625</td>
<td>n/a</td>
<td>01/12/2020</td>
</tr>
</tbody>
</table>

TSR Performance

The chart below shows the Group’s Total Shareholder Return performance compared with that of the FTSE 250 and FTSE SmallCap indices (excluding Investment Trusts) over the period from the date of the Group’s admission onto the London Stock Exchange to 31 December 2018. The FTSE 250 Index has been chosen as an appropriate comparator as it is the index of which the Group is a constituent, and the SmallCap has also been shown as the Group was a constituent of this index during Q1 of 2018.

Total Shareholder Return is defined as the return on investment obtained from holding a company’s shares over a period. It includes dividends paid, the change in the capital value of the shares and any other payments made to or by shareholders within the period.

Total shareholder return

Source: FactSet

---

Relative importance of spend on pay

The table below compares the total value of all employee costs in the 2017 and 2018 financial years, as well as the total value of dividends declared and profit before tax as well as other financial measures that the Committee considers relevant.

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs</td>
<td>£37.7m</td>
<td>£31.5m</td>
</tr>
<tr>
<td>Ordinary dividends</td>
<td>£6.7m</td>
<td>£nil</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>£158.2m</td>
<td>£111.7m</td>
</tr>
</tbody>
</table>

Statement of shareholder voting at the 2018 AGM

Shareholders were asked to support two remuneration-related resolutions at the 2018 AGM, a binding vote approving our Directors’ Remuneration Policy, and an advisory vote in support of the Annual Report on Remuneration and Chairman’s Statement. Votes were cast as follows:

<table>
<thead>
<tr>
<th>Policy</th>
<th>Annual Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Votes cast in favour</td>
<td>203,899,991</td>
</tr>
<tr>
<td>Votes cast against</td>
<td>3,067,022</td>
</tr>
<tr>
<td>Total votes cast</td>
<td>206,966,913</td>
</tr>
<tr>
<td>Votes withheld</td>
<td>12,582</td>
</tr>
</tbody>
</table>

Committee membership

The Committee is made up exclusively of independent Non-Executive Directors. The Committee is chaired by Ian Ward and its other members are Timothy Brooke, Noël Hanwerth and Rajan Kapoor.

External advisors

The Committee sought independent advice from Aon, who act as the Committee’s advisor. Aon were appointed following a tender process prior to IPO. Aon has no other connection with the Group and therefore the Committee is satisfied that it provides objective and independent advice.

Aon is a founder member of the Remuneration Consultants Group and complies with its Code of Conduct, which sets out guidelines to ensure that its advice is independent and objective. During the period, Charter Court incurred fees from Aon of £63,568.

The Chief Executive and other senior management were invited to attend meetings as the Committee considered appropriate, but did not take part in discussions directly regarding their own remuneration.

Implementation of Remuneration Policy for 2019

Base salaries

Current salaries as at 1 July 2018 are set out in the table below. The 2.5% increase in July 2018 was applied to all employees. The next salary review date will be 1 July 2019.

<table>
<thead>
<tr>
<th></th>
<th>Salary as of 31 December 2017 (set at 1 July 2017)</th>
<th>Salary as of 31 December 2018 (set at 1 July 2018)</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ian Lonergan</td>
<td>£590,000</td>
<td>£609,875</td>
<td>2.5%</td>
</tr>
<tr>
<td>Sebastien Maloney</td>
<td>£420,000</td>
<td>£430,500</td>
<td>2.5%</td>
</tr>
<tr>
<td>Peter Elcock</td>
<td>£335,000</td>
<td>£343,375</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Annual bonus

Maximum opportunities will be 125% of base salary for the Chief Executive Officer and the Chief Finance Officer and 100% of base salary for the Chief Risk Officer.

As in 2018, annual bonuses for Executive Directors will be determined based on a balanced scorecard of financial and non-financial objectives. As in the prior year, the bonus will be based on objectives in four key categories. The weightings below will apply for the CEO and CFO, the CRO’s bonus will be based on all measures other than financial.

- Financial: 55%
- Risk Management: 25%
- Customer and Clients: 10%
- People and Culture: 10%

The bonus scorecard outcome will be adjusted by a personal performance multiplier for each Director which can flex the scorecard outcome by a factor ranging from nil to 1.25 with a factor of 1 assigned to performance in line with expectations.

The Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive. An explanation of bonus pay-outs and performance achieved will be provided in next year’s Annual Report on Remuneration.
The awards made in 2019 are subject to the following performance conditions, measured over the three financial years to 31 December 2021:

**Performance Share Plan**

The award levels under the PSP for the 2019 financial year will be 125% of base salary for the CEO and CFO and 100% of base salary for the CRO.

The award will vest if the Group is ranked below median, for median ranking 25% of the award will vest increasing to full vesting for upper quartile ranking or higher.

An underpin shall apply whereby the Remuneration Committee must be satisfied that the vesting outcome is a fair reflection of the underlying performance of the business during the performance period and that vesting is not inconsistent with the Group's approach to risk.

The award levels under the PSP for the 2019 financial year will be 125% of base salary for the CEO and CFO and 100% of base salary for the CRO.

An underpin shall apply whereby the Remuneration Committee must be satisfied that the vesting outcome is a fair reflection of the underlying performance of the business during the performance period that vesting is not inconsistent with the Group’s approach to risk.

**Non-Executive Director fees**

Non-Executive Director fees were set at the time of IPO. Following a review of the Board Chairman’s fee, taking account of market benchmarks in the banking and financial services sector, and time commitment for the role, it was decided to increase the Board Chairman’s fee from £200,000 to £250,000 with effect from 1 January 2019. The fee for the Chairman of the Remuneration Committee was increased in January 2019 due to the time commitment of the role. All other fees remain unchanged.

**Earnings per Share**

- **2018**: 10.7 pence per share
- **2019**: 12.7 pence per share

**Relative TSR**

- **2018**: 1.00 times
- **2019**: 1.05 times

**Approval**

This report was approved by the Board of Directors on 13 March 2019 and signed on its behalf by:

Ian Ward
Chairman of the Remuneration Committee
13 March 2019
The articles of association and applicable legislation provide that the Group can decide to restrict the rights attaching to the shares and/or voting rights held by a person who has failed to comply with a notice issued by the Group under section 793 of the Companies Act 2006.

Corporate governance statement
The Disclosure Guidance and Transparency Rules require the Group to prepare a corporate governance statement including certain specified information. Information fulfilling the requirements of the corporate governance statement can be found in this Directors’ Report, and the Corporate Governance Report covers the notice issued by the Group under section 793 of the Companies Act 2006.

Strategic report
The Strategic Report can be found on pages 2 to 57 of this Annual Report.

Business review and future developments
The Group’s business activities, together with a description of future developments (including the factors likely to affect future development and performance) and its summarised financial position, are set out in the Strategic Report.

Employment practices
Information on the Group’s employment practices (including with respect to disabled employees and employee involvement) is set out in the Corporate responsibility section on pages 48 to 57 of the Strategic Report.

Greenhouse gas emissions
The Group’s greenhouse gas emissions are set out in the Corporate responsibility section on page 57 of the Strategic Report.

Significant agreements affected by a change of control
A change of control of the Group, following a takeover bid, may cause a number of agreements to which the Group is party to take effect, alter or terminate. These include corporate insurance policies, bank facility agreements and employee share plans.

All of the Group’s employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on a change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rata of awards.

Financial instruments
Details of the Group’s financial instruments can be found in notes 18 to 23 and 27 to 29 of the financial statements. The notes begin on page 121.

Financial risk management
The Group has procedures in place to identify, monitor and evaluate the significant risks it faces. The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would present a threat to its business model, future performance, solvency or liquidity.

The Group’s risk management objectives and policies and the risks associated with the Group’s financial instruments are described and analysed on pages 27 to 44.

Post-balance sheet events
On 9 March 2019 the Directors announced that they did not intend to issue a Committed Loan Note (CLN) in combination of Charter Court and OSB. The potential transaction was subject to shareholder and regulatory approval. The financial statements continue to be prepared on a stand-alone basis.

The Group sold its residual interest in Precise Mortgage Funding 2018-1B plc to a third party during January 2019 for a gain on sale of £10.2 million.

Political donations
No political donations were made during the year (2017: £nil).

Disclosure of information under listing rule 9.8.4R
The table below sets out the information required to be disclosed under Listing Rule 9.8.4R.

| Amount of interest capitalised by the Group during the period to 30 December 2018 | £10.2 million |
| Details of long-term incentive plans set out in the Directors Remuneration Report | Pages 81 to 103 |

Relationship agreement

A change of control of the Group, following a takeover bid, may make a market purchase of its own ordinary shares.

Charter Court Financial Services Group plc
Annual Report and Accounts 2018

Directors’ report
Strategy report
Corporate governance
Financial statements
Appendices
Directors’ responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS Standards) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the Directors must not approve the 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 period.

In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance, 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 financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face, and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company’s position and performance, business model and strategy.

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

Ian Lonergan
Chief Executive Officer
13 March 2019

Sebastien Maloney
Chief Financial Officer
13 March 2019

The Board
Sir Malcolm Williamson
Peter Elcock
Ian Ward

Ian Lonergan
Philip Jenks
Tim Brooke

Sebastien Maloney
Noël Harwerth
Rajan Kapoor