

# Corporate governance

## 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](http://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.

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# Board of Directors



## Chairman

### 1 Sir Malcolm Williamson Chairman

**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 Friends Life Group plc. These roles together with his executive experience as the former Group Chief Executive of Standard Chartered Bank and former President and CEO of Visa International ensure he is well placed to lead the Board effectively. Sir Malcolm's previous roles include Chairman of Signet Jewellers, Clydesdale Bank plc, 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, G4S and the National Grid Group and has served as a member of the Board of Trustees for the International Business Leaders Forum.

**Board committee membership:**  
Nomination Committee Chair  
Stakeholder Committee Member

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

## Executive Directors

### 2 Ian Lonergan Chief Executive Officer

**Appointed to the Board:**  
November 2008

**Key skills and experience:**  
As CEO and co-founder of the business, Ian leads the senior team and is responsible for delivering the Group strategy, ensuring risk management is a core focus and setting the values and standards to which employees work. He has over 20 years of experience in financial services, focusing mainly on strategy, financial analysis and management functions. Ian qualified as a Chartered Accountant with Ernst & Young where he worked in the Financial Services Practice as both an auditor and a management consultant in Europe and the Asia Pacific region.

**Principal external appointments:**  
None

### 3 Sebastien Maloney Chief Financial Officer

**Appointed to the Board:**  
January 2010

**Key skills and experience:**  
In his role as CFO, Sebastien has executive responsibility for all aspects of finance, including the production of management and statutory accounts, financial planning and analysis, corporate finance, treasury operations, capital markets activities, and asset/liability management. He previously held senior roles at Merrill Lynch,

GMAC-RFC and Morgan Stanley, working in a range of roles focusing on portfolio valuation analytics, financial planning and liability management through to mortgage securitisation structuring and sales.

**Principal external appointments:**  
None

### 4 Peter Elcock Chief Risk Officer

**Appointed to the Board:**  
November 2015

**Key skills and experience:**  
Peter is responsible for the risk, legal and compliance teams. He has over 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

## Non-Executive Directors

### 5 Philip Jenks Deputy Chairman

**Appointed to the Board:**  
October 2009 (Deputy Chairman as of August 2017)

**Key skills and experience:**  
Philip has over 40 years of experience in retail banking services, including 37 years at Halifax Bank of Scotland (and previously Halifax plc and Halifax Building Society), one of the UK's largest mortgage and savings businesses. He has worked closely with the Department for Communities and Local Government and been an adviser to the Housing Finance Select Committee. Since his appointment to the Charter Court Board, Philip has made a valued contribution in building the governance infrastructure and regulatory relationships.

**Board committee membership:**  
Risk Committee Member

**Principal external appointments:**  
Non-Executive Director at Leeds Building Society

### 6 Noël Harwerth Senior Independent Director

**Appointed to the Board:**  
June 2017 (Senior Independent Director from August 2017)

**Key skills and experience:**  
Noël has extensive experience in both the public sector with government bodies and the private sector with global banking companies, which brings valuable insight to the boardroom debate. Noël is a former non-executive director of Standard Life Aberdeen plc and RSA Insurance Group plc prior to which she held a variety of senior roles with Citicorp for 15 years, latterly serving as the Chief Operating Officer of Citibank International. Noël's prior non-executive roles include GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe, Avocet Mining, Alent plc, Corus, Logica, The London Metal Exchange and Standard Life Assurance Limited.

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

**Principal external appointments:**  
Chair of the UK Export Finance Board  
Senior Independent Director of Sirius Minerals Plc  
Non-Executive Director of the British Horseracing Authority Limited  
Member of the advisory Board of CHAPS Clearing Company Limited

### 7 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 and Remuneration Committee of Allica Limited

### 8 Ian Ward Independent Non-Executive Director

**Appointed to the Board:**  
January 2015

**Key skills and experience:**  
Ian has over 40 years of experience in financial services including 16 years as Chief Executive Officer of Leeds Building Society. He was formerly a Director of Leeds, York and North Yorkshire Chamber of Commerce and Chairman of its property forum 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 Chair  
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

### 9 Tim Brooke Independent Non-Executive Director

**Appointed to the Board:**  
January 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 Capita 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 he is well placed to lead the Risk Committee. Tim holds non-executive roles with a number of other financial and non-financial institutions operating in the UK and abroad.

**Board committee membership:**  
Risk Committee Chair  
Audit Committee Member  
Remuneration Committee Member  
Stakeholder Committee Member

**Principal external appointments:**  
Non-Executive Director of Butterfield Mortgages Limited  
Senior Independent Director of Monzo Bank Limited  
Chairman of TFP Schemes Limited  
Chairman of PIB Risk Services Limited  
Chairman of Thistle Insurance Services

# Chairman's introduction

Sir Malcolm Williamson, Chairman



During 2018, we continued to strengthen our corporate governance framework to ensure effective oversight of executive management performance, in an increasingly uncertain market environment.

## 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.

There are, of course, areas to work on. These include maximising all the individual strengths of the Board members to accelerate the overall development of the Board. To address this and other areas for improvement, we have developed an action plan and assigned clear responsibilities for delivery.

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.

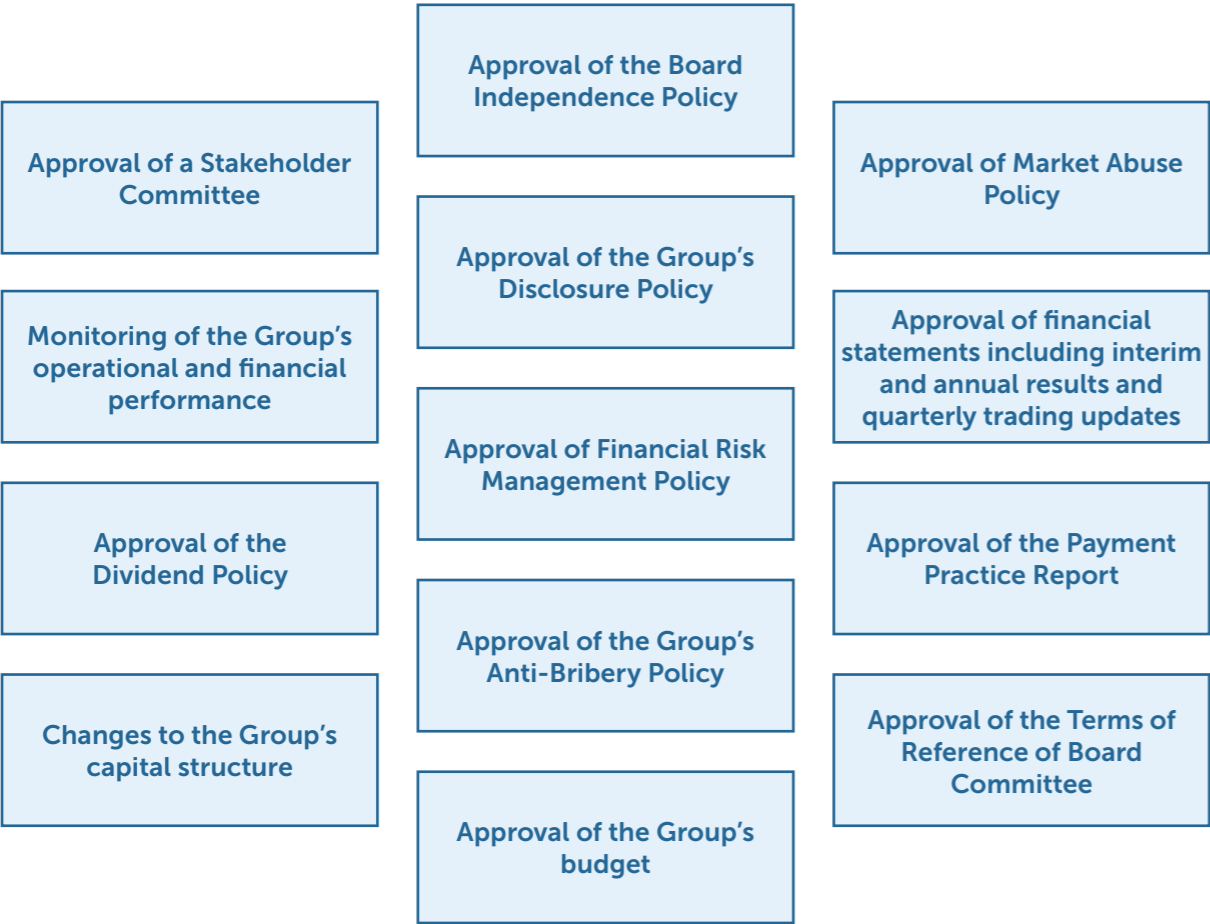
Further information on the role and activities of each of the Board committees can be found in this report. Their individual terms of reference, which have been approved by the Board are available at <http://www.chartercourtfsc.co.uk/InvestorRelations/BoardCommittees>.

**The governance framework**



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:



Key topics discussed in 2018

During 2018 the Board reviewed the following:

• Strategy
• Grant of Performance Share Plan Awards
• Changes to Share Capital
• GDPR Updates
• Gender pay gap reporting
• Dividend Policy
• Internal Bank Accounts
• 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

Role	Name	Responsibilities
Chairman	Sir Malcolm Williamson	Leads the Board and ensures its effectiveness, measures performance against strategy, responsible for the performance of the CEO, facilitates the effective contribution of the Non-Executive Directors, including identification of training needs, ensures the Board understand and has visibility over the views and objectives of the major shareholders and other key stakeholders, ensures the values and culture in the organisation are reflected.
CEO	Ian Lonergan	Responsible for developing the strategic direction of the Group for approval by the Board, accountable for the implementation and delivery of the strategy and the day-to-day performance of the Group, leads the executive team to deliver the strategic vision. Close working relationship with the Chairman.
CFO	Sebastien Maloney	Responsible for delivering the Group's financial performance and assisting the CEO in delivering the strategic vision.
CRO	Peter Elcock	Responsible for managing, controlling and reporting risks, compliance and ensuring operation within risk appetite.
Deputy Chairman (Non-Independent)	Philip Jenks	The current Deputy Chairman has significant sector experience which provides a valuable contribution to Board meetings and adds additional support to the Board's strategy.
Senior Independent Director	Noël Harwerth	Act as a sounding board for other Non-Executive Directors and the Chairman, meets other Non-Executive Directors without the Chairman or executives present to collate feedback from the Non-Executive Directors on the Chairman's performance. Available to discuss with shareholders any concerns they may have that cannot be resolved through the normal channels with the Chairman.  Leads on the Chairman's succession plan. Co-ordinates the annual evaluation of the Chairman.
Independent Non-Executives	Ian Ward Tim Brooke Rajan Kapoor	Responsible for providing independent and constructive challenge, sound judgement and objectivity to the Board's decision making. Monitor the delivery of the strategy and financial performance within the parameters of the risk management framework.

Board 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.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee	Stakeholder Committee <sup>3</sup>
Sir Malcolm Williamson <sup>1</sup>	8/8	n/a	n/a	n/a	2/2	1/1
Noël Harwerth	8/8	n/a	5/5	5/5	2/2	1/1
Philip Jenks	8/8	n/a	5/5	n/a	n/a	n/a
Ian Ward <sup>2</sup>	8/8	7/7	5/5	5/5	2/2	1/1
Tim Brooke	7/8	7/7	5/5	5/5	n/a	1/1
Rajan Kapoor	7/8	7/7	5/5	4/5	n/a	n/a
Ian Lonergan	8/8	n/a	n/a	n/a	n/a	n/a
Sebastien Maloney	8/8	n/a	n/a	n/a	n/a	n/a
Peter Elcock	8/8	n/a	n/a	n/a	n/a	n/a

1 Sir Malcolm Williamson was appointed as Chairman of the Nomination Committee with effect from 5 March 2019.  
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.

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 Secretariat. 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 chairs discuss the agenda with the Company Secretariat and relevant function head. In addition, the Board has access to an online resource centre which provides updates on analyst reports, corporate governance matters and other miscellaneous reports which help the Board in carrying out their duties as Directors.

The Group’s 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 Secretariat. 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 matters related to the outsourcing arrangement in his role on either of the Charter Court and Newcastle Building Society boards.
- Philip Jenks will have served on the Board for 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 Jenks 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 Secretariat 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 Secretariat 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 also restricted.

# 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 and 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, which 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 commendable 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 review concluded 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 policies 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.

# Engagement

### Relationship with shareholders

The Board is committed to effective communication with our shareholders. The CEO and CFO effectively communicated the strategy and business plan to investors and will strive to continue to do so throughout the forthcoming year through various events, including financial results roadshows for all shareholders. The CEO and CFO also regularly attended industry and investor conferences and hosted regular meetings with financial analysts discussing the Group's performance.

Early in 2018 the Chairman wrote to the Group's top shareholders, offering a face-to-face meeting with himself and the Company Secretariat to discuss corporate governance matters.

Institutional shareholders have a continuing dialogue with the Executive Directors. All of the announcements, presentations, and regulatory news can be found on our website in the Investor Relations section, which is itself an important part of how the Group communicates with all our shareholders. The Group's brokers also attend Board meetings to provide an insight into the investors views on the market and the Group in general.

Retail shareholders are also able to ask questions via the Registrars, who have a dedicated team of people available and will pass appropriate enquiries to the Company Secretariat for response.

### Annual general meeting

In 2018 the Company held its first AGM and all resolutions were passed.

This year the AGM will be held at the offices of Linklaters, One Silk Street, London, EC2Y 8HQ. The notice of the AGM will be posted to shareholders and is available on the website at [www.chartercourtfsc.co.uk](http://www.chartercourtfsc.co.uk). Voting will be conducted by a poll and the results will be made available on the Group's website as soon as practicable following the meeting.

### Shareholder Relationship Agreement

The Group adopted a Relationship Agreement at IPO which is intended to ensure that the Group is capable of carrying out business independently of the major shareholder, so long as it holds a legal or beneficial interest in more than 30% of the ordinary shares. The Relationship Agreement allows the shareholder to nominate one Non-Executive Director to the Board for as long as it holds indirectly or directly 30% or more of the ordinary shares and a further Non-Executive Director should it hold 50% or more of the ordinary shares. The major shareholder has not exercised this right and does not intend to do so over the near term.



# Nomination Committee report

The Nomination Committee ("the Committee") 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.

**Committee Members**

The Committee comprises:

- Sir Malcolm Williamson (Chairman)
- Ian Ward
- Noël Harwerth

Ian Ward chaired the Committee throughout 2018.

**Governance**

Members of the Committee are appointed by the Board. The Chair reports to the Board on the Committee's proceedings after each meeting.

**Role of the Committee**

The Committee's remit broadly covers the following areas:

- Board composition
- Making recommendations to the Board on new appointments to the Board
- Succession planning
- Monitoring the Board's diversity policy
- Board performance evaluation
- Annual reporting

**Meetings**

The Committee met twice in 2018. For details of members' attendance at Committee meetings, see page 66.

Other required attendees at meetings include the Chief Executive Officer and the Director of HR and Central Operations. The Committee has scheduled three meetings for 2019.

**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.

**Re-election of Directors at the AGM**

In March 2019 the Committee met and reviewed the proposed re-elections at the 2019 AGM.

During 2018 Philip Jenks reached his ninth anniversary since first being appointed as a Director.

Based on experience, performance, skills and commitment demonstrated, and also in light of the results of the Board evaluation, the Committee informed the Board that it considers it appropriate to recommend each of the Directors for re-election.

As Chair of the Committee, I will be available at the AGM in May 2019 to answer questions relating to the work of the Committee.

**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.

Korn Ferry was engaged to assess the skills and experience of the Board, taking into account the anticipated future demands of the business, the skills and knowledge required to deliver against these successfully, and diversity (including gender and ethnicity). Interviews were carried out with each Board member and external benchmarking conducted to inform the analysis.

The assessment concluded that the Board has the necessary skills and expertise required for the short-term, taking into account the risk that unforeseen temporary absences may occur. In order to meet the Group's needs in the medium term however, it was recommended that an additional non-executive director be appointed during 2019 to supplement existing capability in key areas exposed to developing complexity such as director remuneration.

As a result of the assessment, the Chairman commenced a search for suitable independent non-executive director candidates with the skill-set that would allow them to be considered for appointment as Chair of the Remuneration Committee in the future following the new Code's requirement that the Chair should have served on a Remuneration Committee for at least 12 months.

**Appointment of an additional independent non-executive director**

Korn Ferry was engaged during 2018 to conduct the search for potential candidates for appointment as an additional non-executive Director. Korn Ferry is independent to the Group, with no connection to it or any of the Directors. The firm is also a signatory to the 'Voluntary Code of Conduct for Executive Search Firms' on gender diversity and best practice.

A list of candidates recommended following an external search is circulated to members of the Committee and the Chief Executive Officer (and other Directors, if appropriate) for comment and the addition of any further potential candidates.

Short-listed candidates are seen in the first instance by the Chairman of the Board, at least one Committee member and the Chief Executive Officer. The preferred candidate is then invited to meet with other Directors. The Committee then meets to consider the robustness of the process and the candidate's suitability and, if appropriate, recommends the appointment to the Board.

In its assessment of the suitability of the candidate for appointment, the Committee will consider candidates on the basis of their skills and experience in the context of the range and skills and experience held within the existing Board as a whole.

The Committee views gender diversity as one of many factors to consider when recommending new appointments to the Board. In line with the Company's Diversity Policy, any executive search agency used in the appointment process is asked to ensure that at least one of the candidates put forward for consideration is female.

For further details on the Board's policy on diversity, please see the following section on Board Diversity.

# 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 review, on behalf of the Board, the management of conduct risk and reputational risk, and
- to co-ordinate the non-financial and diversity information reporting process in accordance with applicable regulations and standards.

Prior to the formation of the Stakeholder Committee, the Committee considered the skills, expertise and knowledge required for its membership and on the recommendation of the Committee, the Board appointed Ian Ward as Chair, and Sir Malcolm Williamson, Noël Harwerth and Tim Brooke as members of the Stakeholder Committee.

The Stakeholder Committee held one meeting in 2018 to consider and approve its terms of reference, the Stakeholder Committee's agenda for 2019 and meeting dates for 2019.

### 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 considers that members of the 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 20% of senior management and 58% 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 Directors' performance is assessed formally 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 debate, 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.



### Committee members

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

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

Regular attendees include the CEO, CFO and representatives from both KPMG (outsourced internal auditor) and Deloitte LLP (external auditor) ("Deloitte").

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.

All members of the Committee are also members of the Risk Committee, and the Remuneration Committee. This cross-committee membership facilitates effective governance across all finance, risk and compensation issues. It also helps 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

### 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, in line with the requirement to rotate the audit partner every five years. My Committee colleagues and I are satisfied that our new external lead 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 Kieren 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.

# Audit Committee report (continued)

## 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.



**Rajan Kapoor**  
Chairman of Audit Committee  
13 March 2019

# Report of the Audit Committee

## Responsibility of the Audit Committee

The Committee responsibilities are set out in more detail in its terms of reference which are reviewed annually by the Committee and approved by the Board. 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.

## 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 £1.5 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 31 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.

# 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 support this and provide employees with the framework for reporting business conduct issues and promoting a positive culture of integrity at every level.

During the course of its review of the risk management and internal control systems, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

**Internal control over financial reporting**

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

The Audit Committee and the Risk Committee, reported to the Board that the Group's internal control system and risk framework were appropriate and operated effectively during the year. There have been no significant failures or weaknesses identified for the 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 Interest Entity in 2015 on obtaining its banking licence. It therefore has to comply with EU Audit Directive (2014/56/EU) and Audit Regulation (537/2014) and will be required to put the external audit contract out to tender by 2025, subject to any further regulatory change. In addition, Deloitte will be required to rotate the audit partner responsible for the Group audit every five years. Consequently, the current lead audit partner Kieren Cooper, who was appointed in 2014, will step down following the Annual General Meeting in May 2019. The Committee satisfied itself on the suitability of his replacement and approved the appointment of 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 and the 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 compliance with the policy including the prior approvals required for non-audit services.

The Committee has pre-approved certain services such as verification reports required by the PRA for inclusion of interim profits in the capital base, review of interim results and accounting opinions. Any other non-audit service where the expected fee is less than £25,000 can be approved by the Chief Financial Officer, any non-audit services where the expected fee is between £25,000 and £100,000 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), a ratio of 80% (2017: 100%) 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 verifications;
- 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 adequacy of the resources is also considered by the Committee. The Committee also reviews the budget for internal audit work and was satisfied this was sufficient to enable Internal Audit to deliver the plan. The results of the internal audit reports and management responses are discussed and challenged at Committee meetings. The Committee reviews management actions in response to significant findings and looks at the root causes to identify consistent themes emerging across the Group. The Committee will also review the speed of management's responses to any internal audit findings that require remediation and consider the adequacy of resources. The Committee monitors any changes to the internal and external operating environment and will make alterations to the plan where necessary.

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

A report on whistleblowing in 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 Statements and Going Concern statements, having reviewed and approved the underlying assumptions to enable this recommendation.
- The assessment as to whether the Annual Report is fair, balanced and understandable.
- The financial control environment and compliance with the financial reporting standards and governance reporting requirements.
- Pillar 3 disclosures policy.
- Implementation of IFRS 9.
- Reviews of key accounting judgements.

**External audit**

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

**Internal audit**

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

**Risk management and control**

- Scope of the internal control and risk management programme.
- Results of internal audit reviews and progress made.
- Annual review of Whistleblowing arrangements, anti-money laundering arrangements.
- Effectiveness of the Group's internal control and risk management systems.



# Risk Committee report

### Committee Members

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

- **Tim Brooke (Chairman)**
- **Ian Ward**
- **Philip Jenks**
- **Noël Harwerth**
- **Rajan Kapoor**
- **Regular attendees include the CEO, CRO and CFO.**

### Role of the Committee

- Overseeing the Group's risk appetite, risk monitoring and capital management.
- Ensuring that the Group maintains an adequate risk management framework and maintains appropriate levels of liquidity and capital in the Group.
- Advising the Board on the overall risk appetite.

### Meetings

During 2018 the Risk Committee held five meetings.

### Dear Shareholders,

As Chairman of the Risk Committee, I am pleased to provide you with a review of the key activities undertaken by the Committee in 2018.

Our principal responsibility remains the oversight of the effectiveness of Charter Court's risk management framework and controls, risk monitoring, as well as ensuring that the Group maintains prudent risk appetite and appropriate levels of liquidity and capital.

### Risk management framework

The Committee was pleased with the forward-looking view maintained by the Group's risk function in the ongoing development of the Group's risk management framework and controls throughout 2018, which supported the continued growth of the business within a prudent risk appetite.

### Risk appetite and monitoring

We carried out continuous assessment of the impact important macroeconomic and market developments could have on the risk profile of the Group, including the heightened political and economic risk in the UK resulting from Brexit negotiations.

The Committee also evaluated the financial and capital impacts of operational risk. This is of particular importance in an environment of heightened financial crime, fraud and cyber-crime within the financial services industry.

Furthermore, we continued to work closely with the Models and Ratings Committee of Charter Court Financial Services Limited (which transacts the Group's banking business) to ensure careful monitoring of credit risks arising from developments in the UK's property market and our competitive landscape.

### 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.

The two committees provided joint support to the Group's risk function with preparations for a planned transition to the IRB approach to capital requirements for credit risk, building on the enhancements to risk management processes resulting from IFRS 9 implementation at the start of the year.

### 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 IPO process, 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.

**Tim Brooke**  
**Chairman of Risk Committee**  
**13 March 2019**

# Report of the Risk Committee

### Responsibility of the Risk 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. These can be found on the Group's website.

### Allocation of Risk Committee time in 2018

- Review of risk appetite
- Current and potential risks
- Capital and liquidity plans
- Review of ICAAP, ILAAP and Recovery Plan & Resolution Pack

### Activities and discussions during 2018

- Culture that emphasises greater awareness on risk management
- Risk management framework
- Review of the Credit risk management framework and the Compliance risk framework
- Corporate Risk Register
- Credit risks
- Stress testing framework
- Review and update of Risk Committee report
- Quarterly legal and compliance reporting
- Review of external resilience reports
- Buy to let policy changes
- Cyber risk and data security board training
- Scope and effectiveness of the internal control and risk management programme
- Review of the principal risks for year end and interim reporting

The Committee focused on the development of the internal frameworks, the risk appetite statements, risk profiling for current and potential risks, capital and liquidity and the adequacy of ICAAP and ILAAP. The Committee considered, discussed and where appropriate challenged.

### Stress testing framework

The Committee considered throughout the year the additional stress testing scenarios satisfying the requirement to produce internally designed stress tests to supplement the PRA baseline and rates up scenarios from the Bank of England, ICAAP and ILAAP processes and the IFRS 9 modelling. The Committee ensures the stress testing framework is robust in its approach and continues to develop and adjust the stress testing framework to align new models and scenarios.



# Directors' remuneration report

## Annual Statement from the Chairman of the Remuneration Committee

### Dear Shareholders,

As the Chair of the Remuneration Committee ("the Committee"), I am pleased to present 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:

- LTIP 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 the 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 that 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 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 this 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 105% 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, relative total shareholder return ("TSR") and Risk metrics, with a 3-year performance period. Subject to the achievement 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 the CFO and at 100% of salary for the 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

# 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 responsibility for determining the overall remuneration policies and practices within the Group, taking into account applicable laws, regulations and the principles of good governance.

In particular, the Committee is responsible for:

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

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

## Policy overview

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

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

The Group is in Proportionality Level Three for the purposes of the application of the Remuneration part of the PRA Rulebook and is not therefore required to apply the requirements as to deferral of variable remuneration, payment in shares that are subject to retention, or performance adjustment. The Group is also not required to apply the 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 nature, scope and complexity of its activities. This approach may change in the future having regard to the regulatory environment and market sentiment.

The Group’s policy is that the overall remuneration packages offered should:

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

Consistent with these principles, the Committee has agreed a remuneration policy for Executive Directors, whereby:

- both salaries and total pay potential will be set at competitive levels compared to relevant banking peers and other companies of broadly equivalent size and complexity;
- performance-related pay, based on stretching targets, will form a significant part of remuneration packages; and
- there will be an appropriate balance between short- and longer-term performance targets linked to delivery of the Group’s business plan.

Remuneration levels for the Executive Directors and senior managers have been set at a level that is considered by the Committee to be appropriate for the size and nature of the Group.

Risk management is core to our business, and the ways the Committee takes account of risk includes:

- the balance of remuneration (i.e. both pay levels and the balance between fixed and performance-related pay) is appropriate to our business and risk appetite;
- the choice of performance metrics whereby a broad balance of metrics is used;
- the use of discretions in our incentive plans, allowing the Committee to take account of the wider risk management framework;
- a significant proportion of performance-related pay is deferred and paid in shares; and
- the inclusion of clawback and malus provisions on incentive pay.

## Consideration of shareholder views

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

## Consideration of employee views

The Committee 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 overleaf, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group and salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce.

## Policy table

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

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary			
To provide an appropriate level of basic fixed pay to help to recruit, retain and reward executives of a suitable calibre to deliver the Group’s strategic goals and business outputs. Reflects an individual’s experience, performance and responsibilities within the Group.	Typically reviewed annually with any changes normally taking effect from 1 July each year. Salaries are set taking into consideration a number of factors, including: <ul style="list-style-type: none"><li>• individual and Group performance;</li><li>• the responsibilities; accountabilities of each role;</li><li>• the experience of each individual; and</li><li>• market competitiveness.</li></ul> The Committee aims to set levels that are broadly aligned with those in similar positions at relevant peers and other companies of broadly equivalent size and complexity. Salaries are normally paid monthly and are pensionable.	The general policy is to set salaries around market competitive levels with increases (in percentage terms) typically in line with that of the Group’s workforce. Percentage increases beyond those granted to the wider workforce may be awarded in certain circumstances such as when there is a change in the individual’s role or responsibility or where there has been a fundamental change in the scale or nature of the Group. In addition, a higher increase may be made where an individual had been appointed to a new role at below market salary while gaining experience. Subsequent demonstration of strong performance may result in a salary increase that is higher than for the wider workforce. There may also be circumstances where the Committee agrees to pay above mid-market levels to secure or retain an individual who is considered, in the judgement of the Committee, to possess significant and relevant experience which is required to enable the delivery of the Group’s strategy. Current salary levels are disclosed in the Annual Report on remuneration.	Executive Directors’ performance is a factor considered when determining salaries. Performance is reviewed in line with the established performance review process in place across the Group.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Benefits			
To provide a market-competitive and appropriate benefits package to help to recruit, retain and reward Executive Directors of a suitable calibre.	<p>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.</p> <p>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.</p> <p>Under certain circumstances additional benefits in relation to relocation may be provided.</p> <p>Any reasonable business-related expenses (including tax thereon) incurred in connection with their role may be reimbursed.</p>	There is no overall maximum level of benefits provided to Executive Directors, and the level of some of these benefits is not pre-determined but may vary from year to year based on the overall cost to the Group. However, the Committee monitors the overall cost of the benefits provided to ensure that it remains appropriate.	Not performance related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Pension			
To provide market-competitive and appropriate pension package to help to recruit, retain and reward Executive Directors of a suitable calibre.	<p>Each Executive Director may participate in a defined contribution pension scheme operated by the Group.</p> <p>Executive Directors may elect to receive all or some of such benefit as a cash allowance in lieu of pension.</p>	Up to 20% of base salary.	Not performance related.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual Bonus Plan (“ABP”)			
<p>To incentivise and reward the execution of key annual goals which are closely linked to the Group’s strategy.</p> <p>Compulsory deferral of a proportion into shares reinforces retention and provides alignment with interests of shareholders over the longer term.</p>	<p>Annual bonuses are subject to achievement of stretching performance measures, which are set by the Remuneration Committee at the start of the financial year.</p> <p>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.</p> <p>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.</p> <p>Deferral levels, and period of deferral, may be subject to change over life of the policy, to take account of any financial services (or other) regulatory changes.</p> <p>Recovery and withholding provisions are in operation across the annual bonus and the DBP, as described in the notes section below.</p>	<p>The maximum bonus opportunity under the annual bonus plan is 150% of base salary.</p> <p>The bonus opportunity for each Executive Director in 2019 is set out in the Annual Report on remuneration.</p>	<p>Performance metrics may be financial, non-financial or strategic under a balanced scorecard. A risk assessment is included and an adjustment may be applied to take account of personal performance.</p> <p>Amounts payable for threshold may vary depending on the category of measure, for financial metrics, up to 20% of the bonus is payable for threshold performance.</p> <p>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.</p> <p>Awards under the DBP are not subject to further performance conditions.</p>

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Long Term incentive plan (Performance Share Plan, “PSP”)			
<p>To incentivise and reward the achievement of sustained long-term performance and alignment with shareholder interests.</p> <p>Facilitates share ownership to provide further alignment with shareholders.</p>	<p>PSP awards are normally made annually at the discretion of the Committee, taking the form of nil-cost options.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Recovery and withholding provisions are in operation, as described in the notes section below.</p> <p>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.</p>	<p>The maximum award level for Executive Directors is 150% of base salary per annum.</p> <p>Actual awards may be lower than this. Details can be found in the Annual Report on Remuneration.</p> <p>Up to 25% of the award vests for threshold performance.</p> <p>The Committee has the flexibility to vary the mix of measures or introduce new measures taking into account the business priorities at the time.</p>	<p>PSP awards may include financial, non-financial and strategic measures, which may include TSR and financial measures such as EPS, and also measures used in the Company’s balanced scorecard.</p>

Purpose and link to strategy	Operation	Opportunity	Performance metrics
All-employee share plans			
<p>Encourages share ownership and therefore increases alignment with shareholders.</p>	<p>Executive Directors are entitled to participate in the Group’s tax-advantaged all-employee SAYE plan on identical terms as other eligible employees.</p> <p>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.</p> <p>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.</p> <p>The SAYE and SIP are not subject to recovery and withholding provisions.</p>	<p>The SAYE and SIP are subject to the limits set by applicable legislation from time to time.</p>	<p>Not performance-related.</p>
Shareholding guideline			
<p>Encourages Executive Directors to build a meaningful shareholding so as to further align interests with shareholders.</p>	<p>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).</p> <p>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.</p>	<p>n/a</p>	<p>n/a</p>

Notes to the table

Recovery and withholding

Variable pay awards (ABP, DBP and PSP) are subject to malus and clawback provisions. Events which may lead the Committee to apply these are: employee gross misconduct; the discovery of a material misstatement and/or significant downwards revision of results; a miscalculation or error; an event where any applicable capital ratio falls or has fallen below the required capital ratio (or a breach of regulatory capital); a material failure of risk management by any member of the Group or the business in which the individual is employed; or where there has been a sufficiently significant impact on the reputation of the Group. These provisions apply within two years after payment of a bonus under the ABP, two years after the vesting date of a DBP award, or two years after the normal vesting 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 strategic focus prevailing at the time they are set. The Committee considers that the mixture of financial, strategic and risk measures used across the incentive plans represent an appropriate balance between long-term and short-term performance of the Group.

Details of the performance measures selected for 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 date of the IPO. The Committee may also approve payments outside of this remuneration policy in order to satisfy legacy arrangements made to an employee prior to their appointment to the Board of Directors.

A cash award contingent on a successful IPO was made to Peter Elcock as per agreements communicated to him in October 2015 and November 2016, the first tranche of the award was paid prior to the approval of this policy in October 2017 and the second tranche of £78,000 was paid in October 2018. The second tranche is approved as part of the terms of this policy.

Incentive plan discretions

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

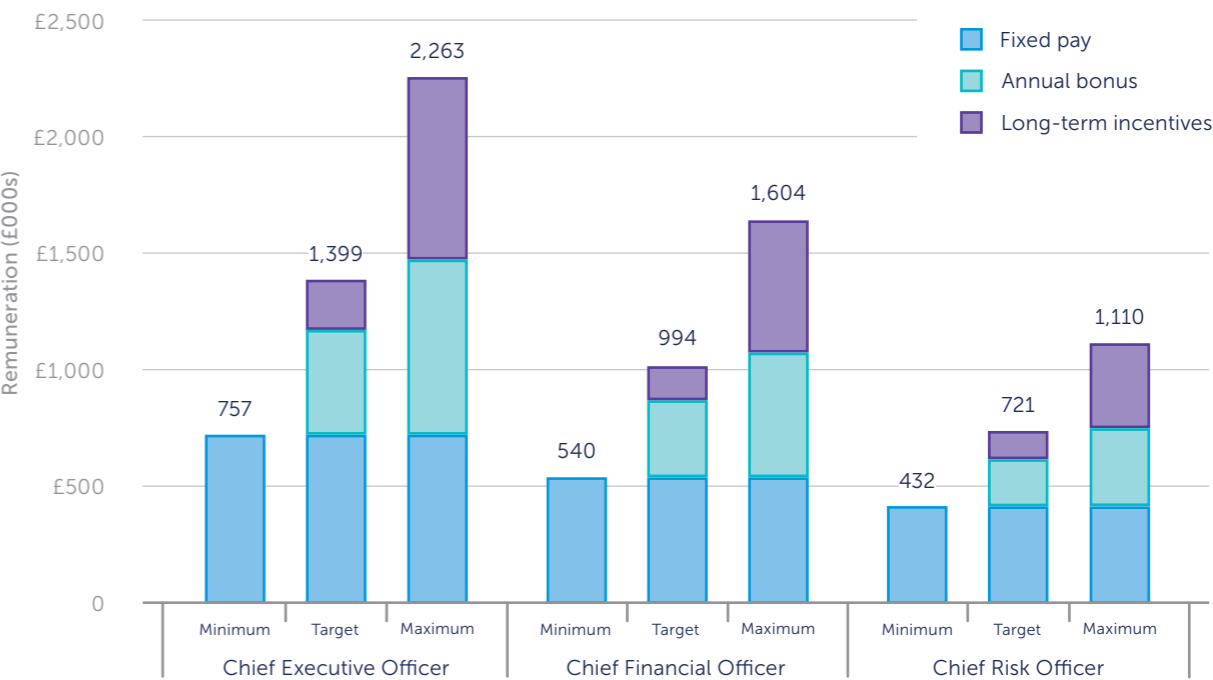
- the participants;
- the timing of grant and/or payment;
- the size of grants and/or payments (within the limits set out in the Policy table);
- whether dividend equivalents shall be applied to awards;
- the determination of vesting based on the assessment of performance (ABP and PSP only);
- the determination of a “good leaver” and where relevant the extent of vesting in the case of the share-based plans;
- treatment in exceptional circumstances such as a change of control;
- making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends);

- whether malus and clawback shall apply to any award and, if so, the extent to which it shall be applied;
- cash settling PSP and DBP awards; and
- the annual review of performance measures, weightings and setting targets for the discretionary incentive plans from year to year.

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

Illustrations of remuneration policy

Under the Directors’ Remuneration Policy, a significant proportion of total remuneration is linked to Group performance. The chart below illustrates 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.

Service contracts

Provision	
Notice period	<p>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.</p> <p>Contracts for new appointments will be terminable by either party on a maximum of twelve months’ written notice.</p> <p>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.</p>
Termination payments	<p>An Executive Director’s employment may be terminated at the employer’s discretion by making a payment in lieu of notice equal to basic salary for any unexpired portion of the notice period (“PILON”).</p> <p>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.</p> <p>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.</p>

There will be no automatic entitlement to a bonus under the ABP if an Executive Director has ceased employment or is under notice before the date of payment. However, the Committee may in its discretion pay a bonus to the Executive Director. Any such bonus would be payable in cash and not subject to deferral, and would ordinarily be subject to pro-ration in respect of the proportion of the financial year worked.

Any share-based entitlements granted to an Executive Director under the Group’s share plans will be treated in accordance with the relevant plan rules. In certain prescribed circumstances, such as death, ill-health, injury, disability, redundancy, or a transfer of the business for which the Executive Director works out of the Group, “good leaver” status is applied.

Plan	
DBP	<p>If the award holder has died, the awards may be exercised within twelve months after death.</p> <p>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.</p> <p>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.</p> <p>Following a change of control or similar corporate event, awards can be exercised in full within six months following the event.</p>
PSP	<p>In the event of death, the awards may be exercised within twelve months after death but reduced on a pro-rata basis to reflect the period of time which has elapsed between the grant date and the date of cessation of employment as a proportion of the normal three-year vesting period (unless the Committee disapproved pro-rating or applied it in a different way). The Committee would determine the extent to which the performance conditions were met on such modified basis as it thinks fit.</p> <p>For other “good leavers”, outstanding awards will normally vest at the normal vesting date (to the extent that the performance conditions have been satisfied). The Committee retains the discretion to allow awards to become exercisable within six months following cessation on such terms as the Committee may determine, in which case the Committee would determine the extent to which the performance conditions were met on such modified basis as it thinks fit, and the award would be subject to time pro-rating to reflect the period of time which has elapsed between the grant date and the date of cessation of employment as a proportion of the normal three-year vesting period (unless the Committee disapproved pro-rating or applied it in a different way).</p> <p>On cessation of employment before the end of the normal three-year vesting period for any other reason, outstanding awards lapse on cessation of employment (or earlier when notice is given or received), unless the Committee permits the award holder to exercise their awards within six months after the end of the three-year normal vesting period, on such terms as the Committee may determine.</p> <p>If an award holder ceases employment for any reason during the holding period relating to an award, the award can be exercised in full within 6 months after the end of the holding period. The Committee retains the discretion to allow awards to become exercisable within six months following cessation on such terms as the Committee may determine.</p> <p>Following a change of control or similar corporate event, awards can be exercised within six months following the event, and reduced pro-rata to reflect the period of time which has elapsed between the grant date and the date of the relevant event as a proportion of the normal vesting period (unless the Committee disapproved pro-rating or applied it in a different way). The Committee would have the discretion to waive the performance conditions on a change of control during the normal vesting period or apply these on such modified basis as it thinks fit.</p>
All-employee share plans	<p>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.</p>

In determining whether a departing Executive Director should be treated as a “good leaver”, the Committee will take into account the performance of the individual and the Group over the whole period of employment and the reasons for the individual’s departure.

External Directorships

Executive Directors are permitted to accept external appointments with the prior approval of the Chairman and where there is no impact on their role with the Group. The Board will determine on a case-by-case basis whether the Executive Directors will be permitted to retain any fees arising from such appointments, details of which will be provided in the Annual Report on Remuneration.

Recruitment or promotion of directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company’s shareholder-approved remuneration policy at the time of appointment and the maximum limits set out therein.

Base salary will be set appropriate to the calibre, experience and responsibilities of the new appointee. Base salaries may be set at a below-market level initially with a view to increasing them to the market rate, subject to individual performance and developing into the role, over a period of time.

The maximum level of variable pay for an Executive Director is 300% of base salary (150% in relation to ABP/DBP and 150% in relation to the PSP). Depending on the timing and responsibilities of the appointment, it may be necessary to set different annual bonus performance measures and targets as applicable to other Executive Directors.

For an internal appointment, his or her existing pension arrangements may continue to operate and any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue, and be disclosed in the next Annual Report on Remuneration.

In addition to the above, the Committee may offer additional cash and/or share-based elements in order to ‘buy-out’ remuneration relinquished on leaving a former employer. In the event that such a buy-out is necessary to secure the services of an Executive Director then the structure of any award or payment will mirror, as far as is possible, the arrangements in place at the incoming Executive Director’s previous employer. Any share awards made in this regard may have no performance conditions, or different performance conditions, or a shorter vesting period compared to the Group’s existing plans, as appropriate. Shareholders will normally be informed of any buy-out arrangements at the time of the Executive Director’s appointment.

Such payments would take into account the nature of awards forfeited and would reflect (as far as possible) performance conditions, attributed expected value and the time over which they would have vested or been paid.

The Committee may agree that the Group will meet certain relocation, legal, tax equalisation and any other incidental expenses as appropriate, so as to enable the recruitment of the best people including those who need to relocate.

Chairman and Non-Executives

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fees			
To attract and retain a high-calibre Chairman, Deputy Chairman and Non-Executive Directors by offering market-competitive fee levels.	<p>The Chairman and Deputy Chairman are paid a single fixed fee.</p> <p>The Non- Executive Directors are paid a basic fee.</p> <p>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.</p> <p>Additional fees may be paid where in exceptional circumstances the normal time commitment is significantly exceeded in any year.</p> <p>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.</p> <p>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.</p> <p>The Chairman, Deputy Chairman and the Non-Executive Directors are entitled to reimbursement of reasonable expenses.</p> <p>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.</p>	<p>The Charter Court Articles of Association place a limit on the aggregate fees of the Non-Executive Directors of £1.5 million p.a.</p> <p>The Committee is guided by the general increase for the broader employee population, but on occasions may need to recognise, for example, changes in responsibility, and/or time commitments.</p> <p>Current fee levels are disclosed in the Annual Report on Remuneration section.</p>	None.

Non-Executive Directors – letters of appointment

All Non-Executive Directors have letters of appointment with the Group for an initial period of three years, subject to annual re-election by the Group at a general meeting.

As at 31 December 2018 the remaining term of the service contracts of: Sir Malcolm Williamson and Noel Harwerth was 18 months expiring 26 June 2020; Ian Ward, Tim Brooke and Philip Jenks was two years expiring 5 January 2021, and Rajan Kapoor was nine months expiring 22 September 2019.

The Chairman’s appointment may be terminated by either party with six months’ notice. The appointment may also be terminated at any time if he is removed as a Director by resolution at a general meeting or pursuant to the Articles, provided that in such circumstances the Group will (except where the removal is by reason of his misconduct) pay the Chairman an amount in lieu of his fees for the unexpired portion of his notice period.

The Deputy Chairman’s appointment may also be terminated by either party with six months’ notice. The appointment may also be terminated at any time if he is removed as a Director by resolution at a general meeting or pursuant to the Articles, provided that in such circumstances the Group will (except where the removal is by reason of his misconduct) pay the Chairman an amount in lieu of his fees for the unexpired portion of his notice period.

The appointment of each Non-Executive Director may be terminated at any time with immediate effect if they are removed as a Director by resolution at a general meeting or pursuant to the Articles. The Non-Executive Directors (other than as described above for the Chairman and Deputy Chairman) are not entitled to receive any compensation on termination of their appointment.

Directors’ letters of appointment are available for inspection at the registered office of the Group during normal business hours and will be available for inspection at the AGM.

Recruitment policy on appointment of a new Chairman or Non-Executive Director

For a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

# Annual Report on Remuneration

This part of the Directors’ Remuneration Report sets out a summary of how the Directors’ Remuneration Policy was applied in 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.

£'000	Salary and fees <sup>1</sup>		Benefits <sup>2</sup>		Pension		Annual Bonus <sup>3</sup>		LTIP/PSP <sup>4</sup>		Other <sup>7</sup>		Total	
Executive	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Ian Lonergan	602	476	21	17	120	95	753	744	–	–	–	–	1,496	1,332
Sebastien Maloney	425	350	24	19	85	69	532	525	–	–	–	–	1,066	963
Peter Elcock <sup>6</sup>	339	270	20	20	68	54	339	326	–	–	78	42	844	712
Total	1,366	1,096	65	56	273	218	1,624	1,595	–	–	78	42	3,406	3,007
Non-Executive														
Sir Malcolm Williamson <sup>5</sup>	200	102	–	–	–	–	–	–	–	–	–	50	200	152
Philip Jenks	150	181	–	–	–	–	–	–	–	–	–	104	150	285
Tim Brooke	105	110	–	–	–	–	–	–	–	–	–	50	105	160
Noël Harwerth <sup>5</sup>	100	51	–	–	–	–	–	–	–	–	–	50	100	101
Rajan Kapoor	112	105	–	–	–	–	–	–	–	–	–	50	112	155
Ian Ward	107	117	–	–	–	–	–	–	–	–	–	50	107	167
Total	775	666	–	–	–	–	–	–	–	–	–	354	775	1,020

<sup>1</sup> Salaries for Executives were increased during the year, effective 1 July 2018.

<sup>2</sup> Benefits include company car / car allowance, car insurance, private medical insurance, life assurance, critical illness insurance, and dental cover.

<sup>3</sup> The 2017 bonus scheme which was set prior to IPO was payable in cash in early 2018.

<sup>4</sup> There were no long-term incentive awards vesting based on a performance period ending in 2017 or 2018.

<sup>5</sup> Sir Malcolm Williamson and Noël Harwerth joined the Board on 27 June 2017.

<sup>6</sup> As per an agreement dated 2 October 2015 and 18 November 2016 which was contingent on a successful listing of the Group, Peter Elcock received a cash award of £120,000. The first tranche of £42,000 was paid in October 2017 and the second tranche of £78,000 was paid in October 2018.

<sup>7</sup> The fee paid to Sir Malcolm Williamson was increased to £250,000 with effect from 1 January 2019.

### 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 CEO and CFO; the CRO’s bonus was based on all measures other than financial.

1.

Financial

55%
2.

Risk management

25%
3.

Customer and clients

10%
4.

People and culture

10%

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, quantifiable 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.

Once the balanced scorecard has been assessed, individual performance is taken into account by applying a personal performance factor which can range from nil to 1.25, with a factor of 1 assigned to performance in line with expectations. In the event that the personal performance adjuster would take bonuses above the policy maximum, awards are reduced.

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

### 1. Financial (55%)

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Profit before tax	22%	£120.3m	£133.7m	£147.1m	£159.3m	22%
Return on equity	16.5%	23.54%	26.16%	28.78%	30.90%	16.5%
Cost income ratio	8.25%	36.27%	32.97%	29.68%	28.70%	8.25%
Net loan growth	8.25%	21.40%	23.78%	26.16%	24.2%	5.25%
Total	55%					52%

Continued strong performance during 2018 saw an increase of 41.6% in Profit before tax. Total income increased by 32.1% to £224.9 million (2017: £170.2 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 has 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.

### 2. Risk management (25%)

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 treasury risks. A score is assigned for each month of the year, based on the severity and duration of any breaches of the Group’s risk appetite, where 0 means no risk failures have occurred, and 9 means that there has been a serious breach of the risk appetite under each of the nine categories. The final score at the year end can therefore vary between 0 and 108. Any breach of PRA regulatory limits carries an immediate score of 10 per breach.
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 ILAAP; 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.

A full 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.

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Cost of risk	10%	0.05%	0.04%	0.03%	0.036% <sup>1</sup>	10%
Risk appetite	7.5%	15	8	0	0	7.5%
Risk management	7.5%	-	-	-	85	6.4%
Total	25%					24%

<sup>1</sup> 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.

**3. Customer and clients (10%)**

Customer satisfaction remains a core priority for the Group, which is measured each year through Net Promoter Score ("NPS"). Targets are set each year for both our banking and mortgage customers, and our broking clients, with the aim of delivering sustained strong results over the longer term. The feedback from bank and mortgage customers during the year was good. The service provided to our intermediaries continues to improve and this was recognised in 2018. Accordingly, the pay-out under this element was 7.6% out of 10%.

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Customer survey (NPS)	5%	20	30	40	40	5%
Broker survey (NPS)	5%	10	20	30	18	2.6%
<b>Total</b>	<b>10%</b>					<b>7.6%</b>

**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%.

	Weighting	Threshold	Target	Maximum	Actual	Actual %
Sunday Times Top 100 Best Companies Ranking	7.5%	Third tercile	Middle tercile	First tercile	6th place	7.5%
Staff attrition rate	2.5%	15%	12%	9%	9.6%	2.3%
<b>Total</b>	<b>10%</b>					<b>9.8%</b>

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.

	Objectives for 2018	Performance during the year	Personal performance factor (0% – 125%)
Ian Lonergan	<ul style="list-style-type: none"> <li>Develop the Group's Company Secretariat to ensure smooth working processes.</li> <li>Deliver and implement executive succession plan.</li> <li>Effectively manage annual report and accounts process.</li> <li>Effectively manage the Board and Board Committee process.</li> <li>Effectively manage investor issues and engagement.</li> <li>Develop and champion the Group's diversity and inclusion plan.</li> </ul>	<p>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.</p> <p>Mr Lonergan's performance was rated by the Committee as "Outstanding".</p>	Outstanding 125 %

	Objectives for 2018	Performance during the year	Personal performance factor (0% – 125%)
Sebastien Maloney	<ul style="list-style-type: none"> <li>Develop the Group's financial and reporting functions to meet the requirements of a FTSE 250 company.</li> <li>Effectively manage annual report and accounts process.</li> <li>Effectively manage investor issues and engagement.</li> <li>Formulate and execute the Group's funding strategy.</li> <li>Work with the CEO in formulating the Group's medium-term strategy.</li> </ul>	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".	Exceeding 112.5 %
Peter Elcock	<ul style="list-style-type: none"> <li>Maintain an effective and appropriate risk infrastructure and support the delivery of the risk management objectives.</li> <li>Own and deliver ICAAP, ILAAP and RRP to a high standard.</li> <li>Define the Group's IRB Strategy and execution plan.</li> <li>Maintain excellent regulatory relationships and the Group's strong reputation.</li> </ul>	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".	Exceeding 112.5 %

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

	Maximum opportunity % salary	Actual % of salary	Total awarded
Ian Lonergan	125%	125%	£753,047
Sebastien Maloney	125%	125%	£531,563
Peter Elcock	100%	100%	£339,188

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:

Year ended 31 December 2018	Type of award	Date of grant	Number of shares <sup>1</sup>	Face value <sup>1</sup>	Face value as a % of salary	Threshold vesting %	End of performance period <sup>2</sup>	End of holding period
Ian Lonergan	PSP	26 March 2018	248,745	£742,504	125%	25%	31 December 2020	26 March 2023
Sebastien Maloney	PSP	26 March 2018	175,585	£524,121	125%	25%	31 December 2020	26 March 2023
Peter Elcock	PSP	26 March 2018	112,040	£334,439	100%	25%	31 December 2020	26 March 2023

<sup>1</sup> PSP awards were granted using a share price of £2.99p and take the form of nil cost options subject to performance conditions, see page 87 and note 38 to the Consolidated financial statements for further details.

Year ended 31 December 2017	Type of award	Date of grant	Number of shares <sup>1</sup>	Face value <sup>1</sup>	Face value as a % of salary	Threshold vesting %	End of performance period <sup>2</sup>	End of holding period
Ian Lonergan	PSP	4 October 2017	323,369	£743,749	125%	25%	31 December 2019	No holding period
Sebastien Maloney	PSP	4 October 2017	228,260	£524,998	125%	25%	31 December 2019	No holding period
Peter Elcock	PSP	4 October 2017	145,652	£335,000	100%	25%	31 December 2019	No holding period

<sup>1</sup> PSP awards were granted when the share price was 230p and take the form of nil cost options subject to performance conditions, see page 87 and note 38 to the Consolidated financial statements for further details.

<sup>2</sup> PSP awards vest on the date on which the Group's audited annual accounts for the year ending 31 December 2019 are approved by the Board, and can be exercised until 3 October 2027.

The performance conditions applying to the PSP awards are:

Date of grant	Performance condition	Weighting	Threshold (25% vests)	Maximum (100 vests)
26 March 2018	Aggregate earnings per share over FY 2018, 2019 and 2020	40%	137 pence	157 pence
	Relative TSR <sup>3</sup>	40%	Median ranking	Upper quartile ranking
	Risk	20%	Commercially sensitive <sup>4</sup>	

<sup>3</sup> Total shareholder return performance against a peer group comprising, OneSavings Bank, Paragon, CYBG, Close Brothers, Provident Financial, Metro Bank, Arrow Global, Secure Trust Bank, Lloyds, RBS, S&U, Barclays and HSBC.

<sup>4</sup> An assessment of risk performance over the three-year performance period. The actual performance targets which are quantitative and qualitative in nature are deemed to be commercially sensitive. Appropriate disclosure of the targets and outcomes will be disclosed on a retrospective basis.

An additional underpin applies whereby the Remuneration Committee must additionally 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.

### Pension payments (audited)

Executive Directors have the right to participate in a defined contribution pension plan or elect to be paid some or all of their contribution in cash. Pension contributions and/or cash allowances are capped at 20% of salary. In compliance with Corporate Governance Code 2018, the pension contribution of newly appointed Executive Directors will be aligned more closely with the wider employee group.

### Payments to past Directors (audited)

There were no payments made to any past Directors during the year.

### Payments for loss of office (audited)

There were no loss of office payments made during the year.

### External Appointments for Executive Directors

Peter Elcock is a Non-Executive Director at Ipswich Building Society and retains any fees received for undertaking this role. Fees in the year ended 30 November 2018 were £28,000 (2017:£22,800).

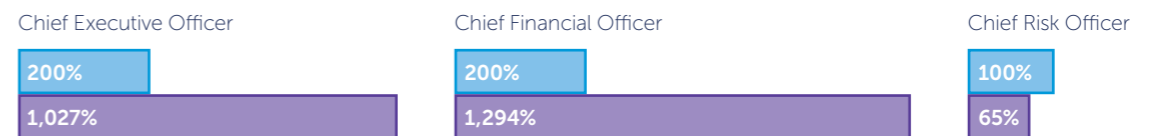
### Statement of Directors' shareholding and share interests (audited)

Details of the Directors' interests in shares are shown in the table below.

Director	Beneficially owned shares at 31 December 2018	Shareholding guideline achieved	PSP	DBP	SAYE
Ian Lonergan	2,506,712	Yes	572,114	–	9,625
Sebastien Maloney	2,229,543 <sup>5</sup>	Yes	403,845	–	–
Peter Elcock	90,018	No	257,692	–	9,625
Sir Malcolm Williamson	86,956	n/a	n/a	n/a	n/a
Philip Jenks	10,869	n/a	n/a	n/a	n/a
Tim Brooke	–	n/a	n/a	n/a	n/a
Noël Harwerth	–	n/a	n/a	n/a	n/a
Rajan Kapoor	10,869	n/a	n/a	n/a	n/a
Ian Ward	43,478	n/a	n/a	n/a	n/a
<b>Total</b>	<b>4,978,445</b>	<b>–</b>	<b>1,233,651</b>	<b>–</b>	<b>19,250</b>

<sup>5</sup> Including person(s) 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:



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

Director	Award date <sup>6</sup>	Awards held on 31 December 2017	Award granted in the year	Awards lapsed	Awards vested	Award price basis	Awards held on 31 December 2018	End of performance period	Expected vesting date
Ian Lonergan	4 October 2017	323,369	–	–	–	230p	323,369	31 December 2019	March 2020
	26 March 2018	–	248,745	–	–	299p	248,745	31 December 2020	March 2021
Sebastien Maloney	4 October 2017	228,260	–	–	–	230p	228,260	31 December 2019	March 2020
	26 March 2018	–	175,585	–	–	299p	175,585	31 December 2020	March 2021
Peter Elcock	4 October 2017	145,652	–	–	–	230p	145,652	31 December 2019	March 2020
	26 March 2018	–	112,040	–	–	299p	112,040	31 December 2020	March 2021

<sup>6</sup> 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

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

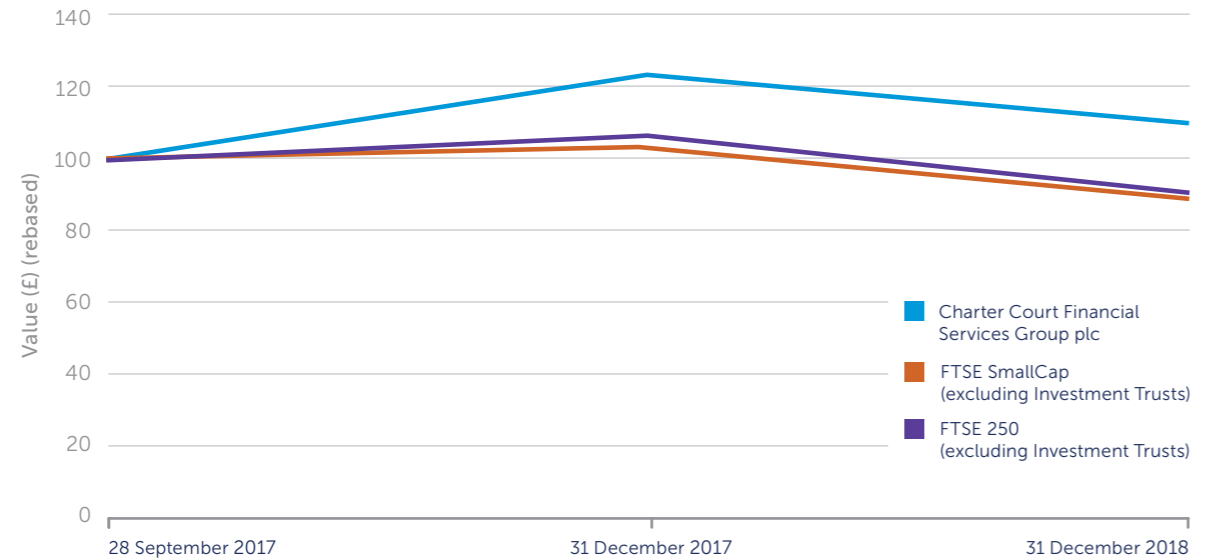
TSR Performance

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



This graph shows the value, by 31 December 2018, of £100 invested in Charter Court Financial Services on 29 September 2017 at the IPO price of £2.30 per share, compared with the value of £100 invested in the FTSE SmallCap (excl. Investment Trusts) and FTSE 250 (excl. Investment Trusts) Indices on the same date.

The other points plotted are the values at intervening financial year-ends.

Aligning pay with performance

The total remuneration figures for the CEO in the years since listing are shown in the table below, along with the value of bonuses paid, and LTIP vesting, as a percentage of the maximum opportunity.

Chief Executive Officer	2018	2017
Total remuneration (£000)	1,487	1,332
Actual bonus (% of the maximum)	100%	100%
LTIP vesting (% of the maximum)	n/a <sup>1</sup>	n/a <sup>1</sup>

<sup>1</sup> No LTIP awards were eligible to vest during the period

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.

	2018	2017	Percentage change
Employee costs	£37.7m	£31.3m	21.2%
Ordinary dividends	£6.7m	£nil	n/a
Profit before tax	£158.2m	£111.7m	41.6%

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:

		Policy		Annual Report
Votes cast in favour	200,889,991	98.50%	200,306,308	98.45%
Votes cast against	3,067,022	1.50%	3,161,570	1.55%
Total votes cast	203,957,013	100%	203,467,878	100%
Votes withheld	12,582		501,716	

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 Harwerth 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 £63,068.

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.

	Salary as of 31 December 2017 (set at 1 July 2017)	Salary as of 31 December 2018 (set at 1 July 2018)	Increase
Ian Lonergan	£595,000	£609,875	2.5%
Sebastien Maloney	£420,000	£430,500	2.5%
Peter Elcock	£335,000	£343,375	2.5%

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.

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 awards made in 2019 will be subject to the following performance conditions, measured over the three financial years to 31 December 2021:

Earnings per Share	40%	Based on aggregate EPS in financial years 2019, 2020 and 2021. None of this part of the award will vest if aggregate three-year EPS is below 159 pence; at 159 pence, 25% of the award increasing on a straight-line basis to full vesting for 184 pence or higher.
Relative TSR	40%	Total shareholder return performance against a peer group comprising OneSavings Bank, Paragon, CYBG, Close Brothers, Provident Financial, Metro Bank, Arrow Global, Secure Trust Bank, Lloyds, RBS, S&U, Barclays and HSBC. None of this part of the award will vest if the Group is ranked below median; for median ranking 25% of the award will vest increasing to full vesting for upper quartile ranking or higher.
An assessment of risk	20%	An assessment of risk performance over the three-year performance period. The actual performance targets which are quantitative and qualitative in nature are deemed to be commercially sensitive. Full disclosure of the targets and outcomes will be disclosed on a retrospective basis.

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

Non-Executive 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.

	2018	2019
Board Chairman	£200,000	£250,000
Board Deputy Chairman	£150,000	£150,000
Basic fee	£67,500	£67,500
Additional fee for Senior Independent Director	£20,000	£20,000
<b>Additional fee for Committee Chairman</b>		
Audit Committee	£25,000	£25,000
Risk Committee	£25,000	£25,000
Stakeholder Committee	£25,000	£25,000
Remuneration Committee	£20,000	£25,000
Nomination Committee	£10,000	£10,000
Models & Ratings Committee	£10,000	£10,000
<b>Additional fee for Committee Membership</b>		
Audit, Risk, Remuneration Committee, Stakeholder Committee	£5,000	£5,000
Nomination and Models & Risk Committees	£2,500	£2,500

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

Directors' report / other statutory information

The Directors present their report and the financial statements of the Group for the year ended 31 December 2018. As permitted by legislation, some of matters normally included in the Directors Reports are included by reference as detailed below.

Results

The consolidated results for the year are shown on page 117 of the Financial Statements.

Dividend

The Directors declared an interim dividend of 2.8 pence per share reflecting a pay-out ratio of 25% of profit after tax.

The Directors propose a final dividend of 9.9 pence per share (2017: nil pence) payable on 22 May 2019 with an ex-dividend date of 11 April 2019 and a record date of 12 April 2019. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 15 May 2019. The final and interim dividend result in a total dividend for 2018 of 12.7 pence (2017: nil pence) per share.

Directors

The names of the Directors of the Group at the date of this report, together with biographical details, are given on pages 59 to 60 of this Annual Report. In accordance with the UK Corporate Governance Code ("the Code"), all Directors will retire at the 2019 AGM and offer themselves for re - election at that meeting.

All Directors listed on pages 59 to 60 were directors during the year.

Further details on the Directors' remuneration and service agreements or appointment letters (as applicable) can be found in the Directors' Remuneration Report on pages 91 (Executive Directors) and 93 (NEDs) of this Annual Report.

Directors' indemnity arrangements

It is the Group's practice to indemnify its Directors, to the extent permitted by law and the Articles of Association, against all costs, charges, losses, expenses and liabilities incurred in connection with the performance of their duties. Each Director entered into a Deed of Indemnity with the Company on 26 June 2018 which indemnifies him/her (subject to the provisions of the Companies Act 2006 and the limitations set out in each deed, against any liability arising out of any claim made against him/her in connection with any negligence, default, breach of duty or breach of trust in the actual or purported execution and/or discharge of his/ her duties or powers as a Director of the Company. In addition, the Group maintains Directors and Officers liability insurance for the Directors.

Directors' interests

The Directors' interests in the share capital of the Group as at 31 December 2018 are set out on page 100 of the Directors' remuneration report.

Appointment and power of Directors

The Group's articles of association set out the powers of the Directors, and rules governing the appointment and removal of directors. The articles of association can be viewed at www.chartercourtfsc.co.uk. The appointment of Directors is governed by the Group's articles of association, the Companies Act 2006 and other applicable regulations. Directors may be elected by the shareholders in general meeting or appointed by the Board of Directors in accordance with the provisions of the articles of association.

In accordance with the Code, all Directors will retire and submit themselves for reappointment at each AGM. The Board will only recommend to shareholders that Executive and Non-Executive Directors be proposed for reappointment at each AGM after evaluating the performance of the individual Directors.

Letters of appointment for individual Directors are available for inspection by shareholders at each AGM and during normal business hours at the Group's registered office.

The Directors are responsible for the management of the Group subject to any directions given by special resolution and the articles of association.

Share capital

The Group's share capital consists of one class of ordinary share with a nominal value of £0.01 per share. As at 31 December 2018, 239,320,419 ordinary shares were in issue (2017: 239,130,419).

On 15 October 2018 the Group allotted 190,000 ordinary shares of £0.01 each, par value £1,900. Full details of the share issue are shown in note 33 of the Financial Statements.

On 15 October 2018, immediately following the allotment, the Group's share capital was as follows:

	Issued	Number
Ordinary Shares of £0.01	£2,393,204.19	239,320,419

Pursuant to an ordinary resolution passed at the Annual General Meeting on 16 May 2018, the Directors were generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Group to allot shares in the Group and to grant rights to subscribe for or to convert securities into such shares in the Group:

- (a) up to an aggregate nominal amount of £789,000 (being approximately 33% of the issued ordinary share capital of the Company) such authority to apply in substitution for all previous authorities pursuant to section 551 of the Act and provided that authority shall expire at the conclusion of the next annual general meeting of the Group or on 30 June 2019, whichever is the earlier, but, in each case, during this period the Group may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.

Rights attaching to shares

The Group's articles of association set out the rights and obligations attaching to ordinary shares. All of the ordinary shares rank equally in all respects.

On a show of hands, each member has the right to one vote at general meetings of the Group. On a poll, each member would be entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the Group's share capital and all shares are fully paid.

The articles of association and applicable legislation provide that the Group can decide to restrict the rights attaching to ordinary shares in certain circumstances (such as the right to attend or vote at a shareholders' meeting), including where a person has failed to comply with a notice issued by the Group under section 793 of the Companies Act 2006.

Deadline for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM, to be held on 15 May 2019, will be set out in the notice of the AGM.

Restrictions on the transfer of shares

There are no restrictions on the transfer of the Group's shares which are governed by the general provisions of the articles of association and prevailing legislation. The articles of association set out certain circumstances in which the Directors of the Group can refuse to register a transfer of ordinary shares.

Directors and employees of the Group are required to comply with applicable legislation relating to dealing in the Group's shares as well as the Group's share dealing rules. These rules restrict employees' and Directors' ability to deal in ordinary shares at certain times, and require the employee or Director to obtain permission prior to dealing. Some of the Group's employee share plans also contain restrictions on the transfer of shares held within those plans.

The Group is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Purchase of own shares

Under section 701 of the Companies Act 2006 the Group may make a market purchase of its own ordinary shares.

The existing authority given to the Group at the AGM held on 16 May 2018 to make market purchases of its own shares up to 23,900,000 (being approximately 10% of its issued ordinary share capital) will expire, unless renewed at the conclusion of the next AGM, or, if earlier, 30 June 2019.

Employee share trust

RBC is the trustee of the Charter Court Financial Services Group Employee Benefit Trust, an independent trust, which holds shares for the benefit of employees and former employees of the Group. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the Group funds the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 37 of the Financial Statements. The trustee has waived its right to dividends on all shares held within the trust.

Substantial shareholdings

The Group has been notified in accordance with the FCA's Disclosure Guidance and Transparency Rules DTR 5.1 of the following substantial interests as at 31 December 2018:

	% of total voting rights
Elliott International, L.P. and The Liverpool Limited Partnership	31.66
Merian Global Investors (UK) Limited (formerly Old Mutual Global Investors (UK) Limited)	18.52
JPMorgan Asset Management Holdings Inc.	5.01

Information provided by the Group pursuant to DTR 5.1 is publicly available via the regulatory information service and on the Group's website. Substantial shareholders do not have different voting rights from those of other shareholders.

Articles of association

The Group's articles of association were last amended in September 2017. They may only be amended by a special resolution of the Group's shareholders. The articles of association can be viewed at [www.chartercourtfsc.co.uk](http://www.chartercourtfsc.co.uk).

Corporate governance statement

The Group is required by the Disclosure Guidance and Transparency Rules to prepare a corporate governance statement including certain specified information. Information fulfilling the requirements of the corporate governance statement can be found in this Directors' Report, and the Corporate Governance Report, committee reports and Directors' Remuneration Report on pages 81 to 103 of this Annual Report. This information is incorporated by reference into this Directors' Report.

Strategic report

The Group's Strategic Report can be found on pages 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

Greenhouse gas emissions is 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 certain insurance policies, bank facility agreements and employee share plans.

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

Financial instruments

Details of the Group's financial instruments can be found in notes 18 to 21 and 27 to 29 to 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 threaten 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 are in advanced talks with OSB regarding a potential all-share combination of Charter Court and OSB. The potential transaction is subject to shareholders and regulators 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.

The Group sold its residual interest in Precise Mortgage Funding 2018-2B plc to a third party during January 2019 for a gain on sale of £20.1 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 year to 31 December 2018 LR 9.8.4R (1)	£nil
Details of long term incentive plans are set out in the Directors Remuneration Report	Pages 81 to 103

Relationship agreement

Elliott International, L.P. and Elliott Associates L.P. directly and indirectly through wholly owned subsidiaries, (the "Major Shareholders") own 31.66 percent of the issued share capital of the Group. The Major Shareholders entered into a Relationship Agreement with the Group in accordance with LR9.2.2AR(2)(a) of the UKLA Listing Rules, which took effect from admission to the London Stock Exchange on 4 October 2017. The Relationship Agreement is intended to ensure that the Group is capable of carrying on business independently of the Major Shareholders for so long as the Major Shareholders hold a relevant interest, being a legal or beneficial interest in more than 30 percent of the Ordinary Shares. Pursuant to the Relationship Agreement, the Group has agreed with the Major Shareholders that they may appoint one Non-Executive Director to the Board for so long as they (together with their respective affiliates) hold, directly or indirectly, at least 30 percent of the Group's Ordinary Shares and a further Non-Executive Director to the Board for so long as they hold, directly or indirectly, at least 50 percent of the Group's Ordinary Shares. As at 13 March 2019, the Major Shareholders have not yet elected to exercise these Board appointment rights. The Directors believe that the terms of the Relationship Agreement will enable the Group to carry on its business independently of the Major Shareholders and ensure that all agreements and transactions between the Group, on the one hand, and the Major Shareholders and their respective associates and/or persons acting in concert with the Major Shareholders or their associates, on the other hand, will be at arm's length and on a normal commercial basis.

The Group has complied with the independence provisions in the Relationship Agreement and that so far as it is aware, the major Shareholders and its associates have complied with the independence and procurement obligations.

As required by LR9.8.4R (11) the Group confirms that there are no contracts in place for the provision of services to the Group or any subsidiaries by the major Shareholder.

Resolutions at the 2019 AGM

The Group's AGM was held on 16 May 2018 and the Resolutions set out in the notice of the AGM were passed.

The Group's next AGM will be held on 15 May 2019. Resolutions to be proposed at the AGM will include the renewal of the Directors' authority to allot shares, the disapplication of pre-emption rights, authority for the Group to purchase its own shares, the election of the Directors and the reappointment of Deloitte LLP as the external auditor of the Group.

The full text of each of the resolutions to be proposed at the 2019 AGM will be set out in the notice of the AGM sent to the Group's shareholders. A letter from the Chairman and explanatory notes will accompany the notice of the AGM.

Auditor

The Board (following a recommendation from the Audit Committee) has recommended that Deloitte be reappointed as the Group's auditor with effect from the 2019 AGM, at which resolutions concerning Deloitte's reappointment and authorising the Directors to set their remuneration will be proposed. The full text of the relevant resolutions will be set out in the notice of the AGM sent to the Group's shareholders.

Disclosure of information to the auditor

Each of the persons who are Directors at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Going concern

The Group has a strong, proven and conservative business model and has traded profitably during the year. It is well positioned in each of its core businesses, well capitalised, soundly funded and has adequate access to liquidity.

After making enquiries, the Directors have a reasonable expectation that Charter Court and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report, see Going concern statement on page 47.

Fair, balanced and understandable

A requirement of the UK code is that the Annual Report is fair, balanced and understandable to shareholders. The Audit Committee concluded that this report is fair, balanced and understandable in providing an assessment of the Group's financial position, business performance and strategic outlook.

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

**Ian Lonergan**  
Chief Executive Officer  
13 March 2019

**Sebastien Maloney**  
Chief Financial Officer  
13 March 2019

# 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