

Financial statements

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Independent auditor's report to the members of Charter Court Financial Services Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Charter Court Financial Services Group plc (the "Parent company") and its subsidiaries ("the Group") give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and Parent company statement of financial position;
- the consolidated and Parent company statement of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 63; and
- the information identified as "audited" within the risk management section of the strategic report.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"> loan loss provisioning; effective interest rate ("EIR") accounting; and securitisation accounting. Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with  .
Materiality	The materiality that we used for the Group financial statements was £7.9 million, which was determined on the basis of 5% of profit before tax. The materiality that we used for the Parent company in the current year was £5.5 million, which equated to 2.3% of total equity and was capped at 70% of Group materiality.
Scoping	All entities in the Group are within our audit scope and audited to a local materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 27 to 44 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 79 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; or
- the Directors' explanation on pages 46 to 47 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan loss provisioning

Key audit matter description

The Group has implemented IFRS 9: Financial Instruments, which is effective from 1 January 2018. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation.

The Group held loan loss provisions of £3.6 million (2017: £1.0 million in accordance with IAS 39) against loans and advances to customers of £6,643.6 million (2017: £5,365.2 million). The transition adjustment on adoption of IFRS 9 at 1 January 2018 was an increase of £0.7 million (resulting in a total provision of £1.7 million).

For financial assets held at amortised cost, IFRS 9 requires the carrying value of the asset to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimation on assumptions relating to customer default rates, exposure at default, loss given default, assessing significant increases in credit risk and macroeconomic scenario modelling. These assumptions are informed using historical behaviour and experience as well as credit bureau data. They are also affected by management's consideration of the future economic environment including the potential effect of the withdrawal of the United Kingdom from the European Union.

The most significant assumptions applied in the impairment model are the probability of possession given default, forced sale discounts and selection of forbearance indicators all of which impact the loss given default, the staging criteria applied within the model and whether management overlays are required to capture other specific risks within the provision. As such our significant risk focussed on the validity of these particular assumptions and judgements.

Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance.

Management's associated accounting policies are detailed within note 5 on pages 125 and 126. The corresponding area in the Audit Committee report is on page 76.

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

We first understood management's process and key controls around loan loss provisioning by undertaking a walkthrough. Following identification of the key controls placed by management to review the impairment provision we evaluated the associated design, implementation and tested operating effectiveness of such controls. Specifically, we assessed the key controls that the Group has in place to review the loan loss provisioning methodology, as well as the controls in place to assess the completeness and validity of changes in the key estimates relating to management overlays.

In order to determine the key assumptions within the model, we performed sensitivity analysis and considered the impact each assumption had on the level of recorded provision.

We engaged credit risk and accounting specialists to assess the compliance of the modelling approach with the requirements of the standard. We also engaged credit risk specialists to determine whether the documented modelled approach was implemented in practice.

We challenged management's key assumptions, including testing the accuracy of key aspects of the loss given default calculation, through independent recalculation using underlying data for which we have tested the completeness and accuracy.

In addition, we assessed the completeness and appropriateness of identified management overlays, through our understanding of the Group's loan book and the external environment and benchmarked these assumptions to peers where appropriate.

We have testing the accuracy of the staging allocation within the Group's model based upon management's approved staging criteria. We have benchmarked the criteria applied to peers as well considering the specific characteristics of the Group's lending streams.

We challenged management's consideration of the future economic environment within the macroeconomic scenarios, including the potential effect of the withdrawal of the United Kingdom from the European Union by engaging our economic experts to review management's approach as well as comparing modelled assumptions to publically available data from the Office of National Statistics and comparable peer data.

We reconciled the loan loss provision models to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate.

Key observations

Based on the evidence obtained, we found that the assumptions underpinning the loan loss provisioning model, including management overlays, were determined and applied appropriately and the recognised provision was reasonably stated.

Effective interest rate accounting

Key audit matter description

The Group holds loans and receivables which meet the criteria of financial assets under IFRS 9. The recognition of interest income on loans under IFRS 9 requires the use of an effective interest rate method. Judgement is applied by management to determine key assumptions related to the behavioural life of each loan and the cash flows directly attributable to each loan (primarily fee and interest cash flows). Any changes to such assumptions during the life of the loan can have a significant impact on the amount of interest income recognised during the year.

Given the degree of judgement and estimation involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance.

The Group held an EIR adjustment of £17.4 million (2017: £20.0 million) against customer loans and receivables which is being amortised over the behavioural lives of the associated loans.

Management's associated accounting policies are detailed within note 5 on page 125, with detail about critical accounting estimates on page 129. The corresponding area in the Audit Committee report is on page 76.

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

We first understood management's process and key controls around recognition of interest income through discussions and walkthroughs, we then evaluated the associated design, implementation and tested operating effectiveness of the key controls. Specifically, we assessed the key controls that the Group has in place to assess the completeness and accuracy of the fees and costs included within the EIR models, as well as the controls in place to assess the validity of the adjustments posted due to changes in behavioural life.

We reviewed the ongoing treatment of fees and charges arising on customer loans and receivables and the appropriateness of their inclusion or exclusion in the Group's EIR models and performed a reconciliation of the EIR adjustments within the model back to the general ledger. We engaged our IT specialists to independently calculate the expected EIR adjustment for the long term lending portfolios in order to conclude on accuracy.

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

Key observations

The results of our testing were satisfactory and the underlying methodology used for the calculation of EIR is considered materially accurate in the context of the accounting policies and the requirements of the relevant accounting standards.

We determine the on-going treatment of fees and charges to be appropriate.

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

Securitisation accounting

Key audit matter description

Securitisation accounting within the Group structure is complex. Judgement is required in determining whether the Group controls the special purpose vehicle ("SPV") following securitisation, and therefore whether the transferred mortgage assets should be de-recognised from the Group. The outcome of this assessment has a material impact on the assets and liabilities recognised within the Group.

During the year three (2017: two) new securitisations aggregating £906.1 million (2017: £297.3 million) were completed and the residual rights of four securitisations were sold.

Of the four (2017: one) transactions of the sale of the residual rights during the year, management has concluded that in two (2017: one) instances the sales have achieved de-recognition of loans from the Group. The Group recognised a gain on the sale of loans amounting to £36.4 million (2017: £17.7 million) towards the two de-recognised securitisation transactions.

Management's associated accounting policies are detailed on pages 123, 126 and 127 with detail about judgements in applying accounting policies on page 129.

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

We first understood management's process and evaluated the design and implementation of key controls that the Group has in place to calculate any gain or loss which arises on securitisation, as well as the controls in place to determine the accounting treatment on day one for each of the new securitisations.

We used the relevant accounting guidance to assess whether the Group controls the SPVs following securitisation, which is primarily dependent on whether the Group retained the risks and rewards of ownership of the SPVs following securitisation. We considered whether the Group retained the economic interest through the residual rights to the cash flows within the SPV.

Where it was deemed that mortgage assets should be de-recognised from the Group, we challenged the completeness of the journals posted by management, using our knowledge from previous securitisations completed by the Group, as well as our understanding of the relevant accounting guidance.

We performed substantive procedures in order to assess the accuracy and completeness of the gain, which arose on the sale of the residual rights to the cash flows. We also challenged against the requirements of IFRS 9, the accounting of cash consideration received from the sale of residual certificates for the securitisations which were not de-recognised from the Group.

Key observations

We concurred with management's conclusions regarding continued recognition, de-recognition of the mortgage assets subject to the securitisation transactions in the year.

From our testing performed, we determined the gain on sale as reasonable.

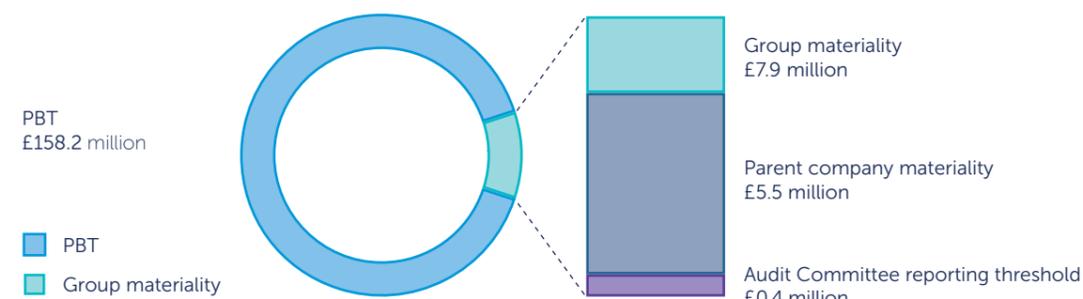
Overall we consider the current year securitisation transactions are reasonably stated.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£7.9 million (2017: £4.9 million)	£5.5 million (2017: £4.7 million)
Basis for determining materiality	5% of profit before tax. Prior year materiality adjusted the profit before tax by excluding gains recognised in de-recognition securitisation transactions. As these gains now form part of the Group's normal business activities, we no longer adjust our materiality for the gains recognised.	Parent company materiality equates to 2.3% of total equity and is capped at 70% of Group materiality. The prior year materiality was capped at 95% of Group materiality on the basis of the investment in subsidiaries balance. In the current year we determined total equity to be a more appropriate basis.
Rationale for the benchmark applied	We determined materiality using profit before tax as we considered this to be the most appropriate measure to assess the performance of the Group.	We determined materiality using the total equity balance as we considered this to be the most appropriate measure for the Parent company. As this was higher than Group materiality, we capped Parent company materiality at 70% of Group materiality.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £398,000 (2017: £245,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, our Group audit scope focused on all entities within the Group and covered 100% of the material balances in the Consolidated financial statements of the Group. We have performed testing over the consolidation of Group entities. These audits were performed directly by the Group audit team and executed at levels of materiality ranging from £5.8 million to £0.2 million (2017: £4.4 million to £0.1 million), which are applicable to each individual entity and are lower than Group materiality.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Parent company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuation, share-based payment, information technology, financial instrument, prudential regulatory, and credit risk specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: loan loss provisioning and EIR accounting.
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, listing rules and tax legislation. In addition, we considered the regulation set by the Prudential Regulatory Authority relating to regulatory capital and liquidity requirements, which are fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning and EIR accounting as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority and Prudential Regulation Authority; and
- in addressing the risk of fraud through management override of controls; testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

In our opinion the information given on page 156 for the financial year ended 31 December 2018 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors' on 6 July 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 31 December 2009 to 31 December 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory auditor
Birmingham, United Kingdom
13 March 2019

Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Interest income and similar income	8	275.5	211.1
Interest expense and similar charges	9	(95.0)	(67.0)
Net interest income		180.5	144.1
Non-interest income	10	8.0	8.5
Gain on sale of loans		36.4	17.7
Net loss from derivative financial instruments	11	-	(0.1)
Total income (net)		224.9	170.2
Administrative expenses		(64.6)	(58.0)
Provision for loan impairments – net charge	20	(2.1)	(0.5)
Profit before tax	12	158.2	111.7
Tax charge	15	(37.4)	(30.4)
Profit for the year		120.8	81.3
Other comprehensive income for the year		-	-
Profit and total comprehensive income for the year attributable to equity holders of the Parent Company		120.8	81.3
Earnings per share (pence per share)			
Basic	16	50.5	35.0
Diluted	16	50.1	34.9

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

Consolidated statement of financial position

As at 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Cash and cash equivalents	18	981.2	966.8
Investment in debt securities	19	123.0	78.4
Customer loans and receivables	20	6,661.5	5,364.2
Fair value adjustment for hedged risk	20	(9.9)	(6.2)
Derivative financial instruments	21	17.1	11.9
Other assets held at fair value	22	0.1	0.2
Trade and other receivables	23	5.9	4.6
Deferred tax asset	24	2.5	2.2
Property, fixtures and equipment	25	2.5	0.9
Intangible assets	26	2.6	1.4
Total assets		7,786.5	6,424.4
Liabilities			
Deposits from banks	27	1,214.8	1,003.5
Deposits from customers	28	5,094.5	4,420.0
Fair value adjustment for hedged risk	28	(2.7)	(0.2)
Debt securities in issue	29	972.9	627.4
Derivative financial instruments	21	13.7	6.5
Trade and other payables	30	24.2	15.2
Corporation tax payable	31	18.8	17.0
Total liabilities		7,336.2	6,089.4
Net assets		450.3	335.0
Equity			
Share capital	33	2.4	2.4
Share premium	34	19.0	19.0
Retained earnings	35	429.3	313.6
Own shares	37	(0.4)	-
Equity attributable to equity holders of the Parent Company and total equity		450.3	335.0

Notes 1 to 49 form an integral part of the Consolidated financial statements.

The financial statements were approved by the Board of Directors on 13 March 2019. They were signed on its behalf by:



Ian Lonergan
Chief Executive Officer

Company number: 06712054



Sebastien Maloney
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2018

Note	Share capital	Share premium	Retained earnings	Equity-settled employee benefits reserve	Own shares	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2017	-	195.1	38.3	0.1	-	233.5
Cancellation of share premium	-	(195.1)	195.1	-	-	-
Bonus issue	3.0	-	(3.0)	-	-	-
Cancellation of deferred shares	(0.7)	-	0.7	-	-	-
Share issue	0.1	19.9	-	-	-	20.0
Share issue costs	-	(0.9)	-	-	-	(0.9)
Profit and total comprehensive income for the year	-	-	81.3	-	-	81.3
Recognition of share-based payments (note 38)	-	-	0.4	0.7	-	1.1
Transfer of equity-settled employee benefits reserve	-	-	0.8	(0.8)	-	-
Balance at 31 December 2017 as originally presented	2.4	19.0	313.6	-	-	335.0
IFRS 9 adjustment to opening provision for loan impairments (note 3)	-	-	(0.7)	-	-	(0.7)
Restated total equity at 1 January 2018	2.4	19.0	312.9	-	-	334.3
Profit and total comprehensive income for the year	-	-	120.8	-	-	120.8
Interim dividend paid (note 17)	-	-	(6.7)	-	-	(6.7)
Deferred tax on transition to IFRS 9 (note 24)	-	-	0.2	-	-	0.2
Recognition of share-based payments (note 38)	-	-	2.1	-	-	2.1
Purchase of own shares	-	-	-	-	(0.4)	(0.4)
At 31 December 2018	2.4	19.0	429.3	-	(0.4)	450.3

Consolidated statement of cash flows

For the year ended 31 December 2018

Note	2018 £m	2017 £m
Net cash (utilised)/generated by operating activities	(850.0)	189.6
Purchases of property, fixtures and equipment	(2.1)	(0.4)
Expenditure on product system development and software	(1.5)	(1.0)
Proceeds from sale of customer loans and receivables	286.2	300.0
Purchases of investments in debt securities	(62.0)	(44.7)
Disposals and redemptions of investment in debt securities	17.5	88.9
Net cash generated by investing activities	238.1	342.8
Proceeds on issue of debt securities	1,275.5	394.4
Costs associated with issue of debt securities	(3.0)	(1.5)
Repayment of debt securities	(639.1)	(191.6)
Dividends paid	(6.7)	-
Purchase of own shares	(0.4)	-
Proceeds from the issue of shares	-	20.0
Share issue costs	-	(0.9)
Net cash generated financing activities	626.3	220.4
Net increase in cash and cash equivalents	14.4	752.8
Cash and cash equivalents at beginning of the year	966.8	214.0
Cash and cash equivalents at end of the year	981.2	966.8

At 31 December 2018 cash and cash equivalents includes £73.2 million (2017: £79.9 million) of restricted cash (see note 18).

Notes to the Consolidated financial statements

For the year ended 31 December 2018

1. General information

Charter Court Financial Services Group plc (the "Company") is a company incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006 with company number 06712054. The address of the registered office is 2 Charter Court, Broadlands, Wolverhampton, West Midlands, WV10 6TD. The Company is a public company limited by shares.

2. Basis of preparation

The Consolidated financial statements for the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The IFRS, as adopted by the EU, applied for all periods herein presented are those that are effective for accounting periods beginning on or after 1 January 2018.

The Group's Consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and other assets held at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

The financial statements are presented in pounds sterling. The functional currency of the Company and its subsidiaries is pounds sterling, which is the currency of the primary economic environment in which the entities operate. There are currently no foreign operations within the Group.

After considering the Group's current financial condition, assessing future forecasts and the principal risks and uncertainties, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Consolidated financial statements, see Going concern statement.

3. International financial reporting standards issued and adopted for the first time in the year ended 31 December 2018

IFRS 9 Financial instruments is effective for the Group's Consolidated financial statements for the year ending 31 December 2018, changing the classification and measurement of financial assets and introducing a new impairment model for financial instruments which requires entities to recognise expected credit losses based on unbiased forward-looking information. The new impairment model replaces the incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and measures the loss at the most probable outcome under IAS 39 'Financial Instruments: recognition and measurement'.

Under IFRS 9, the Group is required to classify and measure financial assets according to the business model within which they are managed and their contractual cash flow characteristics. Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets are measured at fair value through other comprehensive income ("FVOCI") if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest. Other financial assets are measured at fair value through profit and loss ("FVTPL").

The Group has reviewed the business model within which each financial asset is managed.

The Group's customer loans and receivables are originated with the intention of holding these assets to maturity and collecting contractual cash flows ("held to collect"). However, management's business model assessment must take into account historical sales of mortgage portfolios to third parties and the likelihood that the Group might continue to take advantage of external sales opportunities. Management has concluded that the level of sales activity is not material in comparison to total customer loans and receivables and so the business model remains held to collect.

The Group's investment securities are acquired to generate interest income until maturity, with the explicit intention of not selling them before maturity, and so the business model is held to collect.

The Group has reviewed the contractual cash flows arising from each financial asset.

The contractual cash flows from the Group's customer loans and receivables and from its investment securities are solely payments of principal and interest, with the one exception of the contractual cash flows from a purchased portfolio of mortgage assets (see below).

3. International financial reporting standards issued and adopted for the first time in the year ended 31 December 2018 (continued)

The Group has therefore concluded that, except as set out below, the measurement of all non-derivative financial assets remains unchanged in the Group's Consolidated financial statements and they continue to be carried at amortised cost. The measurement of derivative financial assets also remains unchanged and they continue to be carried at FVTPL.

The Group has previously purchased a portfolio of mortgage assets that may generate cash flows other than payments of principal and interest. Under IAS 39 the portfolio was carried at amortised cost, with a net carrying amount of £24.1 million at 31 December 2017. Under IFRS 9, the same portfolio is now carried at FVTPL. On transition to IFRS 9 the fair value of the portfolio was calculated as £24.1 million.

The opening impairment allowance as at 1 January 2018 measured in accordance with the IFRS 9 expected loss model is £1.7 million, an increase of £0.7 million, 70%, compared with £1.0 million closing impairment allowance as at 31 December 2017 measured in accordance with the IAS 39 incurred loss model. The £0.7 million relates to loans and receivables and there is an immaterial amount relating to loan commitments and guarantees.

The Group has elected not to restate comparatives on initial application of IFRS 9 on 1 January 2018, and adjustments arising from changes have been recognised in opening equity.

The calculation of expected credit losses under IFRS 9 requires significant management judgements, estimates and assumptions. Key concepts and management judgements include:

- determining whether a significant increase in credit risk since initial recognition of an asset has occurred;
- defining default and at what point a financial asset becomes credit impaired;
- identifying the key economic variables impacting credit risk; and
- identifying and developing the appropriate modelling techniques.

For further details on the Group's approach to credit risk and impairment, see the Credit risk management section on pages 32 to 39.

The accounting policy for financial instruments has been revised following the first time application of IFRS 9 Financial instruments in 2018, see note 5.

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

Other changes to accounting standards in the current period, including the adoption of IFRS 15 Revenue from Contracts with Customers, had no material impact. The Group's main source of revenue is interest income which is outside of the scope of IFRS 15. The amount and timing of recognition of the Group's other non-interest income, primarily derived from administration of third party mortgage portfolios, mortgage origination fees not within scope of IFRS 9, is not materially affected by the introduction of IFRS 15.

4. International financial reporting standards issued but not yet adopted which are applicable to the Group

The following financial reporting standards and interpretations

were in issue but have not been applied in the Consolidated financial statements, as they were not yet effective on 31 December 2018 (and in some cases have not yet been adopted by the EU):

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

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to IFRS Standards 2015 - 2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
IFRIC 23	Uncertainty over Income Tax Treatments

The Directors do not expect that the adoption of the Standards and interpretation listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 16 Leases is effective for the Group's Consolidated financial statements for the year ending 31 December 2019. It introduces significant changes to lessee accounting removing the distinction between operating and finance leases. The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The new definition in IFRS 16 does not change the scope of contracts that meet the definition of a lease for the Group or have a material impact on the Consolidated financial statements of the Group. IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases the Group will:

- Recognise right-of-use assets and lease liabilities in the Consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the Consolidated statement of comprehensive income;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated statement of cash flows.

On transition the Group will use an incremental borrowing rate as of the date of the initial application (1 January 2019) which incorporates the remaining lease term to calculate the lease liability, the right-of-use asset will be measured at an amount equal to the lease liability.

Lease payments are currently reported as an administrative expense. Under IFRS 16 interest expense on the lease liability will be presented as a finance cost and the depreciation charge for the right-of-use asset will be presented under administrative expenses. The expense profile of the Consolidated statement of comprehensive income will change, with a higher finance cost in earlier years of the lease.

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

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. For short-term leases (lease term of 12 months or less), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £11.3 million (2017: £11.4 million). Of these arrangements, £10.8 million (2017: £10.9 million) relate to leases other than short-term leases, and, £0.5 million (2017: £0.5 million) of these arrangements relate to short-term leases.

On transition to IFRS 16, the Group will recognise a right of use asset of £8.5 million and a corresponding lease liability of £8.5 million in respect of these leases other than short-term leases. The impact on the Consolidated statement of comprehensive income of the Group is not material.

5. Accounting policies

Basis of consolidation

The Consolidated financial statements include the assets and liabilities and results of operations of the Company and its subsidiaries, including certain structured entities, after elimination of intercompany transactions, balances, revenues and expenses.

Consolidation

Subsidiaries are those entities, including structured entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

The Group manages the administration of its securitised assets and is exposed to the risks and rewards of the underlying mortgage assets through its continued subordinated investment in the securitisation structures. Where the Group does not retain a direct ownership interest in a securitisation entity, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying mortgage assets and raising debt on those mortgage assets which is used to fund the Group) and uses this control to obtain a variable return (for example, retaining the residual risk on the mortgage assets). Securitisation structures that do not meet these criteria are not treated as subsidiaries and the mortgage assets are derecognised when they are sold.

The Group's Employee Benefit Trust ("EBT") is controlled by the Group and consequently is consolidated into the Group's accounts. A "look through" approach has been adopted, accounting for the EBT as if it is a part of the holding company.

The Group is not deemed to control an entity when it exercises power over an entity in an agency capacity. In determining whether the Group is acting as an agent, the Directors consider the overall relationship between the Group, the investee and other parties to the arrangement with respect to the following factors: (i) the scope of the Group's decision making power; (ii) the rights held by other parties; (iii) the remuneration to which the Group is entitled; and (iv) the Group's exposure to variability of returns.

The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that different parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Significant judgment is applied in assessing the relevant factors and conditions in totality when determining whether the Group controls an entity. Specifically, judgment is applied in assessing whether the Group has substantive decision making rights over the relevant activities and whether it is exercising power as a principal or an agent.

The Group consolidates all subsidiaries from the date it obtains control and ceases consolidation when an entity is no longer controlled by the Group. The Group's consolidation conclusions affect the classification and amount of assets, liabilities, revenues and expenses reported in the Consolidated financial statements.

For a full list of the Group's subsidiaries and the special purpose entities consolidated into the Consolidated financial statements, refer to note 52.

Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost are recognised in profit or loss using the effective interest rate ("EIR") method. The EIR is the rate which exactly discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability. In calculating the EIR, the Group estimates the cash flows considering all contractual terms, but does not consider future credit losses. Expected lives are estimated using historical data and management judgement and the calculation is adjusted when actual experience or a change in estimate differs from current expected cash flows. The revised expected cash flows are discounted using the original EIR and the difference between the revised carrying amount and the recorded carrying value of the financial instrument is recognised immediately in the Consolidated statement of comprehensive income. Origination fees received and paid on loans to customers are included within customer loans and receivables and are amortised over the expected life of those assets using the EIR method.

Net interest income or expense on interest based derivative instruments is included in interest income and similar income or interest expense and similar charges following the underlying instrument it is hedging. For interest rate swaps designated in a hedging relationship, accrued interest is recognised in net interest income in the Consolidated statement of comprehensive income.

For credit impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses ("ECLs")).

Non-interest income

Non-interest income is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers include fees received from the mortgage administration services and mortgage origination activities.

Income from the rendering of these services and mortgage origination activities is recognised when the services are delivered and the benefits are transferred to clients and customers.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

5. Accounting policies (continued)

Gain on sale of loans

The difference between the carrying amount of customer loans and receivables (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised as a gain on sale of loans in the Consolidated statement of comprehensive income.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rent expense under operating leases is charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also recognised on a straight-line basis over the lease term.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Consolidated statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Consolidated statement of financial position date. Exchange differences are recognised in profit or loss in the Consolidated statement of comprehensive income in the year in which they arise.

Retirement benefit costs

The Group operates defined contribution retirement benefit schemes for all qualifying employees who subscribe to the terms and conditions of the schemes policies.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and also excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Consolidated statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, fixtures and equipment

Leasehold property improvements, fixtures and equipment and computer equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of the assets, less any residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold property improvements	20% per annum
Fixtures and equipment	20% - 33.3% per annum
Computer equipment	33.3% per annum

The net gain or loss arising on the disposal or retirement of property, fixtures and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in gain or loss in the Consolidated statement of comprehensive income.

Intangible assets

Computer software and licences, which are not integral to specific related items of equipment, are stated at cost less accumulated amortisation and any recognised impairment loss.

Amortisation is charged so as to write off the cost of the assets, less any residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Computer software and licences	20% - 33.3% per annum
Development costs	25% per annum

Internally-generated intangible assets – development costs

Internally-generated intangible assets are recognised only if all of the following conditions are met:

- an asset is being created that can be identified after establishing the technical and commercial feasibility of the resulting product;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives of between three to five years, which is determined at the point at which the asset is developed and is capable of being used. Subsequent expenditure on internally-generated intangible assets, after its purchase or completion, is recognised as an expense in the period in which it is incurred.

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

5. Accounting policies (continued)

Impairment of property, fixtures and equipment and intangible assets

At each Consolidated statement of financial position date, the Group reviews the carrying amounts of its property, fixtures and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested at least annually for impairment and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial assets

Classification

From 1 January 2018 the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost; and
- those to be measured subsequently at fair value (either through OCI, or through profit or loss).

Financial assets are classified on the basis of two criteria:

1. The business model within which financial assets are managed; and
2. Their contractual cash flow characteristics (whether the cash flows represent solely payments of principal and interest).

An assessment of the Group's business model for managing financial assets is fundamental to the classification of a financial asset. Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest. Other financial assets are measured at FVTPL.

At the initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models each reporting period to

determine whether the business models have changed since the preceding period. Management assessed the business model of the Group as of 1 January 2018 on initial application of IFRS 9.

The Group makes infrequent, opportunistic sales of the residual interests in mortgage securitisations, resulting in the derecognition of the associated mortgage assets. In order to appropriately classify mortgage assets at period end between those measured at amortised cost and those measured at FVOCI, the Group takes account of the frequency and amount of the sales and potential sales in future forecasts.

Measurement

At initial recognition, the Group measures a financial asset at its fair value. In the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value. In the case of financial asset carried at FVTPL, transaction costs are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest rate ("EIR") method. The Group incurs transaction costs and fees for the origination of financial assets.

Financial assets measured at amortised cost consist of customer loans and receivables (principally residential mortgage loans) originated by the Group, investments in debt securities and cash and cash equivalents.

Customer loans and receivables are originated by the Group with the intention of holding the assets until maturity and to collect contractual cash flows where those cash flows represent solely payments of principal and interest. The Group incurs direct and incremental costs and fees, such as application fees and broker commissions. These costs and fees are included within customer loans and receivables and are amortised over the expected life of those assets using the EIR method.

Investments in debt securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold solely to collect payments of principal and interest. These investments are initially recognised at fair value including direct and incremental transactions costs and measured subsequently at amortised cost, using the EIR method.

Financial assets measured at FVTPL

Customer loans and receivables acquired by the Group are initially recognised at fair value. Direct and incremental costs of acquisition are expensed through profit or loss. Customer loans and receivables are subsequently carried at fair value as the contractual cash flows from these loans include payments that are not solely payments of principal and interest.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial instruments that are not measured at FVTPL.

The Group recognises loss allowances for expected credit losses on the following financial instruments:

- loans and advances to banks;
- investments in debt securities;
- loans and advances to customers; and
- loan commitments issued.

5. Accounting policies (continued)

Expected credit losses are determined by projecting the probability of default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This calculates an expected credit loss for each future month, which is then discounted back, using the original effective interest rate, to the reporting date and summed. This calculation is undertaken for a number of the selected economic scenarios and probability weighted to produce the final loss allowance.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Group recognises expected credit losses from default events expected within 12 months of the reporting date if credit risk has not significantly increased since initial recognition (Stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (Stage 2) or which are credit impaired (Stage 3).

- a) Determining whether a significant increase in credit risk since initial recognition has occurred

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience, early warning indicators and expert credit risk assessment. The Group identifies early warnings through considering movements in the customer's credit file and through the outcomes of customer contact. In addition, the Group considers that significant increase in credit risk occurs when the borrower is more than 30 days past due on their contractual payments.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

- b) Definition of default and credit impaired assets
- The Group defines a financial instrument as in default, when it meets one or more of the following criteria:

Quantitative criteria: The borrower is more than 90 days past due on contractual payments.

Qualitative criteria: The borrower is less than 90 days past due on contractual payments but is judged to be unlikely to pay, in circumstances such as bankruptcy or a borrower being deceased. It may not be possible to identify a single discrete event, instead, the combined effect of several events may have caused the loan to become credit impaired.

The above criteria are applied to all financial instruments held by the Group, with the exception of bridging loans. The default definition is applied consistently to model the PD, EAD and LGD in the Group's expected credit loss calculations. The definition of default for bridging loans are different to other financial instruments. Bridging loans have an initial period where no payments are due. The default definition applied to bridging loans is that they are classified as Stage 3 when at least three payments in arrears.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria. Such an instrument is no longer classified as Stage 3 but must remain in Stage 2 for at least three months before it can be classified as Stage 1.

The Group assesses whether a financial instrument measured at amortised cost or FVOCI is credit impaired at each reporting date.

c) Forward-looking information

The Group's calculation of expected credit losses incorporates the use of internal and external forward-looking information and key economic variables impacting credit risk and expected credit losses for each portfolio available as of each period end. This information is used to develop a base economic scenario and other possible scenarios that are weighted according to management judgement of each scenario's likelihood.

The assessment of significant increases in credit risk takes into account forward looking macroeconomic data available as of 31 December 2018 through a management judgement process.

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy.

Renegotiated loans are included in stage 2 as a significant increase in credit risk since initial recognition is assumed to have occurred.

Write-offs

Loans are written off when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Derecognition of financial assets on securitisation

When the Group completes a securitisation, management considers whether the assets securitised meet the criteria to be derecognised, or should continue to be recognised by the Group. A financial asset is derecognised when the rights to the cash flows from that asset expire; or when the contractual rights to the cash flows are transferred; or when the risks and rewards of the financial asset are substantially transferred.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and restricted cash. Where cash is not freely available for the Group to use for its general purposes, it is disclosed as restricted cash, as set out in note 18; this includes cash collected in the securitisation vehicles prior to paying down loan notes.

Financial liabilities

A financial liability is any liability that is (a) a contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; or (b) a contract that will or may be settled in the Group's own equity instruments and is: (i) a non-derivative for which the Group is or may be obliged to deliver a variable number of the Group's own equity instruments; or (ii) a derivative that will or may be settled other

5. Accounting policies (continued)

than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity interests. Financial liabilities includes any financial guarantees the Group may enter into.

Financial liabilities including wholesale liabilities and retail deposits are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities (other than financial liabilities at FVTPL) are added to or deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognised immediately in profit or loss. Financial liabilities are classified as either financial liabilities at FVTPL (see policy for FVTPL for financial assets above) or other financial liabilities.

Retail deposits

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

Interest payable to the customer is expensed to the income statement as interest payable over the deposit term on an EIR basis.

Other financial liabilities

Other financial liabilities consist of trade payables and accruals and corporation tax payable. They are initially recognised at fair value net of transaction costs incurred and subsequently measured at amortised cost using the EIR method.

Fair value hierarchy

The Group applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability.

The Group categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Group can access at the measurement date.
- Level 2: Quoted prices in inactive markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Level 2 positions include derivative financial instruments (unless categorised as Level 3).
- Level 3: Significant inputs to the pricing or valuation techniques are unobservable. Level 3 positions include other assets held at fair value and certain derivative financial instruments.

Term Funding Scheme ("TFS")

Under the Bank of England TFS the Group pledges its rights to the collateral on loans and advances to the Bank of England in return for cash. The loans and advances pledged

are not derecognised from the Consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership including all cash flows arising from the loans and advances and exposure to credit risk. The cash received against the pledged assets is recognised as an asset within the Consolidated statement of financial position (note 18), together with the corresponding obligation to return it, which is recognised as a liability at amortised cost (note 27) and therefore interest is recognised over the life of the TFS on an EIR basis.

Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them. Such securities are retained on the Consolidated statement of financial position when substantially all the risks and rewards of ownership remain within the Group, and the liability is included separately.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the Consolidated statement of financial position.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Consolidated statement of financial position date, and are discounted to present value where the effect is material.

Derivative financial instruments

The Group enters into derivative financial instruments, specifically interest rate swaps, interest rate caps, basis swaps and balance guaranteed swaps, to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each Consolidated statement of financial position date.

The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Hedge accounting

The Group has decided to continue to apply IAS 39 requirements in relation to hedge accounting, and comply with the amended IFRS 7 hedge accounting disclosure requirements. The Group applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its risk management strategies. Derivatives are used to hedge exposures to interest rates.

At the time a financial instrument is designated as a hedge (i.e. at the inception of the hedge), the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), its risk management objective and strategy for undertaking the hedge. The documentation includes the identification of each hedging instrument and respective hedged item, the nature of the risk being hedged (including the benchmark interest rate being hedged in a hedge of interest rate risk) and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk is to be assessed. Accordingly, the Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been

5. Accounting policies (continued)

and will be highly effective in offsetting changes in the fair value attributable to the hedged risk during the period that the hedge is designated. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Group can expect, and actual results indicate, that changes in the fair value or cash flow of the hedged items are effectively offset by changes in the fair value or cash flow of the hedging instrument. If at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the derivatives may be designated as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments (fair value hedges); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges); or (iii) a hedge of a net investment in a foreign operation (net investment hedges). The Group does not use cash flow hedges or net investment hedges.

Fair value hedge accounting

The Group applies hedge accounting for a portfolio hedge of interest rate risk. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Consolidated statement of comprehensive income, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Changes in the fair value of portfolio hedged items are presented separately in the Consolidated statement of financial position in fair value adjustment for hedged risk. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the Consolidated statement of comprehensive income. For a portfolio hedge of interest rate risk, the cumulative adjustment is amortised to the Consolidated statement of comprehensive income using the EIR method over the period to maturity or the expected life of the instrument.

Own shares

Own shares represent the shares of the Parent company Charter Court Financial Services Group plc that are held by the Employee Benefit Trust. Own shares are recorded at cost and deducted from equity.

Share-based payments

Following the listing of its shares on the London Stock Exchange, the Group has introduced a number of employee share schemes under which shares or share options have been granted to employees or Directors subject to the terms of the relevant scheme.

These schemes are accounted for as equity settled share-based payments in accordance with 'IFRS 2 Share-based Payment.' The fair value at the date of grant of a share award or share option is charged to the profit and loss account on a straight-line basis over the vesting period over which the employee becomes unconditionally entitled to the awards, with a corresponding increase in equity.

The grant date fair value takes into account the terms and conditions attached to the awards and in the absence of market prices of equivalent instruments is determined using an appropriate valuation model. Inputs into the valuation models include the risk-free interest rate, the expected volatility of the Group's share price and other factors related to any market-based performance conditions attached to the awards as described in note 38.

The amount recognised as an expense is adjusted to reflect differences between expected and actual outcomes of employee attrition and non-market based performance conditions, such that the amount ultimately recognised as an expense is based on the number of awards that vest (except for those which are subject to market-based performance conditions).

For the Sharesave (SAYE) scheme an additional discount has been applied to reflect the number of awards which are anticipated to be cancelled by employees during the vesting period (for example by cancelling their monthly savings contract). This discount has been accounted for as an adjustment to the calculated grant date fair value. The charge in respect of awards which are subsequently cancelled is accelerated and charged to the income statement in full in the period of cancellation.

National Insurance on share-based payments is accrued at each accounting period end during the vesting period, based on the share price at each accounting period end.

Where the allowable cost of share-based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

IPO expenses

Qualifying costs attributable to the primary issuance are debited directly to equity. They include incremental costs that are directly attributable to issuing the primary shares such as advisory and underwriting fees. Costs associated with both the primary issuance and secondary sale of shares are allocated between the income statement and equity based on the number of primary and secondary shares sold during the issue. Other non-qualifying costs are taken to the income statement.

Segmental reporting

The accounting policies of the segments are the same as those described above for the Group as a whole. Interest payable by each segment is the allocated cost of funds utilised.

6. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 5, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical accounting judgements

The following are the critical accounting judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Consolidated financial statements.

Business Model

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.

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

Management considered the manner in which the Group manages its financial assets by reference to how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and concluded that the Group operates a 'held to collect' business model, which means that the majority of the Group's assets are held at amortised cost. This conclusion was reached on the basis that the Group originates in order to collect contractual cash flows over the life of the originated instrument, and any asset sales which crystallise through residual certificate sales will occur infrequently. The Audit Committee also considered the business model assessment of IFRS 9 and agreed with management's assumption that the business model is 'held to collect'.

Due to the manner in which the Group securitises its financial assets, different business model conclusions have been reached within the separate financial statements Charter Court Financial Services Limited and Charter Mortgages Limited; the judgements considered and conclusions reached are disclosed within their separate financial statements.

Derecognition of financial assets

The primary management judgement around the derecognition of financial assets is in determining the extent to which the Group retains risks and rewards in relation to the residual cash flows after the secured debt has been settled.

In January 2018, the residual rights to the cash flows from Charter Mortgage Funding 2017-1 Plc were sold by the Group to a third party and it was concluded that the criteria for derecognition were met. A gain on sale of £15.1 million was recognised.

In June 2018, the Group securitised £300.0 million of buy to let mortgages through the SPV, Charter Mortgage Funding 2018-1 Plc. As the residual rights to the cash flows were sold to a third party it was concluded that the criteria for derecognition were met. A gain on sale of £21.3 million was recognised.

In July 2018, the Group sold its residual certificate 1 ('RC1') position in Precise Mortgage Funding 2018-2B Plc to a third party for a cash consideration of £14.1 million. The Group retained the residual certificate 2 ('RC2') position and so it was concluded that the criteria for derecognition were not met and the Group continued to treat Precise Mortgage Funding 2018-2B Plc as a consolidated subsidiary in 2018. In January 2019 the Group sold its remaining interest in the company, see note 48 Post balance sheet events.

In November 2018, the Group sold Precise Mortgage Funding 2018-1B Plc's RC1 position to a third party for a cash consideration of £7.1 million. The Group retained the RC2 position and so it was concluded that the criteria for derecognition were not met and the Group continued to treat Precise Mortgage Funding 2018-1B Plc as a consolidated subsidiary in 2018. In January 2019 the Group sold its remaining interest in the company, see note 48 Post balance sheet events.

For all other securitisations, the residual rights to the cash flows are retained and the related customer loans and receivables continue to be recognised in the Group's Consolidated statement of financial position, see note 29 for more information on the Group's securitisation arrangements.

Key sources of estimation uncertainty

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

Application of the EIR method

In order to determine the EIR applicable to each loan an estimate must be made of the life of the loan and the cash flows attributable to it. A critical assumption in the EIR calculation is the expected life of the Group's loan products, therefore, as this determines the assumed period over which customers may be paying various differentiated interest rates and determines the EIR amortisation profile of the deal costs incurred in completing securitisations. The assumptions on expected life are based on the Group's historical experience of similar products and current market analysis. These assumptions are monitored to ensure their ongoing appropriateness. Significant judgment is applied in determining the EIR due to uncertainty in the timing and amounts of future cash flows. As a result, the expected life of the instrument may not equal its contractual life.

Estimates are based on historical data and are reviewed regularly. As a consequence of these reviews, in the year ended 31 December 2018 adjustments of £(2.0) million were made, decreasing net interest income and customer loans and receivables. In the year ended 31 December 2017 adjustments of £0.2 million were made, increasing net interest income and customer loans and receivables.

The Group considers that it is reasonably possible for expected lives to vary by six months from the estimates made in the EIR calculations. A change in the estimated expected lives, after taking account of the above adjustment, to extend or reduce the expected lives of the buy to let and residential mortgages by six months would have the following results. The effect of extending the expected lives would increase the cumulative profit before tax recognised as at 31 December 2018 by £12.5 million (2017: decrease by £0.6 million) and increase customer loans and receivables by £12.5 million (2017: decrease by £0.6 million). The effect of reducing the expected lives would decrease the cumulative profit before tax recognised as at 31 December 2018 by £12.6 million (2017: increase by £0.6 million) and decrease customer loans and receivables by £12.6 million (2017: increase by £0.6 million). The increase in the sensitivity to estimated expected lives of mortgage assets is primarily due to a change in product mix towards buy to let five year fixed rate products. This change has also extended the base case assessment of mortgage assets' estimated lives.

7. Segment information

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

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

- Buy to let ('BTL') lending: Long term first charge loans to landlords;
- Residential lending ('Residential'): Long term first charge loans to owner-occupiers;
- Bridging: Short-term bridging finance to owner-occupiers, landlords and property developers;
- Second charge lending ('SCL'): Long term second charge loans; and

7. Segment information (continued)

- Other: Primarily income from structured asset sales, this also includes net income from the Group treasury and third party mortgage servicing functions and from the loan portfolio purchased in 2017.

Interest expense on debt securities in issue allocated in proportion to securitised buy to let and residential loans and remaining interest expense is allocated in proportion to the average balances of the remaining interest-earning segment assets during the year.

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

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

Assets allocated to the originated lending related segments are customer loans and receivables balances only. Cash and cash equivalents, investments in debt securities and purchased loans and receivables are allocated to the 'Other' segment. Remaining asset balances (which includes intangible assets, tangible fixed assets, deferred tax assets, trade and other receivables, other assets and derivatives) and all liability balances are not allocated to any reporting segment.

	BTL	Residential	Bridging	SCL	Other	Total
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2018						
Interest receivable and similar income	163.7	76.9	18.2	9.0	7.7	275.5
Interest payable and similar charges	(59.1)	(22.4)	(3.2)	(2.6)	(7.7)	(95.0)
Net interest income	104.6	54.5	15.0	6.4	-	180.5
Fees and commissions income	1.9	2.2	0.2	0.3	3.4	8.0
Gain on sale of loans	-	-	-	-	36.4	36.4
Net loss from derivatives	-	-	-	-	-	-
Provision for loan impairments – net charge	(0.8)	(1.1)	-	(0.2)	-	(2.1)
Segment profit	105.7	55.6	15.2	6.5	39.8	222.8
Administrative expenses						(64.6)
Profit before tax						158.2
Tax charge						(37.4)
Profit after tax						120.8
Segment assets	4,506.8	1,705.2	244.1	183.9	1,125.6	7,765.6
Unallocated assets						20.9
						7,786.5
Year ended 31 December 2017						
Interest receivable and similar income	106.3	69.9	19.4	8.1	7.4	211.1
Interest payable and similar charges	(36.5)	(20.7)	(3.0)	(2.2)	(4.6)	(67.0)
Net interest income	69.8	49.2	16.4	5.9	2.8	144.1
Fees and commissions income	1.3	2.0	0.2	0.2	4.8	8.5
Gain on sale of loans	-	-	-	-	17.7	17.7
Net loss from derivatives	-	-	-	-	(0.1)	(0.1)
Provision for loan impairments – net charge	(0.4)	-	-	(0.1)	-	(0.5)
Segment profit	70.7	51.2	16.6	6.0	25.2	169.7
Administrative expenses						(58.0)
Profit before tax						111.7
Tax charge						(30.4)
Profit after tax						81.3
Segment assets	3,232.2	1,718.2	218.9	170.8	1,069.3	6,409.4
Unallocated assets						15.0
						6,424.4

8. Interest income and similar income

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At amortised cost:		
Interest on customer loans and receivables	275.1	214.1
Interest and other income on debt securities	1.3	3.2
Interest and other income on liquid assets	5.6	2.0
	282.0	219.3
At fair value through profit or loss:		
Interest on customer loans and receivables	0.8	-
Net expense on derivative financial instruments designated as hedging instruments	(8.4)	(8.2)
Amortisation of fair value gain on swap cancellations	1.1	-
	(6.5)	(8.2)
	275.5	211.1

9. Interest expense and similar charges

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At amortised cost:		
Interest expense on deposits and other borrowings	80.3	63.3
Interest expense on debt securities in issue	15.7	7.5
	96.0	70.8
At fair value through profit or loss:		
Net income on derivative financial instruments designated as hedging instruments	(1.0)	(3.8)
	95.0	67.0

10. Non-interest income

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Sale of investment in debt securities	-	2.1
Fair value movements on Loans and receivables held at FVTPL	0.6	-
Revenue from services relating to:		
Mortgage administration	2.7	2.5
Mortgage origination	4.7	3.9
	8.0	8.5

11. Net loss from derivative financial instruments

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Macro hedging:		
Gain on derivatives designated as fair value hedges	2.1	6.8
Loss in fair value of hedged items attributable to hedged risk	(2.1)	(6.8)
	-	-
Non-hedging:		
Net loss on disposal of interest rate swaps	-	(0.1)
	-	(0.1)

12. Profit before tax

Profit before tax for the year has been arrived at after (credit)/charge for:

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Increase in the fair value of financial instruments designated at FVTPL	(0.6)	-
Depreciation of property, fixtures and equipment	0.5	0.4
Amortisation of intangible assets	0.3	0.2
Operating lease costs	1.6	1.0
Research and development costs	0.8	0.1
Staff costs (see note 14)	37.7	31.3
IPO costs	-	4.9

No IPO costs were incurred in 2018. Total costs associated with the IPO for the year ended 31 December 2017 were £5.8 million, comprising £4.9 million charged to the income statement and £0.9 million charged to equity.

The auditor's remuneration for audit and other services is detailed in note 13.

13. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
The analysis of auditor's remuneration is as follows:		
Fees payable to the Group's auditor for the audit of the Company's financial statements	0.1	-
Fees payable to the Group's auditor for other services to the Group's companies		
The audit of the subsidiaries within the Group	0.4	0.4
Total audit fees	0.5	0.4
Audit related assurance services	0.3	0.7
Other assurance services	0.1	0.1
Total assurance services	0.4	0.8
Services relating to corporate finance advisory	-	0.3
Total other non-audit services	-	0.3
Total non-audit services	0.4	1.1
Total fees	0.9	1.5

13. Auditor's remuneration (continued)

For the year ended 31 December 2018, non-audit services fees charged of £0.4 million was in respect of, but not limited to, the review of the half-year accounts, work relating to due diligence on securitisation transactions and the verification of profits. In the year ended 31 December 2017 there were £0.7 million fees for IPO related services of which £0.4 million was included within Audit related assurance services and £0.3 million was included within services relating to corporate finance advisory. There were no fees for IPO related services in 2018.

Fees for the audit of the Company's Consolidated financial statements charged in the year ended 31 December 2018 were £74,000 (2017: £30,000).

14. Staff costs

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

	Year ended 31 December 2018	Year ended 31 December 2017
Processing, collections and recovery	212	172
Sales and marketing	45	37
Compliance	30	21
Finance	60	55
Operations and administrative support	230	177
	577	462

Their aggregate remuneration comprised:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Wages and salaries	30.8	26.0
Social security costs	3.9	3.1
Share-based payments (see note 38)	2.1	1.1
Other pension costs (see note 42)	0.9	1.1
	37.7	31.3

There are no staff employed by the Parent Company.

The remuneration of the Directors and key management personnel is disclosed in note 46.

15. Tax

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Current tax:		
Current tax on profits for the year	30.2	24.8
Surcharge on bank profits for the year	7.3	7.6
Total current tax charge	37.5	32.4
Deferred tax:		
Current year	(0.3)	(2.1)
Adjustments in respect of prior periods	-	0.1
Effect of rate changes	0.2	-
Total deferred tax credit	(0.1)	(2.0)
Tax per Consolidated statement of comprehensive income	37.4	30.4

The tax charge on the profit for the year ended 31 December 2018 was £37.4 million (2017: £30.4 million). The effective tax rate for the year ended 31 December 2018 was 23.65% (2017: 27.23%), reflecting a combination of a reduction in the rate of UK corporation tax and increased activity in Group companies not subject to the banking surcharge.

15. Tax (continued)

A reconciliation of the expected tax charge based on the standard rate of tax for the year ended 31 December 2018 of 19.00% (2017: 19.25%) to the actual tax charge is set out below.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit before tax:		
Continuing operations	158.2	111.7
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	30.1	21.5
Banking surcharge	7.3	7.6
Expenses not deductible for tax purposes	0.2	1.2
Income not taxable	(0.4)	-
Securitisation regulations	-	(0.1)
Adjustments in respect of prior periods	-	0.1
Effect of differences in tax rate	0.2	0.1
Tax charge for the year	37.4	30.4

Change in tax rate

Reductions in the rate of UK corporation tax from 21% to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and a further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax asset as at each Consolidated statement of financial position date has been calculated based on the enacted rate at the relevant date.

16. Earnings per share

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

	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the year (£ million)	120.8	81.3
Weighted average number of ordinary shares of £0.01 each		
Basic	239,137,913	232,536,247
Dilutive effects	2,014,633	656,514
Diluted	241,152,546	233,192,761
Per share amount (pence)		
Basic	50.5	35.0
Diluted	50.1	34.9

The Group reorganised its share capital during 2017, as disclosed in note 33. There were no changes in equity as a result of the reorganisation, therefore 2017 earnings per share has been prepared on the basis of the new structure after the reorganisation, in accordance with IAS 33.

17. Dividends

During the year, the Group paid an interim dividend for the current year of £6.7 million (2017: £nil), 2.8 pence per share (2017: nil pence).

The Group's distributable reserves from which dividends can be paid comprise retained earnings of £429.3 million (2017: £313.6 million).

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.

18. Cash and cash equivalents

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Unrestricted cash	76.0	34.5
Bank of England cash ratio deposit	8.2	4.4
Reserve with the Bank of England	823.8	848.0
	908.0	886.9
Restricted cash	73.2	79.9
Total cash and cash equivalents	981.2	966.8

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less and an insignificant risk of change to fair value.

Unrestricted cash is available for the Group's general purposes and consists of balances held with tier 1 UK banking institutions. Restricted cash is ring-fenced and held in securitisation vehicles for use in managing the Group's securitised debt facilities under the terms of securitisation agreements (note 29).

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

All cash and cash equivalents held by the Group are denominated in pounds sterling.

19. Investment in debt securities

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Debt securities held at amortised cost	123.0	78.4

Investment in debt securities at 31 December 2017 were classified as Held to Maturity debt securities under IAS 39, they are now classified as held at amortised cost from 1 January 2018 as required under IFRS 9.

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

Movements in the debt securities held during the year were:

	As at 31 December 2018	As at 31 December 2017
	£m	£m
At the beginning of the year	78.4	119.5
Additions	62.0	44.7
Disposals and redemptions	(17.6)	(86.7)
EIR adjustment	0.1	1.0
Accrued interest	0.1	(0.1)
At the end of the year	123.0	78.4

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

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

The credit risk on debt securities held has not significantly increased since initial recognition and all debt securities held are categorised as stage 1. The expected credit loss provisions recognised against debt securities are not material.

20. Customer loans and receivables

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Gross residential mortgages held at amortised cost	6,661.0	5,385.2
EIR adjustment	(17.4)	(20.0)
Provision for loan impairments	(3.6)	(1.0)
Net residential mortgages held at amortised cost	6,640.0	5,364.2
Residential mortgages held at fair value	21.5	-
	6,661.5	5,364.2

Analysis of customer loans and receivables

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

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Buy to let	4,506.8	3,232.2
Residential lending	1,726.7	1,742.3
Bridging	244.1	218.9
Second charge lending	183.9	170.8
	6,661.5	5,364.2

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

At 31 December 2018 included within customer loans and receivables is £236.6 million (2017: £211.7 million) of balances due within twelve months and £6,424.9 million (2017: £5,152.5 million) due after twelve months.

Mortgage loans have a contractual term of up to thirty five years. Borrowers may settle the loan at any point and in most cases settlement before the contractual date does take place. All borrowers are required to make monthly payments, except where interest is retained on origination and applied to the account as monthly payments would fall due.

Residential mortgages held at amortised cost

The movements in the Group's residential mortgages in 2018 were:

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Net opening balance as originally presented	5,364.2	3,807.9
IFRS 9 adjustments to opening balance at 1 January 2018 (note 3)	-	-
Provision for loan impairments	(0.7)	-
Reclassification to residential mortgages held at fair value	(24.1)	-
Restated balance at 1 January 2018	5,339.4	3,807.9
Originations	2,846.1	2,737.3
Acquisition	-	26.0
Sales to third parties	(563.8)	(300.0)
Repayments and redemptions	(1,242.2)	(1,110.1)
Interest charged and other debits	258.5	209.0
EIR adjustments	4.1	(5.4)
Movement on provision for loan impairments	(2.1)	(0.5)
At the end of the year	6,640.0	5,364.2

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

20. Customer loans and receivables (continued)**Encumbered assets**

The gross residential mortgage loan balances pledged as collateral for liabilities are:

	Note	As at 31 December 2018 £m	As at 31 December 2017 £m
In respect of:			
Bank of England Term Funding Scheme ("TFS")	27	1,592.4	1,326.1
Sale and repurchase agreements	27	77.3	-
Debt securities in issue	29	980.8	654.0
		2,650.5	1,980.1

The Group's securitisation programme and use of the TFS results in certain assets being encumbered as collateral against such funding. Assets that are encumbered cannot be used for other purposes. As at 31 December 2018 the percentage of gross customer loans and receivables that are encumbered is 39.7% (31 December 2017: 36.9%).

Impairment provisions on residential mortgages

The Group recognises expected credit losses from default events expected within 12 months of the reporting date if credit risk has not significantly increased since initial recognition (Stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (Stage 2) or which are credit impaired (Stage 3).

The following table analyses balances as at 31 December 2018 by stage of impairment. This analysis is required under IFRS 9 and was not previously a requirement under IAS 39. The 2017 comparative is the restated balance after adjusting for opening IFRS 9 adjustments.

	Gross balances				EIR adjustments £m	Provision for loan impairments £m	Net balance £m
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m			
Balance as at 31 December 2017 as originally presented*				5,385.2	(20.0)	(1.0)	5,364.2
IFRS 9 adjustment (note 3):							
Reclassification and adjustment to fair value				(24.1)	-	-	(24.1)
Loan impairments				-	-	(0.7)	(0.7)
At beginning of year	5,183.7	171.7	5.7	5,361.1	(20.0)	(1.7)	5,339.4
Originations	2,846.1	-	-	2,846.1	-	-	2,846.1
Sales to third parties	(562.5)	-	-	(562.5)	(1.5)	0.2	(563.8)
Transfers between stages	(129.4)	119.3	10.1	-	-	-	-
Repayments and redemptions	(1,219.8)	(21.5)	(0.9)	(1,242.2)	-	-	(1,242.2)
Interest charged and other debits	190.5	66.8	1.2	258.5	-	-	258.5
EIR adjustments	-	-	-	-	4.1	-	4.1
Loan impairments profit and loss net charge	-	-	-	-	-	(2.1)	(2.1)
	6,308.6	336.3	16.1	6,661.0	(17.4)	(3.6)	6,640.0

*Analysis of gross balances by stage implemented from 1 January 2018 as required under IFRS 9, not previously a requirement under IAS 39.

The Group does not have any financial assets that were purchased or originated credit impaired.

20. Customer loans and receivables (continued)

The table below shows the transitional adjustment from the impairment provision under IAS 39 to the impairment provision under IFRS 9.

	£m
Total impairment provisions at 31 December 2017 (under IAS 39)	1.0
IFRS 9 adjustment to opening provision for loan impairments	0.7
Total impairment provisions at 1 January 2018 (under IFRS 9)	1.7
Comprising:	
Stage 1	0.9
Stage 2	0.4
Stage 3	0.4
	1.7

Impairment provisions as at 31 December 2018 are £3.6 million (2017: £1.0 million) and comprise:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2018	0.9	0.4	0.4	1.7
Sale of customer loans and receivables	(0.2)	-	-	(0.2)
Charge for the period:				
Modelled provision	-	0.4	0.2	0.6
Brexit overlay	0.6	0.7	0.2	1.5
Total charge	0.6	1.1	0.4	2.1
At 31 December 2018	1.3	1.5	0.8	3.6
Expected credit losses coverage by stage				
At 31 December 2018	0.02%	0.45%	4.97%	0.05%
At 1 January 2018	0.02%	0.23%	7.02%	0.03%

A 31 December 2018 the stage 3 provision includes £0.3 million (at 1 January 2018: £0.3 million) which is an additional overlay in respect of management and collection team review of stage 3 provisions on individually impaired loans, where the modelled provisions are revised in line with their assessments of the probability of recovery of each loan.

The above table is prepared on an IFRS 9 basis. In accordance with the transitional provisions of the standard, comparatives set out in the tables below have not been restated. Refer to note 3 for further information.

Collective impairment provisions

	Year ended 31 December 2017 £m
At 1 January 2017	0.5
Charge for the year	0.1
At 31 December 2017	0.6

Specific impairment provisions

At 1 January 2017	-
Charge for the year	0.4
At 31 December 2017	0.4

Total impairment provisions

	1.0
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All financial assets that were written off during the reporting period are still subject to enforcement activity. The contractual amount outstanding on these assets was less than £0.1 million at 31 December 2018.

At 31 December 2018, the Group's mortgage loan commitments totalled £577.8 million (2017: £549.8 million). The expected credit loss provision held against these commitments is not material.

20. Customer loans and receivables (continued)**Ageing of past due but not impaired customer loans and receivables**

	As at 31 December 2018	As at 31 December 2017
	£m	£m
1-30 days	34.0	34.6
31-60 days	27.4	7.1
61-89 days	7.5	4.1
	68.9	45.8

At 31 December 2018, total stage 1 and stage 2 provision of £2.8 million (2017: £0.6 million, incurred collective provision) was held relating to customer loans and receivables for which objective evidence of impairment had not been identified.

Ageing of past due and impaired customer loans and receivables

	As at 31 December 2018	As at 31 December 2017
	£m	£m
1-30 days	-	0.4
61-89 days	0.5	-
90-120 days	4.8	2.1
> 120 days	9.7	4.0
	15.0	6.5

At 31 December 2018, a stage 3 provision of £0.8 million (2017: £0.4 million, specific provision) is held relating to impaired mortgage loan receivables.

Residential mortgages held at fair value through profit and loss

The residential mortgage portfolio held at fair value is categorised as level 3. The fair value is based on expected future cash flows using an assumed amortisation profile of the pool of mortgages. The cash flows are discounted to present value using a risk adjusted rates. Movements in the residential mortgage portfolio held at FVTPL were:

	As at 31 December 2018
	£m
Balance at 31 December 2017 as originally presented	-
IFRS 9 Reclassification from residential mortgages held at amortised cost	24.1
At 1 January 2018	24.1
Repayments and redemptions	(4.0)
Interest charged and other debits	0.8
Fair value gain included in non-interest income (note 10)	0.6
At 31 December 2018	21.5

Fair value adjustment for hedged risk ("FVAHR")

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

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Fair value adjustment for hedged risk	(9.9)	(6.2)

21. Derivative financial instruments

	Notional £m	Positive fair value £m	Negative fair value £m
Interest rate swaps at 31 December 2018			
Level 2 derivatives	7,879.0	16.0	(12.4)
Level 3 derivatives	442.4	1.1	(1.3)
	8,321.4	17.1	(13.7)
Interest rate swaps at 31 December 2017			
Level 2 derivatives	6,484.5	11.9	(6.5)
Level 3 derivatives	1,206.7	-	-
	7,691.2	11.9	(6.5)

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

Interest rate swap agreements with a notional value of £4,632.9 million as at 31 December 2018 (2017: £3,355.2 million), under which the Group pays a fixed rate of interest and receives an interest based on LIBOR, are used to hedge the exposure to changes in fair value of fixed rate mortgage assets as a result of changes in market interest rates. The notional value of these interest rate swaps is linked to the notional of the hedged mortgage assets and this resets each quarter.

Interest rate swap agreements with a notional value of £3,248.5 million as at 31 December 2018 (2017: £2,836.0 million), under which the Group receives a fixed rate of interest and pays an interest based on LIBOR, are used to hedge the exposure to changes in fair value of fixed rate deposits from customers as a result of changes in market interest rates. The notional value of these interest rate swaps is linked to the notional of the hedged deposits from customers.

As at 31 December 2018, the Group held no interest rate options (caps) (2017: notional value of £300.0 million and a fair value of £nil) and held basis swaps with a notional value of £440.0 million (2017: £1,200.0 million) with a fair value of £(0.2) million (2017: £nil).

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

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

Movements in the fair values of Level 3 swaps were:

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	-	(0.3)
Movements in the fair value: (charge)/credit to the Consolidated statement of comprehensive income	(0.2)	0.3
At 31 December	(0.2)	-

22. Other assets held at fair value

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Other assets held at fair value	0.1	0.2

Other assets held at fair value relate to the expected future cash flows on mortgage assets sold to third parties, where the premium recovered over par value is received by Charter Court Financial Services Limited. Other assets held at fair value are all Level 3 fair value measurements, being derived from inputs which are not quoted in active markets. The fair value is based on discounted future cash flows arising from performance based payments receivable. Movement in fair value is recognised in revenue from mortgage origination activities in the Consolidated statement of comprehensive income. There were no material movements in other assets held at fair value during the year.

23. Trade and other receivables

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Amounts receivable for the rendering of services	0.3	0.2
Prepayments and other receivables	5.6	4.4
	5.9	4.6

24. Deferred tax asset

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

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	2.2	0.2
Credit to the Consolidated statement of comprehensive income	0.1	2.1
Adjustments in respect of prior periods	-	(0.1)
Credit to equity	0.2	-
At 31 December	2.5	2.2

Analysis of deferred tax balance

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Short term timing differences	2.5	2.2

The majority of the deferred tax asset relates to short-term timing differences, timing differences of capital allowances in excess of depreciation and other short-term differences, which will be offset against future profits. There is a credit to equity of £0.2 million (2017: £nil) which relates to short-term timing differences arising on transition to IFRS 9. Based on the Group's forecasts, there should be sufficient profits against which to offset these assets when they are realised.

At 31 December 2018 and 2017, the Group had no unused tax losses.

Deferred tax balances, relating to the wholly owned subsidiaries Charter Mortgages Limited, Charter Court Financial Services Limited and Exact Mortgage Experts Limited, are in respect of short-term timing differences. A net deferred tax credit of £0.1 million (2017: £2.1 million) has been recognised in the Consolidated statement of comprehensive income, and a net deferred tax credit of £0.2 million (2017: £nil) has been recognised in equity. The corresponding net deferred tax asset has been recognised in assets.

25. Property, fixtures and equipment

	Leasehold property improvements	Fixtures and equipment	Computer equipment	Total
	£m	£m	£m	£m
Cost				
At 1 January 2017	0.5	0.5	1.2	2.2
Additions	0.1	0.1	0.2	0.4
At 31 December 2017	0.6	0.6	1.4	2.6
Additions	0.2	1.7	0.2	2.1
At 31 December 2018	0.8	2.3	1.6	4.7
Accumulated depreciation				
At 1 January 2017	0.3	0.2	0.8	1.3
Charge for the year	0.1	0.1	0.2	0.4
At 31 December 2017	0.4	0.3	1.0	1.7
Charge for the year	0.1	0.2	0.2	0.5
At 31 December 2018	0.5	0.5	1.2	2.2
Carrying amount				
At 31 December 2018	0.3	1.8	0.4	2.5
At 31 December 2017	0.2	0.3	0.4	0.9
At 1 January 2017	0.2	0.3	0.4	0.9

26. Intangible assets

	Development costs	Computer software and licenses	Total
	£m	£m	£m
Cost			
At 1 January 2017	2.4	0.7	3.1
Additions	0.1	0.9	1.0
At 31 December 2017	2.5	1.6	4.1
Additions	1.1	0.4	1.5
At 31 December 2018	3.6	2.0	5.6
Amortisation			
At 1 January 2017	2.0	0.5	2.5
Charge for the year	-	0.2	0.2
At 31 December 2017	2.0	0.7	2.7
Charge for the year	0.1	0.2	0.3
At 31 December 2018	2.1	0.9	3.0
Carrying amount			
At 31 December 2018	1.5	1.1	2.6
At 31 December 2017	0.5	0.9	1.4
At 1 January 2017	0.4	0.2	0.6

Amortisation of internally generated intangible assets begins at the point the asset is developed and is capable of being used. At 31 December 2018 the total assets included in development costs and not being amortised was £1.5 million (2017: £0.4 million).

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment as at 31 December 2018.

27. Deposits from banks

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Collateral received on interest rate swap contracts	4.6	4.7
Sale and repurchase agreements	60.2	-
Bank of England Term Funding Scheme ("TFS")	1,150.0	998.8
Total deposits	1,214.8	1,003.5

As at 31 December 2018, the carrying value of assets encumbered under sale and repurchase agreements is £77.3 million (31 December 2017: £nil) (note 20).

As at 31 December 2018, the carrying value of customer loans and receivables pledged as collateral for the TFS was £1,592.4 million (2017: £1,326.1 million), see note 20. Deposits from banks includes £2.2 million of accrued interest (2017: £1.0 million).

As at 31 December 2018 and 31 December 2017, all bank deposits were denominated in pounds sterling.

At 31 December 2018 included within deposits from banks is £67.0 million (2017: £5.7 million) of balances due within twelve months and £1,147.8 million (2017: £997.8 million) due after twelve months.

28. Deposits from customers

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

The contractual maturity of these deposits is analysed below.

Amounts repayable

On demand	621.9	526.6
In less than 3 months	632.9	767.7
In more than 3 months but less than 1 year	2,555.5	2,393.3
In more than 1 year but less than 5 years	1,284.2	732.4
Total deposits	5,094.5	4,420.0

Fair value adjustment for hedged risk ("FVAHR")

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

Fair value adjustment for hedged risk

29. Debt securities in issue

Asset backed loan notes at amortised cost

Amount due for settlement within 12 months	331.0	42.0
Amount due for settlement after 12 months	641.9	585.4
	972.9	627.4

All borrowings are payable in pounds sterling.

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

The asset backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are limited to the net principal received from borrowers in respect of underlying mortgage assets. The maturity date of the funds matches the maturity date of the underlying mortgage assets. It is likely that a large proportion of the underlying mortgage assets and therefore these notes will be repaid within five years. As at 31 December 2018, the carrying value of assets pledged as collateral for the Group's debt securities in issue was £980.8 million (2017: £654.0 million).

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

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

	As at 31 December 2018	As at 31 December 2017
	£m	£m
On demand	621.9	526.6
In less than 3 months	632.9	767.7
In more than 3 months but less than 1 year	2,555.5	2,393.3
In more than 1 year but less than 5 years	1,284.2	732.4
Total deposits	5,094.5	4,420.0

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Fair value adjustment for hedged risk	(2.7)	(0.2)

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Asset backed loan notes at amortised cost	972.9	627.4
Amount due for settlement within 12 months	331.0	42.0
Amount due for settlement after 12 months	641.9	585.4
	972.9	627.4

29. Debt securities in issue (continued)

As at 31 December 2018, notes were issued through eight funding vehicles.

	As at 31 December 2018	As at 31 December 2017
	£m	£m
PMF No. 1 asset backed loan notes	-	41.5
PMF 2014-1 asset backed loan notes	36.7	54.7
PMF 2014-2 asset backed loan notes	45.5	63.8
PMF 2015-1 asset backed loan notes	59.3	85.7
CCFS Warehouse No.1 asset backed loan notes	-	0.5
CMF 2017-1 asset backed loan notes	-	281.1
CML Warehouse Number 1 loan facility	234.0	100.1
PMF 2018-1B asset backed loan notes	228.7	-
PMF 2018-2B asset backed loan notes	354.5	-
PMF 2018-1B residual certificate 1 note	3.8	-
PMF 2018-2B residual certificate 1 note	10.4	-
	972.9	627.4

PMF 2014-1 Plc, PMF 2014-2 Plc, PMF 2015-1 Plc, PMF 2018-1B Plc and PMF 2018-2B Plc each include an option to repay, prior to final maturity, the then outstanding principal amounts at par on all of their notes on or after an earlier date (the call date). The outstanding PMF No. 1 Plc notes were repaid at par on their call date, 12 December 2018.

The Group sold the CMF 2017-1 Plc unrated and subordinated retained position in January 2018 and CMF 2017-1 Plc is no longer consolidated.

30. Trade and other payables

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Payable within one year:		
Trade and other payables	24.2	15.2

31. Corporation tax payable

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Corporation tax payable within one year	18.8	17.0

32. Financial guarantee

On 10 December 2015, Charter Court Financial Services Limited entered into a financial guarantee in favour of GIFS Capital Company LLC acting as original class A variable funding noteholder to CCFS Warehouse No.1 Plc, and Elavon Financial Services Limited. Charter Court Financial Services Limited and CCFS Warehouse No. 1 Plc are both consolidated subsidiaries of the Group, acting in its capacity as agent to the same transaction. The guarantee covers interest, default interest, principal, tax gross up and break costs as they fall due, should CCFS Warehouse No.1 Plc be unable to meet its obligations due in relation to the class A variable funding notes issued. The guarantee was terminated on 16 January 2018. As at 31 December 2017, the fair value of the guarantee was £nil.

33. Share capital

	As at 31 December 2018	As at 31 December 2017
	Number	£m
Authorised, issued, called up and fully paid up:		
Ordinary shares of £0.01 each	239,320,419	2.4
	239,130,419	2.4

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

The movements in the number of shares authorised and in issue in the year is shown below.

	Ordinary shares
As at 1 January	239,130,419
Shares issued	190,000
	239,320,419

During 2018, the Group issued 190,000 shares at par, £1,900, to the Group's Employee Benefit Trust (note 37) to satisfy the free share awards under the Performance Share Plan (note 38).

2017

Share Class	A1	A2	B	C	D	E	F	G	Deferred shares	Ordinary shares
As at 1 January	873,365	7,229	110,426	9,105	252,000	55,657	100,000	100,000	-	-
Share issue	-	-	-	-	-	573	-	-	-	-
Reclassifications	-	1,433	-	(1,433)	-	-	-	-	-	-
Capital reorganisation:										
Bonus issue	1,972,931,535	19,567,458	249,452,334	18,098,248	594,468,000	8,153,293,770	1,299,900,000	999,900,000	-	-
Total shares pre-share consolidation	1,973,804,900	19,576,120	249,562,760	18,105,920	594,720,000	8,153,350,000	1,300,000,000	1,000,000,000	-	-
Share consolidation	(1,776,424,410)	(17,618,508)	(224,606,484)	(16,295,328)	(535,248,000)	(8,145,196,650)	(1,298,700,000)	(999,000,000)	-	-
Total shares post consolidation	197,380,490	1,957,612	24,956,276	1,810,592	59,472,000	8,153,350	1,300,000	1,000,000	-	-
Re-designation as deferred shares	(3,839,503)	(38,081)	(265,214)	(36,266)	(59,469,188)	(569,384)	(377,917)	(1,000,000)	65,595,553	-
Cancellation of deferred shares	-	-	-	-	-	-	-	-	(65,595,553)	-
Re-designation as ordinary shares	(193,540,987)	(1,919,531)	(24,691,062)	(1,774,326)	(2,812)	(7,583,966)	(922,083)	-	-	230,434,767
IPO share issue	-	-	-	-	-	-	-	-	-	8,695,652
As at 31 December	-	-	-	-	-	-	-	-	-	239,130,419

During 2017, the Group reorganised its share capital in order to prepare for the public listing of the Group.

34. Share premium

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	19.0	195.1
Premium arising on new issue of shares	-	19.0
Cancellation	-	(195.1)
At 31 December	19.0	19.0

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

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

35. Retained earnings

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	313.6	38.3
IFRS 9 adjustment to opening provision for loan impairments (note 3)	(0.7)	-
Restated at 1 January	312.9	38.3
Cancellation of share premium (note 34)	-	195.1
Bonus issue	-	(3.0)
Cancellation of deferred shares	-	0.7
Profit for the year and total comprehensive income	120.8	81.3
Deferred tax	0.2	-
Recognition of share-based payments	2.1	0.4
Transfer of equity-settled employee benefits reserve	-	0.8
Interim dividend paid (note 17)	(6.7)	-
At 31 December	429.3	313.6

36. Equity-settled employee benefits reserve

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	-	0.1
Arising on share-based payments	-	0.7
Transfer to retained earnings	-	(0.8)
At 31 December	-	-

The equity-settled employee benefits reserve related to incentive growth shares (series F and G) granted by the Group to certain employees under a share-based incentive plan which commenced during 2016. These shares were issued initially as options in November 2016, but were exercised in December 2016 and were sold as part of the share capital reorganisation in preparation for the IPO.

37. Own shares

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	-	-
Shares subscribed for (note 33)	-	-
Shares purchased	0.4	-
At 31 December	0.4	-

At 31 December 2018, the Employee Benefit Trust held 157,626 ordinary shares (2017: none) with a nominal value of £1,576.26 (2017: £nil) and a market value of £394,065 (2017: £nil). The dividends on all of these shares have been waived.

The shares purchased by the Employee Benefit Trust were acquired from employees exercising their Free share awards under the Performance Share Plan.

These shares are held in trust for the benefit of employees exercising their options under the Group's share option schemes. The trustees' costs are included in the operating expenses of the Group.

38. Share-based payments

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

Performance Share Plan ("PSP")

PSP awards are granted to Executive Directors and senior management and comprise nil cost options over ordinary shares based on business performance over a three year period. The awards are subject to certain market and non-market performance measures, 40% of the awards are subject to the Company's total shareholder return ("TSR") performance against the constituents of a TSR comparator group, 40% of the awards are subject to the Group's earnings per share ("EPS") growth over the EPS performance period of up to three financial years and the remaining 20% of awards are subject to an internal balanced scorecard risk measure.

PSP awards were granted on 4 October 2017 ("PSP 2017") and 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.

PSP awards were granted on 26 March 2018 ("PSP 2018") and 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.

Each award lapses ten years following the date of grant and carries no dividend entitlement until the award has been exercised.

Free share awards under the PSP

All employees of the Group (other than the Executive team) who were employed and had not given notice as at 30 September 2017, were awarded ordinary shares worth between £250 to £2,000 per individual, depending on length of service, for nil consideration. The award vested on 4 October 2018, the first anniversary of the date of grant, subject to the employee being employed on the vesting date but was not subject to any performance conditions or holding period. The Company paid a dividend during the vesting period and each award was increased by an amount equal to the aggregate value of the dividend.

Sharesave (SAYE) Scheme

The Sharesave schemes are open to all employees and allows them to save a fixed amount between £5 and £500 a month over three years. At the end of the three year saving period there is a six month exercise period during which scheme participants can use the funds saved to buy shares at the option price determined at the start of the Sharesave scheme, or they can withdraw all their savings without buying any shares. A scheme participant can leave a Sharesave scheme at any time and have their savings returned. Scheme participants have no entitlement to any dividends paid during the savings period and may only save a maximum of £500 per month in total across all Sharesave schemes.

Employees were offered the opportunity to enter the 2017 Sharesave scheme in October 2017. At the end of the three year savings period, participating employees will have the opportunity to acquire ordinary shares at an option price of £1.87 per share.

Employees were offered an opportunity to enter the 2018 Sharesave scheme in October 2018. At the end of the three year savings period, participating employees will have the opportunity to acquire ordinary shares at an option price of £2.80 per share.

Deferred Bonus Plan ("DBP")

The DBP applied to 2018 bonuses for those employees whose bonuses are over £100,000, and defer 50% of participating employees' annual bonus into ordinary shares in the form of an option to acquire ordinary shares for nil consideration. The period of deferral is typically up to 3 years, either vested as a single transaction at the end of the period or in tranches during the period with no additional holding period for the award. Deferral of the awards is subject to a combination of business performance against objectives set within the Corporate Balanced Scorecard and the performance of the individual against those scorecard targets, the awards have a ten year exercise period from the date of grant.

38. Share-based payments (continued)

The employee share-based payment charge for the year included in administrative expenses comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
PSP	1.1	0.2
Free share awards	0.3	0.1
Sharesave (SAYE)	0.3	0.1
DBP	0.4	-
Pre-IPO share awards	-	0.7
	2.1	1.1

Movements in the number of share-based awards, average fair value per award and weighted average remaining contractual life are shown below:

2018	Number of awards / options						Average fair value per award (£)	Weighted average remaining contractual life (Years)
	As at 1 January	Granted	Forfeited	Exercised	As at 31 December	Vested		
PSP 2017	1,429,796	-	-	-	1,429,796	-	1.81	1.2
PSP 2018	-	1,128,413	-	-	1,128,413	-	2.48	2.2
Free share awards	180,756	-	(11,069)	(159,827)	9,860	9,860	2.33	-
Sharesave 2017	1,437,141	-	(95,995)	-	1,341,146	-	0.63	1.9
Sharesave 2018	-	236,234	(3,984)	-	232,250	-	0.50	2.9
Total	3,047,693	1,364,647	(111,048)	(159,827)	4,141,465	9,860		

2017	Number of awards / options						Average fair value per award (£)	Weighted average remaining contractual life (Years)
	As at 1 January	Granted	Forfeited	Exercised	As at 31 December	Vested		
PSP 2017	-	1,429,796	-	-	1,429,796	-	1.81	2.3
Free share awards	-	180,756	-	-	180,756	-	2.33	0.8
Sharesave 2017	-	1,437,141	-	-	1,437,141	-	0.63	3.5
Total	-	3,047,693	-	-	3,047,693	-		

Grant date fair value

The valuation of the share-based awards has been determined as explained below:

PSP

The fair value of the shares in the EPS and risk measure elements of the awards is measured using a Black Scholes model. This model takes account of the expected dividends which participants of the PSP are not entitled to receive. The fair value of the shares in the TSR award is calculated using a Monte Carlo model.

38. Share-based payments (continued)

Set out below is a summary of the key data and assumptions used to calculate the fair value of the TSR and EPS & risk measure element of the award:

Awards granted on 4 October 2017**Performance condition**

Model used for valuation	Monte Carlo	Black Scholes
Share price at valuation date	£2.33	£2.33
Exercise price	£nil	£nil
Risk-free rate	0.52%	n/a
Expected dividend yield	1.97%	1.97%
Expected volatility	34.0%	n/a
Fair value of one share	£1.20	£2.22

Awards granted on 26 March 2018**Performance condition**

Model used for valuation	Monte Carlo	Black Scholes
Share price at valuation date	£2.99	£2.99
Exercise price	£nil	£nil
Risk-free rate	0.96%	n/a
Expected dividend yield	3.10%	3.10%
Expected volatility	35.4%	n/a
Fair value of one share	£2.11	£2.72

Free share awards

The fair value of the shares is based on the share price at the date of the grant £2.33.

Sharesave (SAYE)

Options granted under the Sharesave schemes have no entitlement to dividends until they are exercised.

The 2017 Sharesave scheme grant date fair value of the options was determined to be £0.63 using a Binomial valuation model with the following significant inputs:

Share price at valuation date	£2.29
Exercise price	£1.87
Risk-free rate ¹	0.60%
Expected dividend yield	1.97%
Expected volatility ²	34.00%
Expected employee cancellations	5.00%

The 2018 Sharesave scheme grant date fair value of the options was determined to be £0.50 using a Binomial valuation model with the following significant inputs:

Share price at valuation date	£2.87
Exercise price	£2.80
Risk-free rate ¹	0.86%
Expected dividend yield	3.80%
Expected volatility ³	32.74%
Expected employee cancellations	5.00%

¹ Risk-free rate based on the implied yield of zero-coupon government bonds (UK Strips) with a remaining term equal to the expected term.

² As the Company was a newly listed company at the 2017 Sharesave scheme grant date, expected volatility was based on historic volatility of comparable companies over a term commensurate with the expected life of each option.

³ The Company only had one year of share price volatility data as a listed company at the 2018 Sharesave scheme grant date, expected volatility was based on a comparison of the Company's volatility since IPO with the historic volatility of comparable companies over a term commensurate with the expected life of the 2018 Sharesave option.

39. Net cash flows from operating activities

Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit before tax	158.2	111.7
Non-cash items		
Provision for loan impairments	2.1	0.5
Depreciation of property, fixtures and equipment	0.5	0.4
Amortisation of intangible assets	0.3	0.2
Gain on sale of investment in debt securities	-	(2.1)
EIR adjustment on customer loans and receivables	(4.1)	5.4
EIR adjustment on investment in debt securities	(0.1)	(1.0)
EIR adjustment on debt securities in issue	(7.0)	-
Write off of unamortised deal costs on sale of loans	1.5	-
Movement in fair value hedge	1.2	7.1
Fair value movement in residential mortgages held at fair value	(0.6)	-
Movement in other assets held at fair value	0.1	-
Recognition of equity-settled employee benefits payments	2.1	1.1
Operating cash flows before movements in working capital	154.2	123.3
Movement in derivatives	2.0	(6.6)
Increase in receivables	(1.3)	(2.1)
Increase in residential mortgages	(1,581.6)	(1,862.2)
Decrease in debt securities in issue	(282.4)	-
Increase in payables	9.0	7.0
Increase in retail deposits	674.5	987.4
Increase in deposits from banks	211.3	963.5
Cash (utilised)/generated by operations	(814.3)	210.3
Tax paid	(35.7)	(20.7)
Net cash (utilised)/generated by operating activities	(850.0)	189.6

40. Gross debt reconciliation

The table below shows the changes in liabilities from financing activities for the year.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
At 1 January	627.4	426.1
Cash movements		
Proceeds on issue of debt securities	1,275.5	394.4
Deal costs on issue of debt securities	(3.0)	(1.5)
Repayment of debt securities	(639.1)	(191.6)
Non-cash movements		
Write off of unamortised deal costs on sale of loans	1.5	-
EIR adjustment on debt securities in issue	(7.0)	-
Working capital movements		
Derecognition of debt securities	(282.4)	-
At 31 December	972.9	627.4

41. Operating lease arrangements**The Group as lessee**

Minimum lease payments under operating leases recognised as an expense in the period

Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
1.6	1.0

At the Consolidated statement of financial position date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 31 December 2018 £m	As at 31 December 2017 £m
Within one year	1.9	1.4
In the second to fifth years inclusive	4.9	4.5
More than five years	4.5	5.5
	11.3	11.4

Operating lease payments represent rent expense for office premises in Wolverhampton and London and rental of a company car. The premises leases have terms of between one and ten years and rentals are fixed over the term of the lease. The company car lease was entered into in October 2016, the lease and the rental period was fixed for 24 months, and expired in September 2018.

42. Retirement benefit schemes**Defined contribution schemes**

The Group operates defined contribution retirement benefit schemes for all qualifying employees who subscribe to the terms and conditions of the schemes policies.

For the year ended 31 December 2018, the total cost of £0.9 million (2017: £1.1 million) charged to the Consolidated statement of comprehensive income represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2018, there was £0.2 million (2017: £0.1 million) due in respect of 2018, which had not been paid over to the schemes. There was one Director (2017: one) participating in Group pension plans during the period.

43. Capital risk management

The Group manages its capital to ensure that entities in the Group have sufficient capital resources to continue as going concerns while optimising the return to stakeholders through the balance of its capital resources. The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Group's Consolidated financial statements.

The Group conducts an ICAAP, which is approved by the Board of Directors. The current version was approved in October 2017. The ICAAP is used to assess the Group's capital adequacy and determine the levels of capital required to support the current and future risks in the business derived from its five-year corporate plan.

CRD IV introduced the concept of a leverage ratio requirement, a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The UK Leverage Ratio Framework is applicable to firms with over £50 billion of retail deposits.

The Group is supervised by the PRA who review the capital adequacy, compliance with regulatory requirements and the ICAAP as part of its Supervisory Review and Evaluation Process ("SREP"). The PRA issues guidance total capital requirement which specifies the level of regulatory capital which the Group is required to hold relative to its risk-weighted assets as well as capital buffers.

The Group regulatory capital is reviewed on a monthly basis by the Board of Directors and the Assets and Liabilities Committee on both a current and forward looking basis. The future regulatory capital requirements are also considered as part of the Group's forecasting and strategic planning process.

43. Capital risk management (continued)

The following table which is unaudited and therefore not in scope of the independent auditor's report, shows the regulatory capital resources of the Group:

	As at 31 December 2018	As at 31 December 2017
	£m	£m
	Unaudited	Unaudited
Share capital	2.4	2.4
Retained earnings	429.3	313.6
Proposed final dividend	(23.6)	-
Own shares	(0.4)	-
Share premium	19.0	19.0
Deferred tax asset	(2.5)	(2.2)
Intangible assets	(2.6)	(1.4)
IFRS 9 transitional add back	1.6	-
Total tier 1 capital	423.2	331.4
Collective impairment allowance	-	0.6
Total tier 2 capital	-	0.6
Total regulatory capital	423.2	332.0
Risk-weighted assets	2,697.7	2,118.9

The Group's minimum CRD IV Pillar 1 capital requirement at 8% is calculated as the sum of credit risk and operational risk requirements. The following table, which is unaudited and therefore not in scope of the independent auditor's report, shows the Group's minimum Pillar 1 requirement at the year end.

	As at 31 December 2018	As at 31 December 2017
	£m	£m
	Unaudited	Unaudited
Credit risk	201.1	161.4
Operational risk	14.7	8.1
Total Pillar 1 capital resources requirement at 8%	215.8	169.5
Common equity tier 1 capital ratio	15.7%	15.6%
Total tier 1 capital ratio	15.7%	15.6%
Leverage ratio	5.4%	5.1%

44. Financial instruments

The table below sets out the classification of financial instruments in the Consolidated statement of financial position.

Categories of financial instruments	Carrying value	
	As at 31 December 2018	As at 31 December 2017
	£m	£m
Financial assets held at amortised cost		
Cash and cash equivalents	981.2	966.8
Investment in debt securities	123.0	78.4
Customer loans and receivables	6,640.0	5,364.2
Trade and other receivables	5.9	4.6
	7,750.1	6,414.0
Financial liabilities held at amortised cost		
Deposits from banks	1,214.8	1,003.5
Deposits from customers	5,094.5	4,420.0
Debt securities in issue	972.9	627.4
Trade and other payables	24.2	15.2
	7,306.4	6,066.1
Financial instruments held at fair value		
Customer loans and receivables	21.5	-
Other financial assets – designated as FVTPL	0.1	0.2
	21.6	0.2
Derivative financial instruments – assets	17.1	11.9
Derivative financial instruments – liabilities	13.7	6.5

Financial instruments held at fair value	Carrying value	Level 2	Level 3
	£m	£m	£m
At 31 December 2018			
Customer loans and receivables	21.5	-	21.5
Other financial assets – designated as FVTPL	0.1	-	0.1
Derivative financial instruments – assets	17.1	16.0	1.1
Derivative financial instruments – liabilities	13.7	12.4	1.3
At 31 December 2017			
Other financial assets – designated as FVTPL	0.2	-	0.2
Derivative financial instruments – assets	11.9	11.9	-
Derivative financial instruments – liabilities	6.5	6.5	-

Customer loans and receivables held at fair value are all Level 3 fair value measurements, being derived from inputs which are not quoted in active markets. For further information see note 20.

Other assets held at fair value are all Level 3 fair value measurements, being derived from inputs which are not quoted in active markets. For further information see note 22.

Caps and the majority of interest rate swaps are Level 2 fair value measurements, being derived from inputs which are not quoted in active markets but are based on observable market data. Basis swaps and certain balance guaranteed swaps within derivative liabilities are categorised as Level 3. For further information see note 21.

44. Financial instruments (continued)**Fair values of financial instruments carried at amortised cost**

The Level 3 fair value measurements for financial assets and liabilities held at amortised cost are summarised below.

	Carrying value	Fair value
	£m	£m
At 31 December 2018		
Financial assets held at amortised cost		
Cash and cash equivalents	981.2	981.2
Investment in debt securities	123.0	122.2
Customer loans and receivables	6,640.0	6,884.4
Trade and other receivables	5.9	5.9
Financial liabilities held at amortised cost		
Deposits from banks	1,214.8	1,214.8
Deposits from customers	5,094.5	5,094.5
Debt securities in issue	972.9	972.9
Trade and other payables	24.2	24.2
At 31 December 2017		
Financial assets held at amortised cost		
Cash and cash equivalents	966.8	966.8
Investment in debt securities	78.4	79.2
Customer loans and receivables	5,364.2	5,565.6
Trade and other receivables	4.6	4.6
Financial liabilities held at amortised cost		
Deposits from banks	1,003.5	1,003.5
Deposits from customers	4,420.0	4,420.0
Debt securities in issue	627.4	627.4
Trade and other payables	15.2	15.2

The fair values of cash and cash equivalents and trade and other receivables are not considered to be materially different from their book values. In arriving at that conclusion, market inputs have been considered but because these assets mature within three months of the year end, and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises. While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. The fair value of investments in debt securities held to maturity have been calculated using quoted market prices at the relevant date for each security.

To assess the fair value of the Group's customer loans and receivables and retail deposit liabilities, the estimated cash flows expected to arise, based on a mixture of market based inputs, such as funding rates, discount rates and target returns; and non-market based inputs such as redemption rates and credit losses, have been considered.

▣ The contractual maturity analysis of the Group's liabilities is disclosed in the Risk management section on page 41.

45. Financial risk management objectives and policies**Risk management**

The Group's activities expose it to a number of financial risks and uncertainties; primarily credit risk, liquidity risk, market risk, business risk, operational risk and assurance of compliance with regulations.

▣ For detailed information on each of these risks refer to the Risk management section on pages 27 to 44.

46. Related party transactions**Remuneration of key management personnel**

The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

	Highest paid Director	Total key management personnel
	£m	£m
Year ended 31 December 2018		
Short-term employee benefits	1.3	2.9
Long-term employee benefits	0.4	0.8
Share-based payment	0.7	1.6
Post-employment benefit	-	-
	2.4	5.3
Year ended 31 December 2017		
Short-term employee benefits	1.5	3.4
Share-based payment	0.1	0.2
Post-employment benefit	-	0.1
	1.6	3.7

During the year ended 31 December 2018 fees of £0.9 million (2017: £1.2 million) were paid to Non-Executive Directors for services provided to the Group.

47. Ultimate controlling party of the Group

As at 31 December 2018 and 31 December 2017, there was no controlling party of Charter Court Financial Services Group plc.

48. Post balance sheet events

On 9 March 2019, the Board announced that it was in advanced discussions with OSB regarding a possible all-share combination of Charter Court and OSB. Under the proposed terms, OSB would acquire all the issued and to be issued ordinary share capital of Charter Court. An announcement of a firm intention to make a recommended offer is conditional on agreement on the terms and conditions of the possible combination, satisfactory completion of customary mutual due diligence, final approval by the Board and board of OSB and their respective unanimous and unconditional recommendation of the possible combination. However, there can be no certainty that an offer will be made even if those pre-conditions are satisfied or waived. The proposed combination would be subject to the terms and conditions, approval by Charter Court and OSB shareholders and requisite regulatory approvals.

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.

49. Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations within the scope of the European Union's Capital Requirements Directives (CRD IV). Article 89 of the CRD IV requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which it has an establishment, the following information on a consolidated basis. The information for the year ended 31 December 2018 is set out below. The Group operates wholly in the United Kingdom:

Name	Charter Court Financial Services Group plc
Type of entity	Credit institution
Nature of activities	Mortgage lending and deposit taking
Geographical location	United Kingdom
Number of employees	577
Turnover*	£283,500,000
Pre-tax profit	£158,200,000
Corporation tax payable	£37,400,000
Public subsidies received	£nil

* Turnover is derived from the Consolidated statement of comprehensive income as interest income and similar income plus non-interest income.

Company financial statements

Company statement of financial position

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Cash and cash equivalents		0.4	1.2
Trade and other receivables	51	0.2	0.1
Investment in subsidiaries	52	239.4	214.0
Total assets		240.0	215.3
Liabilities			
Trade and other payables	53	0.7	0.2
Corporation tax payable	54	-	0.5
Net assets		239.3	214.6
Equity			
Share capital	55	2.4	2.4
Share premium	56	19.0	19.0
Retained earnings	57	218.3	193.2
Own shares	59	(0.4)	-
Total equity		239.3	214.6

The profit after tax for the year ended 31 December 2018 of Charter Court Financial Services Group plc as a Company was £29.7 million (2017: £23.0 million). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

Notes 50 to 63 form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 13 March 2019. They were signed on its behalf by:



Ian Lonergan
Chief Executive Officer



Sebastien Maloney
Chief Financial Officer

Company number: 06712054

Company statement of changes in equity

For the year ended 31 December 2018

Note	Share capital £m	Share premium £m	Retained earnings £m	Equity-settled employee benefits		Total £m
				reserve	Own shares	
At 1 January 2017	-	195.1	(23.8)	0.1	-	171.4
Cancellation of share premium	-	(195.1)	195.1	-	-	-
Bonus Issue	3.0	-	(3.0)	-	-	-
Cancellation of deferred shares	(0.7)	-	0.7	-	-	-
Share issue	0.1	19.9	-	-	-	20.0
Share issue costs	-	(0.9)	-	-	-	(0.9)
Profit and total comprehensive income for the year	-	-	23.0	-	-	23.0
Recognition of share-based payments	-	-	0.4	0.7	-	1.1
Transfer of equity-settled employee benefits reserve	-	-	0.8	(0.8)	-	-
At 31 December 2017	2.4	19.0	193.2	-	-	214.6
Profit and total comprehensive income for the year	-	-	29.7	-	-	29.7
Interim dividend paid	-	-	(6.7)	-	-	(6.7)
Recognition of share-based payments	-	-	2.1	-	-	2.1
Purchase of own shares	-	-	-	-	(0.4)	(0.4)
At 31 December 2018	2.4	19.0	218.3	-	(0.4)	239.3

1 See note 48. Basis of preparation, significant accounting policies and critical judgements and estimates

Company statement of cash flows

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Net cash generated by operating activities	60	29.4	24.0
Investing activities			
Investment in shares of subsidiaries		(23.6)	(42.0)
Net cash utilised by investing activities		(23.6)	(42.0)
Financing activities			
Interim dividend paid		(6.7)	-
Purchase of own shares		(0.4)	-
Loan from subsidiary		0.5	-
Proceeds from issue of shares		-	20.0
Share issue costs		-	(0.9)
Net cash (utilised)/generated by financing activities		(6.6)	19.1
Net (decrease)/increase in cash and cash equivalents		(0.8)	1.1
Cash and cash equivalents at beginning of year		1.2	0.1
Cash and cash equivalents at end of year		0.4	1.2

Notes to the Company financial statements

For the year ended 31 December 2018**50. Basis of preparation, significant accounting policies and critical judgements and estimates**

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU"), and are presented in pounds sterling. The IFRS, as adopted by the EU, applied for all periods herein presented are those that are effective for accounting periods beginning on or after 1 January 2018.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 5 to the Consolidated financial statements except as noted below.

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

There are no critical judgements and estimates that apply to the Company.

51. Trade and other receivables

At 31 December 2018 amounts receivable from subsidiaries included in the trade and other receivables balances were £0.2 million (2017: £0.1 million) due from Charter Court Financial Services Limited, see note 62 for further details. There are no past due or impaired receivable balances.

52. Investment in subsidiaries

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cost		
At 1 January	258.0	214.9
Investment in ordinary shares of subsidiaries	23.6	42.0
Capital contribution to subsidiaries	2.1	1.1
At 31 December	283.7	258.0
Impairment		
At 1 January	44.0	43.6
Charge for the year	0.3	0.4
At 31 December	44.3	44.0
Carrying amount		
At 1 January	214.0	171.3
At 31 December	239.4	214.0

During the year the Company subscribed to two ordinary shares (2017: two ordinary shares) in Charter Court Financial Services Limited for £23.6 million (2017: £20.0 million). During 2017, the Company also subscribed to two ordinary shares in Charter Mortgages Limited for £22.0 million.

During the year the Company invested £2.1 million (2017: £1.1 million) in Exact Mortgage Experts Limited in relation to the equity-settled employee benefit scheme.

52. Investment in subsidiaries (continued)

Details of the Company's subsidiaries as at 31 December 2018 and 31 December 2017 are as follows, except as noted:

Name	Principal activity	Proportion of ownership interest	Proportion of voting power held
		%	%
Charter Court Financial Services Limited ¹	Mortgage lending and deposit taking	100	100
Exact Mortgage Experts Limited ¹	Group Service Company	100	100
Charter Mortgages Limited ¹	Mortgage Administration and Analytical Services	100	100
Broadlands Finance Limited ¹	Mortgage Administration Services	100	100
Buttermere Plc ^{2,3}	Special Purpose Vehicle	-	-
Issuer Purchase Holdings Limited ²	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding No 1 Plc ²	Special Purpose Vehicle	-	-
Precise Mortgage Holdings No 1 Limited ²	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2014-1 Plc ²	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2014-1 Limited ²	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2014-2 Plc ²	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2014-2 Limited ²	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2015-1 Plc ²	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2015-1 Limited ²	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2015-3R Plc ²	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2015-3R Limited ²	Special Purpose Vehicle Holding Company	-	-
CCFS Warehouse No.1 Plc ²	Special Purpose Vehicle	-	-
CCFS Warehouse No.1 Holdings Limited ²	Special Purpose Vehicle Holding Company	-	-
CML Warehouse Number 1 Limited ²	Special Purpose Vehicle	-	-
Precise Mortgage Funding 2018-1B Plc ^{2,4}	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2018-1B Limited ^{2,4}	Special Purpose Vehicle Holding Company	-	-
Precise Mortgage Funding 2018-2B Plc ^{2,4}	Special Purpose Vehicle	-	-
Precise Mortgage Holdings 2018-2B Limited ^{2,4}	Special Purpose Vehicle Holding Company	-	-

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

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

³ As of 12 January 2018, 40 Station Road, Upminster, Essex, RM14 2TR

⁴ These companies were incorporated during 2018

The investments in subsidiaries are all stated at cost less impairment.

Special purpose vehicles which the Group controls are treated as subsidiaries for accounting purposes. All of the entities listed above have been consolidated into the Group's Consolidated financial statements.

All of the above companies are incorporated and operate in the United Kingdom.

In January 2018, the residual rights to the cash flows from Charter Mortgage Funding 2017-1 Plc were sold by the Group to a third party and it was concluded that the criteria for derecognition were met. Charter Mortgages Funding 2017-1 Plc and its holding company, Charter Mortgage Holdings 2017-1 Limited, were no longer consolidated from that date.

53. Trade and other payables

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Trade and other payables	0.7	0.2

All trade and other payables are payable within one year.

At 31 December 2018 amounts payable to subsidiaries included in the trade and other payables were £0.5 million (2017: £nil) due to Charter Mortgages Limited, see note 62 for further details.

54. Corporation tax payable

Corporation tax payable

All corporation tax is payable within one year.

	As at 31 December 2018	As at 31 December 2017
	£m	£m
Corporation tax payable	-	0.5

55. Share capital

Details of the Company's share capital are disclosed in note 33 to the Consolidated financial statements.

56. Share premium

Details of the Company's share premium are disclosed in note 34 to the Consolidated financial statements.

57. Retained earnings

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
At 1 January	193.2	(23.8)
Bonus issue	-	(3.0)
Share premium cancellation (see note 34)	-	195.1
Cancellation of deferred shares	-	0.7
Net profit for the year	29.7	23.0
Recognition of share-based payments	2.1	0.4
Transfer of equity-settled employee benefits reserve	-	0.8
Interim dividend paid (note 17)	(6.7)	-
At 31 December	218.3	193.2

58. Equity-settled employee benefits reserve

Details of the Company's equity-settled employee benefits scheme are disclosed in note 36 to the Consolidated financial statements.

59. Own shares

Details of the Company's purchase of its own shares are disclosed in note 37 to the Consolidated financial statements.

60. Notes to the Company statement of cash flows

	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m
Profit before tax	29.7	23.5
Adjustments for:		
Write off investment in subsidiaries	0.3	0.4
Operating cash flows before movements in working capital	30.0	23.9
(Increase)/decrease in receivables	(0.1)	0.1
Cash generated by operating activities	29.9	24.0
Tax paid	(0.5)	-
Net cash generated by operating activities	29.4	24.0

61. Capital risk management and financial risk management

Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital of the Company consists entirely of equity attributable to equity holders of the Company, comprising issued capital, retained earnings and reserves less own shares held as disclosed in notes 55 to 59.

The Group's Risk Management Committee reviews the capital structure on an annual basis, see note 43.

Financial risk management

The Company's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is set out below:

Class	As at	As at
	31 December 2018	31 December 2017
	£m	£m
Cash and cash equivalents	0.4	1.2
Trade and other receivables	0.2	0.1
Investment in subsidiaries	239.4	214.0
Potential exposure to credit risk	240.0	215.3

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

62. Related parties

Transactions between the Company and its related parties are disclosed below:

	Servicing fees received		Debtor/(creditor) outstanding	
	Year ended 31 December 2018	Year ended 31 December 2017	As at 31 December 2018	As at 31 December 2017
	£m	£m	£m	£m
Charter Court Financial Services Limited	0.7	2.9	0.2	0.1
Charter Mortgages Limited	-	-	(0.5)	-

The Company provides holding company services to its subsidiaries and recharges any Group costs to them. The agreement commenced on 29 November 2016.

The Company's purchase of its own shares (see note 37) was funded by an interest-free loan of £0.5 million, repayable on demand, from Charter Mortgages Limited.

Remuneration of key management personnel

Details of remuneration of key management personnel is shown in note 46 to the Consolidated financial statements.

63. Immediate and ultimate controlling party

Details of the immediate and ultimate controlling party are shown in note 47 to the Consolidated financial statements.