

# Our business model

Our business model is to target specialist mortgage lending markets that are underserved by others, with highly-skilled expert staff, supported by bespoke systems, delivering tailored products through the mortgage intermediary market. How we deliver our strategy, our approach to lending, our approach to funding and strategic targets are set out below.

## How we deliver our strategy

We operate in selected specialist mortgage markets where we can deploy our deep credit knowledge

£6.7 bn  
mortgage balances

£7.8 bn  
assets administered

We have an efficient and scalable, bespoke operating platform

28.7%  
cost income ratio

We aim to deliver strong growth and sustainable returns to our shareholders

30.8%  
return on equity

25%  
dividend pay-out ratio for 2018

We deliver a quality service and product proposition tailored to mortgage brokers and their customers

#1  
UK's leading specialist mortgage lender

23,000  
intermediaries registered with the Group

8 minutes  
average time to Decision in Principle

We deploy consistent underwriting decisions to effectively mitigate credit risk

£62,000  
aggregate losses on mortgage lending since inception

0.2%  
of the total loan book in arrears of three months or more

0.036%  
cost of risk of total portfolio in 2018

We have a dynamic and sophisticated funding strategy

£5.1 bn  
retail deposits

11  
securitisation transactions since 2013

£150 m  
drawn from the Bank of England's funding schemes in 2018

## Our approach to lending

### Target attractive, underserved secured lending markets

Through the Precise Mortgages brand, the Group targets specialist mortgage lending markets that are underserved by large and medium-sized UK retail banks and building societies, and are underpinned by positive long-term market dynamics. We continually evaluate growth prospects in our target markets and assess opportunities to move into new specialist sub-sectors within these product lines, where margins are attractive and lending is sustainable within the Group's conservative risk appetite. Charter Court's relatively small share of the broader mortgage lending market, combined with our agility, offers considerable opportunities for future growth.

### Leverage our deep credit expertise and extensive product knowledge to achieve market leadership

Precise Mortgages is led by experienced industry professionals and is supported by highly skilled teams with experience and insight spanning the entire mortgage lifecycle. Charter Court has developed this deep credit know-how through Exact's proprietary data analytics. Precise Mortgages draws on this expertise to adapt quickly to changing market conditions, identifying niche lending opportunities and tailoring its product offering accordingly.

### Employ our automated underwriting platform to efficiently maintain rigorous credit standards

Precise Mortgages uses a bespoke, automated decision-making platform to manage mortgage applications, delivering a rapid decision in principle, based on our rigorous, codified lending policy rules and credit scores. The platform is underpinned by our extensive underwriting expertise, which enables us to identify new niches and determine appropriate lending parameters. The platform enables Precise Mortgages to react quickly to non-standard mortgage requests which are common in our target markets, while ensuring consistent underwriting within the Group's risk appetite. Our quick response time helps us to compete for the 'first look' at credit opportunities, while our robust manual verification process further strengthens our disciplined approach to credit risk.

### Utilise our strong intermediary network to achieve rapid, widespread distribution

Precise Mortgages distributes products through the mortgage intermediary market, leveraging management's strong relationships with the UK's largest distributors and intermediaries. The Group's 24/7 digital decision-making platform, combined with the expertise of its underwriting team provide a responsive and personalised service to these intermediaries, supporting strong origination volumes.

## Our approach to funding

Charter Court's dynamic, diversified and sophisticated funding strategy is designed to optimise its cost of funds and improve margins while prudently managing funding and liquidity risks.

### Maintain our established retail savings business as a predictable source of funding

Charter Court's retail savings business, Charter Savings Bank, serves as a key foundation of the Group, providing a stable platform for its lending activities. CSB aims to maintain and develop its award-winning business, by further diversifying its product offering to access new funding pools and continuing to offer competitive new savings products in its existing product lines. Operating with an agile, nimble approach CSB can respond quickly to the funding requirements of the business, providing advantageous cost of funds.

### Pursue wholesale funding markets opportunistically to deliver optimal cost of funds

Charter Court utilises its securitisation platform as a means of providing the Group with low cost, term duration funding, enabling it to rebalance the weighted average life of the Group's liabilities away from shorter duration retail funding, and thereby optimise its funding mix. The Group recognises the cyclical nature of capital markets funding and therefore utilises it opportunistically, taking advantage where strong market conditions are present, as was the case in the first half of 2018, and passing when the conditions are less favourable.

Charter Court has been a programmatic issuer of high quality residential mortgage-backed securities through the Precise Mortgage Funding and Charter Mortgage Funding franchises since 2013. By the end of 2018, the Group had completed a total of 11 securitisations since 2013 worth over £3 billion and has proven its ability to utilise RMBS as a means of generating significant funding and capital.

Charter Court also maintains warehouse funding capacity through two tier 1 investment banks. These facilities act as a bridge to RMBS funding, helping the Group to maximise the efficiency of its liquidity position through the transition from retail deposit to securitisation funding.

Charter Court also engages in transactions which result in the full derecognition of the underlying mortgage assets, through the sale of residual positions in its securitisation vehicles. When capital markets are particularly strong, there may be opportunities to sell residual positions above the Group's internal view of the level of their value. Alternatively, if Charter Court requires additional capital for other uses, a sale of residual positions can quickly and efficiently provide this capital. Not only is a gain on sale generated through such a transaction, but derecognition of the underlying mortgage assets and associated risk-weighted assets provides capital resources to support lending growth.