

Chief Executive Officer's review



Ian Lonergan - Chief Executive Officer (CEO)

Charter Court is strategically positioned to capture demand in growth segments of the UK mortgage market suited to businesses with specialist operating models and propositions. The structural tailwinds that support our key specialist mortgage markets remain strong and we capitalised on these trends to deliver another solid performance in 2018.

High quality balance sheet growth

We maintained our prudent approach to lending during 2018 drawing upon our expertise in credit analysis and the strength of our automated underwriting platform to preserve the high quality of our balance sheet.

Charter Court's loan book grew by 24.2% in 2018 to £6.7 billion, as we generated more than £2.8 billion in new mortgage originations. Buy to let lending was particularly strong during the year reflecting the growing specialisation and professionalisation of the market. Specialist residential and bridging loans also contributed to strong overall performance.

Our resilient lending performance was underpinned by a focus of further development of our product and customer propositions. We enhanced our core mortgage proposition, most notably with the launch of a Refurbishment buy to let which allows a landlord to buy an auction property, refurbish and then fund on a long term buy to let, bringing benefits to both intermediary and the professional landlord. Additionally, we have continued to deliver service enhancements such as our Intermediary Sales Consultant team. This team provides both proactive and reactive telephone based pre application support to our intermediaries, enhancing the sales activity by our field-based Business Development Manager team.

Charter Court's funding model provides the flexibility and optionality to achieve the optimal balance between retail and wholesale funding, depending on market conditions. In 2018, retail savings continued to play a vital role in optimising Charter Court's funding strategy. We further diversified the Group's savings proposition through the addition of two new funding channels. We established partnerships with Hargreaves Lansdown and Flagstone Wealth that provide access to 'pooled deposits'. Meanwhile, Charter Savings Bank diversified its capabilities, evolving from an online-only proposition to also offer accounts via a newly developed postal channel to a broader, under-served customer base.

▣ Further detail regarding our funding activities is available on pages 23 to 26.

Robust financial performance

Our strong performance in 2018 is reflected in the 41.6% year-on-year increase in profit before tax to £158.2 million (2017: £111.7 million), driven primarily by the significant increase in our net interest income as we maintained a robust net interest margin and delivered gains through the structured asset sales. Profit after tax for 2018 rose to £120.8 million, from £81.3 million a year earlier.

Our extensive experience in specialist mortgage risk evaluation and disciplined approach to risk management enabled us to maintain our sector leading low cost of risk which came to just 0.036% in 2018 (2017: 0.011%), with only 0.2% of the total loan book three months or more in arrears at year end (2017: 0.1%).

Return on equity increased to 30.8% in 2018, from 28.6% in 2017, as a result of the increase in profit after tax.

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A strong performance across both our lending and funding operations is helping us to continue to meet or exceed all of the targets set out at the time of our IPO.

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Investment in risk management

Charter Court's rigorous approach to risk management remains central to our business and our corporate culture. Our risk management function serves as the platform which underpins our lending, facilitating our balance sheet growth while maintaining the high credit quality of our loan book.

We continued to invest in our risk management team during the year, deepening our knowledge and enhancing our expertise. We maintained our programme of operational enhancements in risk management, with further investment to improve our cyber resilience. We also continued with our preparations for the adoption of the Internal Ratings Based approach ("IRB") to capital requirements for credit risk. This approach is consistent with our analytical and sophisticated approach to credit risk management and will bring important risk, business and capital allocation benefits. This work will continue into 2019 and we expect the project to be completed to expected timescales.

Outlook

Given the prevailing uncertainty in the wider economy, we are closely monitoring macroeconomic developments for any events that could impact our chosen specialist mortgage markets. We believe that the ongoing economic uncertainty creates challenges and opportunities and we are well positioned to respond to events and capitalise on changes in our markets. We remain focused on asset classes where we have significant experience and expertise, with a resilient business model purpose built to exploit structural drivers in these areas.

We continuously monitor wholesale funding markets for securitisation opportunities and will execute funding transactions or sell additional residual positions in our securitisations when market conditions are advantageous.

Charter Court has a robust pipeline going into 2019 and has made a positive start to the year. In line with our strategy, we remain focused on delivering strong loan book growth, whilst maintaining high levels of efficiency and a low cost of risk.

Ian Lonergan
Chief Executive Officer