Charter Court Financial Services Group plc

Press release

21 August 2018

This announcement contains information in the table on page 1 and the penultimate paragraphs on pages 2 and 6 that, prior to its publication, is inside information.

Interim results for the six months ended 30 June 2018

A strong half for originations and profitability

Financial highlights[1]

	H1 2018	H1 2017	FY 2017
Net interest income	£84.4m	£65.3m	£144.1m
Net interest margin	3.08%	3.17%	3.19%
Profit before tax[2]	£93.1m	£59.3m	£111.7m
Profit after tax	£71.1m	£43.6m	£81.3m
Loan book	£5,694m	£4,415m	£5,364m
Mortgage originations	£1,357m	£1,305m	£2,737m
Retail deposits balance	£4,263m	£3,977m	£4,420m
Cost income ratio[2]	24.8%	31.0%	34.1%
Cost of risk	0.025%	0.004%	0.011%
Return on equity[2]	38.4%	34.1%	28.6%
Earnings per share			
- basic	29.7p	18.9p	35.0p
- diluted	29.5p	18.9p	34.9p
Dividend per share	2.8p	-	-

Continued balance sheet growth

- H1 loan book of £5,694 million up 29.0% year on year (H1 2017: 58.4%, FY 2017: 40.9%) or 41.7% (H1 2017: 69.2%, FY 2017: 48.7%) excluding the impact of structured asset sales (see below), driven by strong origination volumes

Rigorous risk management maintained

- Disciplined underwriting reflected in strong credit performance across lending portfolio with sector leading cost of risk of 0.025%
- Only 0.4% of loan book one month or greater in arrears (30 June 2017: 0.3%, 31 December 2017: 0.3%) and 0.1% three months or greater in arrears (30 June 2017: 0.1%, 31 December 2017: 0.1%)

[1] This financial report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this, we have included a reconciliation of the APMs we use, where relevant, and a glossary indicating the APMs we use, an explanation of how they are calculated and why we use them. Please see page 54 for further details.
Comparative numbers and KPIs for 2017 have not been restated for the implementation of IFRS 9 on 1 January 2018 (see note 3 to the condensed financial statements).

[2] Previously disclosed 2017 underlying profit before tax, cost income ratio and return on equity that were adjusted for the impact of IPO costs incurred during 2017 of £5.0 million and H1 2017 of £2.3 million are no longer disclosed as they are not considered relevant.

Continued success of dynamic funding strategy

- Successful execution of three securitisation transactions ("the H1 securitisation transactions") totalling £906.1 million (FY 2017: two securitisations totalling £597.3 million) and sale of economic interest in two securitisations ("the structured asset sales") resulting in an aggregate gain of £36.4 million (H1 and FY 2017: one structured asset sale resulting in a gain of £17.7 million)
- Retail savings deposit base increased by 7.2% year-on-year to £4,263 million (30 June 2017: £3,977 million, 31 December 2017: £4,420 million)
- Term Funding Scheme ("TFS") drawings increased by £150.0 million to £1,147.8 million

Strong profitability driving improved returns

- Robust net interest margin of 3.08% in line with 2018 guidance (H1 2017: 3.17%, FY 2017: 3.19%)
- Cost income ratio further reduced to 24.8% (H1 2017: 31.0%, FY 2017: 34.1%) reflecting disciplined cost control combined with higher income
- Return on equity increased to 38.4% (H1 2017: 34.1%, FY 2017: 28.6%) driven by the structured asset sales

Interim dividend

- Announcing inaugural dividend of 2.8p per share reflecting a payout ratio of 25%
- Positive first half performance, a confident outlook for 2018 and the medium term, and a strong capital position underpins Board's decision to lift dividend payout ratio to 25% of earnings, whilst maintaining a progressive dividend policy thereafter

Ian Lonergan, CEO of Charter Court, said:

"We continued to make progress in the first half of 2018, delivering against or exceeding all of our targets.

"Steady growth in our balance sheet was maintained, with originations driven primarily by the strong uptake of our specialist buy to let products designed for the growing sophistication of our chosen market segments.

"This positive result was achieved whilst controlling risk efficiently and effectively, maintaining the high quality of our mortgage book.

"Our asset growth remains supported by the strength of our capital markets execution capabilities demonstrated by the attractively priced securitisations and structured asset sales delivered during the first half, positioning us extremely well in a post TFS funding environment.

"Our cost income ratio, whilst being below our medium term target due to the impact of structured asset sales in the period, continues to benefit from our high operating leverage and our scalable platforms.

"We are also delighted to announce our inaugural dividend for H1 2018 of 2.8p per share.

"We remain well capitalised for future growth and remain on track to deliver against our medium term targets."

Enquiries:

Analysts and investors

Charter Court Sebastien Maloney, Chief Financial Officer	019 0262 5929
Citigate Dewe Rogerson Sandra Novakov Michael Russell	020 7638 9571

Media

Citigate Dewe Rogerson Andrew Hey Caroline Merrell	020 7638 9571

Analyst and investor presentation

A presentation for analysts and investors will be held at 10am on 21 August 2018 at the South Place Hotel, 3 South Place, London EC2M 2AF.

Participants will be able to take part via a conference call facility by dialling +44 (0) 20 3003 2666 or 0808 109 0700 (Password: Charter Court Financial Services). A live audio webcast of the presentation will be broadcast on our IR website at http://www.chartercourtfs.co.uk/InvestorCentre.

Cautionary statement

This Interim Management Report ("IMR") has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose. The IMR contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Forward–Looking Statements

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". Forward-looking statements are statements that are not historical facts and may be identified by words such as "intend", "aim", "project", "anticipate", "estimate", "plan", "believes", "expects", "may", "envisage", "should", "will", "target", "continues", "set to", or similar expressions. These forward-looking statements involve substantial known and unknown risks, uncertainties, assumptions, estimates and other factors which may be beyond the control of Charter Court Financial Services Group plc ("Charter Court") and its subsidiaries (together, "the Group"). Actual results and developments may differ materially from those expressed or implied by these statements and depend on a variety of factors. These statements are made in respect of Charter Court's intentions or future beliefs and current expectations at the time made concerning, among other things, Charter Court's results of operations, financial condition, liquidity, prospects, growth and strategies. In light of these risks, uncertainties and assumptions, actual results could be materially different from projected future results expressed or implied by these forward-looking statements which speak only as to the date of this announcement. The Group cannot guarantee that its forward-looking statements will not differ materially from actual results. Charter Court disclaims any obligation to update any forward-looking statements in this announcement that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement. Undue reliance should not be placed on any forward-looking statement.

About Charter Court Financial Services Group plc ("Charter Court")

Charter Court is one of the UK's leading specialist challenger banks by originations, founded in 2008 by its senior management team and purpose built to focus on specialist buy to let, residential, bridging and second charge mortgage lending. We operate through our three brands – Precise Mortgages, Exact Mortgage Experts and Charter Savings Bank – providing buy to let and specialist residential mortgages; mortgage servicing, administration and credit consultancy; and retail savings products.

We have continued to grow in our chosen markets and to translate that growth into strong financial and operational performance. At 30 June 2018, our total mortgage balances stood at £5.7 billion generated through our relationships with more than 21,000 registered introducers nationwide, whilst Charter Savings Bank held £4.3 billion in retail deposits at the same date from around 125,000 retail savings accounts.

Underpinning our success, our risk management expertise and technology and systems ensure efficient processing, strong credit and collateral risk control and speed of product development and innovation. These factors have enabled our strong balance sheet growth whilst maintaining the high credit quality of our mortgage assets.

Charter Court was admitted to the main market of the London Stock Exchange in October 2017 (CCFS.L). Charter Court Financial Services Limited, a subsidiary of the Group, is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Charter Mortgages Limited, also a subsidiary of the Group, is authorised and regulated by the FCA.

Chief Executive Officer's review

During the first half of 2018 we benefited from the momentum developed during 2017, delivering continued growth and increased profitability at Charter Court.

Market dynamics remain supportive

The buy to let market remained resilient in H1 2018 following two years of significant regulatory change. The purchase market softened to £4.5 billion in the first six months of 2018 (first six months 2017: £5.2 billion)[3], with a shift towards specialist buy to let solutions such as limited company lending.[4] Remortgage volumes increased to £13.4 billion in the same period (first six months 2017: £11.7 billion) as borrowers took advantage of low interest rates, with £5.5 billion of the total fixed for five years.

The residential mortgage market remained stable in H1 2018 as historically low bank base rates were offset by the economic uncertainty driven by the ongoing Brexit negotiations. Residential mortgage volumes totalled £64.5 billion in the first six months of 2018 (first six months 2017: £63.5 billion), with £28.5 billion generated by first time buyers and £36.0 billion generated by home movers.[5]

The funding market was also supportive during H1 2018, with UK residential mortgage backed security ("RMBS") spreads reaching a post crisis low in Q1 2018.[6]

Maintaining our strong balance sheet growth

Charter Court's loan book continued to grow in H1 2018 increasing 29.0% year on year (H1 2017: 58.4%, FY 2017: 40.9%), and 41.7% on an underlying[7] basis (H1 2017: 69.2%, FY 2017: 48.7%). Of the £1.4 billion of new originations during the period, growth was primarily delivered through the continued uptake of our buy to let and specialist residential mortgage propositions, as we captured increased demand for professional buy to let products and non-standard residential mortgages. We continued to enhance our lending proposition by refining our product range and further improving our distribution and service standards.

Implementing our flexible approach to funding

During the first half of the year, we were proactive in the implementation of our dynamic funding strategy and took advantage of favourable conditions in wholesale markets to minimise our funding costs.

As a result, our retail deposit book remained broadly flat during the first half as we shifted our focus to customer retention rather than acquisition.

The H1 securitisation transactions had a combined value of over £900 million, surpassing our total issuance for the whole of 2017. Additionally, strong demand for equity tranches in our securitisations allowed us to complete two structured asset sales at attractive prices, recognising a gain on sale of £36.4 million, maximising shareholder value and in-line with our strategy.

Delivering robust financial performance

The Group continued to perform well during the first half of the year and the strong performance achieved across the business resulted in a 57.0% increase in profit before tax to £93.1 million from £59.3 million in H1 2017.

This growth was primarily attributable to the significant increase in our net interest income for the six months ended 30 June 2018 where we have managed to maintain a robust net interest margin, as well as the gains on the structured asset sales. Profit after tax for the six months ended 30 June 2018 rose to £71.1 million, from £43.6 million a year earlier.

---

[3] UK Finance: Mortgage Trends Update June 2018, UK Finance: Mortgage Trends Update December 2017
[4] BDRC Landlord Panel Q2 2018
[5] UK Finance: Mortgage Trends Update June 2018, UK Finance: Mortgage Trends Update December 2017
[6] J.P. Morgan European ABS & CB Research
[7] Excluding the impact of the sale of economic interest in securitisations ("the structured asset sales").

Summary and Outlook

We continue to see robust demand for our specialist lending proposition which we expect to translate into further growth and returns in the second half through the efficiency of our unique business model that combines deep credit know-how and proprietary analytics, our extensive intermediary network and our scalable, bespoke operating platform that maintains the high quality of our underwriting.

On the liability side, we intend to continue to price our retail savings products tactically in the second half, to optimise our cost of funds and deliver a balanced funding mix. We will also continue to explore diversification opportunities to enhance further our competitive position in the savings market. We continually monitor capital markets conditions and, as demonstrated in the first half of the year, will continue to execute transactions when market conditions are favourable. While we do not expect to complete any structured asset sales in H2 2018, we anticipate realising a c. £15 million gain on sale from a structured asset sale in H1 2019.

Based on our robust first half performance and outlook for the remainder of 2018 we are increasing our guidance on organic originations to c. £2.7 billion for the full year from c. £2.5 billion previously. We continue to target a net interest margin of greater than 300 basis points for the year. Reflecting the impact of the structured asset sales, the strong increase in net interest income and our high operating leverage, we expect both our cost income ratio and return on equity to be better than our medium term guidance.

Considering Charter Court's strong capital position and reflecting confidence in its strategy and positive medium term outlook, the Board has adopted a progressive dividend policy with a payout ratio of 25% of earnings for 2018 and maintains its progressive dividend policy objective thereafter.

Going forward, the interim dividend will be based on one third of the prior year's total dividend. In line with this the Board has declared an interim dividend to ordinary shareholders based on one third of 25% of the profit after tax for the year ended 31 December 2017. The dividend of 2.8 pence per share is payable 4 October 2018.

The Group remains well capitalised with an anticipated CET1 ratio in excess of 15% for the full year.

Charter Court remains on track to deliver against its medium term financial targets as set out below.

KPI	**Medium term target**
Loan book growth	>20%[8]
Cost income ratio	Low 30s (%)
Cost of risk	Sector leading
Return on equity	Mid 20s (%)
CET1	Minimum 13%
Dividend payout	Minimum 25% payout ratio and progressive

Ian Lonergan

Chief Executive Officer

[8] Excluding derecognition through asset sales.

Financial review

Group highlights

Loan book growth of 29.0%

Charter Court's loan book growth to £5.7 billion at 30 June 2018 (30 June 2017: £4.4 billion, 31 December 2017: £5.4 billion) reflects strong mortgage origination volumes taking into account the derecognition of assets on structured asset sales, which reduces the loan book.

Balance sheet - key items (£m)	As at 30 June 2018	As at 30 June 2017	Change	As at 31 December 2017
Customer loans and receivables	5,693.8	4,415.5	29.0%	5,364.2
Cash and cash equivalents	920.3	878.5	4.8%	966.8
Total assets	6,695.5	5,465.4	22.5%	6,424.4
Deposits from banks	1,157.5	880.2	31.5%	1,003.5
Deposits from customers	4,262.6	3,976.7	7.2%	4,420.0
Debt securities in issue	825.7	297.5	177.5%	627.4
Total liabilities	6,289.0	5,187.8	21.2%	6,089.4
Equity attributable to equity holders of the parent and total equity	406.5	277.6	46.4%	335.0

Low cost of risk maintained

As a result of our continued focus on credit quality, disciplined risk management and extensive experience in specialist mortgage risk assessment, only 0.1% of the Group's loan book was three months or greater in arrears at 30 June 2018 (30 June 2017: 0.1%, 31 December 2017: 0.1%). This is reflected in our low cost of risk on an IFRS 9 basis of 0.025% for the six months ended 30 June 2018 (30 June 2017: 0.004%, 31 December 2017: 0.011%, both on an IAS 39 basis). We maintain our guidance that we will continue to demonstrate a market leading cost of risk over the medium term.

Funding mix optimised through further securitisation issuance

Charter Court's retail deposit customer base remained stable during the period, at £4.3 billion at 30 June 2018 (30 June 2017: £4.0 billion, 31 December 2017: £4.4 billion).

We continued to benefit from access to wholesale funding through securitisations and warehouse facilities. Securitisation transactions amounted to total issuance of £906.1 million during H1 2018 (FY 2017: two securitisations totalling £597.3 million). The two structured asset sales the Group executed in H1 2018 resulted in the derecognition of £562.5 million of underlying mortgage assets and associated risk weighted assets ("RWAs") (2017: one structured asset sale amounting to £300.0 million of underlying mortgage assets and associated RWAs), while generating an aggregate gain on sale of £36.4 million (H1 2017: £17.7 million).

Financial review (continued)

Combined with an additional £150.0 million of Bank of England TFS drawdowns, (six months to 30 June 2017: £857.8 million, year to 31 December 2017: £977.8 million), this allowed us to further optimise the balance of our funding mix and extend the weighted average life of our liabilities. As a result, at 30 June 2018 the Group's loan to deposit ratio has increased to 133.6% (30 June 2017: 111.1%, 31 December 2017: 121.4%).

Our ability to identify market opportunities, execute tactical transactions and operate swiftly positions us well in a world post TFS.

Income statement – key items (£m)	Six months ended 30 June 2018	Six months ended 30 June 2017	Change	Year ended 31 December 2017
Net interest income	84.4	65.3	29.2%	144.1
Total income	124.7	86.0	45.0%	170.2
Administrative expenses	(30.9)	(26.7)	15.7%	(58.0)
Profit before tax	93.1	59.3	57.0%	111.7
Tax	(22.0)	(15.7)	40.1%	(30.4)
Profit after tax	71.1	43.6	63.1%	81.3

Profit after tax up 63.1%

Our profit before tax increased to £93.1 million in H1 2018 (H1 2017: £59.3 million), reflecting a significant increase in net interest income and gains on the structured asset sales (see below).

The effective tax rate for the period was 23.6% (H1 2017: 26.4%, FY 2017: 27.2%) reflecting reductions in the rate of UK corporation tax.

Profit after tax for H1 2018 was up 63.1% to £71.1 million (H1 2017: £43.6 million).

Total income up 45.0%

Driven by continued growth of the mortgage loan book, our interest income and similar income increased by 31.1%, to £127.4 million (H1 2017: £97.2 million), mainly due to the continued expansion of the mortgage origination business, funded principally through securitisations and TFS drawdowns.

Interest expense and similar charges increased by 34.8% percent to £43.0 million in H1 2018, (H1 2017: £31.9 million).

The Group's net interest income increased by 29.2% to £84.4 million (H1 2017: £65.3 million). Net interest margin in H1 2018 was 3.08% (H1 2017: 3.17%).

The structured asset sales resulted in the full derecognition of the underlying mortgage assets and delivered net gains on sale totalling £36.4 million (H1 2017: £17.7 million).

Our total income for the period increased by 45.0% to £124.7 million (H1 2017: £86.0 million).

Financial review (continued)

Cost income ratio improved further

Administrative expenses increased by 15.7% to £30.9 million in H1 2018 (H1 2017: £26.7 million), principally as a result of increased staff costs and associated support expenses, reflecting the growth of the business. The average number of staff increased in the period to 557 (30 June 2017: 430; 31 December 2017: 462). In H1 2017 expenses included £2.3 million of costs associated with the IPO and private sale costs; no such costs were incurred in H1 2018.

The cost income ratio decreased from 31.0% in H1 2017 to 24.8% in H1 2018 reflecting strong growth in income, the scalability of our operations and the benefits of our high operating leverage as our balance sheet continues to grow.

Following the adoption of IFRS 9 on 1 January 2018, the charge for provision for loan impairments on a expected loss basis in the six months to 30 June 2018 was £0.7 million (H1 2017: on an IAS 39 incurred loss basis, £nil). For further explanation of the change in accounting policy see note 3 in the condensed financial statements.

Effective liquidity management

The Group predominantly offers term deposits and notice accounts to retail depositors. These deposits have a more predictable liquidity profile than easy access accounts and as at 30 June 2018 they represented 89% of all retail savings accounts.

At 30 June 2018, the Group held £751.2 million (31 December 2017: £848.0 million) of its liquid assets in Bank of England reserve account balances and £97.1 million (31 December 2017: £34.5 million) of liquid assets in balances held with tier 1 UK banking institutions, comfortably exceeding regulatory requirements.

Robust capitalisation supports growth strategy

With a strong CET1 ratio of 16.6%[9] at 30 June 2018 (31 December 2017: 15.6%) and a leverage ratio of 5.67% comfortably above the Bank of England requirement of 3.25%, Charter Court remains well capitalised.

In June 2018, the Group received from the Prudential Regulatory Authority notification of its total capital requirement (“TCR”) which is as follows:
Consolidated – a minimum amount of capital of 10.58% of RWAs with no fixed add-on.
Individual – a minimum amount of capital of 10.65% of RWAs with no fixed add-on.

The Group’s preparations for adoption of the internal ratings based approach (“IRB”) are progressing apace and have considerable traction. The resultant improvements in the credit risk management framework are expected to pave the way for lower risk weights under the IRB approach than the current standardised approach, thus reducing regulatory credit risk capital requirements, bringing important benefits.

[9] Unaudited, inclusive of retained verified profits to 30 June 2018 and increased dividend payout ratio.

Business review by segment

Lending

Highlights

- New originations increased by 3.9% year on year £1,356.7 million (FY 2017: £2,737.3 million and H1 2017: £1,305.4 million)
- Loan book was up by 29.0% year on year, to £5,693.8 million (30 June 2017: £4,415.5 million) Underlying loan book[10] was up 41.7% excluding the impact of the structured asset sales
- Net interest income of £84.5 million (H1 2017: £63.7 million and FY 2017: £141.3 million)
- Profit contribution up 32.1% to £86.1 million (H1 2017: £65.2 million and FY 2017: £144.5 million)

Profit by lending segment

	Buy to let	Resid-ential	Short term lending	Second charge lending	Total
Six months ended 30 June 2018	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	47.6	26.2	7.6	3.1	84.5
Fees and commissions income	0.9	1.2	0.1	0.1	2.3
Provisions for loan impairments	(0.4)	(0.3)	-	-	(0.7)
Profit contribution	48.1	27.1	7.7	3.2	86.1
Six months ended 30 June 2017					
Net interest income	30.8	22.1	8.0	2.8	63.7
Fees and commissions income	0.5	0.9	0.1	-	1.5
Provisions for loan impairments	-	-	-	-	-
Profit contribution	31.3	23.0	8.1	2.8	65.2

Profit contribution is equal to segment profit, excluding other, as per note 4 of the condensed financial statements

Continued focus on distribution and service standards

During H1 2018, Charter Court successfully maintained its distribution leadership across more than 21,000 registered introducers nationwide and affirmed its position as one of the largest single specialist bank providers through the country's leading mortgage clubs and networks.

The Group's 'Broker Journey' project continued to deliver non system based service improvements aimed at providing increased volumetric activity, increasing conversion rates and reducing time to offer. A recent survey commissioned through independent market research group BDRC[11] showed Precise Mortgages ranking first versus its peer group in the following measures: efficient online application, efficient case communications, efficient offer processing and clear and consistent underwriting.

In H1 2018, the Group commenced a review of its sales proposition with a view to delivering national sales coverage through both a technology and telephony-based channel whilst optimising the use of field based sales force.

---

[10] A reconciliation of the underlying loan book is included in the Alternative performance measures appendix. For further details regarding the structured asset sales please see the Wholesale funding section.
[11] BDRC presentation: Project Mercury Q1 2018 ("the BDRC report")

Business review by segment (continued)

Buy to let

Highlights

- New originations £835.3 million (FY 2017: £1,592.1 million and H1 2017: £756.1 million)
- Loan book up by 20.7% from year end to £3,902.4 million (31 December 2017: £3,232.2 million and 30 June 2017: £2,526.2 million)
- Net interest income of £47.6 million (H1 2017: £30.8 million and FY 2017: £69.8 million)
- Profit contribution up 53.7% to £48.1 million (H1 2017: £31.3 million and FY 2017: £70.7 million)

During the first half of 2018, Charter Court saw a sustained shift in demand towards specialist buy to let products of the type the Group offers.

Charter Court further developed its proposition for landlords with limited company structures and remained active in the houses in multiple occupation ("HMO") market. With a range of five-year fixed term products and the launch of its income supported buy to let proposition, Charter Court continued to offer a variety of options for landlords who do not fit the profile required by high street lenders.

Such proactive new product development and effective management of mortgage applications allowed the Group to maintain its strong competitive position in this market. The BDRC report showed Charter Court as the No.1 lender mentioned by intermediaries for limited company buy to let lending.

As a result, originations for the first half of 2018 increased by 10.5% to £835.3 million (H1 2017: £756.1 million). Net interest income increased from £30.8 million in H1 2017 to £47.6 million in the same period of 2018.

Buy to let mortgages represent 69% of Charter Court's total loan book.

Business review by segment (continued)

Residential

Highlights

- New originations £362.9 million (FY 2017: £770.6 million and H1 2017: £356.2 million)
- Loan book down by 18.9% from year end to £1,412.4 million (FY 2017: £1,742.3 million and H1 2017: £1,509.0 million) due to the structured asset sales
- Underlying loan book up 13.4% excluding the impact of the structured asset sales
- Net interest income of £26.2 million (H1 2017: £22.1 million and FY 2017: £49.2 million)
- Profit contribution up 17.8% to £27.1 million (H1 2017: £23.0 million and FY 2017: £51.2 million)

The specialist residential market also remained robust during H1 2018 supported by strong demand for help to buy and new build products.

In addition to distribution improvements, during H1 2018 the Group added an interest only proposition to its product range. As a result, Charter Court maintained its No.1 ranking in the BDRC report for intermediaries looking to place residential lending with adverse credit, with 68% of intermediaries surveyed recommending Precise Mortgages for this type of lending.

Originations for the first half of 2018 were slightly ahead at £362.9 million compared with £356.2 million for the six months to 30 June 2017. Net interest income from specialist residential mortgages increased from £22.1 million in the first half of 2017 to £26.2 million.

Charter Court remains focused on delivering further improvements to its specialist residential proposition through the Group's new product development programme. The Group sees potential growth opportunities in the retirement market, where favourable regulatory changes have recently been introduced.

Specialist residential mortgages represent 25% of Charter Court's total loan book.

Business review by segment (continued)

Short term lending (Bridging)

Highlights

- New originations £131.4 million (FY 2017: £314.2 million and H1 2017: £162.0 million)
- Loan book down by 7.0% to £203.5 million from year end (31 December 2017: £218.9 million and 30 June 2017: £218.2 million)
- Net interest income of £7.6 million (H1 2017: £8.0 million and FY 2017: £16.4 million)
- Profit contribution down 4.9% to £7.7 million (H1 2017: £8.1 million and FY 2017: £16.6 million)

In the first two months of 2018 Charter Court chose not to react to competitive movements in its core bridging market. Activity remained acceptable and throughout this period the Group maintained its focus on high quality, low risk bridging finance.

In late Q1 2018 Charter Court took the opportunity to restructure its product range and introduced product enhancements to successfully drive renewed growth. Q2 2018 delivered notably increased applications levels relative to Q1 2018 and the same period last year. This trend was supported by a restructured sales team and improved distribution which has enabled the Group to access a larger potential market.

Bridging loans represent 3% of Charter Court's total loan book.

Second charge loans

Highlights

- New originations £27.1 million (FY 2017: £60.4 million and H1 2017: £31.0 million)
- Loan book up by 2.8% to £175.5 million from year end (31 December 2017: £170.8 million and 30 June 2017: £162.1 million)
- Net interest income of £3.1 million (H1 2017: £2.8 million and FY 2017: £5.9 million)
- Profit contribution up 14.3% to £3.2 million (H1 2017: £2.8 million and FY 2017: £6.0 million)

During the first half of 2018, Charter Court maintained its focus on high quality lending at appropriate margins, prioritising quality over volume of loans. Although originations fell compared with the first half of 2017, the loan book increased from £170.8 million to £175.5 million and net interest income increased from £2.8 million in H1 2017 to £3.1 million in H1 2018.

Second charge loans represent 3% of Charter Court's total loan book.

Business review by segment (continued)

Funding

Charter Court continued to implement its dynamic funding strategy in H1 2018, taking advantage of changing market conditions to balance funding sources and deliver an optimal cost of funds.

Retail deposits

Highlights

- Customer balances up 7.2% year on year to £4,262.6 million
- Strong retention performance
- Continued growth of ISA product range to over £700 million

Charter Court's retail deposits remained broadly stable versus the year end 2017 at £4,262.6 million (31 December 2017: £4,420.0 million and 30 June 2017: £3,976.7 million), as the Group continued to price tactically and reprice quickly so that its retail savings products appeared at the top of "best buy" tables when most efficient and effective.

Whilst this has led to a low level of balance attrition in H1 2018, this was planned for and controlled within the overall funding mix as wholesale funding opportunities were more economical.

As at 30 June 2018, the Group had 102,145 savings customers (31 December 2017: 102,394 and 30 June 2017: 90,156), operating 125,468 savings accounts (31 December 2017: 122,825 and 30 June 2017: 104,477), with an average balance per account of £33,700 (31 December 2017: £36,000 and 30 June 2017: £36,000). The significant weighting of savings deposited with the Group towards longer term and notice-based products continued to provide relative stability of funds.

Charter Court continued to benefit from high levels of customer satisfaction and growing recognition from media coverage and awards. This was evident in the strong performance that was delivered as the Group's focus shifted from acquisition to retention.

In addition, the Group's ISA offering provided access to another retail deposit market with fewer competitors and lower customer rates than their equivalent non-ISA products. Despite choosing not to compete during the ISA's traditionally busiest period at the end of the tax year, ISA balances exceeded £700 million since the product was launched twelve months ago.

Wholesale funding

Highlights

- H1 securitisation transactions concluded with a combined value of £906.1 million (FY 2017: £597.3 million and H1 2017: £300.0 million)
- Structured asset sales completed for an aggregate gain on sale of £36.4 million (H1 and FY 2017: £17.7 million)
- Extension of committed warehouse facility secured, with £350 million of senior funding available
- Drew down an additional £150.0 million of TFS funding (31 December 2017: £977.8 million and 30 June 2017: £857.8 million)

Securitisation remains a key strategic funding source for the Group, with more than £3 billion of issuance since December 2013. As well as providing cost efficient funding, further diversifying the funding mix, and increasing the weighted average life of the Group's liabilities, securitisations can be used strategically to accelerate organic capital generation through the sale of residual positions.

Business review by segment (continued)

H1 2018 has been exceptionally productive in this regard, with the Group taking full advantage of strong markets to complete issuances totalling more than £900 million. These transactions priced at spreads narrower than those previously achieved by the Group, with new benchmarks set for both the buy to let ("PMF") and residential ("CMF") RMBS programmes. On a combined basis, the overall day-1 cost of funds across the c. £900 million of mortgage collateralised notes placed was 3-month LIBOR plus 69bps.

During the period the Group also took advantage of a strong residuals market, selling the residual certificates in its CMF 2017-1 and CMF 2018-1 transactions to third party investors in January and June respectively. The sales enabled the derecognition of the underlying mortgage assets and generated a combined gain on sale of £36.4 million.

Of particular highlight was the CMF 2018-1 transaction, which closed in June 2018. The £285.5 million prime residential transaction followed on from the Group's inaugural CMF deal of July 2017. It achieved a senior note margin of LIBOR plus 47bps, and a weighted average day 1 cost of funds across the mortgage collateralised notes placed of 3-month LIBOR plus 55bps. Simultaneously, the Group went on to agree the sale of the residual positions in this transaction, resulting in a gain on sale of £21.3 million and representing a premium of 7.5% over the current balance of the sold mortgage assets.

The Group was equally successful in its buy to let securitisation activities, where it closed two PMF deals, and in the process achieved a record tight senior margin for a publically placed sterling buy to let transaction of 3-month LIBOR plus 65bps for its £246.1 million PMF 2018-1B deal, which closed in January 2018. It followed that up in March with the larger and longer duration PMF 2018-2B transaction, which securitised £374.5 million of buy to let mortgage assets with a senior spread of 3-month LIBOR plus 68bps. Day 1 cost of funds, across the mortgage collateralised notes was 3-month LIBOR plus 74bps for the PMF 2018-1B deal and 77bps for the PMF 2018-2B deal.

Both transactions have detachable residual positions, providing the opportunity for these to be sold at a future point in time should the business require. Such a sale would result in the derecognition of the underlying assets, release associated RWAs and generate a profit on sale.

During the period, the Group was also able to extend the maturity of its non-bank warehouse line. The line provides committed senior finance of up to £350 million against both prime residential and buy to let mortgage assets.

The Group also utilised its large TFS quota to draw down further amounts under the scheme prior to its closing in February (taking total outstanding drawings to £1,147.8 million), as well as also to repay and redraw the majority of its existing 2017 drawings. Each drawing has maturity of 4 years to the date upon which it was drawn, and therefore by repaying and redrawing existing drawdowns in this way, the Group was effectively able to reset the maturity date of the majority of its TFS liabilities out to February 2022, maximising the optionality and economic benefit of the scheme to the Group.

Risk Management

Maintaining our robust approach to risk management

A robust, clearly defined and effective risk management framework

Charter Court has a well-structured and mature risk management framework which was developed further in the first half of the year.

Further financial and people investment in the risk function, stress testing capability and ongoing adherence to the three lines of defence model is reflected in a strong performance in the first half of 2018 and will support ongoing business and organisational growth.

Strong credit risk management and standards

Our high credit standards and controls were maintained across the lending book with continued focus on disciplined underwriting systems and standards contributing to a low cost of risk.

Data Protection Law Changes

General Data Protection Regulation (EU) 2016/79 ("GDPR") and the Data Protection Act 2018 replaced the Data Protection Act 1998 with effect from 25 May 2018. The GDPR has brought about significant changes to data protection law including new requirements for record keeping, accountability, data subject rights, breach reporting and new obligations on processors.

A project to implement the necessary GDPR requirements was incepted in 2017 and the first phase – which included the preparation of Privacy Notices and implementation of procedures for providing them to existing and future customers, colleagues and brokers was completed in good time for the 25 May deadline.

Priorities for the remainder of 2018

The main goal for 2018 remains taking a forward-looking view and maintaining the high standards of insight, risk management and reporting that enable Charter Court to realise its business plan within prudent risk management parameters.

We remain alert to a potentially volatile economic and political outlook and will continue to monitor closely and assess the external environment as well as understanding potential adverse effects resulting from emerging and fast developing risks such as IT and cybercrime; the changing and likely future regulatory landscape is also a priority, particularly that which might affect capital requirements and credit standards, competitive trends in mortgage lending and retail savings markets and possible changes emanating from macro-economic conditions.

The introduction of a new operational risk management system is planned for implementation in the second half of 2018. This will augment centralised monitoring, control and reporting of operational risk.

The second phase of our GDPR project includes the enhancement of the data inventory, review and update of all contracts with data processors; implementation of procedures for the anonymisation of data at the end of agreed retention dates; and enhancements to the data management and control framework, for example identification of areas where data privacy risk can be reduced.

Risk Management (continued)

The Group's preparations for the internal ratings based approach ("IRB") are progressing apace and have considerable traction. There are a number of primary benefits from the approach. These include enhancements to our robust credit risk management framework, afforded by the build and application of enhanced application scoring to support underwriting decisions; the build and implementation of behavioural models which enable better and more dynamic mortgage portfolio monitoring and control and increased assessment and differentiation of relative counterparty risk enabling more proactive management and opportunities for better price differentiation. Improvements in credit risk management, measurement and control would be expected to pave the way for lower risk weights under the IRB approach than the standardised approach, thus reducing credit risk capital requirements.

Principal risks

In addition to credit risk, for which updated data are provided below along with updated Treasury risk exposures, the principal risks are as set out in detail on pages 26-33 of the 2017 annual report and accounts.

Each risk has an appetite limit set and owned by the Board. The Group operated within its Board approved risk appetite statements for the six months to 30 June 2018.

Credit risk

Risk exposure

The majority of the Group's buy to let, specialist residential and bridging finance is secured by first charge on residential property and relates primarily to prime, complex prime and near-prime credit which, to a limited extent, gives exposures to borrowers with a degree of impaired credit.

The Group's second charge lending is secured by second charges on residential property where the existing first charge typically secures a mortgage at a low loan to value ("LTV").

Counterparty risk

There is a minimum counterparty risk rating for wholesale funding and limits on maximum allowable exposures are imposed.

The assets of the Group subject to credit risk are set out below:

Class	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Cash and cash equivalents	920.3	878.5	966.8
Investment in debt securities	68.7	159.6	78.4
Customer loans and receivables	5,693.8	4,415.5	5,364.2
Derivative financial instruments	19.3	10.1	11.9
Other assets held at fair value	0.1	0.2	0.2
Trade and other receivables	3.1	3.9	4.6
Potential exposure to credit risk	6,705.3	5,467.8	6,426.1

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

Risk Management (continued)

Credit risk (continued)

Analysis of loans by Loan to Value (LTV)

Current LTV	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Buy to let			
< 50%	105.9	73.8	89.9
50 – 59.99%	217.2	159.3	193.8
60 – 69.99%	583.9	417.2	512.6
70 – 79.99%	2,529.3	1,626.4	2,098.7
80 – 89.99%	488.6	264.9	356.9
>= 90%	-	-	-
	3,924.9	2,541.6	3,251.9
Residential			
< 50%	140.6	156.6	176.5
50 – 59.99%	136.0	136.4	159.2
60 – 69.99%	228.7	259.3	295.1
70 – 79.99%	605.7	566.0	706.3
80 – 89.99%	297.9	385.4	400.4
>= 90%	7.4	8.1	7.5
	1,416.3	1,511.8	1,745.0
Short term lending			
< 50%	99.5	108.4	101.7
50 – 59.99%	32.5	44.4	43.5
60 – 69.99%	60.7	54.9	62.4
70 – 79.99%	9.6	6.2	8.4
80 – 89.99%	0.7	1.4	2.9
>= 90%	0.5	2.8	-
	203.5	218.1	218.9
Second charge lending			
< 50%	29.7	28.9	29.6
50 – 59.99%	32.5	31.1	32.8
60 – 69.99%	56.8	53.8	54.7
70 – 79.99%	42.7	39.4	42.8
80 – 89.99%	12.7	7.5	9.5
>= 90%	-	-	-
	174.4	160.7	169.4
Total			
< 50%	375.7	367.7	397.7
50 – 59.99%	418.2	371.2	429.3
60 – 69.99%	930.1	785.2	924.8
70 – 79.99%	3,187.3	2,238.0	2,856.2
80 – 89.99%	799.9	659.2	769.7
>= 90%	7.9	10.9	7.5
	5,719.1	4,432.2	5,385.2

The analysis by LTV is based on the principal amount of the loans, which does not agree to the Condensed consolidated statement of financial position as it excludes accounting adjustments, such as EIR adjustments, mortgage fair value hedge adjustments and provision for loan impairments.

At 30 June 2018, the average loan to value percentage of underlying mortgage assets to which the loans relate was 71% (30 June 2017: 70% and 31 December 2017: 70%) and £0.6 million (30 June 2017: £0.4 million and 31 December 2017: £0.4 million) of the total balance represented arrears (amounts quoted being the actual amount in arrears).

Credit risk (continued)

At 30 June 2018, the estimated value of property collateral held against residential mortgages was £10,272.6 million (30 June 2017: £8,495.7 million and 31 December 2017: £9,887.9 million). Collateral values are determined using an indexed valuation based on value at origination, unless there is an expectation that the security will be realised, in which case an independent appraised value is used. Collateral values are not capped at the value of the underlying loan. The collateral cannot usually be sold unless it is in possession.

At 30 June 2018, there were two properties in possession (30 June 2017: one and 31 December 2017: three) with a value of £ 0.2 million (30 June 2017: £0.1 million and 31 December 2017: £0.3 million).

Forbearance

The Group offers borrowers in financial difficulties a range of forbearance options, including capitalisation of arrears, temporary interest only concessions, payment holidays and term extensions. Term extensions are available on all loans but typically are applicable to short term loans and generally for no more than three months; the period of time is dependent upon the individual circumstances. These are granted on a discretionary basis.

Forbearance is considered to be an indicator that a loan may be impaired and such loans are allocated a higher probability of default in the Group's loan impairment provisioning.

The table below shows loans subject to active forbearance strategies:

	Transfers to interest only	Payment holiday	Term extensions	Arrangements	Total	
	£m	£m	£m	£m	£m	% of loan book
At 30 June 2018 (Unaudited)						
Current	2.2	5.2	17.3	14.8	39.5	0.69
Past due up to 3 months	0.4	-	0.6	7.4	8.4	0.15
Past due from 3 months up to 6 months	0.4	-	0.7	2.1	3.2	0.06
Past due from 6 months up to 12 months	-	-	-	0.5	0.5	0.01
Past due over 12 months	-	-	-	0.2	0.2	0.00
	3.0	5.2	18.6	25.0	51.8	0.91
At 30 June 2017 (Unaudited)						
Current	1.6	0.8	12.4	7.8	22.6	0.51
Past due up to 3 months	0.1	0.3	0.3	4.4	5.1	0.12
Past due from 3 months up to 6 months	-	-	-	0.1	0.1	0.00
	1.7	1.1	12.7	12.3	27.8	0.63
At 31 December 2017 (Audited)						
Current	2.1	4.1	19.1	14.8	40.1	0.75
Past due up to 3 months	0.2	0.2	1.2	5.8	7.4	0.14
Past due from 3 months up to 6 months	-	-	0.6	0.7	1.3	0.02
Past due from 6 months up to 12 months	-	-	-	0.2	0.2	0.00
Past due over 12 months	-	-	-	0.5	0.5	0.01
	2.3	4.3	20.9	22.0	49.5	0.92

Risk Management (continued)

Treasury risk

Risk exposure

The contractual maturity analysis of the Group's liabilities is summarised below:

Contractual maturity analysis	Not more than 3 months £m	More than 3 months but not more than one year £m	More than one year but not more than 5 years £m	Carrying value per balance sheet £m
As at 30 June 2018 (Unaudited)				
Trade and other payables	13.2	-	-	13.2
Corporation tax payable	-	21.9	-	21.9
Deposits from banks	9.7	-	1,147.8	1,157.5
Deposits from customers	1,241.9	2,049.5	971.2	4,262.6
Derivative financial instruments	9.5	-	-	9.5
Debt securities in issue	0.7	82.9	742.1	825.7
As at 30 June 2017 (Unaudited)				
Trade and other payables	11.5	-	-	11.5
Corporation tax payable	-	15.6	-	15.6
Deposits from banks	2.4	-	877.8	880.2
Deposits from customers	934.1	2,314.7	727.9	3,976.7
Derivative financial instruments	4.9	-	-	4.9
Debt securities in issue	0.3	-	297.2	297.5
As at 31 December 2017 (Audited)				
Trade and other payables	15.2	-	-	15.2
Corporation tax payable	-	17.0	-	17.0
Deposits from banks	1.0	4.7	997.8	1,003.5
Deposits from customers	1,294.3	2,393.3	732.4	4,420.0
Derivative financial instruments	6.5	-	-	6.5
Debt securities in issue	0.5	41.5	585.4	627.4

The above table includes all debt securities in issue being redeemed on their contractual call option dates.

Treasury risk (continued)

Risk exposure (continued)

The future contractual undiscounted cash flows including interest of the above liabilities are shown below.

Future contractual undiscounted cash flows including interest	Not more than 3 months £m	More than 3 months but not more than one year £m	More than one year but not more than 5 years £m	More than 5 years £m	Total cash flows £m
As at 30 June 2018 (Unaudited)					
Trade and other payables	13.2	-	-	-	13.2
Corporation tax payable	-	21.9	-	-	21.9
Deposits from banks	9.7	4.3	1,164.3	-	1,178.3
Deposits from customers	1,246.2	2,073.2	998.0	-	4,317.4
Derivative financial instruments	1.6	4.1	14.6	0.3	20.6
Debt securities in issue	4.1	92.7	774.8	-	871.6
As at 30 June 2017 (Unaudited)					
Trade and other payables	11.5	-	-	-	11.5
Corporation tax payable	-	15.6	-	-	15.6
Deposits from banks	2.4	1.6	884.2	-	888.2
Deposits from customers	984.4	2,278.8	754.8	-	4,018.0
Derivative financial instruments	1.0	2.1	5.8	0.5	9.4
Debt securities in issue	1.2	3.7	303.9	-	308.8
As at 31 December 2017 (Audited)					
Trade and other payables	15.2	-	-	-	15.2
Corporation tax payable	-	17.0	-	-	17.0
Deposits from banks	1.2	8.4	1,010.4	-	1,020.0
Deposits from customers	1,303.5	2,415.2	750.2	-	4,468.9
Derivative financial instruments	1.8	4.7	17.2	0.8	24.5
Debt securities in issue	2.3	48.6	598.7	-	649.6

Interest rate risk

The Group does not seek to take a significant interest rate position and is exposed to interest rate risk only as a consequence of the provision of its financial services products. Interest rate risk is managed to ensure that the level of risk from shifts in the yield curve does not exceed a maximum percentage of capital resources or that earnings at risk do not exceed a specified percentage of projected earnings and CET1 capital in the following twelve months. The use of derivatives is designed to reduce this risk.

Risk Management (continued)

Other risk factors

The risk factors described below represent those other risks that the Group currently considers to be material and remain unchanged from those described on page 34 of the 2017 full year report.

Risk Factor – Global economy

The Group's business and financial performance have been and will continue to be affected by general economic conditions in the UK and adverse developments in the UK or global financial markets could have a detrimental impact on its earnings and profitability.

Risk Factor – UK macro-economy and housing market

The Group's business and financial performance have been and will continue to be affected by the economic condition of its customers and of the UK housing market. Pressures on household incomes may lead to an increase in arrears in the Group's residential mortgage portfolios, and an associated increase in provision for loan impairments. High levels of consumer debt could also impact affordability assessments and other factors in underwriting decisions and may contribute to reduced willingness by lenders to lend to individuals.

Risk Factor – Competition

Competition in the UK mortgage and retail savings markets may adversely affect the Group's operations.

Risk Factor – Cybercrime, Fraud

The Group may be subject to privacy or data protection failures, cybercrime and fraudulent activity. The Group has implemented, and manages, on an ongoing basis a number of robust policies and procedures relating to data protection and the prevention of cyber-theft, however a residual risk still remains.

Risk Factor – IT failure

The Group is dependent on its IT systems, including those of its outsourced providers which may fail or be subject to disruption.

Risk Factor – Key employee dependency

The Group is reliant on a small number of key employees, within its senior management team and the wider business, who are central to the Group's approach to lending in its specialist markets. Intense competition in the financial services industry for skilled and/or qualified personnel further accentuates this risk.

Risk Factor - Outsourcing

The Group relies on third parties for a number of its key processes and functions, with a particular reliance on a single third-party provider for a number of key services in relation to the Group's online retail savings account business.

Risk Factor – Regulatory risks

The Group's business is subject to risks relating to changes in Government policy and applicable regulations affecting the UK housing market and related matters.

Risk Factor – 'Brexit'

Regulatory and other changes resulting from the UK's exit from the EU could impact the Group's results. This is in part due to uncertainty in relation to the eventual outcome of the negotiations and in part due to a large proportion of the regulatory regime applicable to the Group being derived from EU directives and regulations - the UK exiting the EU could materially change the regulatory framework applicable to the Group's operations.

Directors' responsibilities statement

We confirm that to the best of our knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU;

b) the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules (an indication of important events during the first six months of the current financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year); and

c) the interim management report includes a fair review of the information required by DTR 4.2.8R of the Disclosure Guidance and Transparency Rules (a disclosure of related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance during the period, and any changes in the related parties transactions described in the annual report and accounts for the year ended 31 December 2017 that could have a material effect on the financial position or performance in the first six months of the current financial year).

The Board of Directors, as listed below, represents those individuals responsible for this interim management report:

Sir Malcolm Williamson, Chairman

Philip Jenks, Deputy Chairman

Noël Harwerth, Senior Independent Director

Ian Ward, Chair of the Remuneration Committee and Chair of the Nomination Committee

Tim Brooke, Chair of the Board Risk Committee

Rajan Kapoor, Chair of the Audit Committee

Ian Lonergan, Chief Executive Officer

Sebastien Maloney, Chief Financial Officer

Peter Elcock, Chief Risk Officer

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

Ian Martin Lonergan
Chief Executive Officer
20 August 2018

Sebastien Maloney
Chief Financial Officer
20 August 2018

Independent Review Report to Charter Court Financial Services Group plc

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2018 which comprises the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of financial position, the Condensed consolidated statement of changes in equity, the Condensed consolidated statement of cash flows and related notes 1 to 23. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent Review Report to Charter Court Financial Services Group plc (continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

20 August 2018

Charter Court Financial Services Group plc

CONDENSED FINANCIAL STATEMENTS

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Interest income and similar income	5	127.4	97.2	211.1
Interest expense and similar charges	6	(43.0)	(31.9)	(67.0)
Net interest income		84.4	65.3	144.1
Non-interest income	7	3.9	3.0	8.5
Gain on sale of loans		36.4	17.7	17.7
Net loss from derivative financial instruments	8	-	-	(0.1)
Total income (net)		124.7	86.0	170.2
Administrative expenses		(30.9)	(26.7)	(58.0)
Provision for loan impairments – net charge		(0.7)	-	(0.5)
Profit before tax		93.1	59.3	111.7
Tax charge	10	(22.0)	(15.7)	(30.4)
Profit for the period / year		71.1	43.6	81.3
Other comprehensive income for the period / year		-	-	-
Profit and total comprehensive income for the period / year attributable to equity holders of the Parent Company		71.1	43.6	81.3
Earnings per share (pence per share)				
Basic	11	29.7	18.9	35.0
Diluted	11	29.5	18.9	34.9

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

Charter Court Financial Services Group plc

Condensed consolidated statement of financial position

As at 30 June 2018

	Note	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Assets				
Cash and cash equivalents		920.3	878.5	966.8
Investment in debt securities	12	68.7	159.6	78.4
Customer loans and receivables	13	5,693.8	4,415.5	5,364.2
Fair value adjustment for hedged risk	13	(14.9)	(4.2)	(6.2)
Derivative financial instruments	14	19.3	10.1	11.9
Other assets held at fair value		0.1	0.2	0.2
Trade and other receivables		3.1	3.9	4.6
Deferred tax asset		2.3	0.3	2.2
Property, fixtures and equipment		1.1	0.8	0.9
Intangible assets		1.7	0.7	1.4
Total assets		6,695.5	5,465.4	6,424.4
Liabilities				
Deposits from banks	16	1,157.5	880.2	1,003.5
Deposits from customers	17	4,262.6	3,976.7	4,420.0
Fair value adjustment for hedged risk	17	(1.4)	1.4	(0.2)
Debt securities in issue	18	825.7	297.5	627.4
Derivative financial instruments	14	9.5	4.9	6.5
Trade and other payables		13.2	11.5	15.2
Corporation tax payable		21.9	15.6	17.0
Total liabilities		6,289.0	5,187.8	6,089.4
Net assets		406.5	277.6	335.0
Equity				
Share capital		2.4	-	2.4
Share premium		19.0	-	19.0
Retained earnings		385.1	277.0	313.6
Equity-settled employee benefits reserve		-	0.6	-
Equity attributable to equity holders of the Parent Company and total equity		406.5	277.6	335.0

Approved by the Board of Directors on 20 August 2018 and signed on its behalf by:

Ian Martin Lonergan — Chief Executive Officer

Sebastien Maloney — Chief Financial Officer

Company number: 06712054

Charter Court Financial Services Group plc

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2018

	Share capital £m	Share premium £m	Retained earnings £m	Equity-settled employee benefits reserve £m	Total £m
Six months ended 30 June 2018 (Unaudited)					
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 six months ended 30 June 2018	-	-	71.1	-	71.1
Recognition of share-based payments	-	-	0.9	-	0.9
Deferred tax	-	-	0.2	-	0.2
At 30 June 2018	2.4	19.0	385.1	-	406.5
Six months ended 30 June 2017 (Unaudited)					
At 1 January 2017	-	195.1	38.3	0.1	233.5
Cancellation of share premium	-	(195.1)	195.1	-	-
Profit and total comprehensive income for the six months ended 30 June 2017	-	-	43.6	-	43.6
Recognition of share-based payments	-	-	-	0.5	0.5
At 30 June 2017	-	-	277.0	0.6	277.6
Year ended 31 December 2017 (Audited)					
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 ended 31 December 2017	-	-	81.3	-	81.3
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	313.6	-	335.0

Condensed consolidated statement of cash flows

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Net cash (utilised) / generated by operating activities	19	(816.2)	532.8	189.6
Purchases of property, fixtures and equipment	15	(0.4)	(0.1)	(0.4)
Expenditure on product system development and software	15	(0.5)	(0.1)	(1.0)
Proceeds from sale of loans		285.5	300.0	300.0
Purchases of debt securities		-	(44.7)	(44.7)
Disposals and redemptions of debt securities		9.8	5.2	88.9
Net cash generated by investing activities		294.4	260.3	342.8
Proceeds on issue of debt securities		1,161.3	-	394.4
Costs associated with issue of debt securities		(1.5)	-	(1.5)
Repayment of debt securities		(684.5)	(128.6)	(191.6)
Proceeds from the issue of shares		-	-	20.0
Share issue costs		-	-	(0.9)
Net cash generated by / (utilised by) financing activities		475.3	(128.6)	220.4
Net (decrease) / increase in cash and cash equivalents		(46.5)	664.5	752.8
Cash and cash equivalents at beginning of the period / year		966.8	214.0	214.0
Cash and cash equivalents at end of the period / year		920.3	878.5	966.8

At 30 June 2018 cash and cash equivalents includes £64.2 million (30 June 2017: £94.4 million and 31 December 2017: £79.9 million) of restricted cash.

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 information for the year ended 31 December 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The Auditor has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed set of financial statements for the six months ended 30 June 2018 is unaudited, but has been reviewed by the auditor and their report to the Company is included in this statement. These interim financial statements were authorised for issue by the Company's Board of Directors on 20 August 2018.

The critical accounting judgements and key sources of estimation uncertainty are unchanged from those disclosed on pages 112 and 113 of the 2017 full year report.

2. Basis of preparation and accounting policies

The annual financial statements of Charter Court Financial Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee, except for those changes in accounting policies that have been applied with effect from 1 January 2018 (see note 3 below).

Going concern

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.

3. Changes in accounting policy

In the current financial period, the Group has adopted IFRS 9 Financial instruments, 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'.

Other changes to accounting standards in the current period, including the adoption of IFRS 15 Revenue, had no material impact.

IFRS 16 Leases is effective for the Group's consolidated financial statements for the year ending 31 December 2019. IFRS 16 removes the distinction between operating and finance leases and requires recognition of a right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. The Group is currently reviewing the impact of the new standard but does not expect its impact to be material.

Impact of IFRS 9 on the financial statements

The impacts of the adoption of IFRS 9 are unchanged from those disclosed in note the 3 of the financial statements for the year ended 31 December 2017.

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 and concluded that, except as set out below, the measurement of all non-derivative financial assets remains unchanged in the Group 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 a purchased 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.

3. Changes in accounting policy (continued)

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.

These key concepts and management judgements are set out in more detail in note 3 to financial statements for the year ended 31 December 2017.

IFRS 9 Financial instruments – Accounting policies applied from 1 January 2018

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

4. 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;
- Short term lending ("STL"): Short term bridging finance to owner-occupiers, landlords and property developers;
- Second charge lending ("SCL"): Long term second charge loans; and
- Other: The central functions of the Group, including treasury and third party mortgage servicing. Other also includes the results of the Bridestone portfolio acquired in 2017 and income from the sale of the PMF 2017-1B securitisation in 2017 and from the sale of the CMF 2017-1 securitisation in 2018.

Interest expense is allocated in proportion to the average balances of the interest-earning segment assets during the period / 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 Condensed consolidated statement of comprehensive income in the tables below.

Assets allocated to the originated lending related segments are customer loans and receivables balances only. Bridestone loans and receivables (£24.1 million) acquired in 2017, cash and cash equivalents, investments in debt securities and 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.

There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss in the period.

Charter Court Financial Services Group plc

Notes to the condensed financial statements (continued)

For the six months ended 30 June 2018

4. Segment information (continued)

Six months ended 30 June 2018 (Unaudited)	BTL £m	Residential £m	STL £m	SCL £m	Other £m	Total £m
Interest receivable and similar income	73.9	36.9	9.0	4.3	3.3	127.4
Interest payable and similar charges	(26.3)	(10.7)	(1.4)	(1.2)	(3.4)	(43.0)
Net interest income	47.6	26.2	7.6	3.1	(0.1)	84.4
Fees and commissions income	0.9	1.2	0.1	0.1	1.6	3.9
Gain on sale of loans	-	-	-	-	36.4	36.4
Provision for loan impairments – net charge	(0.4)	(0.3)	-	-	-	(0.7)
Segment profit	48.1	27.1	7.7	3.2	37.9	124.0
Administrative expenses						(30.9)
Profit before tax						93.1
Tax charge						(22.0)
Profit after tax						71.1
Segment assets						
As at 30 June 2018						
Segment assets	3,902.4	1,389.7	203.5	175.5	1,011.7	6,682.8
Unallocated assets						12.7
						6,695.5

Six months ended 30 June 2017 (Unaudited)	BTL £m	Residential £m	STL £m	SCL £m	Other £m	Total £m
Interest receivable and similar income	48.4	32.3	9.6	3.9	3.0	97.2
Interest payable and similar charges	(17.6)	(10.2)	(1.6)	(1.1)	(1.4)	(31.9)
Net interest income	30.8	22.1	8.0	2.8	1.6	65.3
Fees and commissions income	0.5	0.9	0.1	-	1.5	3.0
Gain on sale of loans	-	-	-	-	17.7	17.7
Provision for loan impairments – net charge	-	-	-	-	-	-
Segment profit	31.3	23.0	8.1	2.8	20.8	86.0
Administrative expenses						(26.7)
Profit before tax						59.3
Tax charge						(15.7)
Profit after tax						43.6
Segment assets						
As at 30 June 2017						
Segment assets	2,526.2	1,483.9	218.2	162.1	1,063.2	5,453.6
Unallocated assets						11.8
						5,465.4

4. Segment information (continued)

	BTL	Resid-ential	STL	SCL	Other	Total
Year ended 31 December 2017 (Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
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						
As at 31 December 2017						
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

5. Interest income and similar income

	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Interest revenue calculated using the EIR method			
Interest on customer loans and receivables	127.6	98.6	214.1
Interest and other income on debt securities	0.6	1.6	3.2
Interest and other income on liquid assets	2.3	0.6	2.0
Other interest revenue			
Interest on customer loans and receivables	0.4	-	-
Net expense on derivative financial instruments designated as hedging instruments	(3.5)	(3.6)	(8.2)
	127.4	97.2	211.1

6. Interest expense and similar charges

	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Interest expense on deposits and other borrowings	37.1	30.3	63.3
Interest expense on asset backed loan notes	6.4	3.4	7.5
Net income on derivative financial instruments designated as hedging instruments	(0.5)	(1.8)	(3.8)
	43.0	31.9	67.0

7. Non-interest income

	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Sale of investment in debt securities	-	-	2.1
Fair value gain on residential mortgages held at fair value	0.3	-	-
Revenue from contracts with customers for services relating to:			
Mortgage administration	1.2	1.4	2.5
Mortgage applications	2.4	1.6	3.9
	3.9	3.0	8.5

8. Net loss from derivative financial instruments

	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Macro hedging:			
(Loss) / gain on derivatives designated as fair value hedges	(4.5)	6.5	6.8
Gain / (loss) in fair value of hedged items attributable to hedged risk	4.5	(6.5)	(6.8)
	-	-	-
Non-hedging:			
Net loss on disposal of interest rate swaps	-	-	(0.1)
	-	-	(0.1)

9. Profit before tax

Profit before tax for the period has been arrived at after charging:

	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Depreciation of property, fixtures and equipment	0.2	0.2	0.4
Amortisation of intangible assets	0.2	-	0.2
Operating lease costs	0.8	0.5	1.0
Research and development costs	-	-	0.1
Staff costs	19.4	13.6	31.3
IPO costs	-	2.2	4.9

Staff costs include £0.9 million (30 June 2017: £0.5 million and 31 December 2017: £1.1 million) relating to share-based payments.

10. Tax

	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Current tax:			
Current tax on profits for the period / year	17.6	12.1	24.8
Surcharge on bank profits for the period / year	4.3	3.7	7.6
Total current tax charge	21.9	15.8	32.4
Deferred tax:			
Current period / year	0.1	(0.1)	(2.1)
Adjustments in respect of prior periods	-	-	0.1
Total deferred tax charge/(credit)	0.1	(0.1)	(2.0)
Tax per the Condensed consolidated statement of comprehensive income	22.0	15.7	30.4

The tax charge on the profit for the six months ended 30 June 2018 was £22.0 million (six months ended 30 June 2017: £15.7 million, year ended 31 December 2017: £30.4 million). The effective tax rate for the six months ended 30 June 2018 is 23.56% (30 June 2017: 26.36%, 31 December 2017: 27.23%). A reconciliation from the expected tax charge based on the standard rate of tax for the six months ended 30 June 2018 of 19.00% (six months ended 30 June and year ended 31 December 2017: 19.25%) to the actual tax charge is set out below.

	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Profit before tax:			
Continuing operations	93.1	59.3	111.7
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	17.7	11.4	21.5
Banking surcharge	4.3	3.7	7.6
Expenses not deductible for tax purposes	-	0.6	1.2
Securitisation regulations	-	-	(0.1)
Adjustments in respect of prior periods	-	-	0.1
Effect of differences in tax rate	-	-	0.1
Tax charge for the period / year	22.0	15.7	30.4

Change in tax rate

Reductions in the UK corporation tax rate 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 Company's future current tax charge accordingly. The deferred tax asset as at each Condensed consolidated statement of financial position date has been calculated based on the enacted rate at the relevant date.

11. Earnings per share

Earnings per share ("EPS") are based on the profit for the period 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 period. Diluted EPS take into account share options and awards which can be converted to ordinary shares.

	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)	Year ended 31 December 2017 (Audited)
Profit for the period (£million)	71.1	43.6	81.3
Weighted average number of ordinary shares of £0.01 each			
Basic	239,130,419	230,396,795	232,536,247
Dilutive effects	1,919,414	-	656,514
Diluted	241,049,833	230,396,795	233,192,761
Per share amount (pence)			
Basic	29.7	18.9	35.0
Diluted	29.5	18.9	34.9

The Group reorganised its share capital in September 2017 in preparation for the IPO. As there were no changes in equity as a result of the reorganisation, earnings per share for all the periods has been prepared on the basis of the new structure after the reorganisation, in accordance with IAS 33.

12. Investment in debt securities

	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Debt securities held at amortised cost	68.7	159.6	78.4

Investment in debt securities at 30 June 2017 and 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.

13. Customer loans and receivables

	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Residential mortgages held at amortised cost	5,696.4	4,432.2	5,385.2
Residential mortgages held at fair value	22.7	-	-
	5,719.1	4,432.2	5,385.2
EIR adjustment	(23.1)	(16.2)	(20.0)
Provision for loan impairments	(2.2)	(0.5)	(1.0)
	5,693.8	4,415.5	5,364.2

Residential mortgages held at fair value were reclassified from held at amortised cost on 1 January 2018 in accordance with IFRS 9. These residential mortgages held at fair value are an acquired portfolio that includes cashflows which are not solely payments of principal and interest.

Analysis of customer loans and receivables

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

	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Buy to let	3,902.4	2,526.2	3,232.2
Residential lending	1,412.4	1,509.0	1,742.3
Short term lending	203.5	218.2	218.9
Second charge lending	175.5	162.1	170.8
	5,693.8	4,415.5	5,364.2

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

At 30 June 2018 included within customer loans and receivables is £200.5 million (30 June 2017: £211.4 million; 31 December 2017: £211.7 million) of balances due within 12 months and £5,493.3 million (30 June 2017: £4,204.1 million; 31 December 2017: £5,152.5 million) due after 12 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.

13. Customer loans and receivables (continued)

Encumbered assets

The residential mortgage loans above pledged as collateral for liabilities are:

	Note	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
In respect of:				
Bank of England Term Funding Scheme (TFS)	16	1,541.0	1,167.4	1,326.1
Asset backed loan notes	18	831.9	321.1	654.0
		2,372.9	1,488.5	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 30 June 2018 the percentage of customer loans and receivables that are encumbered is 41.7% (30 June 2017: 33.7%; 31 December 2017: 36.9%).

Residential mortgages held at amortised cost

	Gross balances Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	EIR adjustments £m	Provision for loan impairments £m	Net balance £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	1,356.7	-	-	1,356.7	-	-	1,356.7
Sales to third parties	(562.5)	-	-	(562.5)	(1.5)	0.2	(563.8)
Transfers between stages	(65.4)	61.6	3.8	-	-	-	-
Repayments, redemptions, interest charged and other debits	(436.0)	(21.5)	(1.4)	(458.9)	-	-	(458.9)
EIR adjustments	-	-	-	-	(1.6)	-	(1.6)
Loan impairments P&L net charge	-	-	-	-	-	(0.7)	(0.7)
	5,476.5	211.8	8.1	5,696.4	(23.1)	(2.2)	5,671.1

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

13. Customer loans and receivables (continued)

Ageing of past due but not impaired customer loans and receivables

	As at 30 June 2018 (Unaudited) £m	**As at 30 June 2017 (Unaudited) £m**	**As at 31 December 2017 (Audited) £m**
1-30 days	34.3	27.7	34.6
31-60 days	11.2	8.7	7.1
61-89 days	6.7	2.1	4.1
	52.2	38.5	45.8

At 30 June 2018, a stage 1 and stage 2 total provision of £1.6 million (30 June 2017: £0.5 million; 31 December 2017: £0.6 million, incurred collective provision) is 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 30 June 2018 (Unaudited) £m	**As at 30 June 2017 (Unaudited) £m**	**As at 31 December 2017 (Audited) £m**
1-30 days	-	-	0.4
90-120 days	2.9	1.5	2.1
> 120 days	4.0	1.9	4.0
	6.9	3.4	6.5

At 30 June 2018, a stage 3 provision of £0.6 million (30 June 2017: £0.05 million; 31 December 2017: £0.4 million, specific provision) is held relating to impaired mortgage loan receivables. Mortgage loans which are not past due but considered to be impaired totalled £40.8 million (30 June 2017: £22.6 million; 31 December 2017: £40.1 million) and a stage 3 provision of £0.5 million (30 June 2017: £nil; 31 December 2017: £nil, specific provision) is held against these mortgages.

13. Customer loans and receivables (continued)

Impairment provisions on residential mortgages

Impairment provisions as at 30 June 2018 were £2.2 million (30 June 2017: £0.5 million; 31 December 2017: £1.0 million) and comprise:

Six months ended 30 June 2018 (Unaudited)	**£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
Stage 1	
At 1 January 2018	0.9
Sale of loans	(0.2)
Charge for the period	0.4
At 30 June 2018	1.1
Stage 2	
At 1 January 2018	0.4
Charge for the period	0.1
At 30 June 2018	0.5
Stage 3	
At 1 January 2018	0.4
Charge for the period	0.2
At 30 June 2018	0.6
Total impairment provisions	2.2

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.

13. Customer loans and receivables (continued)

	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Collective impairment provisions		
At 1 January 2017	0.5	0.5
Charge for the period / year	-	0.1
At 31 December 2017	0.5	0.6
Specific impairment provisions		
At 1 January 2017	-	-
Charge for the period / year	-	0.4
At 31 December 2017	-	0.4
Total impairment provisions	0.5	1.0

Residential mortgages held at fair value

Residential mortgages held at fair value are 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 zero coupon rates. Movements in the residential mortgages held at fair value were:

	Six months ended 30 June 2018 (Unaudited) £m
Balance at 31 December 2017 at amortised cost as originally presented	24.1
IFRS 9 adjustment to fair value	-
Restated balance at 1 January 2018	24.1
Repayments, redemptions, interest charged and other debits	(1.7)
Fair value gain	0.3
Balance at 30 June 2018	22.7

13. Customer loans and receivables (continued)

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 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Fair value adjustment for hedged risk	(14.9)	(4.2)	(6.2)

14. Derivative financial instruments

	Notional £m	Positive fair value £m	Negative fair value £m
Interest rate swaps at 30 June 2018 (Unaudited)			
Level 2 derivatives	6,832.0	19.3	(9.3)
Level 3 derivatives	845.7	-	(0.2)
	7,677.7	19.3	(9.5)
Interest rate swaps at 30 June 2017 (Unaudited)			
Level 2 derivatives	5,365.7	10.1	(4.8)
Level 3 derivatives	9.7	-	(0.1)
	5,375.4	10.1	(4.9)
Interest rate swaps at 31 December 2017 (Audited)			
Level 2 derivatives	6,484.5	11.9	(6.5)
Level 3 derivatives	1,206.7	-	-
	7,691.2	11.9	(6.5)

Interest rate swap agreements with a notional value of £3,763.2 million as at 30 June 2018 (30 June 2017: £2,482.4 million; 31 December 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.

14. Derivative financial instruments (continued)

Interest rate swap agreements with a notional value of £2,774.5 million as at 30 June 2018 (30 June 2017: £2,593.0 million; 31 December 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 30 June 2018, the Group held interest rate options (caps) with a notional value of £300.0 million (30 June 2017: £300.0 million; 31 December 2017: £300.0 million) with a fair value of £nil (30 June 2017: £nil; 31 December 2017: £nil) and held basis swaps with a notional value of £840.0 million (30 June 2017: £nil; 31 December 2017: £1,200.0 million).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. There were no movements in the fair values of the basis swaps during the period. Movements in the fair values of level 3 balance guaranteed swaps were:

	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Opening balance	-	(0.3)	(0.3)
(Loss) / gain	(0.2)	0.2	0.3
Closing balance	(0.2)	(0.1)	-

15. Property, fixtures and equipment and intangible assets

Property, fixtures and equipment

The net book value of property, fixtures and equipment at 30 June 2018 was £1.1 million (30 June 2017: £0.8 million; 31 December 2017: £0.9 million). Movements in the six months ended 30 June 2018 comprise purchases of £0.4 million (30 June 2017: £0.1 million; 31 December 2017: £0.4 million) of leasehold property improvements, fixtures and equipment and computer equipment and depreciation of £0.2 million (30 June 2017: £0.2 million; 31 December 2017: £0.4 million).

Intangible fixed assets

The net book value of intangible fixed assets at 30 June 2018 was £1.7 million (30 June 2017: £0.7 million; 31 December 2017: £1.4 million). Movements in the six months ended 30 June 2018 comprise purchases of £0.5 million (30 June 2017: £0.1 million; 31 December 2017: £1.0 million) of development costs, computer software and licenses and depreciation of £0.2 million (30 June 2017: £nil; 31 December 2017: £0.2 million).

16. Deposits from banks

	As at 30 June 2018 (Unaudited) £m	**As at 30 June 2017 (Unaudited) £m**	**As at 31 December 2017 (Audited) £m**
Collateral received on interest rate swap contracts	8.3	1.9	4.7
Bank of England Term Funding Scheme (TFS)	1,149.2	878.3	998.8
Total deposits	1,157.5	880.2	1,003.5

As at 30 June 2018, the carrying value of assets pledged as collateral for the TFS is £1,541.0 million (30 June 2017: £1,167.4 million; 31 December 2017: £1,326.1 million). Deposits from banks includes £1.4 million of accrued interest (30 June 2017: £0.5 million; 31 December 2017: £1.0 million).

As at 30 June 2018 and 31 December 2017, all bank deposits are denominated in pounds sterling. As at 30 June 2017 £0.1 million of collateral received on interest rate swap contracts was denominated in euros and all other bank deposits were denominated in pounds sterling.

At 30 June 2018 included within deposits from banks is £9.7 million (30 June 2017: £2.4 million; 31 December 2017: £5.7 million) of balances due within 12 months and £1,147.8 million (30 June 2017: £877.8 million; 31 December 2017: £997.8 million) due after 12 months.

17. Deposits from customers

The contractual maturity of deposits from customers is analysed below.

	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Amounts repayable			
On demand	476.9	241.2	526.6
In less than 3 months	765.0	692.9	767.7
In more than 3 months but less than 1 year	2,049.5	2,314.7	2,393.3
In more than 1 year but less than 2 years	714.9	592.3	569.3
In more than 2 years but less than 5 years	256.3	135.6	163.1
Total deposits	4,262.6	3,976.7	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.

	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Fair value adjustment for hedged risk	(1.4)	1.4	(0.2)

18. Debt securities in issue

	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Asset backed loan notes	825.7	297.5	627.4
Amount due for settlement within 12 months	0.7	0.3	42.0
Amount due for settlement after 12 months	825.0	297.2	585.4
	825.7	297.5	627.4

All borrowings are payable in pounds sterling.

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 assets. The maturity date of the funds matches the maturity date of the underlying assets. It is likely that a large proportion of the underlying assets and therefore these notes will be repaid within five years. As at 30 June 2018, the carrying value of assets pledged as collateral for the Groups debt securities in issue is £831.9 million (30 June 2017: £321.1 million; 31 December 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, 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.

Notes are issued through eight funding vehicles.

	As at 30 June 2018 (Unaudited) £m	As at 30 June 2017 (Unaudited) £m	As at 31 December 2017 (Audited) £m
Buttermere Plc asset backed loan notes	-	0.5	-
PMF No. 1 asset backed loan notes	36.3	47.6	41.5
PMF 2014-1 asset backed loan notes	43.3	65.0	54.7
PMF 2014-2 asset backed loan notes	54.1	77.9	63.8
PMF 2015-1 asset backed loan notes	69.1	106.0	85.7
CCFS Warehouse No.1 asset backed loan notes	-	0.5	0.5
CMF 2017-1 asset backed loan notes	-	-	281.1
CML Warehouse Number 1 loan facility	-	-	100.1
PMF 2018-1B asset backed loan notes	244.8	-	-
PMF 2018-2B asset backed loan notes	378.1	-	-
	825.7	297.5	627.4

18. Debt securities in issue (continued)

CCFS Warehouse No.1 Plc asset backed loan notes

CCFS Warehouse No.1 Plc was closed to new drawings on 16 January 2018.

CMF 2017-1 Plc

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

PMF 2018-1B Plc

A pass through publically rated securitisation; PMF 2018-1B Plc, closed on 24 January 2018 and issued external to the Group £254.7 million of pounds sterling mortgage backed floating rate notes at par. £222.7 million of the notes were rated AAA, £7.4 million rated AA+, £7.4 million rated A+, £4.9 million rated BBB+, £3.7 million rated BBB- and £8.6 million rated BB+. The Group retained and continues to hold the Residual Certificates position (RC1 and RC2).

PMF 2018-2B Plc

A pass through publically rated securitisation; PMF 2018-2B Plc, closed on 20 March 2018 and issued external to the Group £387.6 million of pounds sterling mortgage backed floating rate notes at par. £338.9 million of the notes were rated AAA, £11.2 million rated AA, £11.2 million rated A+, £7.5 million rated BBB+, £5.6 million rated BBB- and £13.1 million rated BB+. On closing, the Group retained the Residual Certificates position (RC1 and RC2). The Group subsequently sold the RC1 position in July 2018.

CMF 2018-1 Plc

A pass through publically rated securitisation; CMF 2018-1 Plc, closed on 8 June 2018 and issued external to the Group £298.9 million of pounds sterling mortgage backed floating rate notes at par. £261.7 million of the notes were rated AAA, £7.2 million rated AA+, £7.2 million rated A+, £7.2 million rated A-, £2.9 million rated BBB+ and £12.9 million rated BB+. The Group agreed the sale of the Residual Certificates positions (RC1 and RC2) at closing, and holds no residual interest in the transaction.

19. Net cash flows from operating activities

	Note	Six months ended 30 June 2018 (Unaudited) £m	Six months ended 30 June 2017 (Unaudited) £m	Year ended 31 December 2017 (Audited) £m
Profit before tax		93.1	59.3	111.7
Non-cash items				
Provision for loan impairments	13	0.7	-	0.5
Depreciation of property, fixtures and equipment		0.2	0.2	0.4
Amortisation of intangible assets		0.2	-	0.2
Gain on sale of investment in debt securities		-	-	(2.1)
EIR adjustment		3.0	1.1	4.4
Movement in fair value hedge		7.5	8.5	7.1
Movement in other assets held at fair value		0.1	-	-
Recognition of equity-settled employee benefits payments		0.9	0.5	1.1
Operating cash flows before movements in working capital		105.7	69.6	123.3
Movement in derivatives		(4.4)	(6.4)	(6.6)
Decrease / (increase) in receivables		1.5	(1.5)	(2.1)
Increase in residential mortgages		(896.6)	(909.1)	(1,862.2)
(Decrease) / increase in payables		(2.0)	3.3	7.0
Decrease / (increase) in retail deposits		(157.4)	542.2	987.4
Increase in deposits from banks		154.0	840.2	963.5
Cash generated by operations		(799.2)	538.3	210.3
Tax paid		(17.0)	(5.5)	(20.7)
Net cash generated by operating activities		(816.2)	532.8	189.6

20. Related party transactions

The Group had no related party transactions during the six month period to 30 June 2018 that would materially affect the position or performance of the Group. Details of transactions for the year ended 31 December 2017 can be found in note 43 of the 2017 financial statements.

21. Post balance sheet event

In July 2018, the Group sold PMF 2018-2B Plc’s RC1 position to a third party. The Group has retained the RC2 position and so continues to treat PMF 2018-2B Plc as a consolidated subsidiary.

22. Fair values of financial instruments

Financial instruments carried at amortised cost

The fair values of the Group's financial instruments carried at amortised cost are not materially different from their carrying values, except for the following:

	Carrying value £m	Fair value £m
30 June 2018		
Investment in debt securities	68.7	69.2
Customer loans and receivables	5,671.1	5,902.8
30 June 2017		
Investment in debt securities	159.6	159.7
Customer loans and receivables	4,415.5	4,592.8
31 December 2017		
Investment in debt securities	78.4	79.2
Customer loans and receivables	5,364.2	5,565.6

There have been no changes in the circumstances that significantly affects the fair values of financial assets and financial liabilities in the six months ended 30 June 2018.

Financial instruments carried at fair value

The Group held the following financial instruments at fair value at 30 June 2018.

	Carrying value £m	Level 2 £m	Level 3 £m
Recurring fair value measurements:			
As at 30 June 2018			
Residential mortgages at FVTPL	22.7	-	22.7
Other financial assets – designated as FVTPL	0.1	-	0.1
Derivative financial instruments – assets	19.3	19.3	-
Derivative financial instruments – liabilities	(9.5)	(9.3)	(0.2)
As at 30 June 2017			
Other financial assets – designated as FVTPL	0.2	-	0.2
Derivative financial instruments – assets	10.1	10.1	-
Derivative financial instruments – liabilities	(4.9)	(4.8)	(0.1)
As 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)	-

There are no non-recurring fair value measurements.

23. Share based payments

On 26 March 2018 Executive Directors and members of senior management were granted options over 1,128,413 ordinary shares of £0.01 pence each in the Group under the Group's Performance Share Plan 2017 at a nil exercise price. The Group expects options over 750,395 ordinary shares of £0.01 pence each to vest. The fair value of the options at date of grant is £1,779,509.

Appendix: Alternative performance measures

This financial report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use, where relevant, and a glossary indicating the APMs we use, an explanation of how they are calculated and why we use them.

A. 2018 highlights

The Group incurred costs on the Initial Public Offering in 2017. These costs, included within administrative expenses, are not considered to be part of the underlying administrative expenses of the Group as they relate to a very specific one-off activity. Underlying KPIs exclude these costs.

All ratios have been calculated using unrounded data.

	Six months ended 30 June 2018 £m	**Six months ended 30 June 2017 £m**	**Year ended 31 December 2017 £m**
Net interest margin			
Net interest income (i)	84.4	65.3	144.1
Average customer loans and receivables (monthly average*) (ii)	5,528.1	4,153.3	4,520.5
Net interest margin** (i) / (ii)	3.08%	3.17%	3.19%
Cost Income Ratio			
Statutory administrative expenses (i)	30.9	26.7	58.0
IPO costs	-	(2.2)	(4.9)
Private sale costs	-	(0.1)	(0.1)
Underlying administrative expenses (ii)	30.9	24.4	53.0
Statutory total income (iii)	124.7	86.0	170.2
Statutory cost income ratio (i) / (iii)	24.8%	31.0%	34.1%
Underlying cost income ratio (ii) / (iii)	24.8%	28.4%	31.2%

Appendix: Alternative performance measures (continued)

A. 2018 highlights (continued)

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Cost of Risk			
Provision for loan impairments – net charge (i)	(0.7)	-	(0.5)
Average customer loans and receivables (monthly average*) (ii)	5,528.1	4,153.3	4,520.5
Cost of risk (i) / (ii)	0.025%	0.004%	0.011%
Return on Equity			
Profit after tax (i)	71.1	43.6	81.3
Opening equity	335.0	233.5	233.5
Closing equity	406.5	277.6	335.0
Average equity for RoE (2 point average***) (ii)	370.8	255.5	284.3
RoE (i) / (ii)	38.4%	34.1%	28.6%

* The average customer loans and receivables balances is calculated as the sum of the opening and closing balances for the period and the balances at each month end during the period divided by 7 for the six months ended 30 June 2018 and the six months ended 30 June 2017 and divided by 13 for the year ended 31 December 2017.

**For six month periods net interest income is annualised by multiplying by 365 days and then dividing by 181 days.

***The average equity for RoE is calculated as the sum of the opening and closing equity for the period / year divided by two.

Appendix: Alternative performance measures (continued)

B. Other financial APMs

	As at 30 June 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Percentage of loan book in arrears			
These APMs are a measure of the amount of arrears in the mortgage portfolio and an indicator of the quality of the Group's mortgage portfolio.			
Customer loans and receivables in arrears of one month or more			
Past due but not impaired			
31-60 days	11.2	8.7	7.1
61-89 days	6.7	2.1	4.1
Past due and impaired			
90-120 days	2.9	1.5	2.1
> 120 days	4.0	1.9	4.0
Total in arrears of one month or more (i)	24.8	14.2	17.3
Past due and impaired customer loans and receivables in arrears of three months or more			
90-120 days	2.9	1.5	2.1
> 120 days	4.0	1.9	4.0
Total in arrears of three months or more (ii)	6.9	3.4	6.1
Customer loans and receivables (iii) (note 13)	5,693.8	4,415.5	5,364.2
Percentage of loan book in arrears of one month or more (i) / (iii)	0.4%	0.3%	0.3%
Percentage of loan book in arrears of three months or more (ii) / (iii)	0.1%	0.1%	0.1%
Loan deposit ratio			
This APM is used in assessing the Group's liquidity.			
Customer loans and receivables (note 13)	5,693.8	4,415.5	5,364.2
Deposits from customers (note 17)	4,262.6	3,976.7	4,420.0
Loan deposit ratio	133.6%	111.1%	121.4%

Appendix: Alternative performance measures (continued)

B. Other financial APMs (continued)

	As at 30 June 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Percentage increase in mortgage originations (year on year)			
This APM demonstrates the growth in the Group's mortgage origination activity.			
Customer loans and receivables originations			
Prior period	1,305.4	1,169.1	2,496.8
Current period	1,356.7	1,305.4	2,737.3
Increase (Current period originations less prior period originations)	51.3	136.3	240.5
Percentage increase (increase / prior period originations)	3.9%	11.7%	9.6%
Percentage loan book growth (year on year)			
This APM demonstrates the growth in the Group's mortgage portfolio.			
Opening balance of customer loans and receivables (i)	4,415.5	2,786.7	3,807.9
Closing balance of customer loans and receivables	5,693.8	4,415.5	5,364.2
Increase (ii)	1,278.3	1,628.8	1,556.3
Add back:			
Asset sales in the period	562.5	300.0	300.0
Increase including asset sales (iii)	1,840.8	1,928.8	1,856.3
Percentage increase (ii) / (i)	29.0%	58.4%	40.9%
Underlying percentage increase (iii) / (i)	41.7%	69.2%	48.7%
Percentage residential loan book growth since year end			
This APM demonstrates the underlying growth in the Group's residential mortgage portfolio in H1 2018.			
Opening balance of residential lending (i)	1,742.3	1,290.7	1,290.7
Closing balance of residential lending	1,412.4	1,509.0	1,742.3
(Decrease) / increase (ii)	(329.9)	218.3	451.6
Add back:			
Asset sales in the period	562.5	-	-
Increase including asset sales (iii)	232.6	218.3	451.6
Percentage (decrease) / increase (ii) / (i)	(18.9)%	16.9%	35.0%
Underlying percentage increase (iii) / (i)	13.4%	16.9%	35.0%

Appendix: Alternative performance measures (continued)

B. Other financial APMs (continued)

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Originations by segment			
This APM shows the level of mortgage origination activity by segment			
BTL originations	835.3	756.2	1,592.1
Residential originations	362.9	356.2	770.6
Bridging loans originations	131.4	162.0	314.2
Second charge loans originations	27.1	31.0	60.4
Total originations (note 13)	1,356.7	1,305.4	2,737.3
Cost of funds			
This APM measures the average interest rate payable on all funding and is an indicator of the efficiency with which the Group sources funding.			
Interest expense and similar charges (i)	43.0	31.9	67.0
Average funding (monthly average)* (ii)	6,117.8	4,709.6	5,116.5
Cost of funds** (i) / (ii)	1.42%	1.37%	1.31%

* The average funding is calculated as the sum of deposits from banks, deposits from customers, debt securities in issue and other funding facilities opening and closing balances for the period and the balances at each month end during the period divided by 7 for the six months ended 30 June 2018 and the six months ended 30 June 2017 and divided by 13 for the year ended 31 December 2017.

**For six month periods interest expense and similar charges are annualised by multiplying by 365 days and then dividing by 181 days.

C. Non-financial APMs

The APMs below have no close equivalent statutory measure.

APM	Definition and purpose
Number of intermediaries registered with the Group	Measure of the size of the mortgage distribution network
Number or value of securitisation transactions completed	Measure of the level of securitisation activity undertaken by the Group.

D. Regulatory APMs

The APMs below have no close equivalent statutory measure.

APM	Definition and purpose
Common Equity Tier 1 capital ratio	Common equity tier 1 capital including retained profits for H! 2018 divided by risk-weighted assets. This is a measure of the amount of capital that the Group holds as a percentage of its risk weighted assets.
Leverage ratio	A regulatory standard ratio proposed by the Basel III as a supplementary measure to the risk based capital requirements. It is calculated by dividing Tier 1 capital resources by a defined measure of on- and off-balance sheet items plus derivatives and is intended to constrain the build-up of excess leverage in the banking sector.

Appendix: Implementation of IFRS 9

IFRS 9 Financial instruments is the replacement of IAS 39 'Financial Instruments: recognition and measurement' and is being applied for the first time in the Group's financial statements for the year ended 31 December 2018. The new standard has three components, impairment, classification and measurement, hedge accounting and will see significant changes from existing requirements.

The Group has elected not to restate comparatives on initial application of IFRS 9 on 1 January 2018.

Impairment

IFRS 9 introduces a new impairment model for financial instruments which will require entities to recognise expected credit losses based on unbiased forward-looking information. The impairment model is applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. Intercompany exposures, including loan commitments and financial guarantee contracts, are also in scope in the stand-alone reporting entity accounts.

The measurement of expected loss involves increased complexity and judgement including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

It is expected that the impairment charge under IFRS 9 will tend to be more volatile than under the previous incurred loss model of IAS 39. It has resulted in an increase in the total level of impairment allowances, since all financial assets are assessed for at least a 12-month expected credit losses and the population of financial assets to which lifetime expected credit losses applies is larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Impairment: Key concepts and management judgements

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions. Key concepts and management judgements include:

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

IFRS 9 requires the recognition of the 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).

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 approach to identifying significant increases in credit risk is consistent across the Group's products. 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.

Exposures are moved back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk.

Except for certain investments in debt securities, the Group has not relied on the low credit risk exemption.

Appendix: Implementation of IFRS 9 (continued)

Impairment: Key concepts and management judgements (continued)

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 their contractual payments.

Qualitative criteria: The borrower is less than 90 days past due on their contractual payments but is judged to be unlikely to pay, in circumstances such as bankruptcy or a borrower being deceased.

The above criteria are applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the probability of default (PD), Exposure at Default ("EAD") and Loss Given Default ("LGD") throughout the Group's expected credit loss calculations.

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.

c) Forward-looking information

The calculation of expected credit losses incorporates the use of forward-looking information. The Group has obtained external analysis or performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

The economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the 'base economic scenario') are sourced externally and provide the best estimate view of the economy over at least the next five years.

Where scenarios have a forecasted outlook shorter than the lifetime, the relevant metrics are unchanged through the life of the loan.

The impact of these economic variables on the PD, EAD and LGD has been determined through statistical analysis to understand how the changes in these variables historically have affected default rates and the components of LGD and EAD. This has either been achieved through wider market analysis sourced by the bank or internal analysis of the bank's portfolios.

Appendix: Implementation of IFRS 9 (continued)

Impairment: Key concepts and management judgements (continued)

The forward looking scenarios have been reviewed regularly as part of a working group, with the selection of scenarios and the scenario weightings at of 30 June 2018 remaining consistent since the date of transition. The following is a summary of the scenarios adopted as at 30 June 2018.

Scenario	Description	Weighting
Upside	Scenario defined based on strong near term growth. This is principally based on a favourable separation from the EU, which has the effect of increasing housing stock prices and household wealth.	15%
Base Case	Scenario defined based on a slow, but positive economic trajectory through the Brexit negotiations and separation.	70%
Downside 1	Scenario defined based on a deep recession affecting the UK. This is principally based on the UK failing to reach a trade deal and this has a sharp effect on housing stock prices and household wealth.	10%
Downside 2	Scenario is defined based on a stress to the market, aligned to central bank stress testing scenario.	5%

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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

d) Modelling techniques

Expected credit losses are determined by projecting the PD, LGD and EAD 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 effectively calculates an expected credit loss for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the expected credit loss calculation is the original effective interest rate. This calculation is undertaken for each of the selected economic scenarios and probability weighted to produce the final loss allowance.

The committed mortgage pipeline follows the same methodology with the addition of an assumed time to completion and completion rate coefficient.

Appendix: Implementation of IFRS 9 (continued)

Impairment: Impact on loan loss allowance as at 1 January 2018

The impairment allowance 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.

Classification and measurement

IFRS 9 will require financial assets to be 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').

Financial assets will be 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 will be 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 measurement category and carrying amount of financial assets and liabilities in accordance with IAS 39 as at 31 December 2017, and the equivalent under IFRS 9 at 1 January 2018, are as follows:

	IAS 39		IFRS 9	
	Measurement category	**Net carrying amount**	**Measurement Category**	**Net carrying amount**
Financial assets		**£m**		**£m**
Cash and cash equivalents	Amortised cost	966.8	Amortised cost	966.8
Loans and receivables	Amortised cost	5,340.1	Amortised cost	5,339.4
Loans and receivables	Amortised cost	24.1	FVTPL	24.1
		5,364.2		5,363.5
Derivative financial instruments	FVTPL (Hedging instruments)	11.9	FVTPL (Hedging instruments)	11.9
Investments in debt securities	Amortised cost (Held to maturity)	78.4	Amortised cost	78.4
Financial liabilities				
Deposits from banks	Amortised cost	1,003.5	Amortised cost	1,003.5
Deposits from customers	Amortised cost	4,420.0	Amortised cost	4,420.0
Debt securities in issue	Amortised cost	627.4	Amortised cost	627.4
Derivative financial instruments	Amortised cost	6.5	Amortised cost	6.5

IFRS 9 is applied retrospectively, although comparatives are not restated, with adjustments arising from classification and measurement changes recognised in opening equity.

Appendix: Implementation of IFRS 9 (continued)

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. These requirements replace the IAS 39 quantitative effectiveness test with a simpler version, and mandate that an economic relationship exist between the hedged item and the hedging instrument. Under IFRS 9, voluntary hedge de-designations are not allowed.

Adoption of the IFRS 9 hedge accounting requirements is optional, and certain aspects of IAS 39, being the portfolio fair value hedge for interest rate risk, continue to be available for entities (while applying IFRS 9 to the remainder of the entity's hedge accounting relationships) until the IASB completes its accounting for dynamic risk management project.

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

IFRS 9 Financial instruments – Accounting policies applied from 1 January 2018

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').

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 makes infrequent, opportunistic sales of the residual interests in mortgage securitisations, resulting in the derecognition of the associated mortgage assets. The Group monitors the frequency and amount of the sales and potential sales in future forecasts to review and conclude at each period end on the appropriate classification for mortgage assets.

Appendix: Implementation of IFRS 9 (continued)

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 that the Group has the positive intention and ability to hold to maturity, with fixed or determinable payments and fixed maturities. These investments are initially recognised at fair value including direct and incremental transactions costs and measured subsequently at amortised cost, using the EIR method.

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; this includes cash collected in the securitisation vehicles prior to paying down loan notes.

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. They 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.

Appendix: Implementation of IFRS 9 (continued)

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost and FVOCI.

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. 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.

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 their contractual payments.

Qualitative criteria: The borrower is less than 90 days past due on their contractual payments but is judged to be unlikely to pay, in circumstances such as bankruptcy or a borrower being deceased.

The above criteria are applied to all financial instruments held by the Group. The default definition is applied consistently to model the PD, EAD and LGD throughout the Group’s expected credit loss calculations. 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.

Appendix: Implementation of IFRS 9 (continued)

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. This information is used to develop a base economic scenarios 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 forward looking macroeconomic data into account through a management judgement process.

Derecognition of financial assets

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.

Shareholder information

Registered office

2 Charter Court, Broadlands, Wolverhampton, West Midlands, WV10 6TD

Company number

06712054

Communications

Information about the Group, including details of the current share price, is available on our website, www.chartercourtfs.co.uk.

Investor Relations

Private investors with queries relating to their shareholding should contact our registrar. You can find details of our registrar below.

Institutional investors can contact CitigateDeweRogerson.

Financial reports

The Group's financial reports are available on our website www.chartercourtfs.co.uk. A summary of reports is listed in the Important Dates section below.

Important Dates

		Available format			
Financial Calendar Dates	**Description**	**Online**	**Email**	**RNS**	**Paper**
21 August 2018	Half year 2018 financial results	✓		✓	
13 November 2018	Third quarter trading update	✓		✓	

On 4 October 2018, an interim dividend will be paid to shareholders on the register on the record date of 31 August 2018.

Registrar

Our register of members is maintained by Equiniti Limited. You can contact Equiniti as follows:

By post:
Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

By telephone:
0371 384 2030 or +44 121 415 7047 (if calling from outside the UK).
Lines open 8.30am to 5.30pm (UK time) Monday to Friday (excluding public holidays in England and Wales).

By email:
Secure enquiries can be submitted via email at: help.shareview.co.uk

The registrar also provides services to help you manage your shares online which you may find useful. For more information visit www.shareview.co.uk.

Whichever way you choose to communicate with our registrar, you will need to provide your full name, address and your 8 or 11 digit shareholder reference which can be found on your share certificate or proxy card.

Shareholder information (continued)

Share Certificates

Your share certificate is a valuable document. If your share certificate is lost or stolen you should contact our registrar immediately to prevent it being used fraudulently. Visit www.shareview.co.uk for contact details and information regarding the process and costs.

Share fraud warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

The FCA provides guidance on how to avoid scams at: www.fca.org.uk/consumers/protect-yourself-scams.

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

You should also contact the Police as soon as possible - particularly if you have already paid money to share fraudsters - via Action Fraud on 0300 123 2040.