Charter Court Financial Services Group Limited

Pillar 3 Disclosures 31 December 2016

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1. Introduction

1.1 Overview

This document represents the consolidated Pillar 3 disclosures by Charter Court Financial Services Group Limited (CCFSG) as at 31 December 2016. CCFSG is subject to consolidated regulatory supervision by the Prudential Regulation Authority (the PRA). The scope of consolidation for accounting and regulatory purposes comprises the company and all of its subsidiaries, the most significant of which is Charter Court Financial Services Limited (the Bank) (PRA firm reference number 494549) (together the Group). There are no differences between the basis of consolidation for the Group for financial reporting and accounting purposes and prudential purposes. All of the Group's subsidiary undertakings are included in the Pillar 3 disclosure data.

This document should be read in conjunction with the consolidated financial statements of CCFSG available at www.chartercourtfs.co.uk, which contain a complete list of entities included within the regulatory consolidation (see Note 45 to the financial statements).

The regulatory consolidation has been produced in accordance with the requirements established under the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), collectively referred to as CRD IV, which came into effect on 1 January 2014. The CRD is the framework for implementing Basel III in the European Union (the Basel Framework). All article references made within this document refer to the CRR (Regulation (EU) No 575/2013).

The Basel capital framework consists of three 'pillars'. Pillar 1 sets out the minimum capital firms are required to hold for credit, market and operational risk. Under Pillar 2, firms and supervisors have to assess whether a firm should hold additional capital against risks not covered in Pillar 1.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk assessment processes and remuneration approach.

The Pillar 3 disclosures in this document relate to the Group, with the exception of Appendices 1 and 2 which contain disclosures required for the Bank as a solo entity.

The Group has established a disclosure policy for Pillar 3 information that sets out the internal controls and procedures to be applied in producing the disclosure. Pillar 3 disclosures will be prepared and updated on an annual basis or more frequently if there is a material change to the previously disclosed data or information.

This document has been prepared purely for the purposes of: explaining the basis on which the Group and Bank has presumed and disclosed certain capital requirements; disclosing levels of encumbrence in accordance with CRD IV; providing information about the management of risks relating to those requirements; and presenting remuneration information as required by CRD IV and the PRA Prudential Rulebook.

This document has not been prepared for any other purpose. It therefore does not constitute any form of financial statement of the Group nor does it constitute any form of contemporary or forward looking record or opinion of the Group.

The Group is committed to ensuring that its remuneration practices are appropriate and in compliance with relevant regulatory standards described in section 6 of this document.

Verification

These disclosures are not audited but have been reviewed and approved by the Audit Committee under authority from by the Board of directors of CCFSG (the Group Board). Certain information has been extracted from CCFSG's audited Annual Report and Financial Statements for the year ended 31 December 2016 and the year ended 31 December 2015.

1.2 Non-material, proprietary or confidential information

The Group has not sought any exemption from its disclosure on the basis of materiality or on the basis of proprietary or confidential information.

2. Governance Framework and Committee Structure

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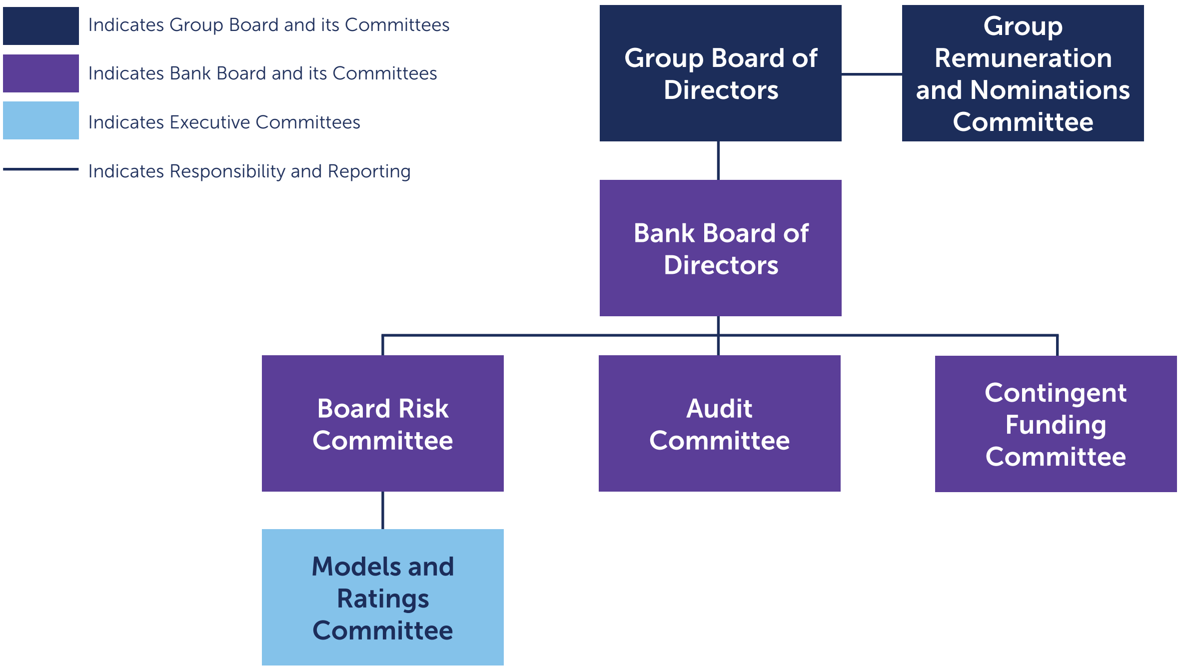
2.1 Governance Structure

The chart below provides an overview of the governance structure referred to throughout this section 2.



The committees of the Board are supported by a number of Executive Committees which report to the CEO.

2.2 Board of Directors

The Bank is headed by a Board of Directors (the Bank Board) which meets regularly. There is a clear division of responsibility which ensures a balance of power and authority between the Chairman, who controls and directs Bank Board meetings, and the Chief Executive Officer who carries responsibility for running the Bank's business.

The Bank Board consists of both Executive and Non-Executive Directors. The following table showing directorships held by members of the Bank Board complements disclosures made in the Bank's financial statements available at www.chartercourtfs.co.uk.

Name	Role	Position	Number of Other Directorships held
Philip Anthony Jenks	Chairman	Non-Executive	1
Ian William Ward	Vice Chairman/Senior Independent Director	Non-Executive	3
Timothy Tracy Brooke	Director	Non-Executive	6
Ian Martin Lonergan	Chief Executive Officer	Executive	0
Jean-Sebastien Maloney	Chief Financial Officer	Executive	0
Peter Charles Elcock	Chief Risk Officer	Executive	2
Rajan Kapoor	Director	Non-Executive	0

The Bank Board's role is to understand the business, establish a clear strategy, articulate a clear risk appetite to support that strategy, and oversee an effective risk control framework. It collectively has the skills and the experience to hold executive management rigorously to account for delivering the strategy, and managing the business within that risk appetite.

The Bank Board is provided with any information it requires to allow it to discharge its responsibilities. A monthly board pack is distributed to directors and senior management. Financial information (management accounts, budgets and forecasts) is provided on a Group basis.

Appointments to the Group and Bank Board are managed through the Group Remuneration and Nominations Committee. The Group Remuneration and Nominations Committee has established a policy on diversity with regard to the selection of Board members. The policy embraces the benefits of having a diverse Board and sees increasing diversity at senior levels as an essential element in maintaining effectiveness and competitive advantage. In identifying suitable candidates for appointment to the Board, the Group Remuneration and Nominations Committee will consider candidates on merit against objective criteria with due regard to the benefits of diversity of Board members.

2.3 Audit Committee

The Bank Audit Committee ("BAC") supports the Bank Board in monitoring the Bank's internal control and risk management systems. The BAC is chaired by an independent non executive director and comprises the chair, the Chairman, the Senior Independent Director and an independent non executive director. The BAC monitors and reviews:

- the integrity of the Bank's financial statements and any formal announcement relating to the Bank's financial position;
- the adequacy and effectiveness of the Bank's financial crime controls and fraud risk management systems;
- the effectiveness of the internal audit function in the overall context of the Bank's internal control and risk management systems;
- the effectiveness of the Bank's statutory year-end financial audit and its external auditor; and
- the adequacy and security of the Bank's arrangements for staff to raise concerns about possible wrongdoing in financial reporting or other matters.

2.4 Board Risk Committee

The Bank Board has established a Board Risk Committee to:

- oversee, understand and review the Bank's risk profile, advising the Bank Board on current risk exposures and future risk strategy, including recommending the risk appetite. This includes challenging management's understanding and management of risk, especially related to strategy and major initiatives, and ensuring suitable risk management techniques and disciplines are applied;
- review the Bank's capital and liquidity plans to ensure that capital held supports the risk profile of the business and meets current capital adequacy and future solvency requirements, and that liquidity is held in sufficient quantity and quality to support future liquidity requirements;
- oversee and ensure the robustness and adequacy of the annual Internal Capital Adequacy Assessment Process (ICAAP) and annual Internal Liquidity Adequacy Assessment Process (ILAAP), and ensure relevant risk management disciplines are embedded in planning and decision making;
- oversee the implementation of a culture that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Bank, and encourage greater awareness of risk management at all levels; and
- review and report to the Bank Board on the risk management framework, anticipating changes in business conditions and operations.

The members of the Board Risk Committee are all non-executive directors who receive reports and meet at least four times annually.

2.5 Executive Directors

The Chief Executive Officer (CEO), supported by the Chief Financial Officer (CFO) and Chief Risk Officer (CRO), is responsible for executing the strategy within risk appetite approved by the Board, management of the whole business, the allocation of responsibilities and resources, and for the development and maintenance of the business model.

The CFO, is responsible for management of financial resources, the production and integrity of financial information and regulatory reporting, management of the allocation and maintenance of capital, funding and liquidity, treasury management systems, and for managing the internal stress tests and ensuring the accuracy and timeliness of information provided to the PRA and other regulatory bodies.

The CRO, is responsible for overall management of risk controls, including the setting and monitoring of risk exposures, reporting in relation to risk management arrangements, for policies and procedures for countering financial crime risk, for assessing the adequacy and effectiveness of policies and procedures designed to detect any risk of failure by the Bank to comply with its obligations under the regulatory system, the Recovery Plan and Resolution Pack and overseeing internal processes regarding their governance.

2.6 Executive Committees

The Chief Executive Officer has established four executive committees as follows:

2.6.1. Assets and Liabilities Committee (ALCO)

Established to develop a strategy for financial risk management, implement financial risk management controls, monitor financial performance within agreed parameters and report on the status and prioritisation of financial risk management issues.

ALCO's duties focus on maximising net interest income whilst operating within Bank Board approved appetites for credit risk, liquidity risk, interest rate risk and capital.

2.6.2. Change Management Committee(CMC)

Established to develop and provide oversight of the change management framework.

2.6.3. Risk Management Committee (RMC)

Chaired by the Chief Risk Officer, this is the overarching executive Risk Management Committee which oversees the outputs of the Credit, Conduct and Operational Risk Committees and Working Groups, considering and debating key risks: oversees business wide risks, review and approval of policies and risk acceptances; analysis and risk assessment of any large strategic projects and key change initiatives. Considers new risk regulations and looks outward at broader industry, market and economic developments.

2.6.3.1 Credit Management Committee (CMC)

The purpose of the Committee is to:

- Develop and provide oversight of the risk management framework for controlling credit risks arising from on-going residential lending activities.
- To identify and manage the Company's credit exposures and the Company's responses to trends affecting those exposures.
- To present actions to ensure the adequacy of the allowance for credit losses.
- To administer the Company's credit-related policies.

2.6.3.2 Operational Risk Working Group (ORWG)

The purpose of the Committee is to:

- Review on behalf of the Executive and Senior Management, management's recommendations on operational risk management matters, including proposed strategies, frameworks, risk events, risk acceptance proposals and policies, prior to approval by the Risk Management Committee, Board Risk Committee or Board (as appropriate);
- Support the Chief Risk Officer in monitoring, evaluating and addressing significant matters relating to operational risk on a day to day basis, and
- Promote the Bank's agreed culture and values.

2.6.3.3 Conduct Risk Management Committee (CRMC)

Established to review management's recommendations on conduct risk management, including proposed strategies, frameworks and policies, prior to recommending to the Risk Management Committee.

2.6.4. Product Management Committee (PMC)

Established to develop, approve and implement product and pricing strategies, and monitor conduct risk as it relates to products and pricing.

2.7 Oversight Arrangements for Key Strategies and Internal Controls

Oversight arrangements exist to ensure key strategies and internal controls operate effectively as follows:

2.7.1. Strategy, Plans and Budgets

Business strategy, plans and budgets are approved by the Group Board and Bank Board.

2.7.2. Capital and Liquidity Planning

The Group's capital and liquidity plans are linked to the strategic planning and budgeting process. The Board Risk Committee reviews these plans before approval by the Group Board and Bank Board.

2.7.3. Stress Testing Process and Oversight

The Group is subject to supervisory stress testing and as such stress testing represents a key focus for the Group. Stress tests are conducted as part of the ICAAP, ILAAP and business planning cycle.

Stress tests are reviewed at ALCO, Board Risk Committee and both Group Board and Bank Board, including the results and outputs and model calibrations and assumptions.

2.7.4. Risk Management

The key elements of the Bank's approach to risk management are documented within an Enterprise Risk Management Framework (ERMF). Overall, the ERMF comprises eight core elements being: Risk Appetite, Governance and Committees, Three Lines of Defence Organisation, Risk Policies, Risk Register, Risk Processes and Infrastructure, Risk Data, Management Information and Reporting. The ERMF is maintained by the CRO and reviewed regularly by the Board Risk Committee.

Key risks are identified and monitored by the CRO in conjunction with the Director of Credit Risk, the Director of Legal and Compliance, the Head of Prudential Risk and the Head of Operational Risk using a Corporate Risk Register (CoRR). The CoRR is a central tool in the 'top down' risk management process being used in the following ways:

- the CoRR is considered quarterly by the Board Risk Committee;
- the CRO presents a monthly Risk Summary to the Bank Board giving his view of risk across the business against each of the risk categories identified in the CoRR; and
- the CoRR is used as the basis of risk assessment for key new initiatives, such as material outsourcing arrangements.

2.7.5. Financial Risk Management

Financial risk management strategies are prepared and reviewed by ALCO before being recommended to the Bank Board for approval.

The Audit Committee monitors the adequacy of internal controls over financial reporting and the effectiveness of the financial risk management framework, reviewing and challenging significant financial reporting issues and judgements, and reviewing significant accounting policies.

2.7.6. Non-Financial Risk Management

Non-financial risk management strategies are prepared and reviewed by the Risk Management Committee and the Board Risk Committee before Bank Board approval.

The approach to operational risk management is documented within an Operational Risk Management Framework (ORMF). The framework is built around five key components:

- Functional organisation: Each function manages a number of activities and processes which are required for the Bank to operate effectively and deliver value;
- Drivers of Risk: The things that could lead to loss caused by failure of processes, people, systems and external events;

- Risk categories: the types of risk the Bank is exposed to;
- Loss Events: Losses or "near misses" are reported against a list of typical loss events using the Basel II standard; and
- Operational risk management policies, procedures and tools: A combination of policies, processes and tools used to identify, measure, manage and report on risk and controls.

Stakeholder	ICAAP Responsibility
Finance Function (1st Line of Defence*)	• Preparation of budgets in accordance with the strategic plan approved by the Board • Preparation of the capital plan • Application of stress testing scenarios and results analysis • Proposal of capital allocation
All functions (1st Line of Defence*)	• Provision of data for preparation and implementation of the ICAAP • Identification of risks • Preparation of the Business Plan
Risk Management Function (2nd Line of Defence*)	• Design of the risk management framework • Preparation of risk management policies • Establishment of risk monitoring and measurement methodology • Preparation of the ICAAP
Internal Audit Function (3rd Line of Defence*)	Independent assessment of: • the risk assessment, stress testing and capital allocation processes and their compliance with regulatory obligations; • financial data and consistency with financial records; and • that the ICAAP process is followed according to the Board's requirements.
Directors	• Definition of business strategy and objectives, and of the risk profile • Establishment of an appropriate internal control system, especially in relation to the ICAAP • Review, approval and understanding of ICAAP

*** See paragraph 3.3 Three Lines of Defence (3LOD) Organisation**

2.7.7. ICAAP

Key ICAAP responsibilities are outlined below:

The Bank's Board Risk Committee oversees the ICAAP process and ensures its robustness and adequacy prior to approval by the Group Board.

2.8 Use of ICAAP

2.8.1 Capital Stress Testing

The Group undertakes a number of stress tests as part of its ICAAP, and uses the results of these to assess capital needs, including reviewing the output of the stress tests, and if the scenario was appropriate.

As part of the group's obligations under the general stress and scenario testing rules (as described in the PRA Rulebook) stress tests are carried out annually as part of the ICAAP cycle and include a projection of the capital resources and capital requirements over a three year horizon, taking account of the business plan and the impact of relevant stress scenarios.

2.8.2 Recovery Plan and Resolution Pack (RPRP)

The PRA August 2015 update to SS31/15 introduced a new requirement for Reverse Stress Testing as part of a firms business planning and risk management obligations. A Reverse Stress is a scenario or test that takes a firms business plan to a point of failure. A Reverse Stress Test scenario was identified and analysed during the 2016 ICAAP which would lead to the recovery plan being invoked.

3. Risk Management Framework

3.1 CCFS' Overall Approach to Managing Risk

The Bank has established an Enterprise Risk Management Framework (ERMF) which is used to set out the high level risk management components and standards. The purpose is to provide a single, consistent view of the various components and tools within the framework and to aid the periodic review of the framework and its effectiveness.

3.2 Risk Appetite Framework

The Risk Appetite Framework (RAF) enables risk capacity, risk appetite, risk limits, and the risk profile to be considered for business lines and legal entities as relevant, and within the Group context, in line with Financial Stability Board (FSB) best practice guidelines.

The Framework is illustrated below to provide an overview of the structure, and how the various components fit together and are embedded within the business, through committees supporting risk appetite statements, policies, procedures and suites of Key Risk Indicators (KRIs).

Risk Appetite Framework

Business Strategy and Objectives

Corporate Risk Appetite Statement

Executive Risk Committee Full KRIs

Business Risk Appetite Statement	Credit Risk Appetite Statement	Treasury Risk Appetite Statement	Operational Risk Appetite Statement	Conduct Risk Appetite Statement

Policies and Procedures

Board Risk Selected KRIs

Business Risk KRIs	Credit Risk KRIs	Treasury Risk KRIs	Operational Risk KRIs	Conduct Risk KRIs

Executive Risk Full KRIs

Business Risk KRIs	Credit Risk KRIs	Treasury Risk KRIs	Operational Risk KRIs	Conduct Risk KRIs

3.3 Three Lines of Defence (3LOD) Organisation

The 3LOD organisational model is used to underpin the risk management approach in line with best practice financial services risk management.

- ✓ The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them;
- ✓ The second line of defence provides advice, challenge and oversight; and
- ✓ Internal Audit is the third line of defence which helps to protect the Group's assets, reputation and sustainability.

3.4 Risk Policies

Risk policies and standards covering all of the Group's key exposures provide best practice guidelines, clarify principles, define minimum standards and resolve conflicts.

3.5 Risk Register

The Bank works to a Risk Taxonomy comprising 5 key risk exposures: business, credit, treasury, operational and conduct risks. The Corporate Risk Register and overall risk reporting has been aligned to these exposures or categories together with more detailed sub-category reporting.

3.6 Risk Processes and Infrastructure

Within the Group a number of risk processes operate within a supporting infrastructure. Top level processes include the Strategic Business Plan Risk Assessments, ICAAP, ILAAP and RPRP documents. In addition to these processes regular working groups have been established for Liquidity (LWG) and for Capital (CWG) as part of the ICAAP planning process.

3.7 Risk Data, Management Information and Reporting

A suite of detailed management information and KRI reports exist to support the business.

4. Risk Categories

4.1 Risk Exposures

The CoRR is used to capture and categorise the risks considered as the most material to the Group. The CoRR is an integral part of the ERMF.

- Additional risks have been considered, but are not considered either material or relevant and these are summarised in Section 4.2.

The table below links the risk exposures to the risk appetite statements and the management committee which has responsibility for risk oversight.

Risk Exposure	Risk Appetite Statement	Executive Committee
Credit Risk The risk that failure or poor performance of credit management techniques and processes results in exposure to customer defaults and loss.	Credit Risk	RMC via CMC
Concentration Risk The risk arising from a lack of diversification of business. Key exposures are: geographical distribution of lending; large exposures; proportion of lending in each asset class; credit exposure to a single counterparty. Concentration Risk is also generated by over reliance on one source of funding; this is dealt with in Funding Risk below.	Credit Risk	RMC via CMC
Liquidity Risk The risk financial obligations are not met as they fall due. **Funding Risk** is a component of Liquidity Risk.	Treasury Risk	ALCO
Interest Rate Risk The risk that movement in interest rates adversely impacts net income or net worth as inadequate hedging of interest rate or basis risk is in place.	Treasury Risk	ALCO
Counterparty Risk The risk of failure of a counterparty to fulfil its contractual obligations by failing to pay. The main exposure is to counterparties to Treasury transactions.	Treasury Risk	ALCO
Business Risk The risk that the management business plan is not delivered through the selection of the wrong strategy, its improper implementation, a lack of responsiveness to external business developments or through changes in the business environment forcing deviation from the plan.	Business Risk	RMC via ORWG
Operational Risk The risk of financial loss, impairment of reputation or regulatory failure resulting from: poor governance structures (e.g. over material outsourcing); inadequate or failed internal processes or systems; inadequate people resource; financial crime; failure to protect information; or failure to manage change.	Operational Risk	RMC via ORWG
Conduct Risk The risk arising from a failure to treat customers fairly, or the failure to deliver an appropriate outcome for them.	Conduct Risk	RMC via CRMC

4.2 Risk Not Present

The Group does not believe that the following commonly occurring risks are relevant or material as documented in the 2016 ICAAP assessment.

Risk	Rationale
Market Risk	Assets are not held for trading purposes and no foreign currency assets or liabilities are held.
Insurance Risk	The Group is not involved in any direct insurance activities and therefore does not have any insurance liabilities. Insurance cover for other risks is considered under Operational Risk.
Residual Risk	Residual Risk is the risk retained after the application of risk mitigation techniques such as Mortgage Indemnity Guarantee (MIG). MIG or other similar products are not in use and therefore no Residual Risk exists.
Securitisation Risk	As part of a diversified funding strategy, CCFS has historically sold mortgage assets to securitisation companies which in turn issue residential mortgage-backed securities (RMBS). CCFS had undertaken five such RMBS transactions through June 2016, using a couple of different configurations: Bank Retention – PMF No.1, 2014-1, 2014-2, 2015-3R. For the securitisations in question, the residual certificates, subordinated loan and junior bonds are held by CCFS which receives the excess spread. These securitised assets are still recognised on the Bank's balance sheet. As a result, the RWA are calculated on the underlying assets, as no Significant Risk Transfer (SRT) has been achieved. Consequently, CCFS will not have any incremental securitisation risk to account for above and beyond the capital held against the underlying mortgages. Broadlands Finance Limited Retention – PMF 2015-1 CCFS has also issued RMBS where a different Group entity, Broadlands Finance Limited (BFL), holds the residual certificates, subordinated loan notes and junior bonds. Within this structure, BFL receives the excess spread that is generated from the transaction, and also holds the right to call the asset at a future date. These securitised assets are not recognised on the CCFS balance sheet as Significant Risk Transfer (SRT) has been achieved. As the mortgages are still consolidated at Group level, CCFS will not have any incremental securitisation risk to account for as it relates to this transaction. Full capital structure sale – PMF 2015-2B CCFS issued an RMBS transaction in July 2015 where the entire capital structure was sold to third-party investors, and SRT was achieved. As such, no credit exposure was retained by either the Bank or Group; the retention requirements being satisfied by way of a 5% random selection of loans retained on balance sheet. CCFS will not have any incremental securitisation risk to account for relating to this transaction.
Pension Obligation Risk	Pension Obligation Risk is the risk that there is a shortfall in respect of defined benefit pensions. The Group does not have such a pension scheme.
Group Risk	The Bank (CCFS) is part of a simple group, all parts of which are wholly owned by CCFSG. The only other material group company is the service company, Exact Mortgage Experts Ltd (EME), which manages some operational contracts and employs staff. A service contract between CCFS, CCFSG and EME was put in place on 6th December 2013 and was effective from 1st January 2014. The service agreement defines roles, responsibilities and financial arrangements. The contract is structured on the basis that EME will be obliged to continue to provide essential staff and services in the event of CCFS' insolvency to facilitate its RPRP.
Remuneration Risk	The Group's variable pay structure and risk appetite ensure that staff are not rewarded by taking additional risks outside of the agreed appetite and risk framework.

4.3 Credit Risk

Credit risk reflects the risk of loss because of failure of customers to fulfil their contractual obligations and arises from the failure or poor performance of credit management techniques and processes resulting in exposure to customer defaults and loss.

The Group is exposed to Credit Risk from the following areas of business activity:

- Residential First Lien Mortgage Lending;
- Buy-To-Let (BTL) First Lien Mortgage Lending;
- Secured Second Lien Lending;
- First and Second Lien Bridging Finance;
- Held to Maturity Treasury Investments; and
- Treasury Operations.

Residential and BTL Credit Risk exposures consist of securitised and unsecuritised exposures. Except where Significant Risk Transfer and accounting derecognition has been achieved, Credit Risk is assessed for regulatory purposes under the Standardised Approach against the underlying risk exposures as if the securitisation had not taken place.

Held to Maturity Treasury Investments are made in accordance with a Board approved Treasury Investment Policy which specifies minimum credit ratings and permitted asset classes.

Exposures from Treasury Operations comprise of balances due from Financial Institutions representing cash balances, derivatives, held-to-maturity liquid assets and short term money market placements.

4.3.1 Credit Exposures

The table below sets out credit risk exposures by type net of specific provisions at 31 December.

Exposure Class	2016 £m UK	2016 £m Ireland	2016 £m France	2016 £m Total
Central Government Central Bank	132.6	-	-	132.6
Institutions	78.2	8.1	0.2	86.5
Secured By Mortgages on Immovable Property	3,911.2	-	-	3,911.2
Exposures in Default	2.3	-	-	2.3
Securitisation Positions	119.5	-	-	119.5
Other Assets	7.6	-	-	7.6
Total	**4,251.4**	**8.1**	**0.2**	**4,259.7**

Exposure Class	2015 £m UK	2015 £m Ireland	2015 £m France	2015 £m Total
Central Government Central Bank	463.3	-	-	463.3
Institutions	14.3	65.4	0.1	79.8
Secured By Mortgages on Immovable Property	2,016.7	-	-	2,016.7
Exposures in Default	0.8	-	-	0.8
Securitisation Positions	112.2	-	-	112.2
Other Assets	5.1	-	-	5.1
Total	**2612.4**	**65.4**	**0.1**	**2,677.9**

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4.3.2 Loss Provisioning

Mortgage receivables are reviewed for indications of possible impairment throughout the year and at each Statement of Financial Position date, in accordance with IAS 39. Where individual loans exhibit objective evidence of impairment, specific provisions are calculated representing the difference between the carrying value of the loans and the net present values of their expected future cash flows, including the value of the potential security, discounted at the original Effective Interest Rates (EIR). Any loan which is 90 days past due, which is not forborne and performing, is presumed to be in default and is subject to specific provisioning. Loans are assessed collectively for potential impairment, grouped by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the Statement of Financial Position date.

At 31 December the Group held the following specific and collective credit loss provisions:

Provision Type	2016 £m
Collective	0.5
Specific	0
Total Credit Loss Provisions	**0.5**

Provision Type	2015 £m
Collective	0.3
Specific	0.3
Total Credit Loss Provisions	**0.6**

All impairment provisions relate to Exposures Secured by Mortgages on Immovable Property.

4.3.3 Credit Risk Weighted Exposures

The Group uses the Standardised Approach to determine regulatory capital requirements for Credit Risk Exposures. Under the Standardised Approach exposure risk weighting is determined by reference to class, counterparty ratings and for retail assets whether the exposure is secured or unsecured. The Credit Risk capital requirement, which represents the minimum Pillar 1 capital requirements, is equal to Risk Weighted Exposure Values multiplied by 8%.

As at 31 December the Group's Risk Weighted Exposure values by class were as follows:

Exposure Class	2016 £m Exposure	2016 £m Risk Weighted Assets	2016 £m Average Risk Weight	2016 £m Pillar 1 Requirement
Central Government Central Bank	132.6	-	0.0%	-
Institutions	86.5	18.5	21.4%	1.5
Secured By Mortgages on Immovable Property	3,911.2	1,372.5	35.1%	109.8
Exposures in Default	2.3	2.3	100.2%	0.2
Securitisation Positions	119.5	23.9	20.0%	1.9
Other Assets	7.6	7.6	100.0%	0.6
Total	**4,259.7**	**1,424.8**		**114.0**
Total Inclusive of Credit Value Adjustments	**4,259.7**	**1,426.3**		**114.1**

Exposure Class	2015 £m Exposure	2015 £m Risk Weighted Assets	2015 £m Average Risk Weight	2015 £m Pillar 1 Requirement
Central Government Central Bank	463.3	-	0.0%	-
Institutions	79.8	16.7	20.9%	1.3
Secured By Mortgages on Immovable Property	2,016.7	709.4	35.2%	56.7
Exposures in Default	0.8	0.7	87.4%	0.1
Securitisation Positions	112.2	22.4	20.0%	1.8
Other Assets	5.1	5.1	100.0%	0.4
Total	**2,677.9**	**754.3**		**60.3**
Total Inclusive of Credit Value Adjustments	**2,677.9**	**755.7**		**60.5**

4.3.4 Treasury Counterparty Credit Risk

Counterparty Credit Risk arises from Treasury operations in the management of liquidity and interest rate risk, and held to maturity investments in high credit and liquidity quality assets. The Group has a defined appetite for Wholesale Counterparty Risk. The minimum required Long Term counterparty rating is A-/A3, as determined by at least two of Moody's, Fitch and Standard and Poor's. The minimum Short Term counterparty rating P-2/A-2/F2 as rated by each of Moody's, Fitch and Standard and Poor's. Limits to maximum allowable exposures to single counterparties are specified in the Treasury Wholesale Credit Policy. This risk is considered to be inherently low from a capital perspective due to the quality of the counterparties the Group will do business with and the conservative limits that are in place.

Counterparty	2016 - £m					
	Banks and Institutions	RMBS	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Central Government and Central Bank Balances	132.6	-	132.6	-	0.0	-
Other Credit Step Quality 1	71.8	119.5	69.6	-	121.7	-
Credit Step Quality 2	14.7	-	10.7	-	4.0	-
Total	**219.1**	**119.5**	**212.9**	**-**	**125.7**	**-**

Counterparty	2015 - £m					
	Banks and Institutions	RMBS	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Central Government and Central Bank Balances	463.3	-	463.1	-	0.0	0.2
Other Credit Step Quality 1	66.4	112.2	65.4	-	113.2	0.0
Credit Step Quality 2	13.4	-	11.0	-	2.4	0.0
Total	**543.1**	**112.2**	**539.5**	**-**	**115.6**	**0.2**

Market Risk arising from the origination of fixed rate retail assets and liabilities is managed through interest rate derivative contracts. The Bank trades in OTC derivative contracts under the terms of bilateral ISDAs. The ISDA arrangements in place provide for the netting of valuations and settlements due across all transactions covered by the contract. Under the terms of the ISDAs the Bank will receive collateral for net exposures and post collateral for net liability positions. Collateral exchanges are normally in the form of cash.

Interest rate risk relating to securitised assets is managed through bilateral interest rate swap agreements entered in to by Group SPVs that are not subject to margining but have rating triggers that require the swap counterparties to be replaced in the event of a multiple notch rating downgrade.

4.4 Operational Risk

Operational Risk is the risk of financial loss, impairment of reputation or regulatory failure resulting from: poor governance structures (e.g. over material outsourcing); inadequate or failed internal processes or systems; inadequate people resource; financial crime; failure to protect information; or failure to manage change.

The Group assess Operational Risk under the Basic Indicator Approach (BIA) and uses operational risk scenarios to determine an additional level of Pillar 2 operational risks not covered under the BIA for those material risks identified under the CoRR.

4.5 Market Risk

The Group does not hold any assets for trading purposes and does not have any foreign currency assets or liabilities. Excess regulatory liquidity may be invested in the highest investment grade liquid assets. Such investments are held to maturity and do not form part of the Group's regulatory liquid asset buffer. However, the ability to raise liquidity through sale and repurchase of these assets is retained. The Group also has a portfolio of lower investment grade securities that are also excluded from the regulatory liquid asset buffer. These investments are also accounted for as held to maturity. As at 31 December 2016 the Group has accumulated a combined investment portfolio with a book value of £119.5m (2015: £112.2m).

4.5.1. Interest Rate Risk

Interest Rate Risk in the Banking Book (IRRBB), including Basis Risk, is the risk of losses arising from changes in interest rates for banking book items. The Group is exposed to IRRBB arising from Duration Risk, Basis Risk and Optionality Risk. The overall risk appetite for IRRBB in the banking book is expressed as a percentage of Group CET1 capital at risk from a 2% parallel shift in the yield curve and a tail risk stress on interest rate basis mismatch.

The Group also monitors and maintains limits for Net Interest Income at risk from a 0.5% shift in the yield curve over a 12 month time horizon.

4.6 Asset Encumbrance

Disclosures on Assets Encumbrance for the Bank only are included at Appendix 2.

5. Capital Management

5.1 Capital Management Framework

Stakeholder	Responsibility
Finance Function (1st Line of Defence*)	• Preparation of budgets in accordance with the strategic plan approved by the Board • Preparation of the capital plan • Application of stress testing scenarios and result analysis • Proposal of capital allocation
All functions (1st Line of Defence*)	• Provision of data for preparation and implementation of the ICAAP • Identification of risks
Risk Management Function (2nd Line of Defence*)	• Design of the risk management framework • Preparation of risk management policies • Establishment of risk monitoring and measurement methodology • Preparation of the ICAAP
Internal Audit Function (3rd Line of Defence*)	Independent assessment of: • the risk assessment, stress testing and capital allocation processes and their compliance with regulatory obligations; • financial data and consistency with financial records; and • that the ICAAP process is followed according to the Board's requirements.
Directors	• Definition of business strategy and objectives, and the risk profile • Establishment of an appropriate internal control system, especially in relation to the ICAAP • Review, approval and understanding of ICAAP

*** See paragraph 3.3 Three Lines of Defence (3LOD) Organisation**

The Group's capital resources and requirements use the CRD IV framework as implemented locally by the PRA.

The Pillar 1 risk assessment is under the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. As part of the ICAAP a Pillar 2 assessment of risks not covered in Pillar 1 is undertaken. Following the annual SREP visit and review of the ICAAP the PRA confirms the Group and Bank's Individual Capital Guidance, which covers Pillar 1 and Pillar 2 requirements.

5.2 Capital Developments

The Basel Committee on Banking Supervision issued its second consultation document on Revisions to the Standardised Approach for credit risk in December 2015. Final rules are expected in 2017.

On 30 November, the FPC reaffirmed that it expects to maintain a UK CCyB rate at 0% until at least June 2017, absent any material change in the outlook.

The Group is conducting an ongoing IFRS 9 implementation project which includes its impact on capital management through changes to the requirements for the recognition and reporting of credit losses.

5.3 Capital Composition

The following table sets out the regulatory capital resource of the Group at 31 December

Common Equity Tier 1 (CET1)	2016 £m	2015 £m
Share Capital	0.0	0.0
Share Premium	195.1	165.0
Retained Earnings	38.3	1.0
Share Based Payments Reserve	0.1	-
Regulatory Adjustments to CET1:		
Intangible Assets	(0.6)	(0.4)
Deferred Tax Asset	(0.2)	(0.2)
Common Equity Tier 1 Capital	**232.7**	**165.4**

Tier 2	2016 £m	2015 £m
Share Capital	0.0	0.0
Share Premium	0.0	0.0
General Credit Risk Adjustments	0.5	0.3
Total Tier 2 Capital	**0.5**	**0.3**
Total Capital	**233.2**	**165.7**

5.3.1 Capital Flows

Changes in the Group's Tier 1 Regulatory Capital during the year ended 31 December are set out below:

	2016 £m	2015 £m
At 1 January	165.4	(20.4)
Ordinary Share Capital	0.0	0.0
Share Premium	30.1	165.0
Share Based Payments	0.1	-
Profit For The Year	37.3	21.4
Intangible Fixed Asset Deduction	(0.2)	(0.4)
Deferred Tax Asset Deduction	(0.0)	(0.2)
31 December	**232.7**	**165.4**

5.3.2 Tier 1 Capital

The Group's Tier 1 Capital consists of issued ordinary share capital, share premium, retained profits as well as share based payments reserves. In accordance with Article 36 of the CRR adjustments are made to CET1 for intangible fixed assets and deferred tax assets.

5.3.3 Tier 2 Capital

The Group's Tier 2 Capital consists of issued preferred ordinary share capital and associated premiums plus added back general credit risk adjustments. The Tier 2 share capital ranks behind any claims from Group creditors and depositors; and is subject to a fixed return of Libor. The general credit risk adjustments are recognised subject to the cap of 1.25% of RWAs imposed under Article 62 of the CRR. This cap was not exceeded at 31 December 2016 or 31 December 2015.

5.3.4 Reconciliation of Equity to Regulatory Capital

Set out below is a reconciliation of Group Total Equity per the Consolidated Statement of Financial Position included in the Annual Report and Regulatory Capital.

	2016 £m	2015 £m
Regulatory Capital	233.2	165.7
General Credit Risk Adjustments	(0.5)	(0.3)
Intangible Fixed Asset Deduction	0.6	0.4
Deferred Tax Asset Deduction	0.2	0.2
Total Equity	**233.5**	**166.0**

5.3.5 Capital Surplus: CRD IV Pillar 1 Requirement at 8%

The Group's minimum CRD IV Pillar 1 capital requirement at 8% is calculated as the sum of Credit Risk and Operational Risk requirements. The Group's minimum Pillar 1 requirement at 31 December was:

	2016 £m	2015 £m
Credit Risk	114.1	60.5
Operational Risk	3.9	1.7
Total Pillar 1 Requirement at 8%	**118.0**	**62.2**

5.3.6 Capital Metrics and Ratios

The Group's capital metrics and ratios at 31 December were as follows:

	2016 £m	2015 £m
Capital Resources Requirement - Pillar 1	118.0	62.2
Capital Resources:		
CET 1	232.7	165.4
Additional Tier 1	0.0	0.0
Tier 2	0.5	0.3
Total Capital	**233.2**	**165.7**
Total Risk Weighted Assets	1475.0	777.5
Common Equity Tier 1 Capital Ratio	15.8%	21.3%
Total Tier 1 Capital Ratio	15.8%	21.3%
Total Capital Ratio	15.8%	21.3%
CET 1 Available To Meet Buffers	7.8%	13.3%

Detailed information on Credit Risk Exposures is included in Section 4.

5.4 Countercyclical Capital Buffers

Institutions are required to comply with the requirements for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU (the CRD). The Group has assessed its countercyclical capital buffer requirement as zero for 2016 and 2017 following the FPC's July 2016 announcement.

5.5 Leverage Ratio

The Group calculates its Leverage Ratio as its Tier 1 Capital divided by the sum of its total exposures and expresses the result as a percentage in accordance with Article 429 of the CRR. The Leverage Ratio is calculated at quarter end dates and no adjustments to Tier 1 Capital, as permitted through the derogations under Chapter 1 and 2 of the CRR, are applied.

Reconciliation of Accounting Assets and Leverage Ratio Exposures	2016 £m	2015 £m
Tier 1 Capital	232.7	165.4
Total Assets per the Group Statement of Financial Position	4,157.4	2,604.6
Derivative Exposure Items	(1.5)	2.0
Off Balance Sheet Exposures	105.3	72.2
Other Adjustments	(1.6)	(0.7)
Leverage Ratio Exposures	**4,259.6**	**2,678.1**

Leverage Ratio Common Disclosures	2016 £m	2015 £m
On balance Sheet Items	4,148.9	2,606.5
(Asset Amounts Deducted in Determining Tier 1 Capital)	(0.8)	(3.8)
Total on Balance Sheet Exposures	4,148.1	2,602.7
Replacement Cost Associated with all Derivatives	0.4	-
Add on Amounts Potential Future Exposure	5.8	3.2
Total Derivative Exposure	6.2	3.2
Other off Balance Sheet Exposures Notional	526.6	360.8
(Adjustments for Conversion)	(421.3)	(288.6)
Other Off Balance Sheet	105.3	72.2
Tier 1 Capital	**232.7**	**165.4**
Total Leverage Ratio Exposures	**4,259.6**	**2,678.1**
Leverage Ratio	**5.46%**	**6.18%**
Choice Of Transitional Arrangements For The Definition Of The Capital Measure	**Fully**	**Fully**

Derivative exposure values are calculated in accordance with the Mark-to-Market Method and applicable rules set out in the CRR. Deferred Tax and Intangibles are excluded from Total Exposures as they are deducted directly from Tier 1 Capital.

Off Balance Sheet Exposures represent commitments to provide credit which are not unconditionally cancellable. Leverage Ratio Exposure values for off balance sheet items are determined after applying a credit conversion factor to the nominal value of the items.

The Group has a significantly higher Leverage Ratio than the PRA minimum requirement of 3%. The following items have impacted the Group's Leverage Ratio in 2016:

- Issue of £30.1m of CET 1 Capital
- Increase in Assets to £4.2 bn from £2.6 bn.

An analysis of Group on Balance Sheet Exposures is set out below:

Split of On Balance Sheet Exposures	2016 £m	2015 £m
Banking Book Exposures:		
Exposures treated as Sovereigns	132.6	463.3
Institutions	80.3	76.6
Secured By Mortgages of Immovable Property	3,805.9	1,944.7
Exposures In Default	2.3	0.8
Other Exposures	127.0	117.3
Total	**4,148.1**	**2,602.7**

The bank does not have a trading book.

5.6 Managing Excessive Leverage

As a supplementary measure to the risk-based capital requirements, the Basel III framework introduced a simple, non-risk based leverage ratio. The Basel Committee on Banking Supervision ('Basel') has advised that it is implementing a minimum leverage measure of 3% based on a Tier 1 definition of capital with planned effect from 1 January 2018. The PRA has however already established a minimum of 3% but only for firms with more than £50bn of deposits.

The Board recognises that leverage is important for firms below the PRA threshold and at 31 December 2016 it has a leverage ratio of 5.46% (2015: 6.18%). The Group plans capital to be in excess of the 3% requirement throughout its forecast horizon. Furthermore, it monitors its leverage ratio relative to its regulatory requirements, as well as its peer group and the broader sector in which it operates.

Charter Court Financial Services

6.1 Introduction

The Remuneration Code (the "Code") sets out certain requirements and principles in relation to remuneration. Firms that fall within the scope of the Code must establish, implement and maintain remuneration policies that are consistent with and promote sound and effective risk management proportionately depending on the size, internal organisation and the nature, the scope and the complexity of the activity of the Company.

A firm must maintain a record of its Code Staff (being those staff whose professional activities have a material impact on the firm's risk profile) and take reasonable steps to ensure Code Staff understand the implications of their status.

The disclosure requirements of Pillar 3 are defined by CRR Article 450. Information is provided for remuneration received by Code Staff for the year ending 31 December 2016.

During the year ending 31 December 2016, the company identified a total of 13 individuals who were classed as code staff. Of these, 10 were categorised as Senior Management (being the Executive and Non-Executive Directors and members of the Senior Management team reporting directly into the Chief Executive Officer), as well as 3 individuals categorized as other code staff.

6.2 Role of the Committee

The Remuneration and Nomination Committee (the "Committee") is a committee of the Board of Directors and is responsible for determining remuneration policy. The primary focus of the Committee during the year ending 31 December 2016 was as follows:

- assessing the effectiveness and relevance of the remuneration policy and its implementation, ensuring that procedures and process were compliant with the Code and recommending any changes it considered necessary to the Board for approval;
- recommending to the Board those employees who should be regarded as Code Staff and regularly monitoring the level and structure of their remuneration and taking reasonable steps to ensure that arrangements were in place to ensure existing and new employees received adequate information to understand the requirements of the Code;
- approving the design and structure of the variable remuneration schemes for Code Staff;
- aggreeing and recommending to the Board for approval, payments proposed under the variable remuneration schemes for Code Staff, whilst having regard to the remuneration trends of non-Code Staff and total remuneration outcomes;
- agreeing and recommending to the Board for approval, salary increases for Code Staff and considering the pension impact/costs of any increases, whilst having regard to the remuneration trends of non-Code Staff;
- reviewing and recommending to the Board for approval the Remuneration Policy Statement;
- ensuring that provisions regarding disclosure of remuneration policy and practices for Code Staff were fulfilled;

6.3 Composition of the Committee

During the year ending 2016, the Committee consisted of three members and was constituted in a way that enabled it to exercise its independent judgment and demonstrate its ability to make decisions which were consistent with effective risk management and the current and future financial interests of the Company. All three members of the Committee were independent Non-Executive Directors. The members of the Committee at 31 December 2016 were:

Timothy Brooke	Chairman of the Committee
Ian Ward	Senior Independent Director
Philip Jenks	Chairman of the Board

Within its terms of reference the Committee is obliged to arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

The Committee's terms of reference were last reviewed and updated in November 2016 and adopted by the Board of Directors in January 2017.

The Committee meets as circumstances require, but at least four times a year to enable responsibilities to be discharged. During the year ending 31 December 2016, the Committee met five times.

6.4 Role of Relevant Stakeholders

During the year ending 2016, the Committee was attended by the Chief Executive Officer, supported by the Director of Operations who has responsibility for human resources within the Company. The Committee may request the attendance of any executive or other person as deemed appropriate to facilitate the review of remuneration recommendations and policy design to ensure that the remuneration practices are consistent with effective risk management and appropriate financial measures. Additional attendees may include, for example, individuals from the Risk and Finance functions. No person was in attendance when matters concerning their own remuneration or fees were discussed.

In performing its duties, the Committee draws on the advice of independent external consultants. During the year the Committee received information from Deloitte LLP. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

6.5 The Link between Pay and Performance

During the year ending 2016, variable remuneration awards for Code Staff were awarded by the Committee in a manner which promoted sound risk management, did not encourage excessive risk taking and promoted the long term interests of the Company.

The Company aligned its remuneration policy to be consistent with and promote effective risk management by adopting the following principles:

- a rigorous governance structure was in place to promote sound and effective risk management which did not encourage risk taking that exceeded the Company's level of tolerated risk;
- performance assessment measures for all Code Staff included both financial and non-financial objectives and were weighted towards non-financial measures to ensure that any variable remuneration awards did not undermine effective risk management;
- the design, structure and performance assessment measures for Code Staff were reviewed and agreed by the Chief Risk Officer to ensure it reflected the Company's risk appetite and profile, that any current and future risks were considered and that any risk adjustment techniques were validated and assessed;
- the design, structure and performance assessment measures for Code Staff were reviewed and agreed by the Chief Financial Officer to ensure that it was based on appropriate measures of profit;
- variable remuneration awards for Code Staff were at the discretion of the Committee and were subject to overall company and individual performance;

Remuneration decisions for all Code staff were reviewed by the Committee and recommended to the Board for approval. All remuneration decisions for non-Code Staff were approved by a member of the senior management team and HR before implementation.

6.6 Aggregate Quantitative Information on Remuneration for Code Staff

During the year ending 31 December 2016, there were a total of 13 Code Staff. Of these, 10 were categorised as Senior Management (being the Executive, Non-Executive Directors and members of the senior management team reporting directly into the Chief Executive Officer), as well as 3 individuals categorised as other Code Staff.

Table 1: Aggregate Quantitative Information on Remuneration Expenditure for Code Staff, broken down by business area

The table below shows the total remunerations awarded to Code staff during the year ending 31 December 2016, broken down by business area:

	Executive £k	Finance[1] £k	Risk[2] £k	Operations £k	Sales & Marketing £k	Savings £k	Total £k
Total Remuneration	1,305	893	1,243	635	635	354	5,065

[1] Finance represents Finance and Treasury.

[2] Risk represents Risk, Credit Risk and Legal and Compliance.

Table 2: Aggregate Quantitative Information on Remuneration for Code Staff, broken down by Senior Management and other code staff.

The table below shows the total remunerations awarded to Code staff during the year ending 31 December 2016, broken down by business area:

	Senior Management	Other Code Staff	Total
Total Remuneration	4,448	617	5,065
Number of Code Staff	10	3	13

Appendix 1
Pillar 3 Disclosures for Charter Court Financial Services Limited (the Bank)

This sections sets out the Pillar 3 disclosures of the Bank, being the significant subsidiary of the Group, on a solo basis in accordance with Article 13 of the CRR.

The differences between the Bank and the Group primarily relates to a single securitised asset portfolio that has been derecognised from the Bank's balance sheet but not the Group's for prudential and financial reporting purposes.

Capital Resources at 31 December

Common Equity Tier 1 (CET1)	2016 £m	2015 £m
Share Capital	2.9	2.9
Share Premium	157.3	122.6
Retained Earnings	59.7	26.0
Regulatory Adjustments to CET1:		
Intangible Assets	(0.6)	(0.4)
Deferred Tax Asset	0.0	0.0
Common Equity Tier 1 Capital	**219.3**	**151.1**

Tier 2	2016 £m	2015 £m
Share Capital	0.0	0.0
Share Premium	0.0	0.0
General Credit Risk Adjustments	0.5	0.3
Total Tier 2 Capital	**0.5**	**0.3**

Total Capital	**219.8**	**151.4**

Capital Flow -Changes in the Total Tier 1 Capital year ended 31 December

	2016 £m	2015 £m
At 1 January	151.1	6.1
Ordinary Share Capital	0.0	0.0
Share Premium	34.7	122.6
Profit For The Year	33.8	19.4
Intangible Fixed Asset Deduction	(0.3)	(0.1)
Deferred Tax Asset Deduction	0	3.1
At 31 December	**219.3**	**151.1**

Reconciliation of Statutory Capital to Regulatory Capital Year Ended 31 December

	2016 £m	2015 £m
Regulatory Capital	219.8	151.4
General Credit Risk Adjustments	(0.5)	(0.3)
Intangible Fixed Asset Deduction	0.6	0.4
Deferred Tax Asset Deduction	0.0	0.0
Total Equity	**219.9**	**151.5**

Capital Requirements – CRD IV Pillar 1 Requirement at 8% as at 31 December

The Pillar 1 requirements for the Bank were as follows:

	2016 £m	2015 £m
Credit Risk	108.7	54.3
Operational Risk	4.0	1.9
Total Pillar 1 Requirement at 8%	**112.7**	**56.2**

Capital Metrics and Ratios At 31 December

	2016 £m	2015 £m
Capital Resources Requirement - Pillar 1	112.7	56.1
Capital Resources:		
CET 1	219.3	151.1
Additional Tier 1	0.0	0.0
Tier 2	0.5	0.3
Total Capital	**219.8**	**151.4**
Total Risk Weighted Assets	1407.9	701.7
Common Equity Tier 1 Capital Ratio	15.6%	21.5%
Total Tier 1 Capital Ratio	15.6%	21.5%
Total Capital Ratio	15.6%	21.6%
CET1 Available To Meet Buffers	7.6%	13.5%

Countercyclical Capital Buffer

Institutions are required to comply with the requirements for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU (the CRD). The Bank has assessed its countercyclical capital buffer requirement as zero for 2016 and 2017 following the FPC’s July 2016 announcement.

Leverage Ratio At 31 December

Reconciliation of Accounting Assets and Leverage Ratio Exposures	2016 £m	2015 £m
Tier 1 Capital	219.3	151.1
Total Assets per the Bank Statement of Financial Position	3,983.3	2,412.4
Derivative Exposure Items	(1.5)	1.4
Off Balance Sheet Exposures	107.3	73.2
Other Adjustment	(52.5)	(73.9)
Leverage Ratio Exposures	4,036.6	2,413.1

Leverage Ratio At 31 December

Leverage Ratio common disclosures	2016 £m	2015 £m
On balance Sheet Items	3,923.7	2,340.8
(Asset Amounts Deducted in Determining Tier 1 Capital)	(0.6)	(3.4)
Total on Balance Sheet Exposures	3,923.1	2,337.4
Replacement Cost Associated with all Derivatives	0.4	-
Add on Amounts Potential Future Exposure	5.8	2.5
Total Derivative Exposure	6.2	2.5
Other Off Balance Sheet Exposures Notional	530.6	362.8
(Adjustments for Conversion)	(423.3)	(289.6)
Other off Balance Sheet	107.3	73.2
Tier 1 Capital	**219.3**	**151.1**
Total Leverage Ratio Exposures	**4,036.6**	**2,413.1**
Leverage Ratio	**5.43%**	**6.26%**
Choice Of Transitional Arrangements For The Definition Of The Capital Measure	**Fully**	**Fully**

Split of On Balance Sheet Exposures	2016 £m	2015 £m
Banking Book Exposures:		
Exposures treated as Sovereigns	132.6	463.3
Institutions	28.9	4.1
Secured By Mortgages of Immovable Property	3,630.8	1745.4
Exposures In Default	2.3	0.8
Other Exposures	128.5	123.8
Total Exposure	**3,923.1**	**2337.4**

The Bank does not have a trading book.

The following disclosures are provided in accordance with Article 443 of the CRR "Unencumbered assets" following guidance issued by the European Banking Authority on "disclosures of encumbered and unencumbered assets" in June 2014. The disclosures relate to the Bank only.

Template A - Assets

2016		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	672.6		2,586.8	
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	146.1	145.9
120	Other assets	672.6		2,439.7	

2015		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	674.6		1,683.2	
030	Equity instruments	-	-	-	-
040	Debt securities	7.2	7.2	126.3	128.2
120	Other assets	667.4		1,556.9	

Template B

Collateral received disclosures are not presented in accordance with Supervisory Statement SS11/14 issued by the PRA in December 2014, which provides a waiver from disclosures under Template B for firms that meet certain balance sheet value criteria.

Template C - Encumbered assets/collateral received and associated liabilities

2016		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	414.9	670.5

2015		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	653.3	674.6

Template D - Information on the importance of encumberance

The Bank encumbers its balance sheet through the securitisation of mortgage assets which are not derecognised from the Bank's balance sheet. In addition the Bank encumbers assets by pledging collateral with the Bank of England to access short term funding through the Indexed Long Term Repo scheme (ILTR) and longer term funding through the Funding for Lending scheme (FLS) and more recently the Term Funding Scheme (TFS). Wholeloan portfolios and securities pledged to the Bank of England are subject to haircuts reflecting the underlying credit quality and liquidity of the collateral which creates a level of over collateralisation.

The Bank's encumbrance levels have reduced since 2015, which is driven by an increase in balance sheet funding through retail deposits and a reduction in the balances of securitised assets. In addition the buyback of a number of securitisation bonds has contributed to the reduction in encumbrance.

Items included in other unencumbered assets that would not be available for encumbrance would include Intangibles, Other Fixed Assets, including Property and Equipment, and Derivative Assets.

The Bank maintains an overall level of asset encumbrance percentage below a limit agreed with the PRA.

Appendix 3
Capital Instruments Main Features

Charter Court Financial Services

	Capital Instruments Main Features	Tier 1
1	Issuer	Charter Court Financial Services Group
2	Unique Identifier (eg CUSIP ISIN Bloomberg identifier for private placement)	Private placement
3	Governing laws of the instrument	English law
	Regulatory Treatment	
4	Transitional CRR Rules	CET1
5	Post Transitional CRR Rules	CET1
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Consolidated
7	Instrument type	Common Equity
8	Amount recognised in regulatory capital	£ 195.1m
9	Nominal amount of instrument	£0.001
9b	Issue price	£0.001
10	Redemption price	Not Applicable
11	Accounting classification	Shareholders Equity
12	Original date of issuance	1 October 2008 10,000 A Class Shares issued
		17 November 2008 740,000 A Class Shares issued
		17 November 2008 225,000 B Class Shares issued
		17 November 2008 14,000 B Class Shares issued
		21 January 2009 11,000 B Class Shares issued
		8 March 2012 8,614 A Shares reclassified as C Shares
		8 March 2012 7,670 B Shares reclassified as C Shares
		1 January 2015 50 A Class shares issued
		8 August 2016 50 A Class Shares issued
		25 August 2016 B Shares transferred and reclassified as A Shares
		18 November 2016 A Shares reclassified as A1 Shares
		21 November 2016 B Shares transferred and reclassified as A1 Shares
		21 November 2016 C Shares transferred and reclassified as A2 Shares
		6 December 2016 25 A1 Class Shares issued
13	Perpeptual or dated	Perpetual
14	Original maturity date	Not Applicable
15	Optional call date contingent call dates and redemption amount	No
16	Subsequent call dates if applicable	Not Applicable

Capital Instruments Main Features Coupons/Dividends		Tier 1
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	Not Applicable
19	Existance of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	fully discretionary
21	Existance of step up or other incentive redeem	No
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non convertible	Non-Cumulative
24	If convertible, conversion triggers	Not Applicable
25	If convertible fully or partially	Not Applicable
26	if convertible conversion rate	Not Applicable
27	if convertible mandatory or optional conversion	Not Applicable
28	If convertible specify instrument type convertible into	Not Applicable
29	If convertible specify issuer of nstrument converts into	Not Applicable
30	Write down features	No
31	If write down, write down trigger	Not Applicable
32	If write down full or partial	Not Applicable
33	if write down permanent or temporary	Not Applicable
34	if temporary write down description of write down mechanism	Not Applicable
35	Position in subordination hierachy in liquidation	All liabilities
36	Non compliant transitioned features	No
37	If yes specify non compliant features	Not applicable

Charter Court
Financial Services

Basic Indicator Approach (BIA)	Is a set of operational risk measurement techniques specified by BCBS and detailed in the CRR IV, used to calculate Capital required for Operational Risk
BCBS	Basel Committee on Banking Supervision
CCoB	Capital Conservation Buffer
CET1	Common Equity Tier 1
CoRR	Corporate Risk Register
CPB	Capital Planning Buffer
CRR	Capital Requirements Regulation
CRD	Capital Requirements Directive also known as CRD IV (being the 4th update of the Basel Directives)
CWG	Capital Working Group
EIR	Effective Interest Rate
ERMF	Enterprise Risk Management Framework
FPC	Financial Policy Committee
FSB	Financial Stability Board
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
KRI	Key Risk Indicator
LWG	Liquidity Working Group
OTC	Over The Counter
Pillar 1	The first pillar - Minimum Capital Requirement covers total risk including the credit risk, market risk as well as Operational Risk
Pillar 2	The second pillar - Supervisory Review Process is intended to ensure that the banks have adequate capital to support all the risks associated in their businesses.
Pillar 3	The third pillar complements the first and second pillar. This is completed through these disclosures of capital structure and approaches to assess the capital adequacy including the governance
PRA	The Prudential Regulation Authority
RAF	Risk Appetite Framework
RMBS	Residential Mortgage Backed Security
RPRP	Recovery Plan and Resolution Pack
RWA	Risk Weighted Assets
Securitisation	The process of taking less illiquid assets, or group of assets, and through financial structuring, transforming them into a tradeable security. A typical example of securitisation is a residential mortgage-backed security (RMBS), which is a type of asset-backed security that is secured by a homogenous collection of mortgages
SRB	Systemic Risk Buffer
SREP	Supervisory Review and Evaluation Process
SRT	Significant Risk Transfer
Standardised Approach	Refers to a set of credit risk measurement techniques specified by BCBS and detailed in the CRR for the calculation of Risk Weighted Assets (RWA's) for Pillar 1
3LOD	Three Lines of Defence

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