

21 August 2019

Charter Court Financial Services Group plc

Interim results for the six months ended 30 June 2019

Another strong half year of originations

Combination with OneSavings Bank approved by shareholders

Charter Court delivered another half year of strong lending growth. We grew our loan book 23.8% to £7.0 billion on originations of £1.5 billion as we continued to innovate to meet strong demand across our buy to let and specialist residential lending offerings, driven by the continued professionalisation and increasing complexity of our chosen markets. We leveraged the scalability and efficiency of our operating platform, our underwriting discipline and dynamic funding strategy to maintain a low cost of risk and a cost income ratio of 28.7%, after adjusting for costs of the proposed merger with OneSavings Bank plc ("OSB"). This strong operational result translated into profit before tax of £82.6 million (H1 2018: £93.1 million).

Financial highlights¹

	H1 2019	H1 2018	FY 2018
Profit before tax	£82.6m	£93.1m	£158.2m
Adjusted profit before tax ²	£86.4m	£93.1m	£158.2m
Profit after tax	£62.3m	£71.1m	£120.8m
Net interest margin	3.04%	3.08%	3.08%
Loan book	£7.0bn	£5.7bn	£6.7bn
Mortgage originations	£1.5bn	£1.4bn	£2.8bn
Retail deposits	£6.0bn	£4.3bn	£5.1bn
Cost income ratio	31.7%	24.8%	28.7%
Adjusted cost income ratio ²	28.7%	24.8%	28.7%
Cost of risk	0.082%	0.025%	0.036%
Cost of funds	1.6%	1.4%	1.5%
Return on equity	26.5%	38.4%	30.8%
Adjusted return on equity ²	28.1%	38.4%	30.8%
CET1 ratio ³	15.6%	16.6%	15.7%
Earnings per share			
- basic	26.0p	29.7p	50.5p
- diluted	25.7p	29.5p	50.1p
Dividend per share	4.3p	2.8p	12.7p

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 to statutory measures, where relevant, and a glossary indicating the APMs we use, an explanation of how they are calculated and why we use them.

² Excluding £3.8 million of costs incurred in relation to the proposed merger with OSB.

³ CET1 ratio includes unaudited profits to 30 June 19 less foreseeable dividends.

Charter Court Financial Services Group plc

Strong balance sheet growth

- Loan book up 23.8% year-on-year to £7.0 billion at 30 June 2019 (30 June 2018: £5.7 billion, 31 December 2018: £6.7 billion), or 33.7% (30 June 2018: 41.7%, 31 December 2018: 34.7%) excluding the impact of structured asset sales, driven by strong origination volumes across all product segments £1,490.0 million (H1 2018: £1,356.7 million, FY 2018: £2,846.1 million)

Effective risk management

- Disciplined underwriting reflected in strong credit performance across the lending portfolio with arrears of three months and over at £26.1 million (30 June 2018: £7.6 million, 31 December 2018: £15.3 million) representing 0.37% of the loan book (30 June 2018: 0.15%, 31 December 2018: 0.24%)
- The cost of risk was 0.082% (H1 2018: 0.025%, FY 2018: 0.036%) reflecting the deteriorating and uncertain economic outlook as well as the observed increase in arrears

Dynamic funding strategy

- Successful execution of a £733.7 million securitisation transaction of buy to let residential mortgages (H1 and FY 2018: three transactions with a combined value of £906.1 million)
- Aggregate gain of £29.8 million (H1 and FY 2018: £36.4 million) on two structured asset sales to third party investors of £564.3 million of underlying mortgage assets and associated risk weighted assets (“RWAs”) (two structured asset sales all in the first half of 2018 amounting to £562.5 million of underlying mortgage assets and associated RWAs)
- Retail savings deposit book up 40.2% year-on-year to £6.0 billion (30 June 2018: £4.3 billion, 31 December 2018: £5.1 billion)
- £842.0 million of Bank of England reserve account balances held at 30 June 2019 (30 June 2018: £751.2 million, 31 December 2018: £823.8 million)

Robust profitability

- Robust net interest margin of 3.04% (H1 2018: 3.08%, FY 2018: 3.08%)
- Cost income ratio of 31.7% in H1 2019 (H1 2018: 24.8% and FY 2018: 28.7%) or adjusted cost income ratio⁴ of 28.7%.
- The Group’s policy is to economically hedge its interest rate exposures; however, some of the Group’s hedges do not qualify for hedge accounting under IFRS and a charge of £7.2 million net fair value movements on derivative financial instruments (H1 and FY 2018: £nil) has been recognised. This reflects a flattening of the yield curve; this will reverse in future periods as the fair value of the interest rate swaps trends to zero over time
- Profit before tax at £82.6 million (H1 2018: £93.1 million, FY 2018: £158.2 million), reflecting a significant increase in net interest income offset by lower gains on structured asset sales, net fair value movements on derivatives and increased administrative expenses, which included £3.8 million of costs incurred in H1 2019 in relation to the proposed merger with OSB
- Return on equity of 26.5% (H1 2018: 38.4%, FY 2018: 30.8%) or adjusted return on equity⁴ of 28.1% (H1 2018: 38.4%, FY 2018: 30.8%)
- The Board has declared an interim dividend of 4.3 pence per share (2018: interim 2.8 pence per share; final 9.9 pence per share and total 12.7 pence per share)

⁴ Excluding £3.8 million of costs incurred in relation to the proposed merger with OSB.

Charter Court Financial Services Group plc

All-share combination with OneSavings Bank approved by shareholders

- All resolutions in connection with the recommended all-share combination of Charter Court and OSB passed at Court and General Meetings of Charter Court shareholders held on 6 June 2019
- The Competition and Markets Authority (“CMA”) confirmed its clearance decision in respect of the combination on 30 July 2019
- The completion of the transaction remains subject to the satisfaction or waiver of other conditions, including approval from the Prudential Regulation Authority (“PRA”) and Financial Conduct Authority (“FCA”) and the Court sanctioning the Scheme at the Scheme Court Sanction Hearing which is expected to take place in the third quarter of 2019

Ian Lonergan, CEO of Charter Court, said:

“We continued to leverage our specialist lending platform to once again deliver against all our targets in the first half of 2019. Steady loan book growth continued to be driven by strong originations of £1.5 billion across our lending portfolio. This positive result was achieved whilst maintaining a disciplined approach to underwriting, reflected in the high quality of our mortgage book.

“As demonstrated by the attractively priced securitisation and structured asset sales delivered during the first half, we continued to leverage our capital markets execution capabilities to support asset growth and optimise funding costs. Our cost income ratio continued to benefit from our high operating leverage and our scalable platforms, remaining in line with our guidance. With a strong CET1 ratio of 15.6% at 30 June 2019 (30 June 2018: 16.6%, 31 December 2018: 15.7%), we remain well capitalised for future growth.

“In addition to strong first half performance, I am pleased to report that our recommended all-share combination with OSB has received shareholder approval, clearance by the CMA and now remains subject to the satisfaction or waiver of other conditions including approvals from relevant UK regulatory authorities.”

Enquiries:

Analysts and investors

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Analyst and investor presentation

A presentation for analysts and investors will be held at 10:45 am on 21 August 2019 at the Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED.

Participants will be able to take part via a conference call facility by dialling Standard International Access: +44 (0) 20 3037 9315 or UK Toll Free: 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>.

Charter Court Financial Services Group plc

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 2019, our total mortgage balances stood at £7.0 billion generated through our relationships with more than 23,000 registered introducers nationwide, whilst Charter Savings Bank held £6.0 billion in retail deposits at the same date from around 172,000 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.

Charter Court Financial Services Group plc

Important information

On 14 March 2019 the Board of the Group announced that it had reached agreement with the board of OSB on the terms of a recommended all-share combination of Charter Court and OSB pursuant to which OSB will acquire the entire issued and to be issued share capital of Charter Court to form the combined group.

On completion of the proposed combination, OSB shareholders would hold approximately 55% of the combined group and Charter Court shareholders would hold approximately 45%.

The shareholders of both Charter Court and OSB on 6 June 2019 voted in favour of the combination. On 30 July 2019 the CMA confirmed that there are no serious competition concerns associated with the proposed combination, and concluded that no further investigation is required from a competition perspective.

Subject to approval by regulators and the fulfilment or waiver of other conditions, it is intended that the combination will be by way of a court-sanctioned scheme of arrangement which is expected to be effective in the third quarter of 2019.

Charter Court Financial Services Group plc

Chief Executive Officer's review

We have delivered a strong performance in the first half of 2019, building on the momentum gained during 2018 to demonstrate continued resilience despite ongoing market uncertainty.

Strong mortgage originations

Charter Court's loan book continued to grow in H1 2019 increasing 23.8% year-on-year (H1 2018: 29.0%, FY 2018: 24.2%), or 33.7% (H1 2018: 41.7%, FY 2018: 34.7%) excluding the impact of structured asset sales. Despite challenging conditions faced by the UK housing market, we saw strong demand for our buy to let, residential and short-term lending propositions.

In residential lending, we extended our Help to Buy range to include Help to Buy Scotland and Help to Buy remortgage, building on the huge success of the scheme since its launch in 2013. We also leveraged our sophisticated underwriting process to capitalise on the rising number of homeowners with more complex income sources.

In the buy to let market, we observed a continued trend supportive of professional landlords with increased use of limited company structures and a move towards higher yielding property types. Our proposition for portfolio landlords continues to be well received and according to BVA BDRC (one of the UK's leading research agencies) is ranked highest as the lender mortgage intermediaries are most likely to recommend to portfolio landlords.

At the same time, we continue to improve our distribution and service standards across our product range with growing teams focused on specialist sales and customer support.

Optimised funding mix

During the first half of the year, we were proactive in the implementation of our dynamic funding strategy, taking advantage of opportunities in both retail and wholesale funding markets to optimise our funding mix.

Our retail deposit book grew strongly in the first half with 22,000 new customers attracted, resulting in a total retail savings base of £6.0 billion (30 June 2018: £4.3 billion, 31 December 2018: £5.1 billion) and, consequently, a lower loan to deposit ratio of 117.9% (30 June 2018: 133.6%, 31 December 2018: 130.8%).

We successfully executed one securitisation transaction of £733.7 million (H1 and FY 2018: three transactions with a combined value of £906.1 million), building on our established track record as an issuer. 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 £29.8 million (H1 and FY 2018: £36.4 million).

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 significant increase in net interest income. Our profit before tax of £82.6 million (H1 2018: £93.1 million, FY 2018: £158.2 million) was impacted by lower gains on structured sales, net fair value movements on derivative financial instruments and expenses in relation to our proposed merger with OSB. Profit after tax for the six months ended 30 June 2019 declined to £62.3 million, from £71.1 million a year earlier.

The Board has declared an interim dividend of 4.3 pence per share which is equal to one third of the total dividend for the previous year. The dividend will be paid on 20 September 2019 to shareholders on the shareholder register on the record date of 30 August 2019.

Chief Executive Officer's review (continued)

Outlook

Despite the heightened uncertainty in the wider economy, we continue to see robust demand for our specialist lending propositions. We believe in the resilience of our business model, which was purpose built to capitalise on structural drivers in markets where we have significant experience and expertise.

We will closely monitor changes in our lending and funding markets for opportunities to drive further balance sheet growth whilst sustaining an optimal funding mix. We also remain focused on maintaining our high levels of operational efficiency and low cost of risk.

We strongly believe that a combination with OSB would further enhance our positioning in the market and allow us to leverage our complementary strengths to reinforce all aspects of our operations. Following receipt of shareholder approval in June and CMA clearance in July, we await approval from the relevant UK regulatory authorities to complete the transaction.

Ian Lonergan

Chief Executive Officer

Financial review

Group highlights

Balance sheet - key items (£m)	As at 30 June 2019	As at 30 June 2018	% change	As at 31 December 2018
Customer loans and receivables	7,046.9	5,693.8	23.8	6,661.5
Cash and cash equivalents	991.0	920.3	7.7	981.2
Deposits from banks	1,226.0	1,157.5	5.9	1,214.8
Deposits from customers	5,976.5	4,262.6	40.2	5,094.5
Debt securities in issue	476.2	825.7	(42.3)	972.9
Equity attributable to equity holders of the parent and total equity	490.5	406.5	20.7	450.3

Year-on-year loan book growth of 23.8%

Charter Court's loan book grew to £7.0 billion at 30 June 2019 (30 June 2018: £5.7 billion, 31 December 2018: £6.7 billion), with continuing strong origination performance underpinned by a demand for the Group's specialist mortgage lending products. Excluding the impact of structured asset sales, loan book growth would have been £1.9 billion, 33.7% (30 June 2018: 41.7%, 31 December 2018: 34.7%).

Continuous optimisation of funding mix

In H1 2019, Charter Court has again leveraged its dynamic funding strategy to maintain an optimal funding mix while prudently managing funding and liquidity risks, growing its retail deposit funding and continuing to benefit from access to wholesale funding through securitisations, short-term repo lines and warehouse facilities.

The Group took advantage of favourable market conditions to complete two structured asset sales to third party investors, resulting in the derecognition of £564.3 million of underlying mortgage assets and associated risk weighted assets ("RWAs") (two structured asset sales all in the first half of 2018 amounting to £562.5 million of underlying mortgage assets and associated RWAs), for an aggregate gain of £29.8 million (H1 and FY 2018: £36.4 million).

The Group also executed one securitisation transaction of £733.7 million of buy to let residential mortgages (three transactions all in the first half of 2018, with a combined value of £906.1 million).

The retail deposits grew, year-on-year by 40.2%, to £6.0 billion (30 June 2018: £4.3 billion, 31 December 2018: £5.1 billion). Consequently, the Group's loan to deposit ratio has decreased to 117.9% (30 June 2018: 133.6%, 31 December 2018: 130.8%).

Financial review (continued)

Income statement – key items (£m)	Six months ended 30 June 2019	Six months ended 30 June 2018	% change	Year ended 31 December 2018
Net interest income	100.1	84.4	18.6	180.5
Non-interest income	2.3	3.9	(41.0)	8.0
Gain on sale of loans	29.8	36.4	(18.1)	36.4
Net fair value movements on derivative financial instruments	(7.2)	-	-	-
Total income	125.0	124.7	0.2	224.9
Administrative expenses	(39.7)	(30.9)	28.5	(64.6)
Impairment charge	(2.7)	(0.7)	285.7	(2.1)
Profit before tax	82.6	93.1	(11.3)	158.2
Tax	(20.3)	(22.0)	(7.7)	(37.4)
Profit after tax	62.3	71.1	(12.4)	120.8

Profit after tax down 12.4%

Our profit before tax was £82.6 million in H1 2019 (H1 2018: £93.1 million), reflecting a significant increase in net interest income offset by lower gains on structured asset sales, net fair value movements on derivatives and increased administrative expenses, which included £3.8 million of costs incurred in H1 2019 in relation to the proposed merger with OSB.

The effective tax rate for the period increased to 24.6% (H1 2018: 23.6%, FY 2018: 23.7%) primarily due to the disallowable merger costs incurred and the reduced activity in Group companies not subject to the banking surcharge.

Profit after tax for H1 2019 was down 12.4% to £62.3 million (H1 2018: £71.1 million). This represents a return on equity of 26.5%, down from 38.4% in H1 2018 and adjusted return on equity of 28.1% (H1 2018: 38.4%)

Total income up 0.2%

Our interest income and similar income increased by 23.9% to £157.9 million (H1 2018: £127.4 million), mainly due to the continued expansion of the mortgage origination business.

Interest expense and similar charges increased by 34.4% to £57.8 million in H1 2019 (H1 2018: £43.0 million), as funding increased in line with growth in the mortgage loan book.

The Group's net interest income increased by 18.6% to £100.1 million (H1 2018: £84.4 million). Net interest margin in H1 2018 was 3.04% (H1 2018: 3.08%).

Non-interest income comprises fees received for the servicing of third parties' mortgage portfolios and the net fees received on mortgage applications that do not complete.

The charge of £7.2 million net fair value movements on derivative financial instruments arises as a result of a flattening of the yield curve in the period, particularly impacting on the fair value of forward-dated swaps taken out by the Group that are economic hedges of mortgage offers, but do not meet the accounting requirements to allow hedge accounting. The fair value movements of interest rate swaps will trend to zero over time and so the loss will reverse in future periods.

Financial review (continued)

Strong credit performance

Despite significant loan book growth, we continued to maintain a strong credit performance, underpinned by arrears of over three months at £26.1 million (30 June 2018: £7.6 million, 31 December 2018: £15.3 million) representing 0.37% of the loan book (30 June 2018: 0.15%, 31 December 2018: 0.24%), across the lending portfolio throughout the period reflected in the Group's impairment charge of £2.7 million (H1 2018: 0.7 million, FY 2018: 2.1 million) and a low cost of risk of 0.082% for H1 2019 (H1 2018: 0.025%, FY 2018: 0.036%).

Cost income ratio of 31.7%

Administrative expenses increased by 28.5% year-on-year to £39.7 million in H1 2019 (H1 2018: £30.9 million), and by 16.2% after adjusting for £3.8 million of costs incurred in relation to the proposed merger with OSB. The average number of staff increased in the period to 651 (30 June 2018: 557, 31 December 2018: 577).

The cost income ratio increased from 24.8% in H1 2018 to 31.7% in H1 2019 or 28.7% after adjusting for £3.8 million of costs incurred in relation to the proposed merger with OSB.

Capital and regulatory ratios - key items (£m)	Six months ended 30 June 2019	Six months ended 30 June 2018	% change	Year ended 31 December 2018
Liquid assets	1,040.9	917.0	13.5	1,022.8
Equity attributable to equity holders of the parent and total equity	490.5	406.5	20.7	450.3
Total Regulatory Capital	472.6	362.3	30.4	423.2
Risk-weighted assets	3,026.2	2,326.9	30.1	2,697.7
Common equity tier 1 capital ratio (%)	15.6	16.6	(6.0)	15.7
Leverage ratio (%)	5.7	5.7	-	5.4

Prudent 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 2019 they represented 90% of all retail savings accounts.

At 30 June 2019 the Group held £842.0 million (30 June 2018: £751.2 million, 31 December 2018: £823.8 million) of Bank of England reserve account balances, £118.1 million (30 June 2018: £68.7 million, 31 December 2018: £123.0 million) of residential mortgage-backed securities ("RMBS") qualifying as Bank of England Level 3 collateral, and £80.8 million (30 June 2018: £97.1 million, 31 December 2018: £76.0 million) of callable balances with tier 1 UK banking institutions.

Resilience reinforced by robust capitalisation

With a strong CET1 ratio of 15.6% at 30 June 2019 (30 June 2018: 16.6%, 31 December 2018: 15.7%) and a leverage ratio of 5.7%, comfortably above the Bank of England requirement of 3.25%, Charter Court remains well capitalised.

Business review by segment

Lending

Continued growth in specialist mortgage origination

Highlights

- New originations increased by 9.8% year-on-year to £1,490.0 million (H1 2018: £1,356.7 million, FY 2018: £2,846.2 million).
- Loan book up 23.8% year-on-year to £7.0 billion (30 June 2018: £5.7 billion, 31 December 2018: £6.7 billion).
- Net interest income of £99.5 million (H1 2018: £84.5 million, FY 2018: £180.5 million).
- Profit contribution up 13.2% to £97.5 million (H1 2018: £86.1 million, FY 2018: £183.0 million).
- New business mortgage pipeline at record levels.

Profit by lending segment

H1 2019

	Buy to let	Residential	Bridging	Second charge lending	Total
	£m	£m	£m	£m	£m
Net interest income	57.1	31.1	7.9	3.4	99.5
Fees and commissions income	0.1	0.1	-	-	0.2
Provision for loan impairments	(1.0)	(1.3)	(0.3)	(0.1)	(2.7)
Profit contribution	56.2	29.9	7.6	3.3	97.0

H1 2018

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
Provision for loan impairments	(0.4)	(0.3)	-	-	(0.7)
Profit contribution	48.1	27.1	7.7	3.2	86.1

Profit contribution is equal to segment profit as per note 4 to the condensed consolidated financial statements.

Maintained focus on distribution and service standards

Charter Court's ongoing programme of enhancements to broker distribution and service standards continued to produce results in H1 2019, helping the Group leverage its strong distribution position to maximise its efficiency.

The Group's Broker Journey project delivered further improvements to service standards in the first half of the year. This was reflected in BVA BDRC's March 2019 Mortgage Intermediary Experience Monitor, where Broker to Client Net Promoter Score⁵ achieved a good score of +48, up from +15 in 2018.

Charter Court continued to implement its programme aimed at optimising the Group's sales channels which delivered early results in H1 2019. Five of the eleven regions covered by Business Development Managers were successfully transferred to a new hybrid approach utilising phone service centres. Initial feedback was overwhelmingly positive and the Group saw a corresponding increase in appointment activity.

⁵ Gauges the quality of relationships between a business and its customers based on responses to a simple question about how likely the customer is to recommend a firm's products or services to their family and friends. NPS range of -100 to +100, a "positive" score above 0 is considered "good", +50 is "excellent", and above 70 is considered "exceptional".

Business review by segment (continued)

Buy to let

Highlights

- New originations of £909.1 million (H1 2018: £835.3 million, FY 2018: £1,642.2 million).
- Loan book up 20.5% year-on-year to £4.7 billion (30 June 2018: £3.9 billion, 31 December 2018: £4.5 billion).
- Net interest income of £57.1 million (H1 2018: £47.6 million, FY 2018: £104.6 million).
- Profit contribution up 16.8% year-on-year to £56.2 million (H1 2018: £48.1 million, FY 2018: £105.7 million).

During the first half of 2019, Charter Court saw a significant increase in buy to let originations versus the prior year period, reflecting continuing demand for the Group's specialist lending proposition. New originations grew by 8.8% to £909.1 million, with the loan book increasing 20.5% year-on-year to £4.7 billion.

The Group saw growth across all product lines year-on-year, with strong uptake of its Limited Company products and of specialist schemes within its personal ownership offering, including loans to portfolio landlords, and lending against HMO properties and Multi-Unit properties.

Charter Court continued to enhance its product range in the period, with a reduction in the minimum age of customers and the expansion of the top slicing proposition, both helping to grow the Group's addressable markets without eroding margins. The Group's product mix became more diverse in the first half, partly driven by the new top slicing proposition, with particular growth in shorter-term fixed rate products.

The Group maintained its position in the BVA BDRC's Project Mercury rankings as the fourth most frequently mentioned lender by intermediaries for buy to let, reflecting Charter Court's broad product offering across the buy to let market.

Buy to let mortgages represent 66% of Charter Court's total loan book (31 December 2018: 68%).

Residential

Highlights

- New originations of £376.3 million (H1 2018: £362.9 million, FY 2018: £825.4 million).
- Loan book up 35.7% year-on-year to £1.9 billion (30 June 2018: £1.4 billion, 31 December 2018: £1.7 billion).
- Net interest income up 18.7% to £31.1 million (H1 2018: £26.2 million, FY 2018: £54.5 million).
- Profit contribution up 10.3% to £29.9 million (H1 2018: £27.1 million, FY 2018: £55.6 million).

Charter Court's specialist residential lending increased in the first half of 2019 versus the prior year period, with new originations up 3.7% to £376.3 million. Help to Buy continued to perform particularly well, with originations growing 6.2% year-on-year in H1 2019.

Both purchases and re-mortgages increased year-on-year with Charter Court's product mix remaining relatively stable. New originations continued to be dominated by fixed rate products and the Group was able to maintain its margin position in the period. Net interest income rose to £31.1 million in H1 2019 from £26.2 million in the first half of 2018.

Charter Court continued to implement its product development programme with new products targeting zero-hour contracts, Help to Buy in Scotland and Help to Buy remortgages all launched during the period. The Group continues to maintain a strong new product pipeline to support its growth in the specialist residential segment going forward.

Residential mortgages represent 27% of Charter Court's total loan book (31 December 2018: 26%).

Business review by segment (continued)

Bridging

Highlights

- New originations of £168.0 million (H1 2018: £131.4 million, FY 2018: £321.8 million).
- Loan book up 22.8% year-on-year to £249.9 million (30 June 2018: £203.5 million, 31 December 2018: £244.1 million).
- Net interest income of £7.9 million (H1 2018: £7.6 million, FY 2018: £15.0 million).
- Profit contribution of £7.6 million (H1 2018: £7.7 million FY 2018: £15.2 million).

Charter Court maintained its focus on high quality bridging in the regulated and unregulated markets and continued to not react to competitor movements in the short-term lending market.

Charter Court's bridging originations increased by 27.9% year-on-year versus H1 2018, reaching £168.0 million.

The Standard and Refurbishment segments both increased year-on-year along with the Regulated & Non-Regulated segments. The Non-Regulated and Refurbishment segments saw the strongest growth, boosted by the launch of Charter Court's Refurbishment buy to let product in November 2018 and a recent change that expanded its reach to direct brokers.

Bridging loans represent 4% of Charter Court's total loan book (31 December 2018: 3%).

Second charge lending

Highlights

- New originations of £36.6 million (H1 2018: £27.1 million, FY 2018: £56.9 million).
- Loan book up 12.4% year-on-year to £197.2 million (30 June 2018: £175.5 million, 31 December 2018: £175.5 million).
- Net interest income of £3.4 million (H1 2018: £3.1 million, FY 2018: £6.4 million).
- Profit contribution up 3.1% year-on-year to £3.3 million (H1 2018: £3.2 million, FY 2018: £6.5 million).

The Group maintained its focus on maintaining the quality of its lending in the second charge market.

Second charge originations increased significantly year-on-year growing 35.1% versus H1 2018 to £36.6 million.

The growth in originations was primarily driven by the removal of early repayment charges from the Residential Second Charge range in January 2019. This move was in response to market feedback and supported a strong period of activity in the second charge market.

Second charge loans represent 3% of Charter Court's total loan book (31 December 2018: 3%).

Business review by segment (continued)

Funding

Charter Court continued to implement its dynamic funding strategy in H1 2019, taking advantage of changing market conditions and adding further funding diversification to deliver an optimal cost of funds and optimal operational efficiency.

Retail deposits

Highlights

- Customer balances up 17.3% during the period to £6.0 billion (30 June 2018: £4.3 billion, 31 December 2018: £5.1 billion).
- Further diversifying funding sources by adding new product categories, new market segments and larger deposits to its growing panel of Pooled Deposit providers.

Strong growth in retail deposits

Charter Court's retail deposits demonstrated continued growth as customer balances grew from £5.1 billion at 31 December 2018 to £6.0 billion at 30 June 2019.

The Group continued to price its retail savings products tactically to ensure these appeared at the top end of "best buy" tables when most efficient and effective, and balanced the flows derived from its broader and deeper Pooled Deposit panel. At 30 June 2019, the Group had 131,739 savings customers (30 June 2018: 102,145, 31 December 2018: 116,583), operating 172,168 savings accounts (30 June 2018: 125,648, 31 December 2018: 146,519), with an average balance per account of £35,500 (30 June and 31 December 2018: £33,700). The significant weighting of savings deposited with the Group towards longer term and notice-based products continued to provide relative stability of funds.

In line with its dynamic funding strategy, the Group continued to diversify its retail funding sources. During H1 Charter Court expanded the range of Pooled funding platforms and the range of products it offers via those platforms. In addition to Hargreaves Lansdown Active Savings and Flagstone Wealth Management, Charter Court now offers its products via Monzo and Insignis Cash Management and has expanded the range of products sourced via these platforms to include Easy Access and Non-Retail deposits.

These moves further increase operational efficiency, while decreasing the cost of funds, and from funding sources with fewer competitors. Charter Court intends to continue the rollout to other platforms through 2019, enabling the funding channel to achieve the potential for significant scale.

The Group also saw an increase in applications for its products via the new postal channel it launched in Q4 2018, as less technology savvy or confident savers seek out ways to bank offline.

Charter Court continued to benefit from high levels of customer satisfaction and growing recognition from media coverage and awards. Already this year, Charter Savings Bank has been acknowledged as 'Best Overall Savings Provider', 'Savings Provider of the Year', 'ISA Provider of the Year', plus a host of other product-specific awards from the likes of Moneyfacts, MoneyNet and MoneyComms.

The Charter Savings Bank brand also achieved an exceptional Net Promoter Score of +71.8 in the first half of 2019, further reinforcing its credentials as a customer-focused savings bank.

Business review by segment (continued)

Funding (continued)

Wholesale funding

Highlights

- Securitisation transactions with a combined value of £733.7 million (H1 and FY 2018: £906.1 million), executed in H1.
- Sale of economic interest in two securitisations resulting in an aggregate gain of £29.8 million (H1 and FY 2018: £36.4 million). Derecognition of £564.3 million of underlying mortgage assets and associated RWAs (H1 and FY 2018: £562.5 million of underlying mortgage assets and associated RWAs).

Securitisation remains a key strategic funding source for the Group, with more than £3.8 billion of issuance since December 2013. As well as providing cost efficient funding, Charter Court uses securitisation to accelerate organic capital generation through the sale of residual positions.

The Group's strategy is to be nimble and dynamic rather than deterministic with its securitisation issuance plans, enabling it to take advantage of a strong market with repeat issuances, and utilise other options when the market conditions are less favourable.

To that end, Charter Court's activities in the wholesale markets during the first half of 2019 have been more limited than was the case during the equivalent period in 2018. The ongoing uncertainty around Brexit has continued to hamper UK RMBS, with spreads tracking relatively wide through the start of the year, as they had through the last few months of 2018. The introduction of a raft of regulatory changes at the beginning of 2019, together with the market transitioning away from LIBOR as an index, have also acted as a brake on new issue supply, particular during the first quarter.

Nonetheless, the Group was able to complete a number of strategically important wholesale transactions during the period. In January, and despite facing into a difficult political backdrop, the Group was able to sell its residual interest in the PMF 2018-1B and PMF 2018-2B transactions, generating a gain on sale of £29.8 million, equivalent to a 5.3% premium on the underlying £564.3 million of mortgage assets. This excellent outcome was made possible through the earlier strategic sales of significant components of the Group's residual interest in these transactions through 2018, at a time when the market was notably stronger. This strategy minimised the market exposure faced by the Group when selling its final residual position in January 2019.

The trade enabled the Group to increase its capital headroom and provide the capital capacity to fully take advantage of the commercial opportunities available to the business through its lending activities during the first half.

Charter Court then re-entered the debt securitisation market in May 2019 with the PMF 2019-1B transaction, securitising £733.7 million of prime buy to let mortgages. PMF 2019-1B was the first SONIA linked UK RMBS transaction to issue mezzanine notes referencing the index, and was well received by the market. The senior fast-pay notes in the transaction were sold at SONIA plus 93 basis points, equivalent to spread over LIBOR of c.80 basis points; the tightest UK buy to let print achieved by any issuer over the past twelve months.

As well as providing the Group with term funding, the transaction was structured to provide the Group with a significant portfolio of retained senior bonds. These enhance the contingent funding options available to the Group, and can be used to access commercial as well as central bank repo facilities.

Business review by segment (continued)

Funding (continued)

Wholesale funding (continued)

Finally, the transaction enabled the Group to refinance assets held on its committed warehouse facility. The facility, which provides committed senior finance of up to £350.0 million (30 June and 31 December 2018: £350.0 million) against both prime residential and buy to let mortgage assets, was also extended during this period for a further 15 months.

As at 30 June 2019, the Group therefore had a total of £600.0 million (30 June 2018: £350.0 million, 31 December 2018: £600.0 million) of contingent wholesale funding capacity available to it through its warehouse facilities, none of which is currently utilised. It also maintains commercial repo lines with five counterparties, as well as the ability to access ordinary course central bank funding facilities, such as the Bank of England's Indexed Long-Term Repo ("ILTR") auctions.

Risk management

Our approach to risk management

Charter Court has developed a comprehensive risk appetite framework which is fully embedded and operationalised across the business.

The principal risks and uncertainties facing the business are summarised below and remain unchanged albeit there is more likelihood of a 'no deal' Brexit which brings economic uncertainty and potentially increased credit losses.

The business operated within all Board risk appetite limits at all times during the first half of 2019. There has been no material change to the Risk Management Framework as set out in the 2018 annual report and accounts.

Principal risks

Business risk

The risk that Charter Court's business plan is not delivered due to selection and actioning of strategy, and / or a lack of responsiveness to changes in the internal or external environments.

Credit risk

The risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.

Treasury risk, comprising:

- Liquidity risk - the risk that the Group fails to meet its financial obligations as they fall due.
- Funding risk - the adverse impact of higher funding costs and/or lack of available funds on the Group's cash flow.
- Interest rate risk - the risk that movement in interest rates adversely impacts net interest income and capital if inadequate hedging of interest rate risk is in place.
- Basis risk - when financing an asset with a liability which re-prices from a different interest rate reference point, such as BBR and LIBOR.

Wholesale credit risk – as described under credit risk above and in relation to Treasury counterparties (see below).

Operational risk

The risk of loss resulting from inadequate or failed internal processes, human factors or external events where the root cause is not due to credit or market risks. This includes information technology, information security, change management, outsourcing, tax, legal, people and financial control risks.

Risk management (continued)

Principal risks (continued)

Regulatory risk, comprising:

- Conduct risk - arises from a failure to treat customers fairly or the failure to deliver an appropriate outcome for them.
- Prudential risk - arises from a failure to maintain sufficient levels of capital and liquidity and includes the potential impact a firm could have on the financial system, its proximity to failure and the context in which the firm operates.

Credit risk

Although all retail credit risk exposure is secured by UK property, there remains the possibility of increased credit losses from increased defaults and lower house price values as a result of an economic downturn.

Additionally, there could be related stress amongst European banks and investment firms to which the Group has wholesale treasury counterparty exposures, albeit funds are placed with only the highest rated entities.

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 LTV.

Counterparty risk

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

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

Class	As at	As at	As at
	30 June 2019 (Unaudited) £m	30 June 2018 (Unaudited) £m	31 December 2018 (Audited) £m
Cash and cash equivalents	991.0	920.3	981.2
Investment in debt securities	118.1	68.7	123.0
Customer loans and receivables	7,046.9	5,693.8	6,661.5
Derivative financial instruments	9.9	19.3	17.1
Other assets held at fair value	0.1	0.1	0.1
Trade and other receivables	43.6	3.1	5.9
Loan commitments	641.9	553.9	577.8
Potential exposure to credit risk	<u>8,851.5</u>	<u>7,259.2</u>	<u>8,366.6</u>

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")

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Current LTV			
Buy to let			
< 50%	107.6	105.9	119.9
50 - < 60%	197.6	217.2	237.8
60 - < 70%	641.1	583.9	651.2
70 - < 80%	3,116.5	2,529.3	2,928.8
80 - < 90%	603.3	488.6	589.3
>= 90%	-	-	-
	4,666.1	3,924.9	4,527.0
Residential			
< 50%	185.0	140.6	168.1
50 - < 60%	181.0	136.0	160.2
60 - < 70%	315.2	228.7	275.7
70 - < 80%	851.3	605.7	751.0
80 - < 90%	406.3	297.9	366.4
>= 90%	7.1	7.4	7.3
	1,945.9	1,416.3	1,728.7
Bridging			
< 50%	106.4	99.5	114.8
50 - < 60%	40.7	32.5	39.0
60 - < 70%	60.5	60.7	69.6
70 - < 80%	37.7	9.6	17.8
80 - < 90%	2.9	0.7	1.8
>= 90%	2.0	0.5	1.1
	250.2	203.5	244.1
Second charge lending			
< 50%	30.5	29.7	30.2
50 - < 60%	37.5	32.5	34.6
60 - < 70%	58.6	56.8	57.2
70 - < 80%	50.3	42.7	45.5
80 - < 90%	19.1	12.7	15.2
>= 90%	-	-	-
	196.0	174.4	182.7
Total			
< 50%	429.5	375.7	433.0
50 - < 60%	456.8	418.2	471.6
60 - < 70%	1,075.4	930.1	1,053.7
70 - < 80%	4,055.8	3,187.3	3,743.1
80 - < 90%	1,031.6	799.9	972.7
>= 90%	9.1	7.9	8.4
	7,058.2	5,719.1	6,682.5

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 impairment provisions.

Risk management (continued)

Credit risk (continued)

At 30 June 2019:

- The average loan to value percentage of underlying mortgage assets to which the loans relate was 71.2% (30 June 2018: 71.0%, 31 December 2018: 71.0%) and £2.3 million (30 June 2018: £0.6 million, 31 December 2018: £1.1 million) of the total balance represented arrears (amounts quoted being the actual amount in arrears).
- The estimated value of property collateral held against residential mortgages was £12,270.2 million (30 June 2018: £10,272.6 million, 31 December 2018: £11,718.2 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 normally be sold unless it is in possession.
- There were 14 properties in possession (30 June 2018: two, 31 December 2018: six) with a value of £2.7 million (30 June 2018: £0.2 million, 31 December 2018: £1.3 million).

Risk management (continued)

Credit risk (continued)

Analysis of loans by region

A geographical analysis of the Group's originated customer loans and receivables by region is set out in the table below.

At 30 June 2019 (Unaudited)	Buy to let	Residential	Bridging	Second charge lending	Total
Greater London	48.8%	6.6%	17.5%	30.3%	35.5%
South East and East Anglia	23.6%	30.7%	39.0%	39.4%	26.6%
South West	4.8%	8.9%	11.3%	7.0%	6.2%
Midlands	8.8%	19.5%	13.2%	9.6%	11.9%
North	10.6%	25.7%	13.3%	11.3%	14.9%
Wales	1.8%	4.5%	3.8%	2.4%	2.6%
Scotland	1.6%	4.1%	1.9%	-	2.3%
	100.0%	100.0%	100.0%	100.0%	100.0%

At 30 June 2018 (Unaudited)	Buy to let	Residential	Bridging	Second charge lending	Total
Greater London	48.6%	7.2%	25.0%	32.3%	37.0%
South East and East Anglia	24.1%	30.5%	35.6%	39.9%	26.6%
South West	5.3%	9.1%	11.2%	7.2%	6.5%
Midlands	8.6%	19.6%	12.2%	7.8%	11.5%
North	10.3%	25.1%	12.4%	10.5%	14.0%
Wales	1.7%	4.4%	1.7%	2.3%	2.4%
Scotland	1.4%	4.1%	1.9%	-	2.0%
	100.0%	100.0%	100.0%	100.0%	100.0%

As at 31 December 2018 (Audited)	Buy to let	Residential	Bridging	Second charge lending	Total
Greater London	48.6%	8.6%	20.5%	35.2%	37.0%
South East and East Anglia	22.3%	29.5%	35.5%	36.5%	25.0%
South West	5.6%	9.5%	13.1%	7.0%	6.9%
Midlands	9.0%	18.0%	11.9%	7.8%	11.4%
North	11.3%	26.3%	13.5%	11.4%	15.2%
Wales	1.8%	4.1%	2.8%	2.1%	2.4%
Scotland	1.4%	4.0%	2.7%	-	2.1%
	100.0%	100.0%	100.0%	100.0%	100.0%

Risk management (continued)

Credit risk (continued)

Forbearance

The Group may grant concessions, in accordance with its forbearance policy, to customers who are experiencing financial difficulties and unable to meet their financial obligations to the Group. In accordance with the European Banking Authority guidelines for financial reporting (“FINREP”) under the Capital Requirement Regulations a concession may be either of the following:

- a modification of the previous terms and conditions of a contract that the debtor is considered unable to comply with due to its financial difficulties (“troubled debt”) resulting in insufficient debt service ability and that would not have been granted had the debtor not been experiencing financial difficulties;
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been experiencing financial difficulties.

The Group has used the FSA FG11/15 guidance “Forbearance and Impairment Provisions - Mortgages” and the EBA’s guidance EBA/GL/2018/06 “Guidelines on Management of Non-performing and Forborne Exposures” to identify forbearance measures. Forbearance measures used by the Group include:

- Payment Holidays
- Term Extensions
- Temporary Transfers to Interest Only
- Arrangements to Pay Arrears Balances
- Promise to Pay or Lump Sums
- Concessional Payments
- Capitalisation of Arrears

Under FINREP loans which are granted forbearance measures shall only be discontinued from forbearance reporting once certain conditions have been met. This includes a minimum two year probationary period from the initial forbearance grant if a loan was performing at that time. The Group reports non-performing loans granted forbearance as forborne loans for a minimum of three years. This comprises a minimum twelve months’ probation period on non-performing status from the date forbearance is granted, plus another two years’ probation once the loan returns to performing status.

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 modifications of contractual cash flows on customer loans and receivables and the effect of such modifications on the measurement of expected credit losses is not material.

The tables below set out the position on forborne loans after application of the FINREP rules on probation.

Risk management (continued)

Credit risk (continued)

Forbearance (continued)

At 30 June 2019 (Unaudited)	Mortgages subject to forbearance measures						
	Current balance £m	% of portfolio	Current £m	Past due			
				< 3 months £m	3 – 6 months £m	6 – 12 months £m	>12 months £m
Payment holiday	17.0	0.24	14.8	1.2	0.2	0.8	-
Term extensions	13.8	0.20	10.9	1.0	0.2	1.0	0.7
Transfers to interest only	7.5	0.11	5.1	1.6	0.2	0.6	-
Arrangements to pay	73.6	1.04	31.4	31.5	5.5	4.4	0.8
Promise to pay lump sum	84.1	1.19	55.6	22.2	4.1	2.2	-
Other	0.7	0.01	0.3	0.2	0.2	-	-
Total	196.7	2.79	118.1	57.7	10.4	9.0	1.5
Of which subject to active forbearance strategies	33.9	0.48	14.7	14.6	2.4	1.5	0.7

At 30 June 2018 (Unaudited)	Mortgages subject to forbearance measures						
	Current balance £m	% of portfolio	Current £m	Past due			
				< 3 months £m	3 – 6 months £m	6 – 12 months £m	>12 months £m
Payment holiday	16.3	0.29	13.0	3.1	0.1	0.1	-
Term extensions	19.4	0.34	15.0	3.7	0.7	-	-
Transfers to interest only	5.0	0.09	3.6	0.8	0.6	-	-
Arrangements to pay	22.7	0.40	11.5	9.6	0.9	0.7	-
Promise to pay lump sum	70.6	1.24	45.2	22.4	2.8	0.2	-
Other	2.8	0.05	1.2	1.4	0.2	-	-
Total	136.8	2.41	89.5	41.0	5.3	1.0	-
Of which subject to active forbearance strategies	51.8	0.91	39.5	8.4	3.2	0.7	-

At 31 December 2018 (Audited)	Mortgages subject to forbearance measures						
	Current balance £m	% of portfolio	Current £m	Past due			
				< 3 months £m	3 – 6 months £m	6 – 12 months £m	>12 months £m
Payment holiday	17.7	0.26	15.1	2.5	0.1	-	-
Term extensions	17.1	0.25	12.9	2.7	0.7	0.8	-
Transfers to interest only	5.7	0.09	4.3	0.9	0.1	0.4	-
Arrangements to pay	57.1	0.85	23.7	25.5	4.9	2.2	0.8
Promise to pay lump sum	69.9	1.05	47.6	20.1	1.6	0.6	-
Other	1.2	0.02	0.3	0.7	0.1	0.1	-
Total	168.7	2.52	103.9	52.4	7.5	4.1	0.8
Of which subject to active forbearance strategies	46.2	0.69	31.6	10.5	2.2	1.6	0.3

Risk management (continued)

Credit risk (continued)

Impairment

The Group has an impairment model for financial instruments which recognises expected credit losses based on unbiased forward-looking information. The impairment model applies to all financial assets at amortised cost, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

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 twelve 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 and includes forbearance indicators such as those listed in the forbearance disclosure table above and impairment indicators such as being in arrears by less than three payments. 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.

Assets subject to active forbearance measures are always classified as at least in Stage 2.

Exposures are moved back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk. An instrument must remain in Stage 2 for at least three months before it can be classified as Stage 1.

Except for certain investments in debt securities, the Group has not relied on the low credit risk exemption in IFRS 9.

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, with the exception of bridging loans, 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. The definition of default for bridging loans are different to other financial instruments. Bridging loans have an initial period where no payments are due. The default definition applied to bridging loans is that they are classified as Stage 3 when the initial period has ended and payments become due and they are at least three payments in arrears.

Risk management (continued)

Credit risk (continued)

Impairment: Key concepts and management judgements (continued)

An instrument is not considered to be in default (i.e. to have cured) when it no longer meets any of the default criterion. Such an instrument ceases to be classified as Stage 3 but remains in Stage 2 for at least three months before it can be classified as Stage 1.

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.

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 EAD and LGD. This has been achieved through wider market analysis sourced by the Group and internal analysis of the Group's portfolios.

The forward looking scenarios are reviewed regularly. The weightings as at 30 June 2019 reflect the Board's view of the continuing uncertainty around Brexit and its potential economic impact. The following is a summary of the scenarios adopted as at 30 June 2019.

		30 June 2019	30 June and 31 December 2018
Scenario	Description	Weighting	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%	15%
Base Case	Scenario defined based on a slow, but positive economic trajectory through the Brexit negotiations and separation.	55%	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 resulting in a 'hard' Brexit or 'no deal'. This assumes higher interest rates and a negative impact on growth, house prices and unemployment.	25%	10%
Downside 2	Scenario is defined based on a stress to the market, aligned to central bank stress testing scenario.	5%	5%

The Group uses forecasts of HPI, unemployment, GDP and interest rates as part of the provisioning process. These forecasts are provided by an external economics firm and are reviewed regularly by the Group's management. The base case economic forecast reflects the uncertainty around Brexit with a subdued growth over the near term, which results in slightly higher unemployment year-on-year, restrained house price growth and modest increases in interest rates. The economic forecasts directly affect the expected probability of an account defaulting and the loss severity should an account default and the base case is considered together with an upside, a downside and a stress scenario.

Risk management (continued)

Credit risk (continued)

Impairment: Key concepts and management judgements (continued)

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.

Risk management (continued)

Credit risk (continued)

Impairment loan loss allowance

	Expected credit loss provision calculated for each scenario £m	Weighting	Weighted expected credit loss provision for each scenario £m
Scenarios as at 30 June 2019 (Unaudited)			
Upside	1.1	15%	0.2
Base Case	1.8	55%	1.0
Downside 1	7.2	25%	1.8
Downside 2	15.5	5%	0.8
Total weighted provisions			3.8
Overlays:			
Additional Stage 3 provisions on individual loans			0.5
Additional Brexit overlay			1.9
Total provision at 30 June 2019			6.2

	Expected credit loss provision calculated for each scenario £m	Weighting	Weighted expected credit loss provision for each scenario £m
Scenarios as at 30 June 2018 (Unaudited)			
Upside	0.4	15%	0.1
Base Case	0.9	70%	0.6
Downside 1	4.7	10%	0.5
Downside 2	10.9	5%	0.5
Total weighted provisions			1.7
Overlays:			
Additional Stage 3 provisions on individual loans			0.5
Total provision at 30 June 2018			2.2

	Expected credit loss provision calculated for each scenario £m	Weighting	Weighted expected credit loss provision for each scenario £m
Scenarios as at 31 December 2018 (audited)			
Upside	0.5	15%	0.1
Base Case	1.0	70%	0.7
Downside 1	4.7	10%	0.4
Downside 2	11.9	5%	0.6
Total weighted provisions			1.8
Overlays:			
Additional Stage 3 provisions on individual loans			0.3
Additional Brexit overlay			1.5
Total provision at 31 December 2018			3.6

Risk management (continued)

Credit risk (continued)

Impairment loan loss allowance (continued)

In addition to the modelled provision, management review all Stage 3 provisions on individually impaired loans along with the collections team responsible for the recovery of those loans. Where appropriate the modelled provisions are revised in line with their assessments of recovery of each loan. Accordingly, an additional provision of £0.5 million (30 June 2018: £0.5 million, 31 December 2018: £0.3 million) has been recognised which is disclosed as additional Stage 3 provisions on individual loans within the above table.

In light of recent political developments management consider that the likelihood of a 'hard' or 'no deal' Brexit has increased and accordingly, the suite of scenarios was revised.

To take account of this it was concluded that an overlay to the modelled provision, based on potential Brexit outcomes was required. In order to do so a set of additional, Brexit specific scenarios were sourced, with a full probability weighted set of provision calculations run on a 'hard' Brexit scenario and on a 'no deal' Brexit scenario. The midpoint of these scenarios was taken as an overlay, which resulted in additional £1.5 million provision as at 31 December 2018.

In accordance with standard governance, the economic position, scenario selection and impact of the Brexit decision continues to be monitored by management and at 30 June 2019 the Brexit overlay has been increased to £1.9 million reflecting the increase in the modelled provision.

Risk management (continued)

Credit risk (continued)

Credit risk rating

The table below discloses the gross carrying amount of residential mortgages held at amortised cost by credit risk rating grades. Grades have been determined using bespoke internal credit risk rating methodology. The balance weighted PD is the average PD within each credit risk weighting grade.

As at 30 June 2019 (Unaudited)

Risk band	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Balance weighted PD
Gross balances					
Excellent quality	3,332.1	26.5	-	3,358.6	0.3%
Good quality	3,042.3	198.5	-	3,240.8	1.1%
Satisfactory quality	165.4	78.1	-	243.5	4.8%
Lower quality	65.7	101.6	-	167.3	10.7%
Impaired	-	-	27.2	27.2	-
	6,605.5	404.7	27.2	7,037.4	
Impairment provisions	1.8	2.7	1.7	6.2	
Coverage ratio	0.03%	0.67%	6.25%	0.09%	

As at 30 June 2018 (Unaudited)

Risk band	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Balance weighted PD
Gross balances					
Excellent quality	2,678.7	15.9	-	2,694.6	0.4%
Good quality	2,582.8	102.1	-	2,684.9	1.4%
Satisfactory quality	142.1	37.6	-	179.7	6.2%
Lower quality	72.9	56.2	-	129.1	12.5%
Impaired	-	-	8.1	8.1	-
	5,476.5	211.8	8.1	5,696.4	
Impairment provisions	1.1	0.5	0.6	2.2	
Coverage ratio	0.02%	0.24%	7.41%	0.04%	

As at 31 December 2018 (Audited)

Risk band	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Balance weighted PD
Gross balances					
Excellent quality	3,163.8	22.9	-	3,186.7	0.3%
Good quality	2,940.9	163.8	-	3,104.7	1.1%
Satisfactory quality	147.3	70.1	-	217.4	5.2%
Lower quality	56.6	79.5	-	136.1	11.6%
Impaired	-	-	16.1	16.1	-
	6,308.6	336.3	16.1	6,661.0	
Impairment provisions	1.3	1.5	0.8	3.6	
Coverage ratio	0.02%	0.45%	4.97%	0.05%	

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	More than 5 years £m	Carrying value per balance sheet £m
As at 30 June 2019 (Unaudited)					
Trade and other payables	13.8	-	-	-	13.8
Corporation tax payable	-	20.0	-	-	20.0
Deposits from banks	33.1	65.1	1,127.8	-	1,226.0
Deposits from customers	1,849.9	2,609.0	1,517.6	-	5,976.5
Derivative financial instruments	0.8	0.4	45.3	3.9	50.4
Debt securities in issue	0.8	84.7	390.7	-	476.2
Lease liabilities	0.3	0.8	3.4	3.5	8.0
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 31 December 2018 (Audited)					
Trade and other payables	24.2	-	-	-	24.2
Corporation tax payable	-	18.8	-	-	18.8
Deposits from banks	32.3	34.7	1,147.8	-	1,214.8
Deposits from customers	1,254.8	2,555.5	1,284.2	-	5,094.5
Derivative financial instruments	13.7	-	-	-	13.7
Debt securities in issue	15.1	315.9	641.9	-	972.9

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

Risk management (continued)

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 2019 (Unaudited)					
Trade and other payables	13.8	-	-	-	13.8
Corporation tax payable	-	20.0	-	-	20.0
Deposits from banks	33.1	71.6	1,143.7	-	1,248.4
Deposits from customers	1,857.8	2,650.4	1,562.3	-	6,070.5
Derivative financial instruments	4.2	10.5	38.6	0.3	53.6
Debt securities in issue	3.0	92.2	424.3	-	519.5
Lease liabilities	0.3	0.9	4.0	3.7	8.9
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 31 December 2018 (Audited)					
Trade and other payables	24.2	-	-	-	24.2
Corporation tax payable	-	18.8	-	-	18.8
Deposits from banks	32.3	41.3	1,168.3	-	1,241.9
Deposits from customers	1,259.3	2,594.7	1,325.3	-	5,179.3
Derivative financial instruments	2.5	6.8	26.2	0.1	35.6
Debt securities in issue	18.6	327.6	670.3	-	1,016.5

Risk management (continued)

Risk factors

The risk factors described below represent those other and emerging risks which are currently considered to be material to the Group. All of the below are included on the firm's risk register which includes ongoing reassessments, management actions and documentation of ongoing monitoring and control activities.

Risk factor – Global economy – generic, industry wide

The Group's business and financial performance have been and will continue to be affected by general economic conditions in the UK which continue to be uncertain, given the lack of clarity over Brexit.

Implications: adverse developments in the UK or global financial markets could have a detrimental impact on its earnings and profitability.

Controls: whilst the Group has no control over events and economic impacts, it continues to develop capital and credit risk stress testing activity and augmented monitoring, control and reporting of the mortgage portfolio including emerging arrears.

Risk factor – UK macro-economy and housing market – generic, industry wide

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.

Implications: pressures on household incomes and unemployment may lead to an increase in arrears in the Group's residential mortgage portfolios, and an associated increase in impairment provisions; high levels of consumer debt could also impact affordability assessments and other factors in underwriting decisions and may contribute to reduced willingness to lend to individuals.

Controls: increased stress testing, credit risk modelling and robust underwriting controls are key mitigants.

Risk factor – 'Brexit' – generic, industry wide

Regulatory and other changes resulting from the UK's exit from the EU could impact the Group's results.

Implications: there remains uncertainty as to the eventual outcome of the negotiations which has had the effect of dampening investment and purchase activity; additionally, it is unclear currently which proportion of the regulatory regime applicable to the Group being derived from EU directives and regulations will remain post Brexit. The UK exiting the EU could materially change the regulatory framework applicable to the Group's operations.

Controls: no Brexit specific additional controls have yet been introduced, given uncertainty as to the ultimate outcome and unknown impact on the UK economy. However, this is under constant review and the Group is ready to promptly implement necessary controls should the need arise.

Risk factor – Competition – firm specific

Competition in the UK mortgage and retail savings markets from existing players and new entrants.

Implications: this may adversely affect the Group's operations or lead to pressures to change risk appetite by lowering underwriting standards, compromising on counterparty quality or partaking in higher LTV lending.

Controls: the Group's risk appetite remains unchanged. A comprehensive suite of lending policies for the various asset classes is in place and there is no provision to lend outside of policy. Products contain pre-set LTV, borrowing and income limits and affordability assessments.

Risk management (continued)

Risk factors (continued)

Risk factor – Cyber Crime, fraud – generic, industry wide

The Group may be subject to privacy or data protection failures, cyber-crime and fraudulent activity.

Implications: customer service disruption leading to reputational damage; increased costs from necessary remedial work, and losses arising from fraud and disruption caused by ransom demands.

Controls: the Group has introduced cyber and IT related controls into the RCSA framework, invested in infrastructure, and deployed preventative measures and additional expert staff plus enhanced capability in the risk team.

Risk factor – IT failure and operational resilience – generic, industry wide

The Group is dependent on its IT systems, including those of its outsourced providers.

Implications: these systems and applications may fail resulting in disruption to customers and suppliers and reputational damage.

Controls: the Group has significantly upgraded its servers and located these in a professionally managed, bespoke controlled secure UK site. Considerable investment has been made to improve operational resilience and independent risk oversight. An executive IT risk management committee was established in May 2019.

Risk factor – Key employee dependency – firm specific

The Group is reliant on a relatively small number of key employees, within its senior management team and the wider business, who are central to the Group's approach to operating in its specialist markets.

Implications: competition in the financial services industry for skilled and/or qualified and experienced personnel could result in departures of key people.

Controls: the firm has identified the key people, developed succession and contingency plans and put in place appropriate retention schemes and contractual two-way notice periods.

Risk factor - Outsourcing – firm specific

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.

Implications: failure of key service/function providers' systems and service could adversely affect the Group's customer service and business operations.

Controls: the Group has robust service level agreement ("SLA") documentation which is monitored and reported upon as well as close day-to-day monitoring and control of the operations of outsource partners, supplemented with reporting and management information and regular site visits, risk reporting and operating and risk committee oversight.

Risk factor – Regulatory risks – generic, industry wide

The Group's business is subject to risks relating to changes in Government policy and applicable regulations.

Implications: adverse impact on the business model or UK housing market generally.

Controls: the Group tracks closely industry developments and regulatory changes, has regular dialogue and meetings with the regulatory bodies which are documented along with a specific action tracker with timings. There is robust risk committee and Board committee oversight of changes and assurance reporting of adherence to regulatory timetables and associated actions.

Britain's exit from the European Union ("Brexit")

The impact of the UK's decision to leave the European Union ("EU") remains uncertain, as does the nature of the exit and the precise timing, although the prime minister has stated 31 October 2019 as the deadline date by which to negotiate a deal or leave without a deal (otherwise known as a 'no deal' Brexit).

There remains the possibility of a range of outcomes from an amended EU agreement being agreed with the EU and passed through Parliament or the UK leaving the EU on 31 October 2019 without a deal.

Business response

The Group has tracked closely all Brexit related developments. Given the inherent material uncertainty a cautious but pragmatic approach has been adopted. Consideration has been given to the potential risks associated with developments as they occur in the context of how savers and borrowers might be affected, the economic environment, the business model and the financial impact. We are also conscious that our key suppliers and outsource partners may be affected by Brexit.

Consideration of risks

More particularly, consideration of the risks may be summarised as follows:

- Credit risk – analysis of the impact on mortgage affordability and house prices caused by adverse economic conditions arising. The loan book has been stressed extensively over a five-year horizon against a range of macro-economic assumptions, some severely adverse;
- IFRS 9 loss provisions – potential loss provisions have been modelled for two Brexit scenarios, a 'no deal' and a 'hard' Brexit both of which assume an economic downturn;
- Capital – credit losses and net interest income impacts have been considered including those associated with the Bank of England's widely publicised scenarios;
- Liquidity – the risks associated with adverse impacts on liquidity have been considered against discounting EU potential deposit opportunities and assuming a market downturn in the event of a 'no deal' Brexit with associated stress in the capital and funding markets;
- Treasury counterparty risk – the Group's policy is for a minimum A- rating. Market developments and focus on EU wholesale counterparties has been increased, including increased monitoring of exposures to highlight banks' share prices, CDS spreads, external market movements and potential volatility.

The conclusion from stress testing Brexit risks is that the business remains profitable, is able to continue its planned growth, and operate within risk appetite limits.

The Board considers the associated risks to have been properly considered and analysed and management will continue to monitor closely and report on the emerging situation.

In the meantime, the business remains focused on prudent growth in line with its business plan with no change in strategy or credit risk appetite.

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 2018 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 and Chair of the Nomination Committee

Philip Jenks, Deputy Chairman

Noël Harwerth, Senior Independent Director

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

Tim Brooke, Chair of the 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:

Chief Executive Officer
Ian Lonergan
20 August 2019

Chief Financial Officer
Sebastien Maloney
20 August 2019

Charter Court Financial Services Group plc

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 2019 which comprises the condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes 1 to 26. 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 and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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 Guidance 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 Financial Reporting Council 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.

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 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

20 August 2019

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Interest income and similar income	5	157.9	127.4	275.5
Interest expense and similar charges	6	(57.8)	(43.0)	(95.0)
Net interest income		100.1	84.4	180.5
Non-interest income	7	2.3	3.9	8.0
Gain on sale of loans		29.8	36.4	36.4
Net fair value movements on derivative financial instruments	8	(7.2)	-	-
Total income (net)		125.0	124.7	224.9
Administrative expenses		(39.7)	(30.9)	(64.6)
Provision for loan impairments – net charge	14			
- On residential mortgages at amortised cost		(2.6)	(0.7)	(2.1)
- On pipeline mortgage offers		(0.1)	-	-
Profit before tax	9	82.6	93.1	158.2
Tax charge	10	(20.3)	(22.0)	(37.4)
Profit for the period		62.3	71.1	120.8
Other comprehensive income for the period		-	-	-
Profit and total comprehensive income for the period attributable to equity holders of the Parent Company		62.3	71.1	120.8
Earnings per share (pence per share)				
Basic	11	26.0	29.7	50.5
Diluted	11	25.7	29.5	50.1

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

Charter Court Financial Services Group plc

Condensed consolidated statement of financial position

As at 30 June 2019

		As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Assets				
Cash and cash equivalents		991.0	920.3	981.2
Investment in debt securities	13	118.1	68.7	123.0
Customer loans and receivables	14	7,046.9	5,693.8	6,661.5
Fair value adjustment for hedged risk	14	43.9	(14.9)	(9.9)
Derivative financial instruments	15	9.9	19.3	17.1
Other assets held at fair value		0.1	0.1	0.1
Trade and other receivables		43.6	3.1	5.9
Deferred tax asset		2.6	2.3	2.5
Property, fixtures and equipment	16	10.5	1.1	2.5
Intangible assets	16	2.8	1.7	2.6
Total assets		<u>8,269.4</u>	<u>6,695.5</u>	<u>7,786.5</u>
Liabilities				
Deposits from banks	17	1,226.0	1,157.5	1,214.8
Deposits from customers	18	5,976.5	4,262.6	5,094.5
Fair value adjustment for hedged risk	18	7.9	(1.4)	(2.7)
Debt securities in issue	19	476.2	825.7	972.9
Derivative financial instruments	15	50.4	9.5	13.7
Lease liabilities	20	8.0	-	-
Trade and other payables		13.8	13.2	24.2
Provisions		0.1	-	-
Corporation tax payable		20.0	21.9	18.8
Total liabilities		<u>7,778.9</u>	<u>6,289.0</u>	<u>7,336.2</u>
Net assets		<u>490.5</u>	<u>406.5</u>	<u>450.3</u>
Equity				
Share capital		2.4	2.4	2.4
Share premium		19.0	19.0	19.0
Retained earnings		469.5	385.1	429.3
Own shares		(0.4)	-	(0.4)
Equity attributable to equity holders of the Parent Company and total equity		<u>490.5</u>	<u>406.5</u>	<u>450.3</u>

Notes 1 to 26 form an integral part of the condensed consolidated financial statements.

The condensed consolidated financial statements were approved by the Board of Directors on 20 August 2019. They were signed on its behalf by:

Ian Martin Lonergan
Chief Executive Officer

Sebastien Maloney
Chief Financial Officer

Company number: 06712054

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2019

	Share capital £m	Share premium £m	Retained earnings £m	Own shares £m	Total £m
Six months ended 30 June 2019 (Unaudited)					
At 1 January 2019	2.4	19.0	429.3	(0.4)	450.3
Profit and total comprehensive income for the six months ended 30 June 2019	-	-	62.3	-	62.3
Final dividend paid (note 12)	-	-	(23.7)	-	(23.7)
Recognition of share-based payments	-	-	1.3	-	1.3
Deferred tax	-	-	0.3	-	0.3
At 30 June 2019	2.4	19.0	469.5	(0.4)	490.5
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	-	-	(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
Year ended 31 December 2018 (Audited)					
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	-	-	(0.7)	-	(0.7)
Restated total equity at 1 January 2018	2.4	19.0	312.9	-	334.3
Profit and total comprehensive income for the year	-	-	120.8	-	120.8
Interim dividend paid (note 12)	-	-	(6.7)	-	(6.7)
Deferred tax on transition to IFRS 9	-	-	0.2	-	0.2
Recognition of share-based payments	-	-	2.1	-	2.1
Purchase of own shares	-	-	-	(0.4)	(0.4)
At 31 December 2018	2.4	19.0	429.3	(0.4)	450.3

Condensed consolidated statement of cash flows

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Net cash utilised by operating activities	21	(70.2)	(820.8)	(850.0)
Purchases of property, fixtures and equipment	16	(0.4)	(0.4)	(2.1)
Expenditure on product system development and software	16	(0.5)	(0.5)	(1.5)
Proceeds from sale of customer loans and receivables		-	286.2	286.2
Purchases of investments in debt securities	13	(6.9)	-	(62.0)
Disposals and redemptions of investment in debt securities		11.9	9.8	17.5
Net cash generated by investing activities		4.1	295.1	238.1
Proceeds on issue of debt securities		392.5	1,019.3	1,275.5
Costs associated with issue of debt securities		(1.9)	(3.0)	(3.0)
Repayment of debt securities		(290.5)	(537.1)	(639.1)
Repayment of finance lease liabilities		(0.5)	-	-
Dividends paid		(23.7)	-	(6.7)
Purchase of own shares		-	-	(0.4)
Net cash generated financing activities		75.9	479.2	626.3
Net increase / (decrease) in cash and cash equivalents		9.8	(46.5)	14.4
Cash and cash equivalents at beginning of the period		981.2	966.8	966.8
Cash and cash equivalents at end of the period		991.0	920.3	981.2

At 30 June 2019 cash and cash equivalents includes £57.1 million (30 June 2018: £64.2 million, 31 December 2018: £73.2 million) of restricted cash.

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements

For the six months ended 30 June 2019

1. General information

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

The information in the interim financial report for the year ended 31 December 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2018 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 2019 is unaudited, but has been reviewed by the auditor and their report to the Company is included in this statement.

The critical accounting judgements and key sources of estimation uncertainty are unchanged from those disclosed on pages 128 and 129 of the 2018 annual report and accounts.

2. Basis of preparation

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 2019 (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 condensed consolidated financial statements.

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

3. Changes in accounting policy

The Group has adopted IFRS 16 Leases in the current financial period from 1 January 2019, using the modified retrospective approach the Group has not restated comparatives for the 2018 reporting periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1 January 2019.

IFRS 16 introduces significant changes to lessee accounting removing the IAS 17 Leases distinction between operating and finance leases. The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the lessee has:

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

The new definition in IFRS 16 does not change the scope of contracts that meet the definition of a lease for the Group or have a material impact on the condensed consolidated financial statements of the Group. IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17.

On initial application of IFRS 16, the Group has:

- a) Recognised right-of-use assets and lease liabilities in the condensed consolidated statement of financial position. The lease liability is initially measured at the present value of the remaining lease payments, using an incremental borrowing rate as of the date of the initial application (1 January 2019). The associated right-of-use assets were measured at the amount equal to the lease liability;
- b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the condensed consolidated statement of comprehensive income;
- c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the condensed consolidated statement of cash flows.

Lease payments were reported as an administrative expense. Under IFRS 16 interest expense on the lease liability is presented as a finance cost and the depreciation charge for the right-of-use asset is presented under administrative expenses.

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

On transition to IFRS 16, the Group has recognised a lease liability of £8.5 million and a corresponding right of use asset of £8.5 million in respect of leases other than short-term leases. The impact on the condensed consolidated statement of comprehensive income of the Group is not material. The weighted-average incremental borrowing rate used to measure the lease liabilities at 1 January 2019 was 2.55%.

The difference between the £10.8 million operating lease commitments as at 31 December 2018 discounted at the weighted-average incremental borrowing rate and the £8.5 million lease liabilities recognised on transition at 1 January 2019 is that the operating lease commitments included VAT whereas the lease liability does not as VAT is not recognised as a liability until due.

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

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;
- Bridging: Short-term bridging finance to owner-occupiers, landlords and property developers;
- Second charge lending ("SCL"): Long term second charge loans; and
- Other: Primarily income from structured asset sales, this also includes net income from the Group treasury and third party mortgage servicing functions and from the loan portfolio purchased in 2017.

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

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

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

4. Segment information (continued)

Six months ended 30 June 2019 (Unaudited)	BTL	Resid- ential	Bridging	SCL	Other	Total
	£m					
Interest receivable and similar income	91.7	45.9	9.9	4.9	5.5	157.9
Interest payable and similar charges	(34.6)	(14.8)	(2.0)	(1.5)	(4.9)	(57.8)
Net interest income	57.1	31.1	7.9	3.4	0.6	100.1
Fees and commissions income	0.1	0.1	-	-	2.1	2.3
Gain on sale of loans	-	-	-	-	29.8	29.8
Net fair value movements on derivatives	-	-	-	-	(7.2)	(7.2)
Provision for loan impairments – net charge	(1.0)	(1.3)	(0.3)	(0.1)	-	(2.7)
Segment profit	56.2	29.9	7.6	3.3	25.3	122.3
Administrative expenses						(39.7)
Profit before tax						82.6
Tax charge						(20.3)
Profit after tax						62.3
Segment assets	4,653.9	1,925.2	249.9	197.1	1,129.9	8,156.0
Unallocated assets						113.4
						8,269.4
Six months ended 30 June 2018 (Unaudited)	BTL	Resid- ential	Bridging	SCL	Other	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
Net fair value movements on derivatives	-	-	-	-	-	-
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	3,902.4	1,389.7	203.5	175.5	1,011.7	6,682.8
Unallocated assets						12.7
						6,695.5

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

4. Segment information (continued)

Year ended 31 December 2018 (Audited)	BTL	Resid- ential	Bridging	SCL	Other	Total
	£m					
Interest receivable and similar income	163.7	76.9	18.2	9.0	7.7	275.5
Interest payable and similar charges	(59.1)	(22.4)	(3.2)	(2.6)	(7.7)	(95.0)
Net interest income	104.6	54.5	15.0	6.4	-	180.5
Fees and commissions income	1.9	2.2	0.2	0.3	3.4	8.0
Gain on sale of loans	-	-	-	-	36.4	36.4
Net fair value movements on derivatives	-	-	-	-	-	-
Provision for loan impairments – net charge	(0.8)	(1.1)	-	(0.2)	-	(2.1)
Segment profit	105.7	55.6	15.2	6.5	39.8	222.8
Administrative expenses						(64.6)
Profit before tax						158.2
Tax charge						(37.4)
Profit after tax						120.8
Segment assets	4,506.8	1,705.2	244.1	183.9	1,125.6	7,765.6
Unallocated assets						20.9
						7,786.5

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

5. Interest income and similar income

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
At amortised cost:			
Interest on customer loans and receivables	156.6	127.6	275.1
Interest and other income on debt securities	1.5	0.6	1.3
Interest and other income on liquid assets	3.6	2.3	5.6
	<u>161.7</u>	<u>130.5</u>	<u>282.0</u>
At fair value through profit or loss:			
Interest on customer loans and receivables	0.4	0.4	0.8
Net expense on derivative financial instruments designated as hedging instruments	(4.3)	(3.5)	(8.4)
Amortisation of fair value gain on swap cancellations	0.1	-	1.1
	<u>(3.8)</u>	<u>(3.1)</u>	<u>(6.5)</u>
	<u>157.9</u>	<u>127.4</u>	<u>275.5</u>

6. Interest expense and similar charges

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
At amortised cost:			
Interest expense on deposits and other borrowings	54.5	37.1	80.3
Interest expense on debt securities in issue	4.4	6.4	15.7
Interest expense on lease liabilities	0.1	-	-
	<u>59.0</u>	<u>43.5</u>	<u>96.0</u>
At fair value through profit or loss:			
Net income on derivative financial instruments designated as hedging instruments	(1.2)	(0.5)	(1.0)
	<u>57.8</u>	<u>43.0</u>	<u>95.0</u>

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

7. Non-interest income

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Fair value movements on Customer loans and receivables held at FVTPL	0.2	0.3	0.6
Revenue from services relating to:			
Mortgage administration	1.9	1.2	2.7
Mortgage origination	0.2	2.4	4.7
	<u>2.3</u>	<u>3.9</u>	<u>8.0</u>

8. Net fair value movements on derivative financial instruments

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Macro hedging:			
(Loss)/gain on derivatives designated as fair value hedges	(39.9)	(4.5)	2.1
Gain/(loss) in fair value of hedged items attributable to hedged risk	<u>39.9</u>	<u>4.5</u>	<u>(2.1)</u>
	-	-	-
Non-hedging:			
Net fair value movements on derivatives not in a hedging relationship	<u>(7.2)</u>	-	-
	<u>(7.2)</u>	-	-

The net fair value movements on derivative financial instruments of £7.2 million arises as a result of a flattening of the yield curve in the period, particularly impacting on the fair value of forward-dated swaps taken out by the Group that are economic hedges of mortgage offers, but do not meet the accounting requirements to allow hedge accounting. The fair value movements of interest rate swaps will trend to zero over time and so the loss will reverse in future periods.

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

9. Profit before tax

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

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Increase in the fair value of financial instruments designated at FVTPL	(0.2)	(0.3)	(0.6)
Depreciation of property, fixtures and equipment	0.9	0.2	0.5
Amortisation of intangible assets	0.3	0.2	0.3
Operating lease costs	0.4	0.8	1.6
Costs in relation to proposed merger with OSB	3.8	-	-
Research and development costs	0.9	-	0.8
Staff costs	20.6	19.4	37.7

10. Tax

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Current tax:			
Current tax on profits for the period	16.1	17.6	30.2
Surcharge on bank profits for the period	4.0	4.3	7.3
Total current tax charge	20.1	21.9	37.5
Deferred tax:			
Current year	0.3	0.1	(0.3)
Effect of rate changes	(0.1)	-	0.2
Total deferred tax credit	0.2	0.1	(0.1)
Tax per condensed consolidated statement of comprehensive income	20.3	22.0	37.4

The tax charge on the profit for the six months ended 30 June 2019 was £20.3 million (six months ended 30 June 2018: £22.0 million, year ended 31 December 2018: £37.4 million). The effective tax rate for the six months ended 30 June 2019 is 24.59% (six months ended 30 June 2018: 23.56%, year ended 31 December 2018: 23.65%), reflecting a combination of a reduction in the rate of UK corporation tax and increased activity in Group companies not subject to the banking surcharge. A reconciliation of the expected tax charge based on the standard rate of tax for the six months ended 30 June 2019 of 19% (six months ended 30 June 2018 and year ended 31 December 2018: 19%) to the actual tax charge is set out below.

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

10. Tax (continued)

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Profit before tax:			
Continuing operations	82.6	93.1	158.2
Tax at the UK corporation tax rate of 19.00% (H1 and FY 2018: 19.00%)	15.7	17.7	30.1
Banking surcharge	4.0	4.3	7.3
Expenses not deductible for tax purposes	0.7	-	0.2
Income not taxable	-	-	(0.4)
Deferred tax at different rates	(0.1)	-	0.2
Tax charge for the period	20.3	22.0	37.4

Change in tax rate

Reductions in the rate of UK corporation tax from 21% to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and a further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax asset as at each 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 or loss attributable to the equity holders of the parent 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 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)	Year ended 31 December 2018 (Audited)
Profit for the period (£ million)	62.3	71.1	120.8
Weighted average number of ordinary shares of £0.01 each			
Basic	239,167,485	239,130,419	239,137,913
Dilutive effects	3,561,346	1,919,414	2,014,633
Diluted	242,728,831	241,049,833	241,152,546
Per share amount (pence)			
Basic	26.0	29.7	50.5
Diluted	25.7	29.5	50.1

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

12. Dividends

The Group paid a final dividend of 9.9 pence per share in respect of year ended 31 December 2018, on 22 May 2019. An inaugural interim dividend of 2.8 pence per share for the year ended 31 December 2018 was paid on 4 October 2018. The total dividend for 2018 was 12.7 pence per share, £30.4 million.

The Group's distributable reserves from which dividends can be paid comprise retained earnings of £469.5 million (30 June 2018: £385.1 million, 31 December 2018: £429.3 million). In line with its dividend policy the Board has declared an interim dividend to ordinary shareholders of, 4.3 pence per share. The interim dividend is equal to one third of the prior year's total dividend and will be payable on 20 September 2019 to shareholders on the shareholder register on the record date of 30 August 2019.

13. Investment in debt securities

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Debt securities held at amortised cost	118.1	68.7	123.0

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

Movements in the debt securities held during the period were:

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
At the beginning of the period	123.0	78.4	78.4
Additions	6.9	-	62.0
Disposals and redemptions	(11.8)	(9.7)	(17.6)
EIR adjustment	0.1	0.1	0.1
Accrued interest	(0.1)	(0.1)	0.1
At the end of the period	118.1	68.7	123.0

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

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

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

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

14. Customer loans and receivables

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Gross residential mortgages held at amortised cost	7,037.4	5,696.4	6,661.0
EIR adjustment	(5.2)	(23.1)	(17.4)
Provision for loan impairments	(6.1)	(2.2)	(3.6)
Net residential mortgages held at amortised cost	7,026.1	5,671.1	6,640.0
Residential mortgages held at fair value	20.8	22.7	21.5
	<u>7,046.9</u>	<u>5,693.8</u>	<u>6,661.5</u>

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 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Buy to let	4,653.9	3,902.4	4,506.8
Residential lending	1,946.0	1,412.4	1,726.7
Bridging	249.9	203.5	244.1
Second charge lending	197.1	175.5	183.9
	<u>7,046.9</u>	<u>5,693.8</u>	<u>6,661.5</u>

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

At 30 June 2019 included within customer loans and receivables is £245.2 million (30 June 2018: £200.5 million, 31 December 2018: £236.6 million) of balances due within twelve months and £6,801.7 million (30 June 2018: £5,493.3 million, 31 December 2018: £6,424.9 million) due after twelve months.

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

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

14. Customer loans and receivables (continued)

Residential mortgages held at amortised cost

The movements in the Group's residential mortgages were:

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Net opening balance as originally presented	6,640.0	5,364.2	5,364.2
IFRS 9 adjustments to opening balance at 1 January 2018:			
Provision for loan impairments		(0.7)	(0.7)
Reclassification to residential mortgages held at fair value		(24.1)	(24.1)
Restated balance at 1 January	6,640.0	5,339.4	5,339.4
Originations	1,490.0	1,356.7	2,846.1
Sales to third parties	(563.6)	(563.8)	(563.8)
Repayments and redemptions	(691.8)	(572.8)	(1,242.2)
Interest charged and other debits	142.5	113.9	258.5
EIR adjustments	11.6	(1.6)	4.1
Movement on provision for loan impairments	(2.6)	(0.7)	(2.1)
At the end of the period	<u>7,026.1</u>	<u>5,671.1</u>	<u>6,640.0</u>

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

Encumbered assets

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

	Note	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
In respect of:				
Bank of England: Term Funding Scheme and sale and repurchase agreements	17	1,693.1	1,541.0	1,669.7
Commercial sale and repurchase agreements	17	5.9	-	-
Debt securities in issue	19	829.5	831.9	980.8
		<u>2,528.5</u>	<u>2,372.9</u>	<u>2,650.5</u>

The Group's securitisation programme and use of the Bank of England Term Funding Scheme 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 2019 the percentage of gross customer loans and receivables that are encumbered is 35.9% (30 June 2018: 41.7%, 31 December 2018: 39.7%).

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

14. Customer loans and receivables (continued)

Impairment provisions on residential mortgages

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

The following table analyses balances as at 30 June 2019 by stage of impairment:

30 June 2019 (Unaudited)	Gross balances				EIR adjustments	Provision for loan impairments	Net balance
	Stage 1	Stage 2	Stage 3	Total			
	£m	£m	£m	£m	£m	£m	£m
At beginning of period	6,308.6	336.3	16.1	6,661.0	(17.4)	(3.6)	6,640.0
Originations	1,490.0	-	-	1,490.0	-	-	1,490.0
Sales to third parties	(557.2)	(7.0)	(0.1)	(564.3)	0.6	0.1	(563.6)
Transfers between stages	(76.0)	64.9	11.1	-	-	-	-
Repayments and redemptions	(677.3)	(13.8)	(0.7)	(691.8)	-	-	(691.8)
Interest charged and other debits	117.4	24.3	0.8	142.5	-	-	142.5
EIR adjustments	-	-	-	-	11.6	-	11.6
Loan impairments profit and loss net charge	-	-	-	-	-	(2.6)	(2.6)
	6,605.5	404.7	27.2	7,037.4	(5.2)	(6.1)	7,026.1

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

14. Customer loans and receivables (continued)

The following table analyses balances as at 30 June 2018 by stage of impairment.

30 June 2018 (Unaudited)	Gross balances				EIR adjustments	Provision for loan impairments	Net balance
	Stage 1	Stage 2	Stage 3	Total			
	£m	£m	£m	£m	£m	£m	£m
Balance as at 31 December 2017 as originally presented*				5,385.2	(20.0)	(1.0)	5,364.2
IFRS 9 adjustment: 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 and redemptions	(544.9)	(26.3)	(1.6)	(572.8)	-	-	(572.8)
Interest charged and other debits	108.9	4.8	0.2	113.9	-	-	113.9
EIR adjustments	-	-	-	-	(1.6)	-	(1.6)
Loan impairments profit and loss net charge	-	-	-	-	-	(0.7)	(0.7)
	<u>5,476.5</u>	<u>211.8</u>	<u>8.1</u>	<u>5,696.4</u>	<u>(23.1)</u>	<u>(2.2)</u>	<u>5,671.1</u>

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

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

14. Customer loans and receivables (continued)

The following table analyses balances as at 31 December 2018 by stage of impairment.

31 December 2018 (Audited)	Gross balances				EIR adjustments	Provision for loan impairments	Net balance
	Stage 1	Stage 2	Stage 3	Total			
	£m	£m	£m	£m	£m	£m	£m
Balance as at 31 December 2017 as originally presented*				5,385.2	(20.0)	(1.0)	5,364.2
IFRS 9 adjustment: Reclassification and adjustment to fair value				(24.1)	-	-	(24.1)
Loan impairments				-	-	(0.7)	(0.7)
At beginning of year	5,183.7	171.7	5.7	5,361.1	(20.0)	(1.7)	5,339.4
Originations	2,846.1	-	-	2,846.1	-	-	2,846.1
Sales to third parties	(562.5)	-	-	(562.5)	(1.5)	0.2	(563.8)
Transfers between stages	(129.4)	119.3	10.1	-	-	-	-
Repayments and redemptions	(1,219.8)	(21.5)	(0.9)	(1,242.2)	-	-	(1,242.2)
Interest charged and other debits	190.5	66.8	1.2	258.5	-	-	258.5
EIR adjustments	-	-	-	-	4.1	-	4.1
Loan impairments profit and loss net charge	-	-	-	-	-	(2.1)	(2.1)
	<u>6,308.6</u>	<u>336.3</u>	<u>16.1</u>	<u>6,661.0</u>	<u>(17.4)</u>	<u>(3.6)</u>	<u>6,640.0</u>

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

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

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

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

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Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

14. Customer loans and receivables (continued)

Impairment provisions as at 30 June 2019 are £6.2 million (30 June 2018: £2.2 million, 31 December 2018: £3.6 million) and comprise:

	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January 2018	0.9	0.4	0.4	1.7
Sale of customer loans and receivables	(0.2)	-	-	(0.2)
Charge in six months to 30 June 2018:				
Modelled provision	0.4	0.1	0.2	0.7
	<u>0.4</u>	<u>0.1</u>	<u>0.2</u>	<u>0.7</u>
At 30 June 2018 (Unaudited)	1.1	0.5	0.6	2.2
Charge in six months to 31 December 2018:				
Modelled provision	(0.4)	0.3	-	(0.1)
Brexit overlay	0.6	0.7	0.2	1.5
	<u>0.2</u>	<u>1.0</u>	<u>0.2</u>	<u>1.4</u>
Charge in year to 31 December 2018	0.6	1.1	0.4	2.1
At 31 December 2018 (Audited)	1.3	1.5	0.8	3.6
Sale of customer loans and receivables	(0.1)	-	-	(0.1)
Charge in six months to 30 June 2019:				
Modelled provision	0.4	1.0	0.8	2.2
Brexit overlay	0.1	0.2	0.1	0.4
	<u>0.5</u>	<u>1.2</u>	<u>0.9</u>	<u>2.6</u>
At 30 June 2019 (Unaudited)	1.7	2.7	1.7	6.1
Expected credit losses coverage by stage				
At 30 June 2019	<u>0.02%</u>	<u>0.67%</u>	<u>6.25%</u>	<u>0.08%</u>
At 31 December 2018	<u>0.02%</u>	<u>0.45%</u>	<u>4.97%</u>	<u>0.05%</u>
At 30 June 2018	<u>0.02%</u>	<u>0.24%</u>	<u>7.41%</u>	<u>0.04%</u>
At 1 January 2018	<u>0.02%</u>	<u>0.23%</u>	<u>7.02%</u>	<u>0.03%</u>

The charge for loss provisions in the income statement for the period is £2.7 million. This comprises the £2.6 million charge recognised above and an additional £0.1 million against pipeline mortgage offers recognised as a provision. Pipeline mortgage offers are mortgage offers that the Group is committed to although there is no obligation on customers to proceed with the offer.

At 30 June 2019 the Stage 3 provision includes £0.5 million (30 June 2018: £0.5 million, 31 December 2018: £0.3 million) which is an additional overlay in respect of management and collection team review of Stage 3 provisions on individually impaired loans, where the modelled provisions are revised in line with their assessments of the probability of recovery of each loan.

All financial assets that were written off during the reporting period are still subject to enforcement activity. The contractual amount outstanding on these assets was less than £0.1 million at 30 June 2019, 30 June 2018 and 31 December 2018.

At 30 June 2019, the Group's mortgage loan commitments totalled £641.9 million (30 June 2018: £553.9 million, 31 December 2018: £577.8 million). The expected credit loss provision held against these commitments is £0.1 million (30 June and 31 December 2018: £nil).

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

14. Customer loans and receivables (continued)

Residential mortgage portfolio held at fair value through profit and loss

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

	£m
Balance at 31 December 2017 as originally presented	-
IFRS 9 Reclassification from residential mortgages held at amortised cost	24.1
At 1 January 2018	24.1
Repayments and redemptions	(1.9)
Interest charged and other debits	0.2
Fair value gain included in non-interest income (note 7)	0.3
At 30 June 2018 (Unaudited)	22.7
Repayments and redemptions	(2.1)
Interest charged and other debits	0.6
Fair value gain included in non-interest income (note 7)	0.3
At 31 December 2018 (Audited)	21.5
Repayments and redemptions	(1.3)
Interest charged and other debits	0.4
Fair value gain included in non-interest income (note 7)	0.2
At 30 June 2019 (Unaudited)	<u>20.8</u>

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 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Fair value adjustment for hedged risk	<u>43.9</u>	<u>(14.9)</u>	<u>(9.9)</u>

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Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

15. Derivative financial instruments

	Notional £m	Positive fair value £m	Negative fair value £m
Interest rate swaps at 30 June 2019 (Unaudited)			
Level 2 derivatives	9,321.7	9.9	(50.4)
Level 3 derivatives	442.4	-	-
	9,764.1	9.9	(50.4)
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 31 December 2018 (Audited)			
Level 2 derivatives	7,879.0	16.0	(12.4)
Level 3 derivatives	442.4	1.1	(1.3)
	8,321.4	17.1	(13.7)

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

Interest rate swap agreements with a notional value of £4,646.9 million (30 June 2018: £3,763.2 million, 31 December 2018: £4,632.9 million), under which the Group pays a fixed rate of interest and receives an interest based on LIBOR, are used to hedge the exposure to changes in fair value of fixed rate mortgage assets as a result of changes in market interest rates. The notional value of these interest rate swaps is linked to the notional of the hedged mortgage assets and this resets each quarter.

Interest rate swap agreements with a notional value of £3,990.2 million (30 June 2018: £2,774.5 million, 31 December 2018: £3,248.5 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.

Forward-dated interest rate swap agreements with a notional value of £687.0 million (30 June 2018 and 31 December 2018 £nil), under which the Group pays a fixed rate of interest and receives an interest based on LIBOR, are used to economically hedge the exposure to changes in fair value of fixed rate mortgage offers as a result of changes in market interest rates, but do not meet the accounting requirements to allow hedge accounting. The notional value of these interest rate swaps is linked to the notional of the mortgage offers and this resets each quarter.

As at 30 June 2019, the Group held no interest rate options (caps) (30 June 2018: notional value of £300.0 million and fair value of £nil; 31 December 2018: none) and held basis swaps with a notional value of £440.0 million (30 June 2018: £840.0 million; 31 December 2018: £440.0 million).

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Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

15. Derivative financial instruments (continued)

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

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

Movements in the fair values of Level 3 swaps were:

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
At 1 January	(0.2)	-	-
Movements in the fair value: credit/(charge) to the condensed consolidated statement of comprehensive income	0.2	(0.2)	(0.2)
At end of period	-	(0.2)	(0.2)

Trade and other receivables includes £40.2 million of collateral which was required to be posted in respect of interest rate swap contracts (30 June 2018: £nil, 31 December 2018: £0.3 million). Deposits from banks includes £0.3 million of collateral received in respect of interest rate swap contracts (30 June 2018: £8.3 million, 31 December 2018: £4.6 million).

16. Property, fixtures and equipment and intangible assets

Property, fixtures and equipment

The net book value of property, fixtures and equipment at 30 June 2019 was £10.5 million (30 June 2018: £1.1 million, 31 December 2018: £2.5 million).

On transition to IFRS 16, at 1 January 2019 the Group recognised right of use ("ROU") assets of £8.5 million, £8.3 million of property leases and £0.2 million of other leases. Depreciation of £0.5 million was recognised during the six months ended 30 June 2019. As at 30 June 2019 the balance of the ROU assets were £8.0 million, £7.8 million of property leases and £0.2 million of other leases. There were no additions during the period.

The net book value of other property, fixtures and equipment at 30 June 2019 was £2.5 million (30 June 2018: £1.1 million, 31 December 2018: £2.5 million). Movements in the six months ended 30 June 2019 comprise purchases of £0.4 million (30 June 2018: £0.4 million, 31 December 2018: £2.1 million) of leasehold property improvements, fixtures and equipment and computer equipment and depreciation of £0.4 million (30 June 2018: £0.2 million, 31 December 2018: £0.5 million).

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

16. Property, fixtures and equipment and intangible assets (continued)

Intangible fixed assets

The net book value of intangible fixed assets at 30 June 2019 was £2.8 million (30 June 2018: £1.7 million, 31 December 2018: £2.6 million). Movements in the six months ended 30 June 2019 comprise expenditure of £0.5 million (30 June 2018: £0.5 million, 31 December 2018: £1.5 million) of development costs, computer software and licenses and depreciation of £0.3 million (30 June 2018: £0.2 million, 31 December 2018: £0.3 million).

17. Deposits from banks

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Collateral received on interest rate swap contracts	0.3	8.3	4.6
Commercial sale and repurchase agreements	5.6	-	-
Bank of England sale and repurchase agreements	90.2	-	60.2
Bank of England Term Funding Scheme ("TFS")	1,129.9	1,149.2	1,150.0
Total deposits	<u>1,226.0</u>	<u>1,157.5</u>	<u>1,214.8</u>

As at 30 June 2019, the carrying value of customer loans and receivables encumbered under commercial sale and repurchase agreements was £5.9 million (30 June 2018 and 31 December 2018: £nil), see note 14.

As at 30 June 2019, the carrying value of customer loans and receivables pledged as collateral for Bank of England sale and repurchase agreements and the TFS was £1,693.1 million (30 June 2018: £1,541.0 million, 31 December 2018: £1,669.7 million), see note 14.

Deposits from banks includes £2.3 million of accrued interest (30 June 2018: £1.4 million, 31 December 2018: £2.2 million).

As at 30 June 2019, 30 June 2018 and 31 December 2018, all bank deposits were denominated in pounds sterling.

At 30 June 2019 included within deposits from banks is £98.2 million (30 June 2018: £9.7 million, 31 December 2018: £67.0 million) of balances due within twelve months and £1,127.8 million (30 June 2018: £1,147.8 million, 31 December 2018: £1,147.8 million) due after twelve months.

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Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

18. Deposits from customers

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

The contractual maturity of these deposits is analysed below.

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Amounts repayable			
On demand	581.5	476.9	621.9
In less than 3 months	1,268.4	765.0	632.9
In more than 3 months but less than 1 year	2,609.0	2,049.5	2,555.5
In more than 1 year but less than 5 years	1,517.6	971.2	1,284.2
Total deposits	<u>5,976.5</u>	<u>4,262.6</u>	<u>5,094.5</u>

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 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Fair value adjustment for hedged risk	<u>7.9</u>	<u>(1.4)</u>	<u>(2.7)</u>

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

19. Debt securities in issue

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Asset backed loan notes at amortised cost	476.2	825.7	972.9
Amount due for settlement within 12 months	85.5	0.7	331.0
Amount due for settlement after 12 months	390.7	825.0	641.9
	<u>476.2</u>	<u>825.7</u>	<u>972.9</u>

All borrowings are payable in pounds sterling.

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

The asset backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are limited to the net principal received from borrowers in respect of underlying mortgage assets. The maturity date of the funds matches the maturity date of the underlying mortgage assets. It is likely that a large proportion of the underlying mortgage assets and therefore these notes will be repaid within five years. As at 30 June 2019, the carrying value of assets pledged as collateral for the Group's debt securities in issue was £829.5 million (30 June 2018: £831.9 million, 31 December 2018: £980.8 million).

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

Interest is payable at fixed margins above LIBOR except for PMF 2019-1B which is payable at fixed margins above SONIA.

As at 30 June 2019, notes were issued through three funding vehicles.

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
PMF No. 1 asset backed loan notes	-	36.3	-
PMF 2014-1 asset backed loan notes	-	43.3	36.7
PMF 2014-2 asset backed loan notes	34.9	54.1	45.5
PMF 2015-1 asset backed loan notes	49.9	69.1	59.3
CML Warehouse Number 1 loan facility	-	-	234.0
PMF 2018-1B asset backed loan notes	-	244.8	228.7
PMF 2018-2B asset backed loan notes	-	378.1	354.5
PMF 2018-1B residual certificate 1 note	-	-	3.8
PMF 2018-2B residual certificate 1 note	-	-	10.4
PMF 2019-1B asset backed loan notes	391.4	-	-
	<u>476.2</u>	<u>825.7</u>	<u>972.9</u>

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Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

19. Debt securities in issue (continued)

PMF 2014-2, PMF 2015-1 and PMF 2019-1B each include an option to redeem, prior to final maturity, the principal amounts at par on all notes outstanding on or after their respective call dates. The outstanding PMF 2014-1 notes were redeemed at par on their call date, 12 June 2019.

The Group sold the PMF 2018-1B and PMF 2018-2B residual interest in January 2019 as a result PMF 2018-1B and PMF 2018-2B are no longer consolidated.

20. Lease liabilities

	As at 30 June 2019 (Unaudited) £m	As at 30 June 2018 (Unaudited) £m	As at 31 December 2018 (Audited) £m
Lease liabilities	8.0	-	-

During the six months ended 30 June 2019 interest expense of £0.1 million was recognised and total cash outflow was £0.6 million on lease liabilities.

For details on the corresponding ROU assets see note 16. A maturity analysis of the lease liabilities is disclosed in Treasury Risk within the Risk management section.

For short-term leases (lease term of twelve months or less), the Group has opted to recognise lease payments as administrative expenses on a straight-line basis as permitted by IFRS 16, see note 9.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of £0.8 million (30 June 2018: £12.2 million, 31 December 2018: £11.3 million). Of these arrangements, £nil (30 June 2018: £12.0 million, 31 December 2018: £10.8 million) relate to leases other than short-term leases, and, £0.8 million (30 June 2018: £0.2 million, 31 December 2018: £0.5 million) of these arrangements relate to short-term leases.

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

21. Net cash flows from operating activities

	Note	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Profit before tax		82.6	93.1	158.2
Non-cash items				
Provision for loan impairments	14	2.7	0.7	2.1
Depreciation of property, fixtures and equipment	16	0.9	0.2	0.5
Amortisation of intangible assets	16	0.3	0.2	0.3
EIR adjustment on customer loans and receivables		(12.2)	1.6	(4.1)
EIR adjustment on investment in debt securities		(0.1)	(0.1)	(0.1)
EIR adjustment on debt securities in issue		-	-	(7.0)
Write off of unamortised deal costs on sale of loans		3.0	1.5	1.5
Movement in fair value hedges		(43.2)	7.5	1.2
Fair value movement in residential mortgages held at fair value		(0.2)	(0.3)	(0.6)
Movement in other assets held at fair value		-	0.1	0.1
Recognition of equity-settled employee benefits payments		1.2	0.9	2.1
Operating cash flows before movements in working capital		35.0	105.4	154.2
Movement in derivatives		43.9	(4.4)	2.0
(Increase) / decrease in receivables		(37.7)	1.5	(1.3)
Increase in residential mortgages		(375.6)	(618.5)	(1,581.6)
Decrease in debt securities in issue		(599.8)	(282.4)	(282.4)
(Decrease) / increase in payables		(10.4)	(2.0)	9.0
Increase / (decrease) in retail deposits		882.0	(157.4)	674.5
Increase in deposits from banks		11.2	154.0	211.3
Cash utilised by operations		(51.4)	(803.8)	(814.3)
Tax paid		(18.8)	(17.0)	(35.7)
Net cash utilised by operating activities		(70.2)	(820.8)	(850.0)

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

22. Financial instruments

Fair values of financial instruments carried at amortised cost

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

	Carrying value £m	Fair value	
		Level 1 £m	Level 3 £m
At 30 June 2019 (Unaudited)			
Financial assets held at amortised cost			
Cash and cash equivalents	991.0	991.0	-
Investment in debt securities	118.1	118.1	-
Customer loans and receivables	7,026.1	-	7,361.1
Trade and other receivables	43.6	-	43.6
Financial liabilities held at amortised cost			
Deposits from banks	1,226.0	1,226.0	-
Deposits from customers	5,976.5	5,976.5	-
Debt securities in issue	476.2	476.2	-
Lease liabilities	8.0	-	8.0
Trade and other payables	13.8	-	13.8
At 30 June 2018 (Unaudited)			
Financial assets held at amortised cost			
Cash and cash equivalents	920.3	920.3	-
Investment in debt securities	68.7	69.2	-
Customer loans and receivables	5,671.1	-	5,902.8
Trade and other receivables	3.1	-	3.1
Financial liabilities held at amortised cost			
Deposits from banks	1,157.5	1,157.5	-
Deposits from customers	4,262.6	4,262.6	-
Debt securities in issue	825.7	825.7	-
Trade and other payables	13.2	-	13.2
At 31 December 2018 (Audited)			
Financial assets held at amortised cost			
Cash and cash equivalents	981.2	981.2	-
Investment in debt securities	123.0	122.2	-
Customer loans and receivables	6,640.0	-	6,884.4
Trade and other receivables	5.9	-	5.9
Financial liabilities held at amortised cost			
Deposits from banks	1,214.8	1,214.8	-
Deposits from customers	5,094.5	5,094.5	-
Debt securities in issue	972.9	972.9	-
Trade and other payables	24.2	-	24.2

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Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

22. Financial instruments (continued)

The fair values of cash and cash equivalents and trade and other receivables are not considered to be materially different from their book values. In arriving at that conclusion, market inputs have been considered but because these assets mature within three months, and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises.

The fair value of investments in debt securities have been calculated using quoted market prices at the relevant date for each security.

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

While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it.

Lease liabilities are measured at the present value of the remaining lease payments, using the Group's incremental borrowing rate at 1 January 2019 (on initial adoption of IFRS 16).

The contractual maturity analysis of the Group's liabilities is disclosed in Treasury Risk within the Risk management section.

Financial instruments held at fair value

	Carrying value £m	Level 2 £m	Level 3 £m
At 30 June 2019 (Unaudited)			
Customer loans and receivables	20.8	-	20.8
Other financial assets – designated as FVTPL	0.1	-	0.1
Derivative financial instruments – assets	9.9	9.9	-
Derivative financial instruments – liabilities	50.4	50.4	-
At 30 June 2018 (Unaudited)			
Customer loans and receivables	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
At 31 December 2018 (Audited)			
Customer loans and receivables	21.5	-	21.5
Other financial assets – designated as FVTPL	0.1	-	0.1
Derivative financial instruments – assets	17.1	16.0	1.1
Derivative financial instruments – liabilities	13.7	12.4	1.3

Customer loans and receivables held at fair value are all Level 3 fair value measurements, being derived from inputs which are not quoted in active markets. For further information see note 14.

Other assets held at fair value are all Level 3 fair value measurements, being derived from inputs which are not quoted in active markets.

Caps and the majority of interest rate swaps are Level 2 fair value measurements, being derived from inputs which are not quoted in active markets but are based on observable market data. Basis swaps and certain balance guaranteed swaps within derivative liabilities are categorised as Level 3. For further information see note 15.

Charter Court Financial Services Group plc

Notes to the Condensed consolidated financial statements (continued)

For the six months ended 30 June 2019

23. Financial risk management objectives and policies

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

For detailed information on each of these risks refer to the Risk management section.

24. Share based payments

On 20 March 2019 Executive Directors and members of senior management were granted options over 1,151,904 ordinary shares of £0.01 pence each in the Group under the Group's Performance Share Plan 2018 at a nil exercise price. The Group expects options over 766,016 ordinary shares of £0.01 pence each to vest. The fair value of the options at date of grant was £1,847,492.

The Deferred Bonus Plan applied for the first time to 2018 bonuses for those employees whose bonuses are over £100,000, and defers 50% of participating employees' annual bonus into ordinary shares in the form of options to acquire ordinary shares for nil consideration. On 20 March 2019 50% of participating employees' annual bonus were deferred into options over 371,759 ordinary shares.

25. Related party transactions

The Group had no related party transactions during the six month period to 30 June 2019 that would materially affect the position or performance of the Group. Details of transactions for the year ended 31 December 2018 can be found in note 46 of the 2018 Group financial statements.

26. Post balance sheet events

On 14 March 2019 the Board of the Group announced that it had reached agreement with the board of OneSavings Bank plc ("OSB") on the terms of a recommended all-share combination of the Group and OSB pursuant to which OSB will acquire the entire issued and to be issued share capital of the Group to form the combined group.

The shareholders of both the Group and OSB on 6 June 2019 voted in favour of the combination. On 30 July 2019 the CMA confirmed that there are no serious competition concerns associated with the proposed combination, and concluded that no further investigation is required from a competition perspective.

Subject to approval by regulators and the fulfilment or waiver of other conditions, it is intended that the combination will be by way of a court-sanctioned scheme of arrangement which is expected to be effective in the third quarter of 2019. In the event of the all-share combination of the Group and OSB, total success fees of around £10.4 million will be payable to the Group's advisors.

The Group sold its residual interest in Precise Mortgage Funding 2019-1B plc to a third party on 31 July 2019 for a gain of £28.8 million.

Charter Court Financial Services Group plc

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, a glossary indicating the APMs we use, an explanation of how they are calculated and why we use them.

A. 2019 highlights

The Group has incurred costs in 2019 on the proposed merger with OSB. These costs, included within administrative expenses, are not considered to be part of the adjusted administrative expenses of the Group as they relate to a very specific one-off activity. Adjusted KPIs exclude these costs.

The adjusted KPIs below are used together to assess the Group’s profitability from period to period.

All ratios have been calculated using unrounded data.

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Profit before tax			
Statutory profit before tax	82.6	93.1	158.2
Costs incurred in relation to proposed merger	3.8	-	-
Adjusted profit before tax	<u>86.4</u>	<u>93.1</u>	<u>158.2</u>
Return on Equity			
Statutory profit after tax (i)	62.3	71.1	120.8
Costs incurred in relation to proposed merger	3.8	-	-
Adjusted profit after tax (ii)	<u>66.1</u>	<u>71.1</u>	<u>120.8</u>
Opening equity	<u>450.3</u>	<u>335.0</u>	<u>335.0</u>
Closing equity	<u>490.5</u>	<u>406.5</u>	<u>450.3</u>
Average equity (2 point average*) (iii)	<u>470.4</u>	<u>370.8</u>	<u>392.6</u>
Statutory RoE (i) / (iii)	<u>26.5%</u>	<u>38.4%</u>	<u>30.8%</u>
Adjusted RoE (ii) / (iii)	<u>28.1%</u>	<u>38.4%</u>	<u>30.8%</u>

Charter Court Financial Services Group plc

Alternative performance measures (continued)

	Six months ended 30 June 2019 (Unaudited) £m	Six months ended 30 June 2018 (Unaudited) £m	Year ended 31 December 2018 (Audited) £m
Net interest margin			
Net interest income (i)	100.1	84.4	180.5
Average customer loans and receivables (13 point average **) (ii)	6,630.5	5,528.1	5,862.2
Net interest margin *** (i) / (ii)	3.04%	3.08%	3.08%
Cost Income Ratio			
Statutory administrative expenses (i)	39.7	30.9	64.6
Costs incurred in relation to proposed merger	(3.8)	-	-
Adjusted administrative expenses (ii)	35.9	30.9	64.6
Statutory total income (iii)	125.0	124.7	224.9
Statutory cost income ratio (i) / (iii)	31.7%	24.8%	28.7%
Adjusted cost income ratio (ii) / (iii)	28.7%	24.8%	28.7%
Cost of Risk			
Provision for loan impairments – net charge (i)	(2.7)	(0.7)	(2.1)
Average customer loans and receivables ** (ii)	6,630.5	5,528.1	5,862.2
Cost of risk (i) / (ii)	0.082%	0.025%	0.036%

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

** 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 seven for the six months ended 30 June 2019 and the six months ended 30 June 2018 and divided by 13 for the year ended 31 December 2018.

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

Charter Court Financial Services Group plc

Alternative performance measures (continued)

B. Other financial APMs

	As at 30 June 2019 £m	As at 30 June 2018 £m	As at 31 December 2018 £m
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Loan deposit ratio

This APM is used in assessing the Group's liquidity.

Customer loans and receivables (note 14)	7,046.9	5,693.8	6,661.5
Deposits from customers (note 18)	5,976.5	4,262.6	5,094.5
Loan deposit ratio	117.9%	133.6%	130.8%

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	1,356.7	1,305.4	2,737.3
Current period	1,490.0	1,356.7	2,846.1
Increase (Current period originations less prior period originations)	133.3	51.3	108.8
Percentage increase (increase / prior period originations)	9.8%	3.9%	4.0%

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)	5,693.8	4,415.5	5,364.2
Closing balance of customer loans and receivables	7,046.9	5,693.8	6,661.5
Increase (ii)	1,353.1	1,278.3	1,297.3
Add back:			
Asset sales in the period	564.3	562.5	562.5
Increase including asset sales (iii)	1,917.4	1,840.8	1,859.8
Percentage increase (ii) / (i)	23.8%	29.0%	24.2%
Adjusted percentage increase (iii) / (i)	33.7%	41.7%	34.7%

Charter Court Financial Services Group plc

Alternative performance measures (continued)

B. Other financial APMs (continued)

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Originations by segment			
This APM shows the level of mortgage origination activity by segment			
BTL originations	909.1	835.3	1,642.1
Residential originations	376.3	362.9	825.3
Bridging loans originations	168.0	131.4	321.8
Second charge loans originations	36.6	27.1	56.9
Total originations (note 14)	<u>1,490.0</u>	<u>1,356.7</u>	<u>2,846.1</u>

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)	<u>57.8</u>	<u>43.0</u>	<u>95.0</u>
Average funding (monthly average)* (ii)	<u>7,234.1</u>	<u>6,117.8</u>	<u>6,443.6</u>
Cost of funds (i) / (ii)	<u>1.61%</u>	<u>1.42%</u>	<u>1.47%</u>

* 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 seven for the six months ended 30 June 2019 and the six months ended 30 June 2018 and divided by 13 for the year ended 31 December 2018.

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.
Net Promoter Score	This is an externally collated customer loyalty metric that measures loyalty between a Provider, who in this context is the Group, and a consumer.

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 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.

Charter Court Financial Services Group plc

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 Citigate Dewe Rogerson on 020 7638 9571.

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

Financial calendar dates	Description	Available format			
		Online	Email	RNS	Paper
21 August 2019	Half year 2019 financial results	✓		✓	
12 November 2019	Third quarter trading update	✓		✓	

On 20 September 2019, an interim dividend will be paid to shareholders on the register on the record date of 30 August 2019.

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.

Charter Court Financial Services Group plc

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.