

**SHAWBROOK GROUP PLC**  
ANNUAL REPORT & ACCOUNTS FOR  
THE YEAR ENDED 31 DECEMBER 2015



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**SHAWBROOK** IS A SPECIALIST LENDING AND SAVINGS BUSINESS WITH A FOCUS ON POORLY-SERVED CUSTOMER SEGMENTS ACROSS THE SME AND CONSUMER MARKETS IN THE UK. WE USE OUR EXPERIENCE AND JUDGEMENT TO MAKE INDIVIDUAL DECISIONS THAT BALANCE RISK, RETURN AND CUSTOMER NEEDS.

SHAWBROOK COMPLETED ITS SUCCESSFUL IPO AND LISTED ON THE LONDON STOCK EXCHANGE IN APRIL 2015 (LSE:SHAW)

A FULL VERSION OF OUR ANNUAL REPORT AND PILLAR 3 REPORT ARE AVAILABLE ONLINE AT [WWW.SHAWBROOK.CO.UK](http://WWW.SHAWBROOK.CO.UK)

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## HIGHLIGHTS

## A RECORD YEAR

## HIGHLIGHTS

► **Strong financial performance aligned to IPO guidance**

- Successful IPO with admission to the LSE main market in April 2015 and entered the FTSE 250 in June 2015
- 63% increase in underlying profit before tax to £80.1m in 2015
- Total Assets have reached £4bn
- Net Promoter Score increased to 34 with 89% customer satisfaction

► **Continuing strong demand in our carefully selected SME and Consumer markets has seen:**

- 23% growth in organic originations of £1,685m (2014: £1,366m) enhanced by the selective acquisition of £0.3bn of assets.
- 32% growth in customer deposits to £3,186m (2014: £2,421m)

► **Our carefully selected specialist markets continue to offer strong risk-adjusted returns**

- Net Interest Margin increased to 6.2% from 6.1% in 2014
- Achieved an underlying Return on Tangible Equity of 27.9%

► **Our prudent approach to risk management is underpinned by our conservatively positioned balance sheet**

- Total capital ratio enhanced to 17.9% (2014: 13.9%) following successful IPO raising £90m of primary capital (£82m net of costs) and our maiden public Tier 2 capital raising (£75m) in October 2015

► **We have delivered on our 2015 guidance and we are able to reaffirm our medium term guidance provided at the IPO**

## FINANCIAL HIGHLIGHTS

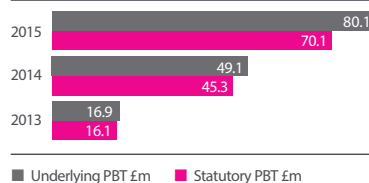
## PROFIT BEFORE TAX

**£80.1m**

Underlying PBT

**£70.1m**

Statutory PBT

TOTAL CAPITAL RATIO<sup>4</sup>, CET 1<sup>5</sup> RATIO AND LEVERAGE RATIO

**18.0%**

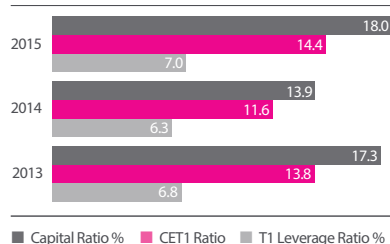
Capital Ratio

**14.4%**

CET1 Ratio

**7.0%**

T1 Leverage Ratio

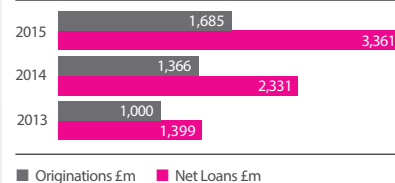
NET LOANS<sup>1</sup> AND ORIGINATIONS

**£1,685m**

Originations

**£3,361m**

Net Loans

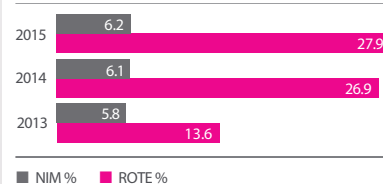
NET INTEREST MARGIN<sup>2</sup> AND ROTE<sup>3</sup>

**6.2%**

NIM

**27.9%**

ROTE



(1) Net loans include loans and advances to customers plus operating leases.

(2) Net interest margin is calculated as underlying net operating income divided by average principal employed.

(3) Return on Tangible Equity ('ROTE') is calculated as underlying profit/(loss) for the year attributable to owners divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period divided by two.

(4) Total Capital Ratio is calculated as total capital for regulatory purposes divided by risk-weighted assets.

(5) Common Equity Tier 1 ratio is calculated as the total core equity capital divided by the risk-weighted assets.

## AT A GLANCE

# OUR SPECIALIST LENDING AND SAVING DIVISIONS

OUR THREE DISTINCT MARKETS ARE PROPERTY, BUSINESS FINANCE AND CONSUMER.

## OUR MARKETS

## OUR DIVISIONS

### PROPERTY



Provides finance to the specialist residential investment and commercial property mortgage market and to professional property investors and SME owner-occupiers. Second charge mortgages to consumers.

### COMMERCIAL MORTGAGES

Providing investment mortgages, short-term loans and commercial property loans.

#### CUSTOMER BALANCES

**£1,596m**

Increased by 65% in 2015  
(2014 Customer balances £969m)

#### CONTRIBUTION

**£40.3m**

Contribution to overall operating profit for the Group

CUSTOMER SATISFACTION\* **78%**

### BUSINESS FINANCE



We primarily finance business critical assets operated by established UK SME and healthcare businesses. In addition, we provide facilities to smaller UK financial institutions through wholesale and block facilities.

### ASSET FINANCE

Providing leasing finance, block discounting and wholesale finance and healthcare finance to SMEs.

#### CUSTOMER BALANCES

**£761m**

Increased by 35% in 2015  
(2014 Customer balances £564m)

#### CONTRIBUTION

**£40.9m**

Contribution to overall operating profit for the Group

CUSTOMER SATISFACTION\* **90%**

### CONSUMER



Consumer lending operates through relationships with major home improvement firms, in-store and online retailers, carefully selected holiday ownership companies and loan broker partners. Savings products are available directly to personal, business and charity customers.

### CONSUMER LENDING

Providing unsecured loans for a variety of purposes, including home renovation and refurbishment.

#### CUSTOMER BALANCES

**£333m**

Increased by 47% in 2015  
(2014 Customer balances £227m)

#### CONTRIBUTION

**£11.8m**

Contribution to overall operating profit for the Group

CUSTOMER SATISFACTION\* **87%**

BY PLACING OUR VALUES AND CULTURE AT THE HEART OF OUR BUSINESS, WE'VE DEVELOPED LONG STANDING CUSTOMER RELATIONSHIPS FOUNDED ON TRUST AND THE EXPERTISE THAT OUR PEOPLE DELIVER. THIS HAS ENABLED US TO BUILD A REPUTATION FOR THE OUTSTANDING SERVICE AND INNOVATION THAT UNDERPINS OUR SUCCESS.

STEVE PATEMAN, CEO

### SECURED LENDING

Providing loans secured against clients' homes through second charge mortgages.

#### CUSTOMER BALANCES

**£487m**

Increased by 21% in 2015  
(2014 Customer balances £401m)

#### CONTRIBUTION

**£21.7m**

Contribution to overall operating profit for the Group

CUSTOMER SATISFACTION\* **92%**

### BUSINESS CREDIT

Funding against invoices, stock, plant, machinery and property.

#### CUSTOMER BALANCES

**£183m**

Increased by 8% in 2015  
(2014 Customer balances £170m)

#### CONTRIBUTION

**£5.7m**

Contribution to overall operating profit for the Group

CUSTOMER SATISFACTION\* **95%**

### SAVINGS

Providing a range of savings products, including ISAs, fixed rate bonds, easy access accounts and notice accounts to consumer, business and charity customers.

#### BALANCES

**£3.2bn**

Increased by 32% in 2015  
(2014 balances £2.4bn)

CUSTOMER SATISFACTION\* **94%**

## OUR VALUES

### PERSONAL

We treat our customers and brokers as people. We take the time to understand them, and we listen to what they say.

### PRAGMATIC

We look at every situation on its merits, rather than follow rigid guidelines or the accepted way of doing things.

### EXPERT

Our people are experienced and professional. We know that it's our people and their know-how that make things happen for our customers.

### PROGRESSIVE

We are proactive. We will find ways to work that are quicker, simpler, and more efficient than the way we do things today.

WE USE OUR EXPERTISE AND JUDGEMENT TO MAKE INDIVIDUAL DECISIONS THAT BALANCE RISK AND RETURN WITH CUSTOMER NEEDS.

\* The overall Satisfaction Scores achieved across our business Divisions from customers interviewed by Charterhouse Research in December 2015 for our *Customer Insight Survey 2015*.

## HISTORY AND BACKGROUND

# OUR JOURNEY

### April 2012

£600m of lending assets,  
£650m of deposits

### May 2013

£1.0bn of personal and SME  
deposits

### September 2013

£1.0bn of SME and  
individual lending

### December 2013

£16.9m underlying  
pre-tax profit

### June 2014

£2.0bn personal and  
SME deposits and  
£2.0bn of SME and  
individual lending

### December 2014

£49.1m underlying  
pre-tax profit

## 2011/2014

## 2015

**2011**



Acquisition of  
Whiteway Laidlaw Bank



Acquisition of Commercial First  
Platform and People

Acquisition of LinkLoans

Rebranded to Shawbrook Bank

**2012**



**Singers Asset Finance**

Acquisition of Singers  
Asset Finance

**2013**

Acquired Money2Improve  
sales team

**2014**

Launch of Secured  
Lending Broker Platform  
(DJ System)



Acquisition of Centric  
Commercial Finance



**FEBRUARY 2015**

Launch of ISAs



**MARCH 2015**

Launch of Personal Loans



Commercial Mortgages launches  
Broker Hub

**November 2015**

£3.0bn of SME and individual lending

**December 2015**

£3.0bn personal and SME deposits

**December 2015**

£80.1m underlying pre-tax profit and balance sheet of £4bn

**TOP AWARDS 2015**

**INSIDER DEAL MAKERS**

ASSET BASED LENDER OF THE YEAR (THIRD YEAR IN A ROW)



**MONEYFACTS**

BEST NOTICE ACCOUNT PROVIDER



**MONEYFACTS**

BEST FIXED ACCOUNT PROVIDER



**NACFB**

INNOVATIVE LENDER OF THE YEAR



**WHAT MORTGAGE**

BEST SECURED LOANS LENDER



**PERSONAL FINANCE**

BEST ONLINE SAVINGS PROVIDER



**BRIDGING AND COMMERCIAL**

COMMERCIAL LENDER OF THE YEAR (THIRD YEAR IN A ROW)



**MORTGAGE STRATEGY**

BEST SECURED LOANS LENDER



**APRIL 2015**

Shawbrook Lists on the London Stock Exchange

**JUNE 2015**

Admitted to the FTSE 250



Staff Culture Survey 76% completion rate



**JULY 2015**

Iain Cornish appointed as Chairman

Strong 2015 Results announcement



Launch of Residential Investment Mortgages

**OCTOBER 2015**

Additional Tier 2 Capital Raising

Launch of Elements-complete funding solution for Pharmacies

Launch of Regulated Bridging Mortgages



Steve Pateman announced as new CEO from January 2016




**DECEMBER 2015**

Launch of Open Market Easy Access Savings accounts

550 permanent staff

## UNDERSTANDING OUR CLIENTS

We have long-established relationships with both Invest (NW) Ltd and the associated broker, Watts Commercial Finance. This has enabled us to build a deep understanding of the client's investment strategy and business model. The constant availability of our people, including the Senior Lending Manager and the assigned Lending Officer for the dedicated Shawbrook Portfolio Team, ensured swift progress and a quality service.

 Visit our [Business Model](#) on page 20 for more information

## 29

### Working days

Between making the offer and securing the funding: including the Christmas and New Year period





## INVEST (NW) LTD

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PART OF THE FAMILY-RUN HEATON GROUP, AN INTEGRATED PROPERTY INVESTMENT SPECIALIST BASED IN LANCASHIRE.

### PROPERTY CASE STUDY

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# BUILDING LONG-TERM RELATIONSHIPS

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**Commercial Mortgages Division has worked with Invest (NW) Ltd's Parent Company, the Heaton Group, for five years. We have provided finance for over 30 different projects.**

When Invest (NW) Ltd wished to refinance in order to clear an existing bridging facility, plus raising further capital for a subsequent development project, our flexibility, range of products and previous track record meant that we were the natural choice as finance partners. We provided a loan of almost £400,000 at 75% Loan to Value, over two times interest cover, secured on a house converted to six flats and with a 0.25% reduction in the lending rate through our Existing Customer Discount.

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We have a strong relationship with The Heaton Group and they are one of our larger and longer term clients. We are also fortunate to have a close working relationship with Shawbrook Commercial and we were once again delighted with the service from their dedicated Residential Investment team. We remained in constant contact with all parties throughout the transaction to reach a good outcome for the client, securing the necessary funding to help them build their portfolio. We value the personal service we receive from Shawbrook and their case-by-case approach allows us the flexibility we need to deliver for our clients.

**Phil Gray, Managing Director, Watts Commercial Finance Ltd**

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We are delighted to have a close working relationship with Shawbrook Bank and they have been a great supporter of ours with regard to securing funding packages that match our needs. They adopt a personal approach that brings flexibility and transparency to the transaction, and we have completed on many projects with their support and the input of our broker partner, Watts Commercial Finance. We continue to be impressed by Shawbrook's service and look forward to working with them further.

**Adam Heaton, Director of Acquisitions and Finance, The Heaton Group**

# A TRANSFORMATIONAL YEAR

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**Shawbrook is a specialist UK lending and savings bank focused on Property, Business Finance, Consumer Lending and Savings. We differentiate ourselves by concentrating on markets where our specialist knowledge and personalised approach to underwriting offer us a competitive advantage. This supports attractive, stable returns and sustainable growth, and also benefits businesses and consumers in parts of the market which continue to be poorly served by traditional high street banks. Fundamental to our success is a relationship focus which puts the interests of our customers and business partners at the heart of everything we do, built on a culture which stresses the use of our experience and judgement to make decisions that balance risk, return and customer needs.**

It was my privilege to join the Board as Chairman last July, and I am delighted to be able to report on a year of tremendous progress and achievement for Shawbrook. The highlights of the year are set out in the CEO / CFO review, case studies and business reviews, but in short we delivered a highly successful IPO and joined the FTSE 250. We delivered on the guidance in respect of loan originations, net interest margin and cost-income performance, and as a result we grew underlying profit by 63%. (statutory profit by 55%). Supported by a successful Tier 2 issue we also further strengthened our capital position, with our key capital ratios at market leading levels amongst our peers in the 'challenger' bank sector. At the same time we further increased our already high customer 'net promoter score', largely due to the high levels of colleague skill, engagement and commitment which are at the heart of Shawbrook's success, as well as the continuing investments we have made in technology and service improvement.

## 2015 WAS A YEAR OF SIGNIFICANT ACHIEVEMENT AT SHAWBROOK, AS WE COMPLETED A SUCCESSFUL IPO, JOINED THE FTSE 250 AND DELIVERED ON OUR GUIDANCE TO CUSTOMERS AND SHAREHOLDERS

Naturally from a governance perspective, the focus of the Board during the year was to a large extent on the IPO and on delivering against stretching business growth objectives in a sustainable way.

In all our decision making, the safety and soundness of the Bank, the interest of customers and the sustainability of the business are of paramount importance, and the Board also devoted considerable time and attention to evolving the Bank's governance and risk management processes. We have sought to ensure not only that they meet the standards of a Public Company and of the regulators, but also critically that they will continue to underpin the safe development of the business, and allow us to grow in scale and to broaden the range of our activities in line with our ambitions. As part of this we undertook a review of Board effectiveness during the year, facilitated by the Company Secretary. This confirmed that Board members are satisfied overall with the progress we have made and the direction of travel for the future. It is our intention to undertake an externally facilitated review in 2016.

There were a number of changes to the Board during the year. My predecessor, Sir George Mathewson, left the Board along with Sir Brian Ivory and I am grateful to them for their contribution since they joined in 2011. We were also saddened by the departure for personal reasons of Richard Pyman who had been our CEO since April 2014. Richard personified the values of Shawbrook and we owe him a debt of gratitude for his contribution to the success of the Bank and our IPO. We were

extremely fortunate that our CFO, Tom Wood, took on the formidable task of also acting as interim CEO for a large part of the year. He did an outstanding job under the most demanding of circumstances, for which I am extremely grateful.

We also made a number of new appointments and first and foremost I am absolutely delighted that Steve Pateman joined us as Chief Executive at the start of 2016. Immediately prior to joining us Steve was Head of UK Banking at Santander and he brings with him a depth and breadth of experience, and a track record of success, across all the markets in which Shawbrook operates.

I am also pleased to report a number of further Non-Executive Director appointments. Paul Lawrence, who was formerly Global Head of Group Internal Audit for HSBC, now chairs our Risk Committee, Sally-Ann Hibberd brings significant experience of operations, IT and change and David Gagie brings substantial financial services experience and was until recently a Senior Advisor to the Financial Conduct Authority. After 9 years' service, Graham Alcock has indicated that he will not be standing for re-election at the forthcoming AGM. Graham's service to the Bank has also been outstanding, latterly as Chair of the Remuneration Committee, and I would like to record my thanks to him.

Uncertainty, whether it be regulatory, economic or political, may be a given, but fundamentally, Shawbrook's business model is strong and diverse, the opportunities we have are large and

show no signs of diminishing, and our business is built on a set of values and an approach to people and business partners which have allowed us to build a strong and sustainable market position. All these things give us confidence in our ability to continue to deliver on our ambitious objectives through continued pursuit of our strategy and as we progress through 2016, I have every confidence that our management team will execute our strategic vision and deliver the plans set out at the IPO.

Finally, I would like to finish by thanking all my colleagues throughout the business who have worked tirelessly throughout the year. The successes set out in this report are ultimately down to their professionalism, commitment and sheer hard work and they have every right to be proud of what they have achieved.

**IAIN CORNISH** Chairman

## 2015 – THE SPRINGBOARD FOR FUTURE DELIVERY



CFO TOM WOOD, WHO TOOK ON THE ADDITIONAL ROLE OF INTERIM CEO IN MAY 2015 REVIEWS THE YEAR WITH STEVE PATEMAN, WHO BECAME OUR CEO IN JANUARY 2016.

**Exceeding our IPO guidance for 2015 has seen Shawbrook post a strong set of 2015 financial results demonstrating the successful execution of our strategy during 2015 and positioning the Group for future profitable growth.**

### HOW DID THE GROUP PERFORM IN 2015?

*Tom Wood (TW)*

2015 was an exciting year during which we made further significant progress in establishing Shawbrook as a leading Specialist Bank within the UK market. I am delighted that whilst we delivered against our tangible metrics; with underlying Profit before tax ('PBT') exceeding £80m (2014: £49m) and Total Assets reaching £4bn for the first time, we also improved our already strong customer and staff advocacy and delivered a number of strategic initiatives.

*Steve Pateman (SP)*

This has clearly been an excellent and extremely significant year for Shawbrook, and the improvement in performance is more impressive due to having been achieved in a more liquid market.

### WHAT WERE YOUR HIGHLIGHTS IN 2015?

*TW*

Delivering a successful IPO in early April was a tremendous milestone in our development as a well-capitalised player in our chosen business finance, property and consumer markets.

To then join FTSE 250 soon after listing in June 2015 was another satisfying milestone. Since the IPO, investors have understood our strategy and the benefits that our diversification and strong balance sheet bring to set us apart from peers.

Our access to capital markets has enabled us to raise £90m of primary capital during the IPO (£82m net of costs), and we further diversified and optimised our capital base with the maiden public issue of Tier 2 capital of £75m in October. This has resulted in a well-capitalised position to support our future growth ambitions, which is combined with our prudent funding position and conservative Treasury position to reinforce our confidence in the future.

Laying these strong foundations has enabled us to achieve a successful 2015 and reaffirm confidence in the medium term outlook.

**SP**

The IPO was a great success for Shawbrook. Now, we need to build on the strong foundation and continue to generate strong risk adjusted returns as we grow to become an even more recognised Specialist Bank, that is acknowledged for its expertise and delivery.

**TW**

It was pleasing that our 2015 customer insight survey reported an improved net promoter score of 34. This improvement from an already high score in 2014 underlines the value of our customer-focused approach that has been one of our guiding principles.

We also continued to encourage greater employee engagement during the year. We saw a pleasing response to our staff survey with a response rate c20% higher than the industry norm. We also launched our Sharesave scheme achieving a high take up in excess of 70%. Our people are a real competitive advantage and we invest in attracting and retaining talented teams. The Sharesave scheme ensures that they share in our combined success.

### HOW DO YOU THINK ABOUT MANAGING THE DIVERSITY OF THE BUSINESS?

**TW**

Our diverse business model brings about many benefits, allowing the whole Group to thrive and deliver strong returns for our shareholders. However, not all businesses within such a diverse balance sheet will grow and thrive at the same pace and we have seen some fluctuation within our Business Credit Division. Nonetheless, we have been able to grow that Division whilst maintaining good credit quality and strong risk adjusted returns, in turn emphasizing our focus on building long term success rather than originating lower quality assets to meet short term targets.

2015 was a year of significant investment across the bank, ensuring our platform and processes are sufficiently robust and scalable to accommodate safely and efficiently the next phase of the bank's growth. Our continued reduction in the Cost:Income ratio to 48% is evidence of our scalable platform, however as we look forward we are confident the investments made will deliver further scale efficiencies, and position us for future growth.

**SP**

A key source of our advantage is our human underwriting approach and deep market knowledge that allows us to understand and manage risk that standardised, automated process cannot match. We think of this as managing idiosyncratic risk as against managing generic risk pools. The diversity of our balance sheet across our specialist and carefully selected markets is critical to this and our growth ambitions can be met whilst maintaining this approach as we avoid the need to be market share orientated.

### HOW ARE SHAWBROOK'S AMBITIONS DELIVERED?

**TW**

Our strategy is set out in detail on page 16.

Our strategy is underpinned by our conservatively positioned balance sheet and focus on building a bank to deliver strong through the cycle risk-adjusted returns. This requires us to consistently deliver for our customers whilst maintaining strong risk disciplines. Our areas of focus remain the Property, Business Finance and Consumer markets, and we will leverage our capabilities in respect of our people, platform, funding and liquidity to accelerate growth where appropriate. We have achieved this with organic originations ahead of expectations for the year and the securing of portfolio acquisitions that will benefit us in the future.

I am delighted that the hard work that all our colleagues have contributed to in 2015 has seen us demonstrate the cohesiveness of our strategy and lay even stronger foundations for the future.

**SP**

We are disciplined and focus on opportunities where the market is not crowded, the risks are manageable, the returns meet our criteria and we have an effective distribution mechanism. There are many opportunities in our chosen markets and our ability to manage idiosyncratic risk allows us to seize them successfully, which requires the strong risk and financial disciplines that lie at the heart of our strategy.

### WHAT ROLE DOES RISK MANAGEMENT PLAY IN THE STRATEGY?

**SP**

We have a rigorous approach to underwriting, however lending and business in general is not entirely risk free. This means that one of our most important roles is not to avoid risk but to manage it, and this requires good people with expert insight supported by sound processes.

**TW**

We continued to evolve our risk management processes during 2015. Hugh Fitzpatrick joined as Chief Risk Officer during Q4 and his arrival has further reinforced the significant progress that has arisen from our on-going investment in our ability to manage risks within the Bank. Our investment in an Enterprise Wide Risk Management Framework and Risk Appetite will help us manage our risk appetite, make informed decisions, demonstrate to regulators and other stakeholders that we have a robust governance and control framework and ensure we maintain a strong credit risk culture across Shawbrook. We view this as an on-going source of competitive advantage.

**SP**

Our recent internal risk culture survey indicated that we are strong in many areas, including risk skills, knowledge and orientation. Furthermore, we continue to enhance our risk frameworks and

architecture. However, we are not complacent: we have carried out a staff survey in February 2016 which included aspects of risk culture, and we will undertake a full risk culture survey later in the year to measure progress.

### WHAT IS THE OUTLOOK FOR THE NEXT 12 MONTHS?

**TW**

I am confident that we will continue to deliver strong results and demonstrate that our differentiated strategy is a source of competitive advantage. We have further strengthened our team as along with Hugh Fitzpatrick joining as Chief Risk Officer, Evelyn Hamilton joined to lead Consumer and Simon Featherstone joined to lead Business Finance. I believe that our leadership team will enable us to achieve our medium term objectives as we aspire to profitably grow the Bank in the coming years with a strong focus on maintaining good cost discipline to generate optimal operational leverage. Our hunger and ambition remains to build the UK's leading specialist Bank.

**SP**

We aim to achieve that objective by diversifying in our three distinct markets of Property, Business Finance and Consumer.

In Business Finance, we will bring together our Asset Finance and Business Credit Divisions as two central parts of a holistic SME working capital solutions provider. Our objective is to become established as a market-leading specialist provider for SMEs.

In the Consumer market, which is worth around £200 billion, we will continue to create relationships with partners who have the appropriate customer base. At the same time, we will explore opportunities to use technology to improve the way in which we compete online and in-store.

In Property, there is speculation that there may be regulatory change which could create a slow down in buy-to-let or change the shape of the market. Our differentiation is that we operate to a more conservative risk appetite than many in the market, for example LTV, interest rate stress and in addition we have the advantage of being less exposed to buy-to-let than our peers and we are strongly capitalised. Our focus will be on diversification into areas such as 'interest only in retirement' solutions.

From a personal perspective, I have always been attracted to entrepreneurial opportunities and the prospects at Shawbrook are very exciting. The fact that the foundations are already in place speaks volumes for the expertise and dedication of the management team. Tom has done a tremendous job in taking the business forward over the past year. The future is rich with promise and we remain confident that we will deliver our short- and medium-term targets.

MUSTO

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MUSTO IS THE WORLD'S LEADING OFFSHORE SAILING BRAND AND SUPPLIER OF PERFORMANCE COUNTRY APPAREL.

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## BUSINESS FINANCE CASE STUDY

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# SUCCESSFUL PARTNERSHIP

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**Profile:** Shawbrook's Business Credit Division provides asset based lending facilities to support the ambitions of MUSTO. The leading offshore sailing brand with two Royal Warrants and the sponsor of many top global events, MUSTO depends on Shawbrook to support their growth through invoice discounting, together with inventory, property and cash flow loans.

The ability to build and maintain close working relationships is a core differentiator for Business Credit. Our team takes the time to understand the requirements of the business in detail, tailoring our services to meet specific needs throughout the year and providing informed and prompt responses to client requests. As MUSTO continues to position itself for the future, with a strengthened management team, enhanced product offering and improved systems, we are proud to be the Company's finance partner of choice.

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We've worked with Shawbrook for several years and over that time they've built up an intimate knowledge of our business. It's clear to us that they care deeply about meeting our needs. The Shawbrook team displays patience and understanding at every level and our relationship is defined by implicit trust and loyalty.

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**Peter Smith, CEO MUSTO**

## HELPING CLIENTS SEIZE OPPORTUNITIES

Speed can often be of the essence for a fast-moving Company like MUSTO. In 2015, we provided a fast response to a funding request to support the ongoing improvement strategy for the business, which led to additional seasonal funding.

 Visit our Business Model on page 20 for more information



# ADDRESSING AN UNMET NEED

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**The Group has delivered exceptional growth and risk-adjusted returns over the five years since its formation through building a strong franchise and carefully assembling a balance sheet of £4 billion against a backdrop of uncertain, ambiguous and challenging economic circumstances.**

**The Group regards its target market as the UK and is therefore exposed to the impact of key drivers to and influences on the UK economy. Overall we believe that whilst there remain a number of economic headwinds in the UK, we are confident we can adapt and manage through these and that overall the outlook for Shawbrook is positive.**

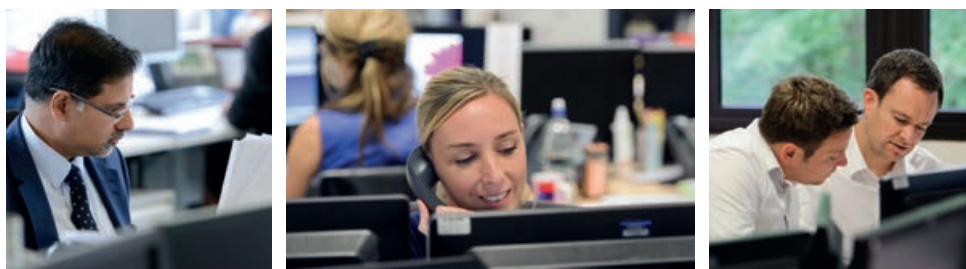
### MACRO-ECONOMIC PERSPECTIVE

The UK continues to benefit from low interest rates, the maintenance of the Quantitative Easing Programme (QE) and the Funding for Lending Scheme (FLS) which encourages investment by businesses and underpinning positive consumer sentiment; these factors contributed to resilient GDP growth of 2.2% in 2015, notwithstanding a softer outlook for the global economy as evidenced by a series of downward revisions to short and medium term growth from the IMF.

The Group has benefited from the continued recovery in the UK economy with our 2015 cost of risk at 0.24%, below the anticipated through the cycle loss rates. Originations have benefited from continued business investment whilst consumer demand for credit has also been resilient and we organically originated £1.7bn of new loans in 2015 (2014: £1.4bn). The improvements in the UK economy have seen greater liquidity enter the market and in certain market segments this has impacted margins.

The Group recognises the potential for the UK economy to be impacted by second level effects from the weaker global outlook – these could manifest themselves in lower demand from the supply chain, impacting future investment, corporate activity and employment with the resultant adverse impact on sentiment and demand for credit. Longer-term this could impact borrower performance as well as asset values.





### POLITICAL

The EU Referendum in June 2016 creates additional uncertainty that may negatively impact investment and sentiment and we are planning for a range of economic outcomes, which may impact the core economic forecasts the Group has used in its planning process.

### MONETARY POLICY

The Group recognises that the economic environment appears benign with the Consumer Price Inflation levels significantly below the Bank of England target of 2%, with the most recently available data in January 2016 showing the CPI rate at 0.2%, underpinned by significant shifts in commodity pricing and the positive impact that this has on discretionary spending. Wage growth, whilst muted, has outpaced CPI reversing the previous shortfalls between these metrics.

It is the Group's view that the level of CPI will increase over the medium term and will be a key driver in the timing of the first and any subsequent changes in the Bank of England Base Rate by the Monetary Policy Committee (MPC). The timing of the first increase in interest rates by the MPC has been subject to debate and conflicting views during 2015, impacting to a degree the levels of business activity and consumer confidence.

The Group's Balance Sheet remains positioned for a rising rate environment, however we have planned on the basis of a slow and gradual increase in the Bank of England Base Rate commencing in the second half of 2016 and rising gradually thereafter. The impact of lower rates for longer will provide some insulation to the Group's customers, but equally can be distortive in impact. As a result we continue to take a conservative approach to risk across our core businesses so that we are not exposed to a significant shift in sentiment and thus valuations. The Group has an interest rate swap portfolio in place to manage further downside risk in the interest rate outlook.

### REGULATORY

Valuations in the UK residential property market continue to benefit from a supply/demand

imbalance whilst commercial valuations are supported by increased underlying cash flows reflecting broader economic growth; whilst clearly property values will not be immune from the trajectory of future economic growth or sentiment, the UK residential market should remain resilient over the cycle given the structural imbalances in the market and we have planned on the basis of the current (slower) direction of house price growth, albeit with levels of regional variations.

There has been a significant amount of regulatory and political intervention in the BTL sector during 2015 and we are supportive of the underlying sentiment of ensuring a sustainable UK residential property market over the long term. We have built a diversified and conservative Balance Sheet that is only c.25% weighted towards the UK BTL sector. Our exposure is to professional, long-term investors and we have operated with a prudent risk appetite over the past five years. We remain cognisant of the measures being put in place (removal of higher rate tax relief, SDLT reforms, potential changes to macro-prudential regulation by the FPC and potential changes to risk weightings for BTL exposures) and we caution against a series of measures that in aggregate adversely impact a market that is structurally supply constrained.

### LIABILITY MANAGEMENT

Consumer savings balances, which represent the supply of savings held by depositors and available for banks as a source of funding, and which are the Group's primary source of funding, have also grown recently, reflective of both the level of discretionary cash flow available to consumers and the increased liquidity in the market that has arisen as a consequence of the changes in the way that pensions can be accessed. In 2015 the Group launched ISA and Easy Access Savings products to widen its access to larger segments of the UK Savings Market and increase the diversity of its funding sources.

The Funding for Lending Scheme (FLS), alongside the UK Government's Help to Buy scheme have, in part, helped to support UK property prices, particularly since the middle

of 2013. The Group continues to utilise the Funding for Lending Scheme ('FLS') which was extended in November 2015 for a further two years and the scheme is scheduled to remain open until 31 January 2018, with the funding having a four year duration. As a participant in the FLS the Group borrows highly liquid UK Treasury Bills at a fee of 25 basis points (provided the Group maintains or expands its lending over the reference period), in exchange for eligible collateral, which has been pre-positioned with the Bank of England. The Group pledges collateral supported by assets from both the Commercial Mortgages and Asset Finance Divisions. As at 31 December 2015 approximately 33% (£270m) of the Group's liquid assets totalling £821m comprised UK Treasury Bills borrowed under the FLS.

### OUTLOOK

Whilst the UK economy is forecast to continue its growth trajectory and this remains our core assumption, we acknowledge the risk created by conflicting signals in the global and UK economies. Whilst there are a number of positive factors that should create stability and confidence; low levels of inflation and unemployment, low interest rates and reduced commodity prices, there is evidence on a global perspective that confidence is reduced as uncertainty on many levels impacts confidence. In light of these factors our underwriting approach remains disciplined and risk appetite has not been extended.

The Group expects the UK economy to post modest and more normalised growth with the withdrawal of monetary support dependent on external factors such as the EU Referendum and the broader slowdown in the global economy which has and will continue to create more challenging trading conditions. Whilst more challenging times could see the run rate cost of risk closer to the normalised view, we remain confident that our diversified portfolio of businesses and conservative approach to risk management will support our future growth trajectory and strong risk adjusted returns.

## OUR STRATEGY

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# THINKING AHEAD

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### LONG-TERM OBJECTIVES

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- 1 PROGRESSIVELY INCREASE ORIGINATIONS ACROSS ALL LENDING DIVISIONS
- 2 ACHIEVE STRONG RISK ADJUSTED RETURNS
- 3 MAINTAINING THE CREDIT QUALITY OF THE LENDING BOOK
- 4 GENERATE OUR STRONG RETURNS WHILST MAINTAINING A CONSERVATIVE FOUNDATION
- 5 MAINTAINING AND ENHANCING OUR CUSTOMER FOCUS

## NEAR TERM INITIATIVES

Increase organic originations whilst identifying and carefully entering adjacent specialist markets. Diversification is at the heart of this initiative and we will not be reliant on single markets that can be subject to influences outside our control.

The originations target of £2bn in 2017 will maintain focus on good quality assets generating strong risk adjusted returns.

## PROGRESS &amp; OUTLOOK

Our operating divisions have delivered strong organic originations of £1.7bn in 2015. To achieve our end 2019 objective of doubling customer balances from £3.4bn we will:

- In Property, focus on further diversification into new areas such as retirement lending solutions;
- Bring together our Asset Finance and Business Credit divisions as one Business Finance working capital solutions provider;

- In Consumer, focus on building relationships with strategic partners in a market worth £200bn and leverage our technology platform; and
- Our Savings franchise and central functions will evolve to underpin this profitable growth.

Continue to identify specialist lending sectors to ensure we can maintain strong risk-adjusted returns whilst maintaining our high quality underwriting standards.

We see opportunities arising from our core and adjacent markets. We use our knowledge and capabilities to identify opportunities which meet our risk appetite profile, offering strong risk adjusted returns. In addition to organic originations of £1.7bn in 2015, we successfully acquired £0.3bn of assets from loan portfolios that match our high risk adjusted returns thresholds in late 2015.

The Group's underlying profit before tax has improved significantly from £49.1m in 2014 to £80.1m in 2015 due to both the growth in the Bank's lending portfolios and increased efficiencies of scale.

We have improved our net interest margin to 6.2% and remain focused on managing the returns profile against the backdrop of a prudent approach to risk.

Ensure that the Bank's lending in the current benign environment is sustainable over the long term.

We have maintained robust asset quality with low levels of arrears and impairment and a high level of collateralisation.

Our 2015 cost of risk of 0.2% is benefitting from the current benign environment and remains below our view of through the cycle loss rates.

As we observe the external environment today we do not see changes in lead indicators that would suggest an imminent reversion to a more normalised position.

Our conservative approach to risk management ensures we are able to position our risk appetite appropriately against our lending assets. We will ensure the Bank's balance sheet remains prudently positioned in terms of capital, funding and liquidity.

Our maiden public Tier 2 issuance of £75m enhanced and optimised the Bank's regulatory capital position, however we will always consider how to manage the balance sheet appropriately.

With a total capital ratio of 18.0%, we are well-capitalised and in 2015 demonstrated strong returns on our lending portfolio.

We continue to be funded through a stable base of retail deposits and access to the FLS, which maintains a prudent term structure, thereby reducing maturity transformation risk.

Shawbrook was established to be the SME Champion and we meet the needs of underserved markets, particularly in the SME sector. We also serve specialist consumer sectors where our products and high degree of choice can differentiate our offer.

We exploit leading edge technology to drive efficiencies and market penetration in all our markets.

Our 2015 customer insight survey reported a net promoter score of 34, up from an already high score in 2014 and underlined the value of the customer-focused approach that has always been the hallmark of Shawbrook.

It is important that we maintain our key differentiators including the ability to attract and retain talented, customer-focused people. In addition, we will focus on digital technology to build on our online and in-store offering.

## KPIs

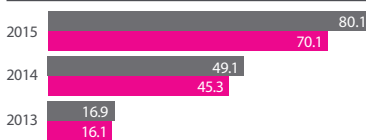
# MONITORING OUR PROGRESS

### FINANCIAL KPIs

#### PROFIT BEFORE TAX

↑ **£80.1m**  
Underlying PBT

↑ **£70.1m**  
Statutory PBT



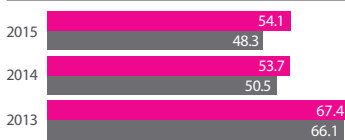
■ Underlying PBT £m ■ Statutory PBT £m

Underlying PBT increased by 63% to £80.1m (2014: 49.1m) and statutory profit increased by 55% to £70.1m (2014: £45.3m). This increased profitability has been driven by a 44% increase in the loan book to £3,361m (2014: £2,331m), underpinned by a 23% increase in gross organic originations to £1,685m (2014: £1,366m), as 2014 momentum continued throughout 2015.

#### COST: INCOME RATIO

↑ **48.3%**  
Underlying

↑ **54.1%**  
Statutory



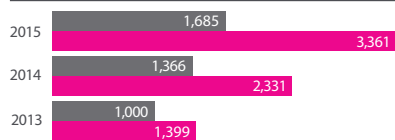
■ Underlying ■ Statutory

The Cost: Income Ratio reduced to 48.3% (2014: 50.5%) as the Group continues to proactively manage its cost base despite significant investment in people, technology and infrastructure to build solid foundations to support future growth and we remain confident that the investment made will deliver further scale efficiencies.

#### NET LOANS<sup>1</sup> AND ORIGINATIONS

↑ **£1,685m**  
Originations

↑ **£3,361m**  
Net Loans



■ Originations £m ■ Net Loans £m

(1) Net loans include loans and advances to customers plus operating leases.

#### PRE-TAX ROLA<sup>6</sup>

↑ **3.0%**



■ ROLA

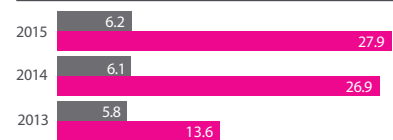
The pre-tax ROLA increased by 0.4% to 3.0% (2014: 2.6%) and underpins the Group's focus remaining on originating quality business and maintaining high-quality underwriting standards.

(6) Return on lending assets before tax is calculated as underlying profit/(loss) before taxation divided by average principal employed.

#### NET INTEREST MARGIN<sup>2</sup> AND ROTE<sup>3</sup>

↑ **6.2%**  
NIM

↑ **27.9%**  
ROTE



■ NIM % ■ ROTE %

Net interest margin ('NIM') increased to 6.2% (2014: 6.1%), benefitting from continued reduction in the cost of funds. ISA product launch in H1 2015 and full market Easy Access product launch in H2 2015 are expected to further reduce cost of funds.

Track record of strong returns maintained with ROTE of 27.9% (2014: 26.9%) underpinned by increased customer activity. ROTE benefitted by c.1.3% from revaluation of deferred tax assets following the introduction of the Bank corporation tax surcharge.

- (2) Net interest margin is calculated as underlying net operating income divided by average principal employed.  
 (3) Return on Tangible Equity ('ROTE') is calculated as underlying profit/(loss) for the year attributable to owners divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period divided by two

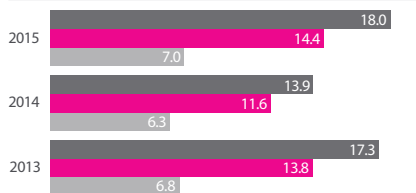
NON-FINANCIAL KPIs

TOTAL CAPITAL RATIO<sup>4</sup>, CET1 RATIO<sup>5</sup> AND LEVERAGE RATIO

 **18.0%**  
Capital Ratio

 **14.4%**  
CET1 Ratio

 **7.0%**  
Leverage Ratio



■ Capital Ratio % ■ CET1 Ratio ■ T1 Leverage Ratio %

Capital ratios strengthened by the IPO, with £90m of new capital (£82m net of costs) resulting in a CET1 ratio of 14.4% (2014: 11.6%). Total capital was further strengthened by a £75m Tier 2 issuance in October, resulting in a total capital ratio of 18.0% (2014: 13.9%).

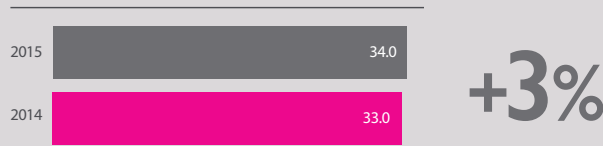
(4) Total Capital Ratio is calculated as total capital for regulatory purposes divided by risk-weighted assets.  
(5) Common Equity Tier 1 ratio is calculated as the total core equity capital divided by the risk-weighted assets.

CUSTOMER SATISFACTION ANALYSIS: DEMONSTRATIVE OF SUCCESS OF MODEL



Source: Charterhouse customer survey on behalf of the Company (January 2016)

NPS ANALYSIS INCREASED NPS REFLECTS CUSTOMER SATISFACTION



SHAWBROOK'S RELATIONSHIPS DRIVING STRONG ADVOCACY

## BUSINESS MODEL

# SHAWBROOK'S CONSERVATIVE FOUNDATIONS

### SHAWBROOK'S CONSERVATIVE FOUNDATIONS

#### GOOD GOVERNANCE

We believe that a strong, capable and diverse management team and Board ensures the Bank is managed effectively, in the best interests of stakeholders including shareholders, customers, employees and regulators, and in line with the UK Corporate Governance Code.

#### STRONG BALANCE SHEET

The Group's balance sheet is prudently positioned and sufficiently diversified to ensure we are able to execute our risk appetite against our lending portfolios whilst protecting our depositors.

#### PROPERTY

Property includes our Commercial Mortgages and Secured Lending propositions.

The diversified product range includes:

- Mortgages to property professionals in both residential and commercial investment markets, across short term and more traditional mortgage terms
- Secured loans predominantly to super prime and prime owner occupier borrowers. The majority of loans are secured by a second charge against primary residential property.

#### BUSINESS FINANCE

Business Finance is a proven leader in the provision of funding to UK SMEs across many different sectors, competing on quality of services, range of financing solutions and speed of delivery.

This diversified product range includes:

- Leasing Finance: lending principally against business critical assets
- Block Discounting and Wholesale Finance: lending to SME finance companies secured against receivables within their portfolios, with the security given by the ultimate borrower taking the form of a hard asset or residential property and lending to other small specialist lenders secured against a pool of loan receivables
- Healthcare: operating leases for healthcare equipment to NHS trusts and finance leases to private healthcare partners
- Invoice discounting is at the core of our asset based lending facility, in addition to plant, machinery, stock and cash flow loans. These facilities are mainly secured against accounts receivables.

### ROBUST RISK MANAGEMENT FRAMEWORK

We continue to invest in our risk management framework to ensure it is robust and embedded within our culture. Our individual business units and functions tailor risk management policies, procedures and controls to their specific needs. These are reviewed and approved through the Risk Committee structure.

### STRONG RISK ADJUSTED RETURNS

We deliver a strong and stable net interest margin alongside stable and sustainable credit quality metrics, together with low levels of arrears and high levels of collateralisation.

### VALUE CREATION

High earnings visibility is driven by significant repeat business, retention and long-standing customer relationships.

### CONSUMER

Consumer provides unsecured loans to good quality UK borrowers.

The diversified product range includes:

- Home Improvement: working with selected leading national and regional home improvement companies
- Holiday Ownership: working with carefully chosen holiday ownership companies to offer customers holiday ownership finance in the UK and Europe
- Retail: working with in-store and online retailers.
- Consumer Personal Loans

### SAVINGS

Savings provides simple and straight forward savings products to personal retail depositors, businesses, trusts and charity customers.

The diversified product range includes:

- Fixed rate bonds for terms of up to five years
- ISAs
- Easy access savings
- Notice accounts

Whilst the business attracts deposits from all customer demographics, nearly two thirds of the deposit base continues to be sourced from affluent customers with a wide range of savings needs and high average balances.

### CENTRE

The central function provides the lending and savings franchises with the conservative spine against which we can meaningfully operate in our carefully chosen markets.

#### Capital strength

Our maiden public Tier 2 debt issuance enhanced our regulatory capital base to deliver a 18.0% Total Capital Ratio, one of the strongest in the sector.

#### Funding base

We are funded predominantly through stable, fixed rate retail deposits (with an average contractual deposit duration of 12 months).


#### Liquidity

We have limited risk appetite in respect of liquidity risk. The vast majority of liquidity is held in cash at the Bank of England Reserve Account or as UK Treasury Bills.



## INVESTING IN INNOVATION

Shawbrook's commitment to innovation has created a bespoke and highly efficient service for Bang & Olufsen and its customers. Store owners benefit from expert support and the promise of high levels of customer satisfaction.

 Visit our [Business Model](#) on page 20 for more information

Shawbrook Bank provided us with a simple, elegant and efficient solution for our in-store finance needs. It has proved hugely popular with our customers and as such has been a great driver for our business.

**Andrew Macer, Head of Sales  
UK & Ireland**



## BANG & OLUFSEN

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BANG & OLUFSEN HAS A MARKET-LEADING REPUTATION FOR HIGH-END AUDIO AND TV TECHNOLOGY.

### CONSUMER CASE STUDY

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# DELIVERING TECHNOLOGY

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**Through a relationship first established in 2013, our Consumer Lending business provides in-store finance to enable Bang & Olufsen to sell its leading edge products to high net worth customers.**

We work with Bang & Olufsen across all of the Company-owned stores as well as the majority of its franchises. Technology is a major competitive advantage for Shawbrook and one of the key drivers behind this relationship.

Bang & Olufsen use our state-of-the-art 'eSignature' technology to provide a fast and efficient service. 'eSignature' enables the frontline sales staff to gain instant approval of loan applications, thereby closing sales, ensuring a positive customer experience and supporting the Bang & Olufsen brand.

# DOING WHAT WE DO WELL, BETTER

### BASIS OF PREPARATION

The statutory results have been prepared in accordance with International Financial Reporting Standards (IFRS). Where appropriate, certain aspects of the results are presented to reflect the Board's view of the Group's underlying performance without distortions caused by non-recurring items that are not reflective of the Group's ongoing business activities.

Underlying results should be considered in addition to, and not as a substitute for, the Group's statutory accounts, and the Group's presentation of underlying results should not be construed as an indication that future results will be unaffected by exceptional items. Underlying results have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of the Group's results as reported on a statutory basis. Some of these limitations can be:

- they may not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments; and
- they may not reflect the impact of earnings or charges resulting from matters the Directors consider not to be indicative of our ongoing operations.

Because of these limitations, underlying results are not intended as an alternative to the Group's statutory accounts as an indicator of the Group's operating performance. The Group compensates for these limitations by using underlying results, along with other comparative tools, together with statutory accounts, to assist in the evaluation of operating performance.

The following items have been excluded from underlying results:

- Corporate activity costs: These include a final £0.6m of costs incurred in connection with the acquisition of Money2Improve in November 2012. In addition, costs incurred in relation to the acquisition of three asset portfolios (including the incremental costs of raising additional deposits to fund inorganic growth) have been excluded from the underlying results. 2014 corporate activity

costs include both external costs incurred in acquiring businesses and internal costs, such as surplus funding costs, incurred whilst building up the liquidity required to complete a deal. The majority (£2.5m) of costs related to the acquisition of Centric Commercial Finance in June 2014. Within this adjustment, £2.1m is disallowable for tax purposes.

- IPO costs: These include expenses incurred in 2015 in relation to the successful listing of Shawbrook Group plc on the LSE main market and recognised in the Income Statement. A further £3.7m was recognised in equity. In addition, the adjustment includes IFRS 2 charges in relation to share-based awards crystallising on listing.

### GROUP PERFORMANCE

The Group's underlying profit before tax has improved significantly from £49.1m in 2014 to £80.1m in 2015 due to both the growth in the Bank's asset base, lower cost of funds and the benefits that increased efficiencies of scale in the Group's infrastructure create. This improvement is against the background of a competitive market where margins have seen some compression in some of the Group's Divisions.

For a reconciliation of underlying profit before tax to statutory profit before tax, see page 25.

The statutory results for the Group improved over the previous year, from a profit before taxation of £45.3m in 2014, to a profit before taxation of £70.1m in 2015.

In addition the Statement of Financial Position reflects the results of the strong year the Group has had, with total assets increasing from £2,754m to £4,000m, an increase of 45.2% in the year.

ON 11 MARCH 2015, THE COMPANY CHANGED ITS NAME FROM LAIDLAW ACQUISITIONS LIMITED TO SHAWBROOK GROUP LIMITED AND ON 24 MARCH 2015, THE COMPANY WAS RE-REGISTERED AS A PUBLIC COMPANY, SHAWBROOK GROUP PLC.

#### KEY PERFORMANCE INDICATORS (ON AN UNDERLYING BASIS)

Certain of the key performance indicators ('KPIs') presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in compliance with, applicable banking regulations, but such regulations often provide for certain discretion in defining and calculating the measures. Because of the discretion that the Group and other banks have in defining and calculating these measures, care should be taken in comparing the Group's KPIs with those of other banks, and such KPIs may not be directly comparable.

	2015 £m	2014 £m	2013 £m		2015	2014	2013
Net interest, fee and operating lease income	230.7	166.2	98.5	Net loans (£m) <sup>1</sup>	3,361	2,331	1,399
Interest expense and similar charges	(63.8)	(54.0)	(38.4)	Net originations (£m)	1,685	1,366	1,000
<b>Net operating income</b>	<b>166.9</b>	<b>112.2</b>	<b>60.1</b>	Net interest margin (%)	6.2	6.1	5.8
Impairment losses				Return on Tangible Equity (ROTE) (%)	27.9	26.9	13.6
on financial assets	(6.5)	(6.7)	(3.5)	Total capital ratio (%)	18.0	13.9	17.3
Costs and provisions	(90.3)	(60.2)	(40.5)	Cost to income ratio (%)	48.3	50.5	66.1
<b>Statutory profit before taxation</b>	<b>70.1</b>	<b>45.3</b>	<b>16.1</b>	CET1 Ratio (%)	14.4	11.6	13.8
Corporate activity	1.1	3.2	0.8	Leverage ratio (%)	7.0	6.3	6.8
IPO costs	8.9	0.6	–	Cost of risk (%)	0.24	0.36	0.34
<b>Underlying profit before taxation</b>	<b>80.1</b>	<b>49.1</b>	<b>16.9</b>	Pre-Tax Return on Lending Assets (ROLA) (%)	3.0	2.6	1.6

#### DIVISIONAL PERFORMANCE (ON AN UNDERLYING BASIS)

Refer to note 2, Operating segments for further information (page 96).

2015	Commercial Mortgages £m	Asset Finance £m	Business Credit <sup>2</sup> £m	Secured Lending £m	Consumer Lending £m	Retail Savings/ Central £m	Total business £m
Interest income, and net fee and operating lease income	73.7	64.4	18.7	41.2	28.6	4.1	230.7
Interest expense and similar charges	(24.6)	(14.6)	(4.3)	(13.3)	(6.9)	(0.1)	(63.8)
<b>Net operating income</b>	<b>49.1</b>	<b>49.8</b>	<b>14.4</b>	<b>27.9</b>	<b>21.7</b>	<b>4.0</b>	<b>166.9</b>
Impairment losses on financial assets	(0.3)	(1.5)	(2.3)	(0.6)	(1.8)	–	(6.5)
Costs and provisions	(8.5)	(7.4)	(6.4)	(5.6)	(8.7)	(53.7)	(90.3)
<b>Statutory profit/(loss) before taxation</b>	<b>40.3</b>	<b>40.9</b>	<b>5.7</b>	<b>21.7</b>	<b>11.2</b>	<b>(49.7)</b>	<b>70.1</b>
Corporate activity	–	–	–	–	0.6	0.5	1.1
IPO costs	–	–	–	–	–	8.9	8.9
<b>Underlying profit</b>	<b>40.3</b>	<b>40.9</b>	<b>5.7</b>	<b>21.7</b>	<b>11.8</b>	<b>(40.3)</b>	<b>80.1</b>
2014	Commercial Mortgages £m	Asset Finance £m	Business Credit <sup>3</sup> £m	Secured Lending £m	Consumer Lending £m	Retail Savings/ Central £m	Total business £m
Interest income, and net fee and operating lease income	47.2	51.2	10.7	34.3	20.1	2.7	166.2
Interest expense and similar charges	(16.6)	(12.6)	(2.6)	(11.2)	(5.1)	(5.9)	(54.0)
<b>Net operating income</b>	<b>30.6</b>	<b>38.6</b>	<b>8.1</b>	<b>23.1</b>	<b>15.0</b>	<b>(3.2)</b>	<b>112.2</b>
Impairment losses on financial assets	(1.0)	(1.5)	(0.3)	0.1	(4.0)	–	(6.7)
Costs and provisions	(6.3)	(7.3)	(3.3)	(4.2)	(5.5)	(33.6)	(60.2)
<b>Statutory profit/(loss) before taxation</b>	<b>23.3</b>	<b>29.8</b>	<b>4.5</b>	<b>19.0</b>	<b>5.5</b>	<b>(36.8)</b>	<b>45.3</b>
Corporate activity	–	–	–	–	–	3.2	3.2
IPO costs	–	–	–	–	–	0.6	0.6
<b>Underlying profit</b>	<b>23.3</b>	<b>29.8</b>	<b>4.5</b>	<b>19.0</b>	<b>5.5</b>	<b>(33.0)</b>	<b>49.1</b>

1 Includes net loans and advances to customers and operating leases held within Property, Plant and Equipment.

2 Since acquisition on 9 June 2014.

## COMMERCIAL MORTGAGES

OUR SPECIALIST SERVICES, FOCUSED ON THE NEEDS OF THE PROFESSIONAL LANDLORD, DELIVERED WITH EXPERTISE AND INSIGHT, CONTINUE TO EARN INDUSTRY ACCOLADES AND ENSURE WE CAN CONTINUE TO GROW IN A SUSTAINABLE AND CONSIDERED WAY.

STEPHEN JOHNSON, MD & DEPUTY CEO

### ACTIVITY

The Commercial Mortgages Division has a well-diversified product range serving property professionals in both residential and commercial investment markets, across short term and more traditional mortgage terms.

Whilst the majority of the division's loans are to established landlords and property professionals, it also lends to well-established SME owner-occupiers.

In 2015 the business achieved steady growth in the loan book to £1,596m (2014: £969m); continued its excellent loan performance with a 2015 gross asset yield of 6.5% (2014: 6.5%) and retained strong credit discipline in terms of loan to value and income coverage ratios. It also maintained healthy diversification across a number of residential and commercial property segments as well as between short-term and more traditional mortgage finance.

### DIFFERENTIATION

Commercial Mortgage Division has a well-diversified product range delivered through expert teams using experience and judgement to make individual decisions, supported by the use of credit scoring tools as part of our rigorous underwriting process. Our specialised knowledge, personalised approach and product diversification continues to earn industry accolades and ensures that the business can continue to grow in a sustainable and considered way. Maintaining our conservative risk appetite will position us well should there be changes to the regulatory environment.

### SECTOR TRENDS

The market remained buoyant throughout 2015 with capital values and rents appreciating together with a continuing shift towards greater private rented tenure of UK housing. 2015 saw some initial market disruption around the general election and Stamp Duty Land Tax ('SDLT') reforms in the first half of the year, but the markets accelerated in the second half with traditional year-end seasonality. This market buoyancy has taken place against a backdrop of multiple political and regulatory developments that have combined to create a more challenging outlook for property investors.

### OUTLOOK

As we move into 2016, the cumulative impact of the budget measures and the likely introduction of Financial Policy Committee ('FPC') powers will impact the market. However, the business is well positioned for this changing environment with a conservative risk appetite on both loan to value and income coverage - the areas most likely to be the focus of any potential FPC market intervention. Moreover the recent budget changes favour the professional and sophisticated landlord market, the segment most suited to the personal and expert approach upon which our proposition is based.

Market fundamentals remain attractive to long-term professional investors despite some of the short-term headwinds. The business is well positioned for further growth with a strategy focused on a specialist and personal lending model. The business will concentrate on strategic opportunities to target new segments in the shorter dated lending markets and to leverage its operational capability as well as its growing brand recognition. The business will also focus on leveraging enterprise systems and platforms provide essential customer insight that complements the deep seated market understanding underpinning our customer proposition.

### COMMERCIAL MORTGAGES KPIS

Since its acquisition by the Group in February 2011, the division has originated over 6,000 loans with a total value of over £1.7bn. The loan book for the Commercial Mortgages division stood at £1,596m at 31 December 2015.

The gross asset yield for 2015 was 6.5% (2014: 6.5%); cost of risk was 0.03% for 2015 (2014: 0.14%); and its contribution to the Group's overall operating profit for the year ended 31 December 2015 was £40.3m, an increase of £17.0m from 2014.

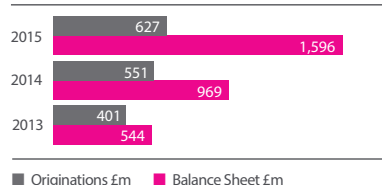
### COST OF RISK

0.0%



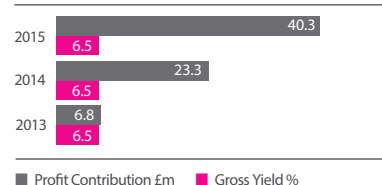
### LOAN BOOK £m

£1,596m



### GROSS ASSET YIELD %

6.5%



## SECURED LENDING

WE HAVE REINFORCED OUR MARKET LEADING SERVICE PROPOSITION, LEVERAGING OUR EXCELLENT PARTNER RELATIONSHIPS AND THE BENEFITS OF OUR PROPRIETARY BROKER PLATFORM.

PHILIP GEORGE, MD

### ACTIVITY

Secured Lending provides a wide range of secured loans predominantly to super prime and prime borrowers with a very small percentage of near prime borrowers (the total % for Near Prime borrowers is 4.8% of the portfolio value).

Loans are secured by a second charge against residential property and are provided for a wide variety of purposes, including home improvements, loan consolidation and large consumer purchases.

In 2015 Secured Lending grew its loan book to £487m (2014: 401m) and remained market leading despite intense competition. The Division is well advanced on preparations for the Mortgage Credit Directive ('MCD') which comes into force in Q1 2016. It held a series of learning academies for its broker partners in 2015, providing an introduction to the MCD and the regulatory changes that will widely impact the first and second charge mortgage market when advisers will become required to advise customers of the potential suitability of second charge mortgages.



### DIFFERENTIATION

The Division focuses activity where our strong relationships, specialist knowledge and commitment to service can be clearly evidenced, and where opportunities to generate strong risk adjusted returns have been identified. This model, combined with a pragmatic and personal approach generates strong, positive feedback from customers and has received widespread industry recognition.

### TRENDS

The Division has led the industry supporting broker partners to prepare for the MCD, and has extended its reach to those networks that it believes will play a leading part post-MCD. The business has focused on reinforcing its market leading service proposition, building on existing relationships and leveraging the benefits of its proprietary broker platform.

### OUTLOOK

With the introduction of MCD the Division will be able to introduce new products and open up new channels to widen the opportunity for customers to source the mortgage they need. As it develops new channels, the Division plans to build specialisms in the first mortgage market which are currently not met by mainstream lenders, build on its strong reputation as a lender of choice and strengthen its market leading position.

The second mortgage market is poised to open up considerably as mortgage advisers become required to make customers aware of the benefits of second mortgages, which we believe will be seen later in 2016 after the transitional period. With its strong relationships and service proposition Shawbrook is well positioned to capitalise on these opportunities and strengthen its market leading position.

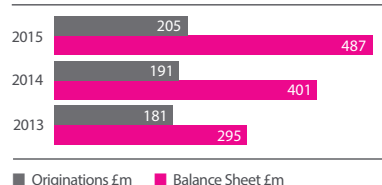
### FINANCIAL KPIS

The loan book for the Secured Lending division was £487m as at 31 December 2015 (2014: £401m).

The gross asset yield for 2015 was 9.1%, a reduction from 9.7% in 2014 mainly driven by a combination of lower cost of funds being passed on, more business written on lower loan-to-value's ('LTV's'), higher quality prime products and an overall increase in liquidity in the market. Cost of risk was 0.1% for 2015 (2014: 0.0%).

### LOAN BOOK £m

# £487m



■ Originations £m ■ Balance Sheet £m

### COST OF RISK

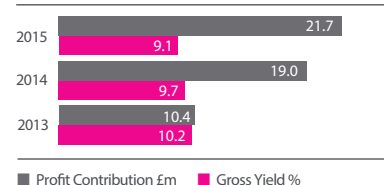
# 0.1%



■ NIM % ■ Cost of Risk %

### GROSS ASSET YIELD %

# 9.1%



■ Profit Contribution £m ■ Gross Yield %

## ASSET FINANCE

OUR EXPERT TEAMS AND DISCIPLINED, YET BESPOKE APPROACH TO CREDIT RISK MANAGEMENT, COMBINE WITH OUR ENTREPRENEURIAL EDGE, TO SET US APART.

JIM CANNON, MD

### ACTIVITY

The Asset Finance division is a proven lender to established businesses in the UK SME and healthcare markets providing financing secured against a range of business critical assets.

Asset Finance operates against four main product categories:

- Leasing Finance: principally against business critical assets
- Block Discounting and Wholesale Finance: lending to SME finance companies secured against receivables within their portfolios, with the security given by the ultimate borrower taking the form of a hard asset or residential property and lending to other small specialist lenders secured against a pool of loan receivables
- Healthcare: operating leases for healthcare equipment to NHS trusts and finance leases to private healthcare partners

In 2015 the business saw growth across all its asset disciplines with momentum building in the second half of the year. We put a number of key initiatives in place to drive continuing progress in 2016 and beyond as it continued to identify new asset classes to complement its portfolio, including the launch of Professional Practices funding. Wholesale and Block Finance were significant drivers of revenue with market leading teams. In Healthcare, we completed a notable deal that supported funding of the first Proton Beam Therapy clinics in the UK. Its more mature lending operations continue to perform well despite increased competition due to increased liquidity in the market. The business invested significantly in a new operating platform which will enhance its service offering to customers and our introducer base while also driving efficiencies to shorten cycle times.



### DIFFERENTIATION

The Division has a well-diversified range of asset classes. Our ongoing customer relationship model, with its entrepreneurial edge, is founded upon a tailored risk management approach and expert business teams who possess deep sector understanding. Combining extensive human skill, with advanced analytics, the Division focuses on assets where we can leverage our deep credit expertise and relationships, exemplified in our notable funding of the Proton Beam Therapy clinics, which was achieved down through our in depth understanding of this market and business area.

### SECTOR TRENDS AND OPPORTUNITIES

Increasing levels of liquidity in the market increased competition; however, our lending approach based on experience and judgement to make decisions that balance risk, return and customer needs, combined with our customer service and expertise ensured that the Division continues to see sustained growth.

The Division will continue to identify opportunities arising from our core and adjunct markets, offering strong risk adjusted returns that meet our risk appetite profile. Wholesale, Marine and Professional Practices funding are successful examples of this strategic approach to Division growth.

### OUTLOOK

Division objectives are to maintain high asset quality, excellent customer service and strong yields. The Division will focus on activities in specialist areas where our strong relationships, specialist knowledge and commitment to service can be clearly evidenced and where opportunities for significant growth, offering strong risk adjusted returns, have been identified.

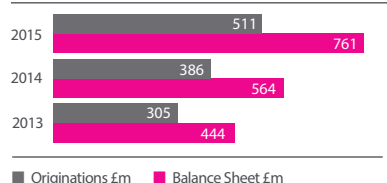
### ASSET FINANCE KPIS

The loan book for the Asset Finance division stood at £761m at 31 December 2015 (2014: £564m). The gross asset yield for 2015 was 9.9% (2014: 10.3%). The reduction of 0.4% in the gross asset yield is driven by the increased liquidity in the market (resulting in a more competitive market) and the overall growth in the wholesale book.

Cost of risk was 0.2% for 2015, 0.1% lower than 2014 (0.3%).

### LOAN BOOK £m

£761m



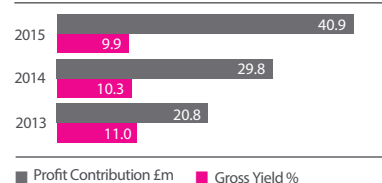
### COST OF RISK

0.2%



### GROSS ASSET YIELD %

9.9%



## BUSINESS CREDIT

OPERATING THROUGH OUR WELL-ESTABLISHED KEY BUSINESS INTRODUCER BASE, WE CONTINUE TO DIFFERENTIATE ON SERVICE, ACCESS TO OUR SENIOR PEOPLE AND CERTAINTY OF DELIVERY.

TIM HAWKINS, MD

### ACTIVITY

Business Credit provides funding to UK SMEs with revenues of between £2 million and £100 million, across 20 different business sectors, competing on quality of services, range of financing solutions and speed of delivery. Invoice discounting is at the core of our asset based lending facility: we offer other asset based lending products (plant, machinery, stock and cash flow) in tandem only with our invoice discounting proposition.

These facilities are mainly secured against working capital assets to support a number of business operations, including working capital, growth opportunities, mergers and acquisitions, refinancing, restructurings, management buy-outs and buy-ins and turnarounds.

Notwithstanding a challenging year, Business Credit made progress in 2015. The highlights of the year included further success in working with Private Equity Houses, which accounted for circa 20% of business originations. The business provided extensive support to existing clients while also working to exploit new opportunities. Business Credit was proud to be voted Business Money Intermediary Index Winners for the third successive year.



### DIFFERENTIATION

Business Credit employs a high touch, high class approach, focused upon understanding the real needs of our customers and their businesses. The experience of the senior management team in structuring and delivering asset based lending and invoice discounting sets them apart, and they are known for high touch delivery, providing customers with a high level of access to senior people and certainty of delivery.

### TRENDS AND OPPORTUNITIES

Increased liquidity in the market increased competition in 2015. The Division met this associated risk by sustaining focus on its relationship based customer offering: service and efficiency; access to experienced senior people, combined with speed and certainty of delivery and maintaining discipline in pricing. In addition it extended into adjunct markets, providing a wider offering to its pharmacy clients, private equity and trade finance.

### FINANCIAL KPIS

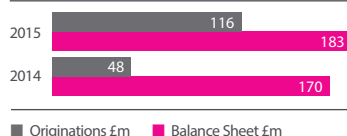
The loan book for the Business Credit division stood at £183m at 31 December 2015 (2014: £170m).

The business had a challenging year, with increased margin pressure driven by increased liquidity in the market resulting in a decrease in the Net Interest Margin from 7.7% in 2014 to 7.2% in 2015. Furthermore, the Division experienced increased fraud where legal action remains ongoing, resulting in the cost of risk increasing by 0.9% from 0.3% in 2014 to 1.2% in 2015.

Liquidity and lending appetite in our market, particularly from the High Street banks, has resulted in some yield compression both on the front book and on the back book when contracts are up for renewal. This, together with the unwind of the fair value at acquisition of the business unit, drove a decrease in the asset yield to 9.4% (2014: 10.2%).

### LOAN BOOK £m

# £183m



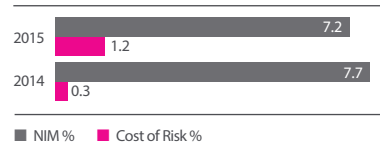
■ Originations £m ■ Balance Sheet £m

### OUTLOOK

The Division will focus activity in specialist areas of the market where it has strong relationships and deep expertise. Our strategy is to maximise lending through the addition of new products, including trade finance, which will generate strong risk adjusted returns. The Division will continue working with its loyal base of key business introducers, and also with the Private Equity community in supporting portfolio companies. The Division anticipates increased activity in the event driven market (MBOs/MBIs), an area where it has proven expertise and will seek growth opportunities that meet our risk appetite profile.

### COST OF RISK

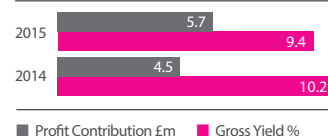
# 1.2%



■ NIM % ■ Cost of Risk %

### GROSS ASSET YIELD %

# 9.4%



■ Profit Contribution £m ■ Gross Yield %

## CONSUMER LENDING

OUR SPECIALIST FOCUS AND DEEP UNDERSTANDING OF THE MARKETS IN WHICH WE OPERATE, COMBINED WITH OUR PROFESSIONAL AND INNOVATIVE APPROACH, SUPPORTS THE DELIVERY OF OUR SUCCESSFUL CUSTOMER PROPOSITIONS.

EVELYN HAMILTON, MD

### ACTIVITY

Consumer Lending provides unsecured loans for:

- Home Improvement: working with selected leading national and regional home improvement companies. Sales take place in clients' homes to home owners
- Holiday Ownership: the business has an established reputation in this sub-sector, working with carefully chosen holiday ownership companies to offer customers holiday ownership finance in the UK and Europe
- Retail: working with in-store and online retailers, as well as dental clinics and veterinary practices, to tailor consumer finance packages
- Consumer Personal Loans: through a selected network of business partners.

In 2015 Consumer Lending strengthened its position as one of the key lenders in the home improvement market and secured some notable relationships. Consumer Lending saw significant growth in 2015 across both its retail finance business and personal loans building its loan book to £333m (2014: £227m).

### DIFFERENTIATION

Consumer Lending delivers specialism and a deep understanding of the markets in which it operates through the expertise of our teams of industry specialists who innovate and build our specialist propositions to meet clearly identified customer needs. The Division benefits from innovative solutions; including E-signature tablet technology that allows clients to sign paperless consumer agreements within their own homes, plus excellent risk metrics and scoring techniques. These innovations contribute to Consumer Lending's recognition as a leader in its chosen markets as it streamlines and shortens the cycle time for consumer credit approvals and completions.

### TRENDS AND OPPORTUNITIES

Although the home improvement and holiday ownership markets benefited from increased consumer confidence, increased liquidity created greater competition. The intermediary consumer markets also faced new regulatory hurdles, with responsibility for consumer credit moving to the FCA. The Government's new Feed in Tariff has reduced demand for solar installations, but as the market regroups the business is well placed to extend its support to key solar suppliers.

With its strong relationships, sound service proposition and personal approach, Consumer Lending is able to counter price-led competition with value-added propositions. The Division has invested significantly to support its intermediary partners meet new regulatory requirements and works with partners to ensure that we can deliver the right product for the right customer at a fair rate.

### OUTLOOK

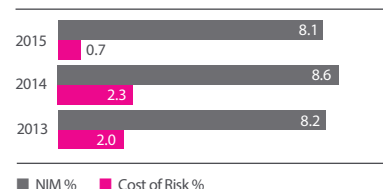
Evelyn Hamilton has been appointed as Managing Director, Consumer Lending. Under her leadership the Division intends to leverage its reputation to widen distribution, seeking out new opportunities across its markets. The Division will invest in further automating referral criteria to capture and convert more higher risk adjusted margin business. The Division will also seek to secure further volume and work with partners to increase finance penetration. Consumer Lending is also seeking to substantially extend its personal loan business and has held positive discussions with leading affinity partners.

### FINANCIAL KPIS

The loan book for the Consumer Lending division stood at £333m at 31 December 2015 (2014: £227m). The gross asset yield for 2015 was 10.6% (2014: 11.5%), the decrease of 0.9% was mainly driven by increased liquidity in the market. The cost of risk decreased by 1.6% to 0.7% in 2015 (2014: 2.3%), mainly driven by the continuation of lower arrears and a debt sale during the year.

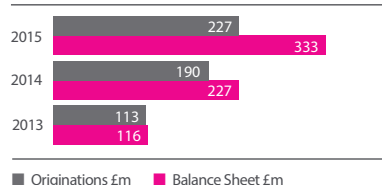
### COST OF RISK

0.7%



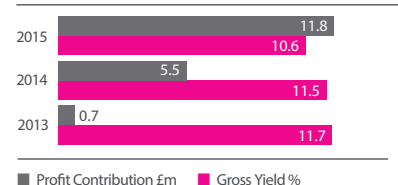
### LOAN BOOK £m

£333m



### GROSS ASSET YIELD %

10.6%





## RETAIL SAVINGS

### ACTIVITY

The retail savings business provides fixed rate deposits for terms of up to five years, ISAs, easy access savings and notice accounts, sourced from personal retail depositors as well as from business, trust and charity customers. This deposit base provides a stable source of funding for the Group's five lending divisions, and the Retail Savings team works closely with the Treasury and Finance functions to manage the on-going funding and liquidity requirements of the Group.

Whilst the business attracts deposits from all customer demographics, nearly two thirds of the deposit base continues to be sourced from affluent customers with a wide range of savings needs and high average balances.

In 2015 Savings increased its deposit base to £3,186m (2014: £2,421m) whilst continuing to deliver quality service through our dedicated customer service teams, achieving a 94% customer satisfaction score. Retail Savings continued to raise funds at a lower rate than its historic book, providing a positive downward trajectory in the overall Savings book cost of funds. Cost of funds in 2015 was 2.3% (2014: 2.9%).



WE ARE PROUD TO OFFER SIMPLE AND STRAIGHT FORWARD SAVINGS PRODUCTS WITH TRANSPARENT PRICING FOR BOTH EXISTING AND NEW CUSTOMERS. OUR PRODUCT FEATURES, PERSONAL SERVICE AND DEDICATED TEAMS SECURED US A 94% CUSTOMER SATISFACTION RATING IN 2015 AND A SAVINGS NPS SCORE OF +47.

SIMON FURNELL, MD

### DIFFERENTIATION

The Division offers transparent pricing for existing and new customers, and maintains consistently competitive rates across its suite of simple and straightforward savings offerings. In the interest of ensuring fair customer outcomes the business is proactive in communicating new interest rates to existing customers and there is no bond auto-rollover. Its high service standards, showcased through its UK contact centre, and non-advised service with no sales incentive, continue to win praise from customers.

### TRENDS

During 2015, savings rates were impacted by the number of new market entrants in the savings market, while consumer appetite shifted to shorter duration products in anticipation of an interest rate rise.

The Division addressed these challenges by continuing its investment in infrastructure, analytical capability and new product development while also extending its distribution options.

### OUTLOOK

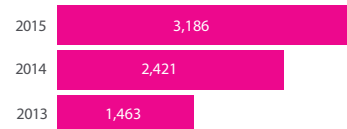
The Division will continue to develop new products and deepen its analytical capability to acquire funds at the optimum mix of duration and cost, innovating to establish new sources of liquidity to support the growth of the Bank.

### FINANCIAL KPIS

The deposit book stood at £3,186m at 31 December 2015 (2014: £2,421) an increase of 32%. The cost of funds for 2015 was 2.3% (2014: 2.9%) a reduction of 26%.

#### DEPOSIT BOOK £m

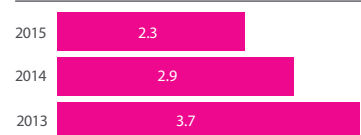
# £3,186m



■ Deposit Book £m

#### COST OF FUNDS %

# 2.3%



■ Cost of Funds %

## RISK MANAGEMENT REPORT

# CLOSE AND DISCIPLINED RISK MANAGEMENT

The Group seeks to embrace the risks inherent in its business activities and operations through close and disciplined risk management which quantifies the risks taken, manages and mitigates them as far as possible and prices appropriately for the residual level of risk carried in order to produce an appropriate commercial return through the cycle.

The Group's approach to risk management will continue to evolve and has benefited from extensive investment during 2015 to ensure that it remains comprehensive, consistent and scalable to accommodate the Bank's growth plans. The investment in establishing a revised Risk Management Framework in 2015 will see embedding substantially completed in 2016.

This Enterprise Wide Risk Management Framework is underpinned by the following key elements:

### Risk Strategy

The Risk Strategy sets out the risk management objectives which support the achievement of the Group's commercial goals and the operation of business activities which seek to deliver those aims. The Risk Strategy sets out which risks are to be acquired or incurred and how they will be managed by the organisation.

The strategic risk management objectives are:

- Identify material risks arising in the day to day activities and operations of the Group;
- Quantify the risks attaching to the execution of the Group's business plans;
- Set an appropriate Risk Appetite with calibrated measures and tolerance levels;
- Optimise the risk/reward characteristics of business written;
- Set minimum standards in relation to the acquisition, incurrence and management of risk;

- Secure and organise the required level and capability of risk infrastructure and resources;
- Undertake remedial action where any weaknesses are identified; and
- Scan the external horizon for emerging risks.

### Risk Appetite

The levels of risk that the Group is willing to tolerate in operating the various elements of its business are defined in a Risk Appetite Statement, which is agreed by the Board. This articulates qualitative and quantitative measures of risk which are cascaded across various areas of the Bank's operations, calibrated by reference to the Group's absolute capacity for risk absorption, limit of appetite and target thresholds.

### Risk Management Framework

All of the Group's business and support service activities, including those outsourced to third party providers or originated via brokers and other business intermediaries are executed within the parameters of a single comprehensive Risk Management Framework. This sets out minimum requirements and ensures consistent standards and processes are set across the organisation. Risks are identified, measured, managed, monitored, reported and controlled using the Risk Management Framework. The design and effectiveness of the framework is overseen and reviewed by the Board Risk Committee. The key elements of the framework are set out later in this report.

### Risk Appetite Statement Objectives and Dimensions

BUSINESS PERFORMANCE	INFRASTRUCTURE	CONDUCT	REPUTATION
Profit Volatility	Systems	Product Design	Customers
Financial Strength	People	Sales	Regulators
Growth and Concentration	Data Quality	Post Sales Service	Shareholders & Market
Funding & Liquidity	Processes	Culture	People
	Transformation Projects	Intermediaries	
	Outsourcing	Third Parties	

## Governance

All the Bank's risk activities are subject to detailed and comprehensive governance arrangements which set out how risk based authority is delegated from the Board to executive management and the various risk committees and individuals. These bodies and senior officers are accountable and responsible for ensuring that the day to day risks are appropriately managed within the agreed Risk Appetite and in accordance with the requirements of the Risk Management Framework. Escalation and reporting requirements are set out in risk policies and by the Risk Appetite thresholds.

## Culture

The Group is led by an experienced senior team with a combination of significant underwriting expertise and institutional and regulatory banking experience at various major financial institutions and specialist lenders. This heritage provides the platform for a set of values and behaviours where the client is at the heart of the decision making process and business areas are held fully accountable for risk performance. At the individual level this process begins with the induction program and job descriptions; it is carried into the setting of individual objectives and performance reviews and ultimately reflected in the compensation and reward structure.

## RISK APPETITE

The Risk Appetite Statement (RAS) is a detailed and granular expression of the level of risk the Group is willing to accept in relation to the pursuit of its business strategy. The RAS is not static and will evolve to both reflect and support the Group's business objectives, the operating environment and risk outlook.

The RAS is not just a reporting tool providing an aggregated measure of risk temperature and performance. Just as importantly it also provides a framework which is used dynamically to inform strategic and operational management decisions, as well as supporting the business planning process.

The RAS is reviewed periodically by the Board Risk Committee and agreed with the Board on an annual basis as a minimum. A dashboard with the status of each metric is monitored monthly. Management and the Board exercise their judgement as to the appropriate action required in relation to any threshold trigger breach, dependent on the scenario at the time.

The RAS identifies four groups of risk appetite objectives which are further subdivided into 20 appetite dimensions as set out diagrammatically on the previous page. A suite of qualitative statements and quantitative measures have been set for each dimension, with hard risk limits calibrated by reference to absolute capacity, maximum risk tolerance and a threshold trigger level.

## RISK MANAGEMENT FRAMEWORK

Responsibility for risk management sits at all levels across the Group from the Board and Executive Committee down through the Central Functions, and in turn to each Divisional Head and their business managers and risk officers.

In 2015 the Group invested heavily in enhancing the design and build of an integrated risk management model to support its strategic and commercial objectives. This activity will continue into 2016 as the framework is rolled out, operationalised and embedded across the Bank.

The Group's Risk Management Framework describes the various activities, techniques and tools which are mandated to support the identification, measurement, control, management, monitoring, reporting and challenge of risk across the Group. It is designed to provide an integrated, comprehensive, consistent and scalable structure which is capable of being communicated to and clearly understood by all our employees and is shown diagrammatically below.

The Risk Management Framework also incorporates the organisational arrangements for managing risk with specific responsibilities distributed to certain functions. This ensures that there is clear accountability, responsibility and engagement at appropriate levels within the organisation which can provide robust review and challenge as well as be challenged. Operationally, the Risk Management Framework is organised around the key risk categories.

## Group's Risk Management Framework

RISK STRATEGY					
Risk Management Framework Principles					
Risk Appetite					
Key Risk Categories					
Credit & Concentration Risk	Market & Liquidity Risk	Operational Risk	Conduct, Legal & Compliance Risk	Strategy Risk	Systems & Change Risk
Policies					
Process & Procedures					

## RISK MANAGEMENT REPORT CONTINUED

### Risk Governance

Risk Governance describes the architecture through which the Board allocates and delegates primary accountability, responsibility and authority for risk management across the organisation.

Responsibility for risk oversight is delegated from the Board to the Board Risk Committee and Board Audit Committee. The ultimate responsibility for risk remains with the Board.

Accountability, responsibility and authority for risk management is delegated to the Chief Executive and CRO, who in turn allocate responsibility for oversight and certain approvals across a number of Management Committees.

Authority and responsibility for material operational risk management, decision making and risk assurance is vested in the CRO and the Group Risk function. Lesser levels of authority are cascaded to the senior management within the support functions and Business Divisions.

These bodies and senior officers are accountable and responsible for ensuring that the risks are appropriately managed within the agreed Risk Appetite and in accordance with the requirements of the Risk Management Framework. Individuals are encouraged to adopt an open and independent culture of challenge which is essential to ensuring risk issues are fully surfaced and debated with views and decisions recorded. Risk Governance and culture is reinforced by the provisions of the Senior Manager Regime.

Formal risk escalation and reporting requirements are set out in Risk Policies, individual Committee Terms of Reference and the approved Risk Appetite thresholds and Limits.

Board/Board Risk Committee				
Oversight				Board Audit Committee
Risk Category	First Line	Second Line		Third Line
Credit Risk	Credit Management in Business Areas & Treasury	Credit Risk	Credit Committee	Internal Audit
Liquidity and Market Risk	Treasury	Market & Liquidity Risk & Finance	ALCO	
Operational Risk	All Business Divisions and functional areas	Operational Risk	Conduct & Operational Risk Committee	
Conduct, Legal and Compliance Risk	All Business Divisions and functional areas	Compliance	Conduct & Operational Risk Committee	
Strategic Risk	Exec Directors & Senior Management	Finance	EXCO	
Systems and Change Risk	IT/Change Management	Operational Risk	Change Management Committee	

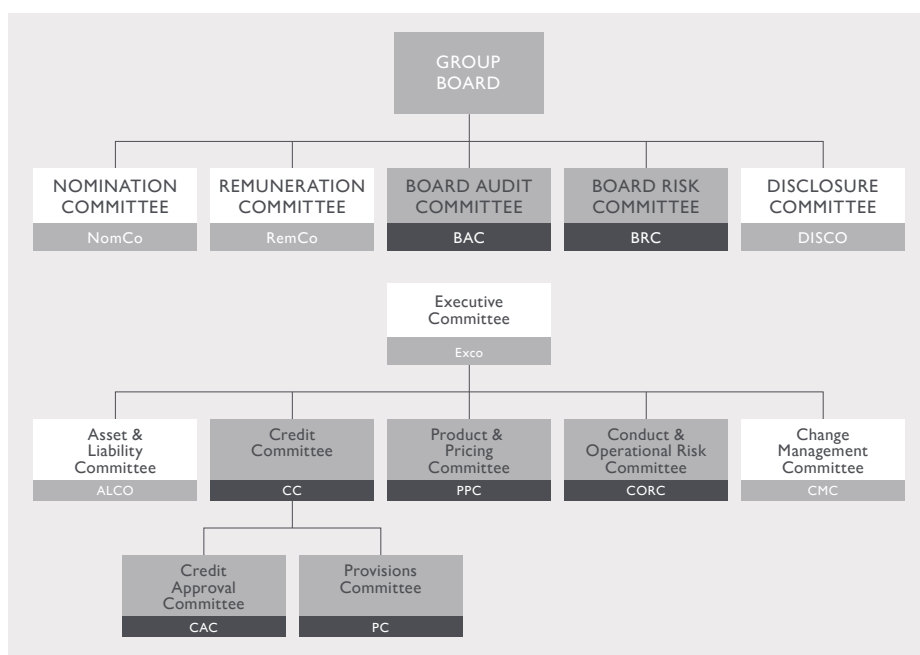
### Committee Structure and Risk Responsibilities

An abbreviated Board and Management Committee structure and is set out below highlighting those Committees with primary risk-related duties.

The monitoring and controlling of risk is a fundamental part of the management

process within the Bank. The Board oversees the management of the Key Risk Categories across the organisation.

The Board delegates specific powers for some matters to committees, details of which are set out in the Corporate Governance Report.



Key: ■ Relevant to Risk Management Framework

### THREE LINES OF DEFENCE MODEL

The Group's approach to risk management is underpinned by the 'Three Lines of Defence' model which is summarised in the diagram below.

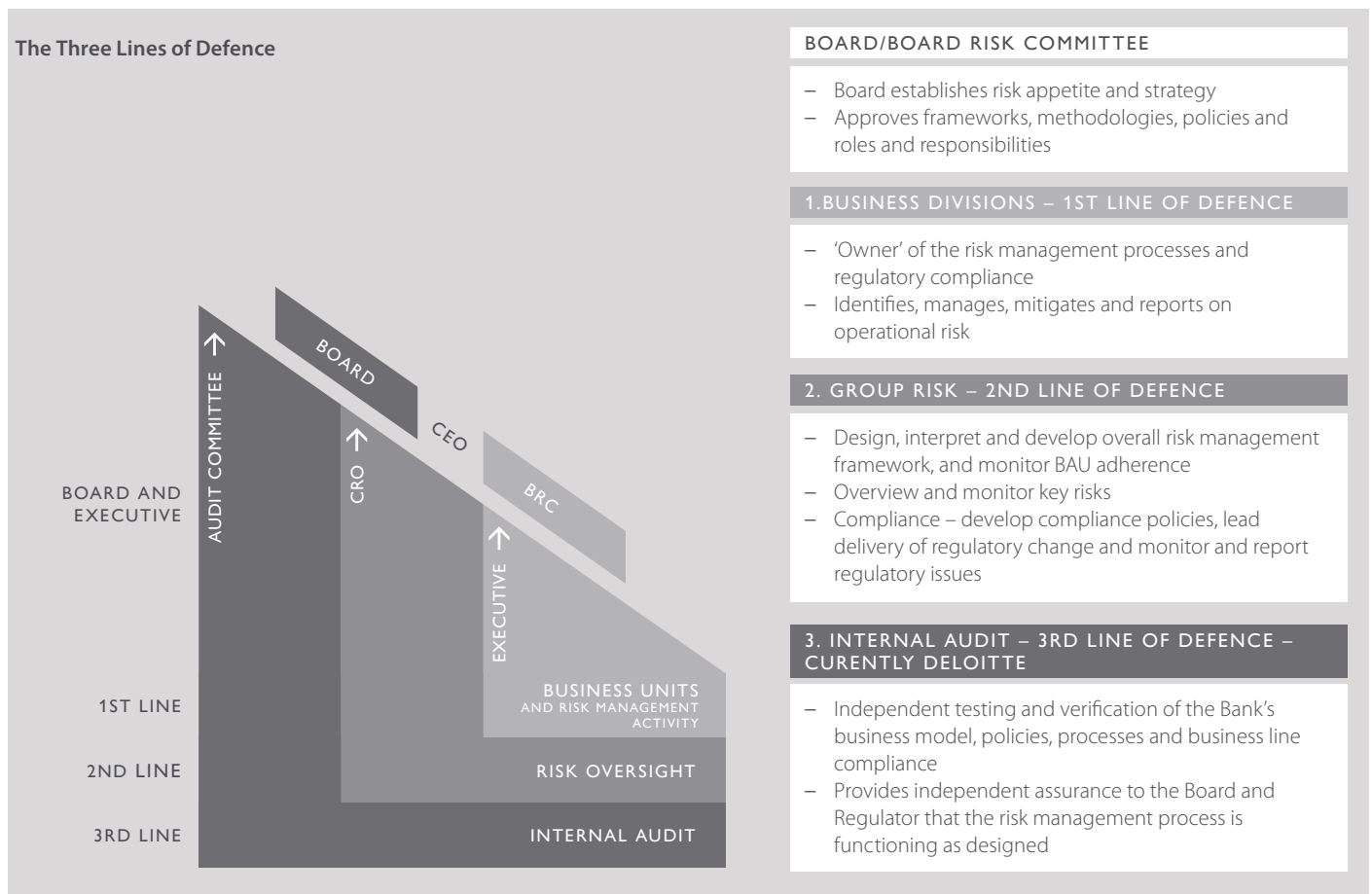
#### 1st Line of Defence

Responsibility for risk management resides in the front line business Divisions and functions, and line management is directly accountable for identifying and managing the risks that arise in their business or functional area. They are required to establish effective controls in line with Group Risk Policy and act within the Risk Appetite parameters set and approved by the Board. The First Line of Defence comprises each of the five Lending Divisions and the Retail Savings business. The First Line of Defence also includes the Treasury Function. Elements of the

support functions such as Finance, Human Resources and Information Technology are also in the First Line of Defence as, although they are not customer facing themselves, they provide support and back-up to the customer facing divisions and have insight into many operational factors that could ultimately impact on Group's exposure to market, liquidity, credit, regulatory, legal, conduct, compliance and operational risk.

Each business unit and functional area operates to set Risk Policies to ensure that activities remain within the Board's stated Risk Appetite for that area of the Group. The Risk Policies are approved by the appropriate Committee in accordance with their Terms of Reference and reviewed annually with any material changes requiring approval at Committee Level.

The First Line of Defence has its own operational process and procedures manuals to demonstrate and document how it conforms to the approved policies and controls. Likewise it develops Quality Control programmes to monitor and measure adherence to and effectiveness of procedures. All employees within a customer facing unit are considered First Line of Defence. Each employee is aware of the risks to the Group of for their particular activity and the business unit heads are responsible for ensuring there is a 'risk aware' culture within the First Line of Defence. For certain key policies, divisional staff complete regular online training programmes to ensure knowledge is refreshed and current.



## RISK MANAGEMENT REPORT CONTINUED

### 2nd Line of Defence

The Second Line of Defence comprises the Group's central and independent risk management and compliance function led by the Chief Risk Officer, who reports to the Chairman of the Board Risk Committee and to the CEO. It also includes General Counsel & Company Secretary (who is also the MLRO) who reports to the CEO.

The high level risk structure is shown below:

The Second Line of Defence is necessarily and deliberately not customer-facing and has no responsibility for any business targets or performance. It is primarily responsible for:

- The design and build of the various components of the Bank's Risk Management Framework and embedding these, together with the Risk Strategy and Risk Appetite, across the organisation;
- Independent monitoring of the Group's activities against the Board's Risk Appetite and limits, and provision of monthly analysis and reporting on the risk portfolio to the Executive and the Board;
- Issuing and maintaining the suite of Group Risk Policies;
- Undertaking physical reviews of risk management, controls and capability in the First Line units and providing Risk Assurance reports to the Executive and the Board on all aspects of risk performance and compliance with the Risk Management Framework;

- Providing advice and support to the First Line in relation to risk management activities;
- Credit Approvals between Divisional Authority and the threshold for Credit Approval Committee; and
- Undertaking stress testing exercises and working with Finance and Treasury on the production of the ICAAP, ILAAP and RRP.

### 3rd Line of Defence

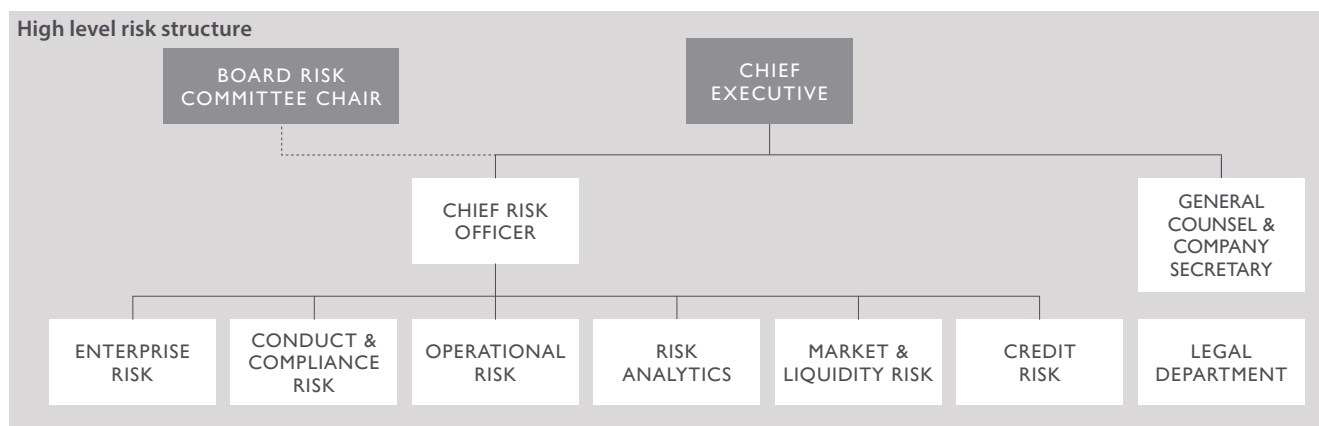
The Third Line of Defence is Deloitte LLP which has been appointed by the Group to act as its independent internal audit function. This provides independent assurance on the activities of the Group and the effectiveness of the Group's Risk Management Framework and controls directly to the Board and Board Audit Committee. Internal Audit reports directly to the non-executive Chair of the Board Audit Committee as well as the CEO and is independent of First and Second Lines of Defence.

The Third Line has access to the activities of both First and Second Line. It can inspect and review adherence to policy and controls in the First Line, the monitoring of activity in the Second Line and the setting of policy and controls in the Second Line. The Third Line of Defence does not independently establish policy or controls itself, outside of those necessary to implement its recommendations with respect to the other two Lines of Defence. The Third

Line may in some cases use as a starting point the reports and reviews compiled by the Second Line but is not restricted to them or necessarily influenced by their findings.

The Third Line of Defence's scope of work is agreed with the Board Audit Committee to provide an independent assessment of the governance, risk management and internal control frameworks operated by the Group and to note the extent to which the Group is operating within its Risk Appetite. It does this by reviewing aspects of the control environment, key processes and specific risks and includes review of the operation of the Second Line of Defence.

The Group's engagement of Deloitte LLP to carry out the functions of the Third Line of Defence provides the Group with access to specialist capabilities beyond its current scale and provides insight into best practice. The performance of Deloitte in this role is reviewed by the Board Audit Committee.



## RISK POLICIES AND CONTROLS

The Risk Management Framework is enacted through a comprehensive suite of control documents and risk policies, setting out the minimum requirements and standards in relation to the acquisition and management of risk assets as well as the control of risks embedded in the Group's operations, activities and markets.

The Group's High Level Control Documents and Risk Policies are owned and managed by the Group Risk function, headed by the Chief Risk Officer (CRO) and approved by the Board or, where delegated, the appropriate Risk Committee. The suite of Policies is grouped according to importance and key risk categories.

Group-level Risk Policies are supplemented as required by Divisional Risk processes and procedures, where more specific and tailored criteria are detailed. Divisional processes and

procedures are required to be compliant with Group Policy and dispensations or waivers will be required where gaps are identified. These process and procedures manuals provide staff at all levels with day to day direction and guidance in the execution of their duties.

The effectiveness of and compliance with the risk policy framework is evaluated on a continuous basis through the monthly reporting requirements (including risk policy exceptions reporting). Additionally a quarterly Control Self Certification process supplemented by a programme of audits, thematic risk assurance reviews and quality control testing is undertaken by each of the Three Lines of Defence.

### Asset Class Policies

The Group's Lending Policies are contained in 16 Asset Class Policies. These have been arranged to operate on a Group-wide basis rather than

based upon Divisional products. This is considered to provide a more stable, consistent risk standard and control across the Group's portfolio of loan assets. Asset Classes can also be aligned more readily with Risk Weightings, Probability of Default, Loss Given Default and Expected Loss metrics which facilitates risk reporting, risk adjusted profitability analysis and modelling for stress testing and capital adequacy purposes.

Asset Class Policies are structured on the basis of Policy Rules which must be adhered to and Guidelines where an element of controlled discretion is permitted. All planned exceptions to Policy Rules require approval at the Group Risk level and both planned and unplanned exceptions to Policy Rules are reported monthly to the relevant Risk Committee.

## PRINCIPAL RISK CATEGORIES

The principal risk categories faced by the Group are as follows:

Risk Category	Definition
<b>Credit Risk (including concentration and single name risk)</b>	The risk that a borrowing client or treasury counterparty fails to repay some or all of the capital or interest advanced to them. This category also includes Credit Concentration risk.
<b>Liquidity and Market Risk</b>	Liquidity risk is the risk that the group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.  Market Risk is the risk of financial loss through un-hedged or mismatched asset and liability positions that are sensitive to changes in interest rates or currencies.
<b>Operational Risk</b>	Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including strategy and reputational risks.
<b>Conduct, Legal and Compliance Risk</b>	Conduct Risk is the risk that the group's behaviour will result in poor customer outcomes and that our people fail to behave with integrity.  Legal and Compliance Risk is the risk of regulatory enforcement and sanction, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice.
<b>Strategic Risk</b>	Risk that the Group is unable to meet its objectives through the inappropriate selection or implementation of strategic plans. This includes the ability to generate volume and inside risk appetite.
<b>Systems and Change Risk</b>	Systems and change risk is the risk that transition changes in the business will be improperly implemented.

A more detailed summary of each principal risk is contained in the following sections.

### Credit Risk

This risk has two main components:

- Customer risk (from core lending activity); and
- Treasury credit risk (from treasury activity).

The Bank's Treasury credit risk exposure is limited to short term deposits placed with leading UK Banks.

### Credit Risk Approval Process

The Bank operates a hierarchy of Lending authorities based principally upon the size of credit risk exposure to counterparties, group of connected counterparties or, where applicable, a portfolio of lending assets that are subject to a single transaction. In addition to maximum amounts of credit exposure, sole Lending Mandates may stipulate sub-limits and / or further conditions and criteria.

Each Division has a maximum credit approval authority delegated to named individuals operating within a policy framework. Above the divisional authority, an independent second line credit risk officer requires to approve the proposal. All facilities above the authority of the second line credit officers are approved by the Credit Approval Committee.

Lending is advanced subject to Group lending approval policy and specific credit criteria. When evaluating the credit quality and covenant of the borrower significant emphasis is placed on the nature of the underlying collateral. This process also includes the review of the Board's appetite for concentration risk.

Approval and on-going monitoring control is exercised both within the businesses and through oversight by the Group Credit Risk function. This applies to both individual transactions as well as at the portfolio level by way of monthly credit information reporting, measurement against Risk Appetite limits and testing via risk quality assurance reviews.

The Divisions operate timely collections and arrears management processes. It is recognised that the credit environment is currently benign and we plan in 2016 to undertake a group level strategic review of operational arrangements and capabilities for non-performing loan management to ensure that the Bank is capable of operating in a more challenging environment where interest rates are rising and there is lower demand and liquidity in property markets.

### Liquidity and Market Risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.

Market risk is the risk associated with adverse changes in the fair value of positions held by the Group as a result of movement in market factors such as interest rates, currencies, volatility and credit spreads.

The Group has, therefore, developed comprehensive funding and liquidity policies to ensure that it maintains sufficient liquid assets to be able to meet all its financial obligations and maintain public confidence.

The Group's Treasury function is responsible for the day to day management of the Group's liquidity and wholesale funding. The Board sets limits over the level, composition, and maturity of liquidity and deposit funding balances, reviewing these at least annually. Compliance with these limits is monitored daily by Finance and Risk personnel independent of Treasury and additionally, a series of liquidity stress tests are performed weekly by Risk and formally reported to ALCO and the Board to ensure that the Group maintains adequate liquidity for business purposes even under stressed conditions.

The Group reports its liquidity position against its Liquidity Coverage Ratio, Net Stable Funding Ratio and other key regulatory ratios for regulatory purposes.

A liquid asset buffer of government Treasury Bills acquired under the FLS, and reserves with the Bank of England, are maintained as a source of high quality liquid assets that can be called upon to create sufficient liquidity in order to meet liabilities on demand.

### Operational Risk

The Board Risk Committee received regular reports across the spectrum of operational risks and information security. These reports covered incidents that have arisen to allow the Committee to assess management's response and proposed remedial actions. Although a number of incidents were raised during the course of 2015, the Committee was satisfied that the action taken was appropriate and that the control of operational incidents continued to improve. In response to the growing threat posed by Information Security, a full Cyber Crime risk assessment was undertaken to assess the adequacy of the Group's internal control framework to respond to this threat and our planned investment to deal with increasing levels of cyber risk. The operational risk reports were developed throughout 2015 to include a focus on forward looking risks which permits a more strategic discussion at the Board Risk Committee level.



### **Conduct, Legal and Compliance Risk**

The Group continually reviews its risk management approach to reflect the regulatory and legal environment in which the Bank operates.

The Group has no appetite for knowingly behaving inappropriately, resulting in unfair outcomes for its customers. During 2015 the Group reviewed its Risk Appetite for Conduct Risk to introduce measures across the conduct risk lifecycle, which includes product design, sales or after sales processes and culture. These measures are reported to the Board monthly and provide the basis for demonstrating that the Group is operating within its risk appetite. Where the Group identifies potential unintended outcomes for customers the Group uses its risk management process to proactively escalate, agreeing appropriate actions and communicating clearly with its customers to ensure a fair outcome is achieved.

### **Strategic Risk**

Strategic risk focusses on large, long term risks that could become a material issue for the delivery of the Group's goals and objectives. Management of strategic risk is primarily the responsibility of the Executive. The management of strategic risk is intrinsically linked to the corporate planning and stress testing processes and is further supported by the regular provision of consolidated business performance and risk reporting to the Executive and Board. The Board has received and approved a number of reports during 2015 including the five year plan, the Bank's Risk Appetite and active engagement in the formation of the Group's ICAAP and ILAAP that are critical tools to managing strategic risk.

### **Systems and Change Risk**

Customer expectations for service availability are rising with the rapid pace of new technologies leading to a significantly lower tolerance for service disruption. The Group recognises that in order to continue to be recognised for very high levels of customer satisfaction it needs to continually monitor systems risk and ensure that change is delivered with minimum disruption to customers. During 2015 the Group has reviewed its Risk Appetite for Systems and Change Risk and plans in 2016 to review and further enhance its business continuity and disaster recovery capability.

## RISK MANAGEMENT REPORT CONTINUED

### TOP AND EMERGING RISKS

The Group's top risks are identified through the process outlined in the 'Risk Management' section and are considered regularly by management and subsequently by the Board Risk Committee.

The Group sees six themes as its top and emerging risks:

- Economic Environment;
- Pace of Regulatory Change;
- Business Performance and Scale;
- Intermediary and Outsourcing;
- Pace, Scale of Change and Management Stretch; and
- Information Security.

These themes, together with the Group's strategy to mitigate the risk and the direction of each theme, are considered further in the following sections.

Risk Type	Risk	Mitigation
<b>Economic Environment</b>	<p>The Group's financial position continues to improve with increasing profitability and stronger capital ratios. However, changing economic conditions in the UK, particularly in England where the majority of the Group's operations are based, could affect the Group's performance in a number of ways including:</p> <ul style="list-style-type: none"> <li>– Increased funding costs resulting from ongoing political uncertainty accompanied by a loss of confidence;</li> <li>– The referendum on EU membership could fundamentally alter the UK financial services landscape; and</li> <li>– A reversal in the UK economy could drive higher impairments through increased defaults and/or reductions in collateral values.</li> </ul>	<p>The Group operates in specialist areas where management and staff have significant expertise and a deep understanding of customer needs that delivers superior service. As a result all loans are written only after thorough, bespoke underwriting to SMEs and consumers with a proven ability to repay and, in the main, sufficient security.</p> <p>The Group undertakes a comprehensive assessment of its Risk Appetite to ensure that it can meet its objectives in severe but plausible economic conditions.</p> <p>The Group completes a comprehensive stress-testing of its lending and deposit portfolios to test resilience to severe but plausible economic conditions.</p> <p>The Group also establishes a prudent balance sheet strategy with robust levels of capital, liquidity and a prudent funding structure.</p>
<b>Pace of Regulatory Change</b>	<p>The prudential and conduct regulatory regimes are subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.</p>	<p>The regulatory environment continues to evolve and change. The Group actively engages with regulators, industry bodies and advisors to actively engage in consultation processes.</p>
<b>Business Performance and Scale</b>	<p>Rising competition could compress Group margins below sustainable levels.</p>	<p>The Group uses its expertise and deep understanding of its customer needs to drive customer service and a long term relationship with its customers through the cycle.</p> <p>The Group monitors its chosen markets on a regular basis and regularly reviews adjacent markets where it has expertise and reviews opportunities for inorganic growth.</p>

Risk Type	Risk	Mitigation
<b>Intermediary and Outsourcing</b>	The Group is a specialist lending and savings bank for SMEs and consumers. The specialist nature of some of its lending through Intermediaries and Brokers may mean that some customers find themselves with an increased risk of an unfavourable outcome. For the Group this may also lead to increased conduct related redress, additional fraud or credit risk impairments.	The Group works with carefully selected Intermediary and Broker partners who take on the role of advising SME and consumers. The Group recognises the importance of taking ownership for the lending it originates and continually undertakes a review of their performance. In addition, experienced underwriters perform thorough checks on each application. The Group continually reviews its risk management approach to intermediaries, brokers and outsource partners to reflect the regulatory environment that the Bank operates in.
<b>Pace, Scale of Change and Management Stretch</b>	The scale and pace of change could create delivery challenges and may lead to a disruption of the Group's plans and the delivery of its objectives.	<p>The Group understands the need to manage change without disrupting the Group's operating environment and impacting customer service. These operational risks are managed through a strong focus on change governance and programme management disciplines and led by a dedicated Executive member. The risks are further mitigated by the Group's significant strengthening of the senior management team.</p> <p>The Group has a formal Change Management Committee that is set-up to prioritise change and provide effective oversight of the change portfolio to ensure that requirements are delivered within budget and on time.</p>
<b>Information Security</b>	<p>The pace of technological development is changing the way in which SMEs and consumers want to engage with the Group leading to a number of risks:</p> <ul style="list-style-type: none"> <li>– Increasing customer demand may exceed the Group's ability to provide highly reliable and widely available systems and services;</li> <li>– The ever evolving nature and scale of criminal activity increases the likelihood and severity of attacks on the Group's systems; and</li> <li>– Franchise value and customer trust could be significantly eroded by a sustained hack of the Group's systems leading to a diversion of funds or the theft of customer data.</li> </ul>	<p>The Group continually reviews its control environment for Information Security to reflect the evolving nature of the threats that the Bank is exposed to.</p> <p>The Group's strategy for mitigating Information Security risk is comprehensive including: a documented cyber-strategy, ongoing threat assessments, regular penetration testing, the wide deployment of detective controls and a programme of education and training.</p>

### ICAAP, ILAA AND STRESS TESTING

The ICAAP, ILAAP and associated stress testing exercises represent important elements of the Group's ongoing risk management processes. This ensures that sufficient capital and liquidity are available to support the Group's growth plans as well as cover its regulatory requirements at all times and under varying circumstances.

The ICAAP and ILAAP are reviewed at least annually, and more often in the event of a material change in capital or liquidity. Ongoing stress testing and scenario analysis outputs are used to inform the formal assessments and determination of required buffers, the strategy and planning for capital and liquidity management as well as the setting of Risk Appetite limits.

The Board and senior management have engaged in a number of exercises which have considered and developed stress test scenarios. The output analysis enables management to evaluate the Group's capital and funding resilience in the face of severe but plausible risk shocks. In addition to the UK variant test on capital prescribed by the Regulator, the stress tests have included a range of Group-wide, multi-risk category stress tests, generic and idiosyncratic financial shocks as well as operational risk scenario analyses. Stress testing is an integral part of the adequacy assessment processes for liquidity and capital, and the setting of tolerances under the annual review of Group Risk appetite.

The Group also performed reverse stress tests to help management understand the full continuum of adverse impact and therefore the level of stress at which the Group would breach its individual capital and liquidity guidance requirements as set by the Regulator under the ICAAP and ILAAP processes.

### RECOVERY AND RESOLUTION PLAN

The Group has prepared and submitted a Recovery and Resolution Plan (RRP) in accordance with Supervisory Statements SS18/13 and SS19/13 as updated on 16 January 2015, which was refreshed to take account of the Bank's IPO in April 2015.

The plan represents the Bank's 'Living Will' and examines in detail:

- The consequences of severe levels of stress (i.e. beyond those in the ICAAP) impacting the Bank at a future date;
- The state of preparedness and contingency plan to respond to and manage through such a set of circumstances; and
- The options available to management to withstand and recover from such an environment.

This plan is prepared annually, or more frequently in the event of a material change in the Group's status, capital or liquidity position. The Board of Directors and Senior Management are fully engaged in considering the scenarios and options available for remedial actions to be undertaken.

The Board considers that the Group's public status, business model and the diversified nature of its business markets provides it with substantial flexibility to consider selective business or portfolio disposals, loan book run off, equity raising or a combination of these actions. The Group has a Recovery Plan and a Resolution Plan in place which it would invoke in the event they would be required.

### GROUP VIABILITY STATEMENT

The Directors have assessed the outlook for the Group over a longer period than the twelve months required by the 'Going Concern' statement in accordance with the 2014 UK Corporate Governance Code.

The assessment relied on:

- The Board approved budget that outlines the business plans and financial projections from 31 December 2015 to 31 December 2020;
- The Internal Capital Adequacy Assessment Process ('ICAAP');
- The Internal Liquidity Adequacy Assessment Process ('ILAAP'); and
- A review and evaluation of its Top and Emerging Risks (as reported upon earlier in this section).

The Group has a well-established three year planning cycle and during 2015 the Group extended the time horizon for the first time as part of its corporate planning process.

The Group is not large enough to participate in the annual Bank of England concurrent stress testing programme but has, as part of its ICAAP, performed a variety of stress tests and reverse stress tests of its business. These include two market wide stress tests and two Group specific (idiosyncratic) stress tests. The stress tests were derived through discussions with Senior Management and the Board, after considering the Group's principal risks. The Bank also considered its funding and liquidity adequacy in the context of the reverse stress testing. The risk of the UK leaving the EU was not specifically addressed but the Board believe this risk was captured within the UK variant parameters, and will keep this risk under review.

The stress tests enable the Group to assess the impact of a number of severe but plausible scenarios on its business model. In the case of reverse stress testing, the Board is able to assess scenarios and circumstances that would render its business model unviable, thereby identifying business vulnerabilities and

ensuring the development of early warning indicators and potential mitigating actions.

The Board aims to build a sustainable lending and savings bank for SMEs and consumers over the medium to long. The assessment above concluded that the Viability Statement should cover a period of three years in line with the established three year planning cycle. Taking account of the Group's current position, consideration of its Top and Emerging Risks and the outputs from the ICAAP and ILAAP work, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years.

## CORPORATE SOCIAL RESPONSIBILITY

### OUR VISION:

# PERSONAL, PRAGMATIC, EXPERT AND PROGRESSIVE

Shawbrook was established to be the SME Champion and meet the needs of underserved markets, particularly in the SME sector. We also serve specialist consumer markets where our products and high degree of choice can differentiate our offer.

Our traditional values and culture of respect, care, good sense and thoughtful judgement underpin our approach to the way in which we demonstrate our commitment to stakeholders: employees; customers; business partners; shareholders and local communities. We also engage with a wider group of stakeholders including our regulators, government, trade associations and the media who provide insight and guidance on key business and customer issues as we continue to develop and grow the Bank.

As a newly listed FTSE 250 organisation in 2015, with a proud heritage, we are building the foundations of a distinctive CSR programme, closely aligned to our business strategy, which will remain true to our values-based culture and in so doing deliver benefits for all of our stakeholder groups.

### COMMITMENT TO EMPLOYEES

We invest in attracting and retaining talented teams:

- We work hard to create a business where we can attract and retain talented, customer-focused people who can do their best work and grow fulfilling careers. In June 2015 we carried out a staff survey to gather the opinions of our teams. The survey achieved a 76% response rate, a 20% higher response to the levels of similar surveys in other organisations and an indication of staff 'buy-in' to our culture. We listened carefully to feedback about what we could do better and have since introduced a new one day induction programme for all new starters, both permanent and contract staff.
- We have also invested in improving engagement and communication around the business with our 'all staff' Summer Business Update event; through quarterly offsites bringing together our Top 50 Leadership Team; regular communications to all staff sharing success stories and new initiatives; and our commitment to launching an enterprise wide intranet in the early part of 2016.
- We want our people to share in Shawbrook's success: upon our successful IPO, a Share Award was made to all eligible staff and our ShareSave scheme, launched in September 2015, achieved a 70% take up rate.

### COMMITMENT TO CUSTOMERS

Relationships and customer focus are in the fabric of everything we do:

- We employ a high touch, high quality approach to our customer relationship management model with teams of experts who possess deep insight and understanding in place across our specialist Property, SME and Consumer markets. We engage with our Property and SME customers on a one to one basis to truly understand their requirements and participate in UK RFI research to gain insight about issues that matter to our Savings customers.
- In December 2015, Charterhouse Research carried out our 2nd Annual Customer Insight Survey, interviewing over 1,500 customers from across our savings Division and five lending Divisions. We attained an overall customer satisfaction rating of 89% for efficiency of service, 82.8% likelihood to recommend Shawbrook and a very strong NPS of 34; these scores underline the value of the customer-focused approach that is our hallmark. We will use further insight gathered from our customers to look at what we could differently to improve products and services as we move through 2016.
- In 2015 the FCA published its guide to 'Smarter Consumer Communications' setting standards for firms to ensure clear pricing and clear information. Since this guide was published Shawbrook has joined The Plain English Campaign to support clear use of English in customer facing communications that will help consumers make informed decisions; meeting our commitment to being transparent and clear in our customer facing communications and helping to ensure fair customer outcomes.

THANKS TO SUPPORT FROM SHAWBROOK, WE HAVE BEEN ABLE TO ENSURE THAT STUDENTS FROM LESS ADVANTAGED BACKGROUNDS HAVE ACCESS TO RELATABLE ROLE MODELS TO INSPIRE AND GUIDE THEM AS THEY CONSIDER THEIR FUTURES. SHAWBROOK HAVE SUPPORTED US NOT ONLY FINANCIALLY, BUT ALSO IN ENCOURAGING THEIR STAFF TO SIGN UP TO VOLUNTEER AT THEIR OLD SCHOOLS TOO.

ALEX SHAPLAND-HOWES, MANAGING DIRECTOR, FUTURE FIRST



## CORPORATE SOCIAL RESPONSIBILITY CONTINUED

WE ARE HUGEY GRATEFUL TO SHAWBROOK FOR ITS INVALUABLE SUPPORT, WHICH HAS ENABLED CONTACT THE ELDERLY TO LAUNCH FOUR NEW TEA PARTY GROUPS IN LOCAL COMMUNITIES. THESE REGULAR MONTHLY OUTINGS ARE A VITAL LIFELINE FOR ISOLATED OLDER PEOPLE, WHO ARE LIVING ALONE AND WOULD OTHERWISE BE COMPLETELY CUT OFF FROM SOCIETY.

DEBRA BOLLAN, FUNDRAISING MANAGER, CONTACT THE ELDERLY

- Our commitment to our customers is demonstrated by a number of the 15 awards Shawbrook received in 2015 including: Insider Deal Makers, **Asset Based Lender of the Year** (third year in a row); Moneyfacts, **Best Notice Account Provider**; Moneyfacts, **Best Fixed Account Provider**; NACFB, **Innovative Lender of the Year**; What Mortgage, **Best Secured Loans Lender** and Personal Finance, **Best Online Savings Provider**.

### COMMITMENT TO PARTNERS

Relationships based on mutual respect, commitment to quality and efficiency:

- We regard our brokers and key business introducers as partners and invest in establishing long term relationships with them that both supports our flexible distribution model and delivers benefits for our customers.
- The Commercial Mortgages Division hosted its fourth annual north and south Partner Days in September 2015, welcoming a record number of brokers in Derby and London respectively. With well over 200 attendees across the two events, the Partner Day series delivered practical information and interaction between the Bank and its trusted panel of Broker Partners, demonstrating the Division's commitment to engagement and provision of an expert standard of service for its Broker Partners.
- In 2015, Secured Lending hosted 21 successful nationwide learning academies for its Broker Partners, providing an introduction to the Mortgage Credit Directive and the regulatory changes that will widely impact the first and second charge mortgage market when advisers will become required to advise customers of the potential suitability of second charge mortgages.

- Following the successful innovation and introduction of E-Signature technology within Consumer Lending in 2014; Secured Lending became the first secured loan lender in 2015 to launch E-signature tablet technology that facilitates brokers enabling customers to sign paperless consumer agreements, streamlining and shortening the cycle time for consumer credit approvals and completions.

### COMMUNITY AND CHARITY COMMITMENT

Our charitable and community engagement reflects the wishes and concerns of our people:

- We believe in working with our communities at all times, playing our part as a positive influence by supporting local charities and initiatives. In 2015 we continued to develop our charity programme, working towards making a positive difference and focusing on charity and community engagement. In addition to staff-nominated causes and fundraising activity, we support two national charities at a local level, Contact the Elderly and Future First.
- We invite our people to nominate charities and causes that would benefit from our support, ensuring that our charitable activities reflect their wishes and concerns. These nominations are reviewed every quarter by our charity committee and in 2015 we supported 15 UK charities through financial donations, with a further 14 charities and good causes supported through staff fund raising and our popular monthly 'dress down Fridays'. We are extremely proud of our motivated staff who give significantly of their own time to raise funds for such a wide range of charitable endeavours.

### Some of the charities and causes supported including:

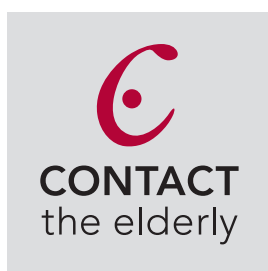
Little Havens Hospice  
Erb's Palsy Group  
SAM Funds  
Helen Rollason Cancer  
Kingsway Pre-School  
Macmillan  
Havens Hospice  
The Doxa Project  
Romford Drum & Trumpet Corp  
Cystic Fibrosis  
Scope  
National Deaf Children's Society  
the Mayhew Animal Home  
Ali's Dream  
CATS foundation  
DEC Nepal  
Dogs for the Disabled  
the Hospice of St Francis  
Wear it Pink  
Save the Children

- During 2015, our financial contribution to Contact the Elderly supported the establishment and continuity of four support groups providing a vital life line for elderly, isolated people living alone in areas close to our business locations. We also provided a financial contribution to enable seven schools to join the Future First programme to help their students develop life skills and prepare for the world of work, supported by a thriving, engaged alumni community. We were pleased to sponsor the launch of the Future First online UK e-mentoring platform.

### COMMUNITY TO GENDER EQUALITY

Our gender demographics are set out in the table below:

	Gender	2015 Number	2015 %
Board	Male	9	82%
	Female	2	18%
Senior management	Male	28	78%
	Female	8	22%
All colleagues	Male	316	57%
	Female	243	43%



## CORPORATE GOVERNANCE REPORT



**IAIN CORNISH**  
Chairman

### CHAIRMAN'S INTRODUCTION

Dear Shareholders

I am pleased to present our corporate governance statement for 2015 which explains how the Company has applied the principles of corporate governance as set out in the 2014 edition of the UK Corporate Governance Code ('the Code') as published by the Financial Reporting Council ('FRC') and available on its website [www.frc.org.uk](http://www.frc.org.uk).

The Company listed its ordinary shares on the main market of the London Stock Exchange on 1 April 2015 ('the IPO'). Prior to the IPO covering the period from 1 January 2015 to 31 March 2015, the Group's main asset for reporting purposes was Shawbrook Bank Limited, a Company that was not required to comply, being a private limited company, with the Code. The Group did, in that period, have regard to the Code in a way that was appropriate to its size and unlisted status and was in the process of establishing more extensive corporate governance arrangements conditional upon admission of its shares to the Official List of the London Stock Exchange ('Admission'). From the date of Admission on 1 April 2015 the Board has sought to move towards full compliance throughout the remainder of the accounting period (the 'relevant period') to 31 December 2015 with its relevant obligations under the Code. Details of non-compliance are provided on page 55.

The Board is responsible to shareholders for strategic direction, management and control of the Company's activities and is committed to the highest standards of corporate governance in delivering in these areas. The Board considers that appropriate governance standards were in place prior to the IPO.

I was appointed Chairman of the Board on 6 July 2015 following the announcement by Sir George Mathewson of his intention to step down following the IPO.

In addition to my appointment to the Board and following the resignation of Richard Pyman as Chief Executive Officer we also appointed a new Chief Executive Officer, Steve Pateman, who brings a wealth of experience with him from both Santander and RBS. Stephen Johnson, having served as a member of the Company's Executive Committee for a number of years was also promoted to the position of Deputy Chief Executive on 21 May 2015. In addition we have appointed three new Non-Executive Directors, Paul Lawrence, Sally-Ann Hibberd and David Gagie all of whom bring a wealth of experience, skill and knowledge to the Board.

The Board has spent considerable time since the IPO in enhancing its Risk Management Framework, its Corporate Governance arrangements, strengthening the senior management team to oversee the management plan and its people as well as dealing with the challenges facing the business such as changes in regulation, technology and the competitive landscape.

The Board has also continued to foster good relations with its new and existing shareholders. A newly established investor relations function has assisted the Board in developing a programme of meetings and presentations to institutional shareholders and we look forward to welcoming shareholders to our first Annual General Meeting on 9 June 2016.

**IAIN CORNISH**  
Chairman

2 March 2016

# BOARD OF DIRECTORS



**Tom Wood**  
Chief Financial Officer

**Steve Pateman**  
Chief Executive Officer

**David Gagie**  
Non-Executive Director

**Sally-Ann Hibberd**  
Independent Non-Executive Director

**Robin Ashton**  
Senior Independent Non-Executive Director





**Iain Cornish**  
Chairman

**Paul Lawrence**  
Independent  
Non-Executive Director

**Lindsey McMurray**  
Non-Executive Director

**Graham Alcock**  
Independent  
Non-Executive Director

**Stephen Johnson**  
Deputy Chief  
Executive Officer

**Roger Lovering**  
Independent  
Non-Executive Director

## BOARD OF DIRECTORS

	<b>Iain Cornish</b>	<b>Steve Pateman</b>	<b>Tom Wood</b>	<b>Stephen Johnson</b>	<b>Robin Ashton</b>
	Appointed to the Board in July 2015	Appointed to the Board in January 2016	Appointed to the Board in March 2015	Appointed to the Board in May 2015	Appointed to the Board in March 2015
	Appointed to the Board of Shawbrook Bank Limited in July 2015	Appointed to the Board of Shawbrook Bank Limited in January 2016	Appointed to the Board of Shawbrook Bank Limited in October 2012	Appointed to the Board of Shawbrook Bank Limited in May 2015	Appointed to the Board of Shawbrook Bank Limited in December 2011
<b>Role</b>	Chairman and Non-Executive Director  Chairman of the Nomination Committee  Member of the Remuneration Committee	Chief Executive Officer	Chief Financial Officer	Deputy Chief Executive Officer and Managing Director of Commercial Mortgages	Senior Independent Director  Member of the Audit Committee  Member of the Nomination Committee  Member of the Remuneration Committee  Member of the Risk Committee
<b>Skills &amp; Experience</b>	Iain was a founding member of the PRA Board at its formation in 2013. He holds a degree in Business, Economics and Statistics from Southampton University.	Steve joined Shawbrook from Santander UK, where he was Executive Director and Head of UK Banking, running the bank's Corporate, Commercial, Business and Retail Banking operations as well as Wealth Management. He joined Santander in 2008 with responsibility for building an SME franchise. He is a Fellow of the Chartered Institute of Bankers in Scotland.	Tom has significant experience of banking and financial management. He is ACA qualified and holds a LLB (Hons) in International Law from Glasgow University. From May 2015 to December 2015, Tom acted as Interim Chief Executive Officer as well as Chief Financial Officer.	Stephen has 14 years' experience in building specialist lending businesses, across commercial and consumer lending markets in the UK. He is qualified as a Chartered Accountant.	Robin has extensive experience of retail financial services in both the U.K. and internationally. He is a Chartered Accountant and holds a Bachelor of Arts (Hons) in Economics and Law from Durham University.
<b>Other External Directorships</b>	Iain is currently Senior Independent Director of both Arrow Global Group PLC and St James's Place plc.	None	None	None	Robin has been a Non-Executive Director of Leeds Building Society since April 2011 and Chairman since March 2013. He is also currently a Non-Executive Director of Non-Standard Finance plc.
<b>Former Appointments</b>	Iain spent 19 years (between 1992 and 2011) at Yorkshire Building Society, including eight as Chief Executive Officer (between 2003 and 2011).	Before joining Santander UK, Steve spent eight years at RBS, where he was Chief Executive Officer of Business Banking, Retail Markets and Managing Director of Commercial Banking and Corporate Banking, Corporate Markets.	Prior to joining the Group, Tom was the Finance Director of NBNK Investments plc and Group CFO of Skipton Group. He began his career in financial services with Barclays where he held a number of senior roles in finance, risk and corporate development. Subsequently he was Group CFO of Derbyshire Building Society playing a key role in its merger with Nationwide, and played a leading role in the restructure of Northern Rock in 2009.	Stephen was part of the founding team of the Group and was also a founding member of the management team at Commercial First. Prior to this Stephen worked in corporate finance advisory.	Robin spent 24 years at Provident Financial plc, joining the board in 1993 initially as Finance Director, then Deputy Chief Executive in 1999 and Chief Executive in 2001, leaving in early 2007. He was Non-Executive Chairman of the original holding Company for what is now the Group's secured lending business, and was previously a Non-Executive Director of Albemarle & Bond Holdings plc.
<b>Committees</b>	<b>N R</b>				<b>A N R R I</b>

**A** Audit Committee

**R** Remuneration Committee

**N** Nomination & Governance Committee

**RI** Risk Committee

Graham Alcock	David Gagie	Sally-Ann Hibberd	Paul Lawrence	Roger Lovering	Lindsey McMurray
Appointed to the Board in March 2015	Appointed to the Board in January 2016	Appointed to the Board in November 2015	Appointed to the Board in August 2015	Appointed to the Board in March 2015	Appointed to the Board in April 2010
Appointed to the Board of Shawbrook Bank Limited in April 2007	Appointed to the Board of Shawbrook Bank Limited in January 2016	Appointed to the Board of Shawbrook Bank Limited in November 2015	Appointed to the Board of Shawbrook Bank Limited in August 2015	Appointed to the Board of Shawbrook Bank Limited in January 2013	Appointed to the Board of Shawbrook Bank Limited in January 2011
Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Non-Executive Director
Chairman of the Remuneration Committee			Chairman of the Risk Committee	Chairman of the Audit Committee	
Member of the Audit Committee			Member of the Audit Committee	Member of the Risk Committee	
Member of the Nomination Committee					
Member of the Risk Committee					
Graham has been with the Group for nine years, having been a Non-Executive Director of Whiteaway Laidlaw Bank.	David has global experience in consumer lending, banking, credit card, payments and risk management. Whilst a Senior Advisor at the Financial Conduct Authority and member of the Payments Systems Regulator Executive he focused on regulatory conduct issues relating to retail banking, consumer credit and payments.	Sally-Ann brings a wealth of experience in financial services having held senior roles at Prudential, LloydsTSB and Willis Group. Prior to becoming a Non-Executive Director she worked for Willis where she served in two separate roles over a six year period, firstly as Chief Operating Officer of the International Division and latterly as Group Operations and Technology Director.	Paul was formerly Global Head of Group Internal Audit for HSBC.	Roger has over 25 years of experience in the Consumer Finance industry, focussing on lending to individuals. Extensive knowledge of secure and unsecured lending, both on fixed and revolving term nature via Credit Cards. Roger is a member of ICAEW and has a degree in Accountancy and Financial Analysis from Warwick University.	Lindsey has over 20 years of experience as a private equity investor with a particular focus on the financial services sector. She holds a first class honours degree in Accounting and Finance from Strathclyde University.
None	David Gagie is a Non-Executive Director of Prize Ventures Ltd and of MWS Technologies Ltd. He is also a Director of Populus Consulting Ltd.	Sally-Ann is currently a Non-Executive Director of NFU Mutual and sits on the Governing Body of Loughborough University.	None	Roger is also a Non-Executive Director of Caswell Consultancy Limited, Logic Glue Limited and Amigo Loans Limited.	Lindsey is managing partner of private equity fund manager Pollen Street Capital, an affiliate of the SOF General Partner (Guernsey) LP (the 'Major Shareholder'). Pollen Street Capital is an independent private equity manager that focuses on investing in high quality financial services businesses across Europe. She is also currently an executive director of Pollen Street Capital Limited and a director of Freedom Acquisitions Limited, Honeycomb Holdings Limited, Honeycomb Finance plc and Capitalflow Holdings Limited.
Graham is an experienced corporate banker, having spent 37 years in a variety of senior posts with Royal Bank of Scotland plc prior to his retirement in 2005, when he was Senior Director of commercial banking for the Manchester region.	David was a Senior Advisor at the Financial Conduct Authority and a member of the Payments Systems Regulator Executive Committee. He was also an Advisory Board Director for ING Direct, Managing Director of Consumer Lending for Lloyds TSB, Chairman of MasterCard UK, and a Director of Visa UK and of Link Ltd.	Prior to joining Willis, Sally-Ann was International Chief Operating Officer of Guy Carpenter for two years and held a number of senior executive roles at Lloyds TSB over a ten year period.	During a 31 year career with the bank, Paul was CEO of HSBC Bank, North America, Head of Global Banking & Markets USA, CEO of HSBC Singapore, and CEO of HSBC Philippines.	Roger was Chief Executive Officer at Santander Cards UK Limited, Head of European cards at HSBC and Chief Operating Officer and Director at HFC Bank Limited.	Prior to her time at Pollen Street Capital Lindsey was head of RBS Equity Finance where she led the management of the RBS Special Opportunities Funds, a £1.1 billion private equity fund. Prior to this she was at Cabot Square Capital, Ltd. for six years where she was a partner.
<b>A N R RI</b>			<b>A RI</b>	<b>A RI</b>	

## CORPORATE GOVERNANCE REPORT CONTINUED

### LEADERSHIP

The Board considers that its primary role is to provide leadership to the Group, to set the Group's long-term strategic objectives and to develop robust corporate governance and risk management practices.

The Board has the ultimate responsibility for ensuring that the Group is managed effectively and in the best interests of the shareholders, customers, employees and other stakeholders (including regulators). The Board operates within a formal schedule of matters reserved to it. This schedule is reviewed and updated on a regular basis. The Board meets regularly and provides direction, oversight and detailed review/challenge of the Group's business.

A summary of the key matters reserved for the Board are set out below:

- Strategy and Management
- Financial reporting and controls
- Structure and capital
- Oversight of regulatory compliance and internal controls
- Oversight of risk management
- Corporate Governance
- Remuneration Policy for Directors and senior executives
- Approval of communications to shareholders
- Board membership and other appointments

The Board delegates specific powers for some matters to committees, details of which are set out below. The outputs from each committee meeting are reported to the Board, thus ensuring the Board maintains the necessary oversight. More detail on the committees and their work is described in the section headed 'Committees' below.

Prior to Admission the Board comprised a Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer and six Non-Executive Directors.

On Admission the Board comprised a Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer and four Non-Executive Directors. Following the IPO there has been considerable change to the Board as set out below:

### BOARD CHANGES

- On 20 March 2015 James Scott resigned as Director;
- On 20 March 2015 Robin Ashton was appointed as Senior Independent to the Board;
- On 21 May 2015 Tom Wood was appointed as Interim Chief Executive. This appointment was to cover for Richard Pyman who took a leave of absence due to ill health and who subsequently resigned on 2 October 2015;
- On 21 May 2015 Stephen Johnson was appointed as Deputy Chief Executive Officer;
- On 6 July 2015 Sir George Mathewson resigned as Chairman;
- On 6 July 2015 following the resignation of Sir George Mathewson, Iain Cornish was appointed as Chairman;
- On 24 August 2015 Paul Lawrence was appointed as an Independent Non-Executive Director;
- On 5 November 2015 Sally-Ann Hibberd was appointed as an Independent Non-Executive Director;
- On 1 January 2016 Tom Wood stepped down as Interim Chief Executive Officer following the appointment of Steve Pateman as Chief Executive Officer; and
- On 1 January 2016 David Gagie was appointed as an Independent Non-Executive Director.

Appointments to the Board are the responsibility of the full Board, on the recommendation of the Nomination Committee. On joining the Board, Non-Executive Directors receive a formal appointment letter, which

identifies the time commitment expected of them. The terms and conditions of appointment of Non-Executive and service contracts of Executive Directors are available to shareholders for inspection at the Group's registered office during normal business hours.

As a result of all of the changes as described above, the Board currently consists of eleven members, including the Chairman, six Independent Non-Executive Directors, three Executive Directors and one Non-Independent Non-Executive Director. Biographical details of all Directors are given on page 48.

The composition, skills and effectiveness of the Board are reviewed annually. The Non-Executive Directors have strong and relevant experience across all aspects of banking and specifically have relevant skills in credit assessment and pricing, liability management and conduct matters. The Board ensures a diverse pool of candidates is considered for any vacancy which arises and any appointments are made based on merit, having regard to the skills, competencies and experience of the candidate.

All Directors are required to disclose to the Board any outside interests which may pose a conflict with their duty to act in the best interests of the Bank. The Board is required to approve any actual or potential conflicts of interest and they are recorded in a central register. Directors are also required, on an annual basis, to confirm that they are not aware of any circumstances which may affect their fitness and propriety and therefore their ability to continue to serve on the Board.

### MEETINGS AND ATTENDANCE

The Board holds meetings at regular intervals, at which the Group's financial and business performance is reviewed, along with risk, compliance, IT, human resources and strategic matters. There is a comprehensive Board pack and agenda which is circulated beforehand so that Directors have the opportunity to consider the issues to be discussed, and detailed minutes and any actions are documented. The regular meetings are scheduled up to a year in advance, and if any Director is unable to attend then they may provide comments on the papers to the Chairman before the meeting. Meetings are structured so that appropriate time is devoted to all agenda items. In addition to these regular, scheduled meetings, 'ad hoc' Board meetings are held outside the published cycle where circumstances require – for example, to approve appointments to the Board, any material transactions, the signing of the Financial Report and Accounts or the approval of regulatory submissions. In particular during 2015, such additional meetings were held in connection with matters relating to the IPO.

During 2015 the Board has devoted significant time to considering:

- The IPO;
- Business and financial performance including a three year strategic financial plan;
- Risk management framework and risk policies;
- Capital and liquidity adequacy;
- Target Operating Model;
- Regulatory developments in particular the application of the Senior Managers Regime and the impact of the Mortgage Credit Directive;
- Corporate development opportunities;
- Information Security;
- NED and senior management recruitment;
- HR strategy;
- The control environment; and
- Project and IT investment.

Prior to Admission, the governance arrangements were operated by the trading subsidiary, Shawbrook Bank Limited. This reflects the fact that the

Company's main asset up to Admission was the Bank. This governance report therefore sets out the governance arrangements of the Bank, rather than the Company, during the period from 1 January 2015 up to the date of Admission. References to the 'Board' are to the Board of the Bank.

As indicated above, this table includes reference to meetings of the Board and delegated committees of the Board held on behalf of Shawbrook Bank Limited during the period of 1 January 2015 up to the date of Admission. Individual meeting attendance is set out below. The number of meetings held during the period that the Director held office is shown in brackets.

Director	Regular Board Meetings	Additional Board Meetings	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Iain Cornish	5 (5)	4 (4)		3 (3)	5 (5)	
Sir George Mathewson	5 (6)	5 (8)		1 (1)	2 (2)	
Graham Alcock	11 (11)	10 (12)	11 (11)	5 (5)	8 (8)	6 (7)
Robin Ashton	10 (11)	10 (12)	11 (11)	5 (5)	8 (8)	6 (7)
Sally-Ann Hibberd	2 (2)	0 (1)				
Sir Brian Ivory*	2 (2)	4 (5)	5 (5)			1 (1)
Stephen Johnson	7 (7)	4 (5)				
Paul Lawrence	4 (4)	1 (2)	2 (2)			3 (3)
Roger Lovering	10 (11)	11 (12)	11 (11)			7 (7)
Lindsey McMurray	11 (11)	10 (12)				
Richard Pyman	4 (8)	6 (10)				
Tom Wood	11 (11)	11 (12)				

\* Sir Brian Ivory was not a Director of Shawbrook Group plc but of Shawbrook Bank Limited. He resigned from the Board of the Bank on 31 March 2015.

Sir George Mathewson resigned as Chairman of the Bank on 6 July 2015.

## CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and the Chief Executive Officer are separate, clearly defined in writing and have been agreed by the Board.

### THE ROLE OF THE CHAIRMAN

The Chairman, Iain Cornish is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The key responsibilities of the Chairman are set out below:

- to build and actively maintain an effective and complementary Board;
- to ensure Directors are provided with accurate, timely and clear information;
- to ensure the Directors have sufficient time to consider critical issues and obtain answers to their questions and concerns ahead of decision-making;
- to facilitate and encourage the effective contribution and decision making of all members of the Board;
- to manage the Board in a way which allows enough time for discussion of complex or contentious issues;
- to ensure shareholders and other interested parties are effectively communicated with, in particular major shareholders;
- to ensure that the views of all shareholders are communicated to the Board;
- to ensure there are constructive relations between the executive and Non-Executive Directors;
- to hold meetings with the Non-Executive Directors without Executive Directors or senior management present;
- to ensure there is appropriate delegation of authority from the Board to executive management;
- to chair Board and general meetings of the Company and the Nomination Committee;
- to ensure a clear structure for, and the effective running of, Board Committees;
- to ensure new Directors participate in a full, formal and tailored induction programme and that their subsequent development needs are identified and met;
- to ensure, with the support of the Company Secretary, that the development and ongoing training needs of individual Directors and the Board as a whole are reviewed at least annually and agreed;
- to ensure that the performance of the Board, its Committees and the individual Directors are evaluated at least once a year and to act on the results;
- to ensure high standards of corporate governance are adhered to;
- to arrange for all Directors to attend, and for the chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at, the Company's Annual General Meeting;
- to ensure a robust management succession plan is in place; and
- to handle relationships with governments, authorities, regulators and stakeholders.

Throughout the relevant period the Chairman has held regular meetings with Non-Executive Directors without the Executive Directors being present.

### THE ROLE OF THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer, Steve Pateman is from 1 January 2016 the executive responsible for the day-to-day running of the business and is accountable to the Board for its operational and financial performance. The key responsibilities of the Chief Executive are set out below:

- to recommend the strategic direction of the Group to the Board;
- to implement strategy as approved by the Board;
- to ensure appropriate internal controls are in place, including to manage the Group's risk profile in line with the extent and categories of risk identified as acceptable by the Board;
- to regularly review the performance of the Group and its organisational structure;
- to report to the Board regularly on the Group's performance;
- to present to the Board an annual budget and financial plan;
- to approve the appointment and termination of members of the senior executive team and to formalise the roles and responsibilities of its members;
- to supervise and develop senior teams within subsidiaries;
- to conduct the affairs of the Company in accordance with the highest standards of integrity, probity and applicable principles and rules of the UKLA and the Company's Articles of Association in effect from time to time and to also have regard to the UK Corporate Governance Code together with resolutions of the Board;
- to ensure, with the executive team, that board decisions are implemented effectively and that significant decisions made by the Executive Committee are communicated to the board;
- to ensure, with the support of the Company Secretary, that the Executive team complies with the terms on which matters are delegated by the Board, and the terms of reference of Board Committees, and to ensure matters outside the authority of the executive team are escalated to the Board;
- to lead communications with shareholders and other stakeholders, ensuring that appropriate, timely and accurate information is disclosed to the market, with issues escalated promptly to the Disclosure Committee where appropriate; and
- to provide, together with the Chairman, coherent leadership of the Company, including representing the Group to customers, suppliers, shareholders, financial institutions, employees, the media, the community and the public, and keeping the Chairman informed on all important matters.

### SENIOR INDEPENDENT DIRECTOR

The Senior Independent Director (SID) is Robin Ashton. The SID is available to shareholders should they wish to discuss concerns regarding the Company. In addition key responsibilities also include:

- to chair the Nomination Committee when it is considering succession to the role of Chairman of the Board;
- to provide a sounding Board for the Chairman and serve as an intermediary for the other Directors when necessary;
- to meet other Non-Executive Directors without the Chairman present at least once a year to appraise the Chairman's performance, taking into account the views of Executive Directors, and on such other occasions as are deemed appropriate; and
- to provide feedback to the Board on the Independent Non-Executive Directors' collective views on the following:
  - the perceived quality of the relationship between the Chairman and the Chief Executive Officer;
  - the degree of openness between the Chief Executive Officer and the Board;
  - the visibility of checks and balances within the executive team; and
  - whether all questions asked by the Non-Executive Directors in the Board have been adequately addressed.

During the relevant period, the SID met with the Non-Executive Directors, without the Chairman being present, to appraise the Chairman's performance.

### COMPANY SECRETARY

Directors have access to the advice and services of the Company Secretary at all times, as well as independent professional advice where needed in order to assist them in carrying out their duties.

### BOARD AND COMMITTEES

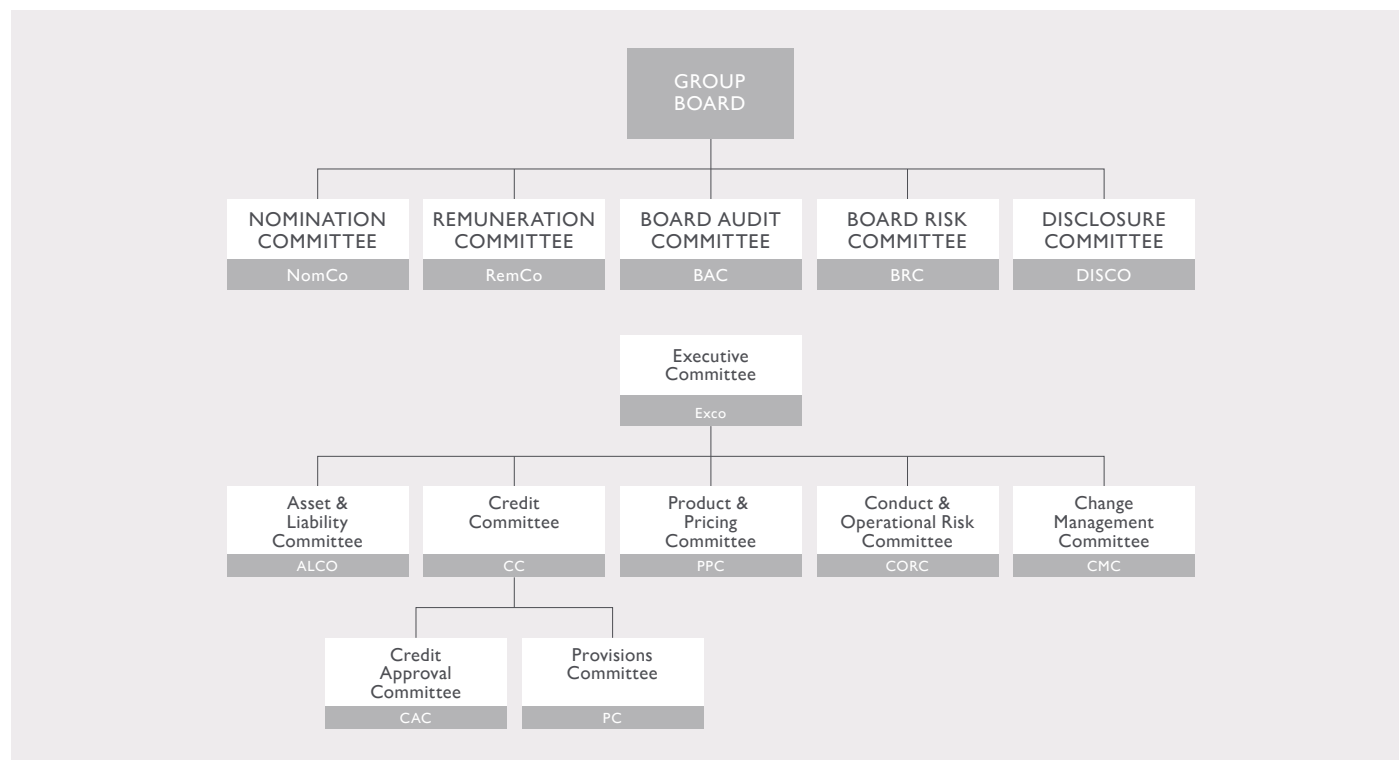
The Board has a number of committees: Audit, Risk, Nomination and Remuneration. The written terms of reference of the committees, including their objectives and the authority delegated to them by the Board, are available upon request from the Company Secretary or via the Group's website at [www.shawbrook.co.uk](http://www.shawbrook.co.uk). All committees have access to independent expert advice and the services of the Company Secretary. The Chairman of each committee reports to the Board. The constitution and terms of reference of each committee are reviewed annually to ensure that the committees are operating effectively and any changes considered necessary are recommended to the Board for approval.

The Board also has a Disclosure Committee which is responsible for monitoring, evaluating and enhancing disclosure controls and procedures of the Group. In particular, responsibilities set out in the terms of reference include the identification of inside information and maintenance of insider lists, the design, implementation and evaluation of disclosure procedures and the resolution of any questions concerning the materiality of certain information. The Disclosure Committee is also required to help the Group to make timely and accurate disclosure of all information where disclosure is required to meet legal and regulatory obligations. The Terms of Reference of the Disclosure Committee cover issues such as membership and frequency of meetings, together with the requirements for a quorum and the right to attend meetings.

The Board delegates daily management responsibility for the Group to the Executive Committee, which meets monthly. The Executive Committee is responsible for developing the business and delivering against a Board-approved strategy, putting in place effective monitoring and control mechanisms and setting out a framework of reporting to the Board.

There are also a number of committees below the main Board committees and these assist the Executive in executing their responsibilities. A table showing the governance structure is set out overleaf:

The following committees are sub-committees of the Board or the Executive:



### BOARD BALANCE, INDEPENDENCE AND TIME COMMITMENT

The Board comprises individuals with wide business skills and experience and considers that the balance of skills and experience is appropriate to the requirements of the business. The Board considers that the balance between Executive and Non-Executive Directors allows it to exercise objectivity in decision making and proper control of the Company's business. Each member of the Board has had access to all information relating to the Group, the advice and services of the Company Secretary (who is responsible for ensuring that Board procedures are followed) and, as required, external advice at the expense of the Group.

The Board has reviewed the structure, size and composition of the Board (together with an evaluation of the Board's balance of skills, knowledge and experience); the membership of the various Board committees and the expected time commitment; and the policy for Board appointments for Executive and Non-Executive Directors throughout the year. Following on from this during 2015 and 2016 a number of appointments have been made including Iain Cornish as Chairman and Steve Pateman as Chief Executive Officer.

The Directors' aim is to ensure that the balance between Non-Executive Directors and Executive Directors of the Board reflects the changing needs of the Group's business. On his appointment as Chairman, Iain Cornish did satisfy the independence criteria as set out in the Code.

The Board has reviewed the independence of each of the Non-Executive Directors who have served on the Board throughout the financial year and the relevant period and concluded that Robin Ashton, Graham Alcock, Roger Lovering, Paul Lawrence and Sally-Ann Hibberd are independent. David Gagie, who was appointed on 1 January 2016 is also considered independent. Lindsey McMurray, who represents the Group's largest shareholder, is not considered independent. Except for a short period of non-compliance between 21 May 2015 following the appointment of Stephen Johnson as an Executive Director and the appointment of Paul Lawrence on 24 August 2015, during the relevant period, the Board, together with the other two Executive Directors, Richard Pyman and Tom Wood has satisfied the Code requirements that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent. Richard Pyman, whilst still an Executive Director during this period, took a leave of absence due to ill health on 21 May 2015 and subsequently resigned on 2 October 2015. The Non-Executive Directors are considered to be of sufficient calibre and experience to bring significant influence to bear on the decision making process. The Board has satisfied itself that Robin Ashton is independent notwithstanding his interest in shares in the Group. It has done this by observing the way he has discharged his duties as Chair of the Board Risk Committee, his contribution to and challenge in Board and Committee meetings and the way he interacts with the Chairman in his role as Senior Independent Director, including conducting an evaluation of the Chairman's effectiveness at the end of 2015.

The terms of appointment of the Non-Executive Directors specify the amount of time they are expected to devote to the Company's business. They are currently required to commit to a minimum of five days per month (4 days per month for Robin Ashton, David Gagie and Sally-Ann Hibberd) which is calculated based on the time required to prepare for and attend Board and Committee meetings, meetings with shareholders and training.

### CONFLICTS OF INTEREST

All Directors have a duty to avoid situations that may give rise to a conflict of interest. Formal procedures are in place to deal with any conflict of interest. Directors are responsible for notifying the Chairman and the Company Secretary as soon as they become aware of any actual or potential conflict of interest for discussion by the members of the Board who will take into account the circumstances of the conflict when deciding whether or not to waive the potential conflict or impose conditions on the Director in the interests of the Company. In addition Directors are required to seek the Board's approval of any new appointments or changes in commitments.

### INDUCTION AND PROFESSIONAL DEVELOPMENT

On appointment all new Directors receive a comprehensive and tailored induction, having regard to any previous experience they may have as a Director of a public company or otherwise. The Company also provides additional induction materials and training for those Directors who are also Committee Chairmen. The content of our Director induction programmes is designed, and the timing planned, with input from the new Director. The induction information is delivered in a variety of formats; this includes face to face meetings with the Chairman, Board members and senior management together with the use of external advisers and training courses as appropriate. This is supplemented by the provision of our key governance documents as reading material, including policies, procedures, Board and committee minutes, Board meeting schedule and plans, Group structure charts and copies of the Listing Rules, Disclosure and Transparency rules, the 2014 UK Corporate Governance Code and information on Directors' duties and responsibilities under the Companies Act 2006.

The Board receives detailed reports from executive management on the performance of the Group at its meetings and other information as necessary. Regular updates are provided on relevant legal, corporate governance and financial reporting developments and Directors are encouraged to attend external seminars on areas of relevance to their role.

Appropriate training is made available to any newly appointed Director, having regard to any previous experience they may have as a Director of a public company or otherwise. An ongoing programme of training is available to all members of the Board to include professional external training, internal online training and bespoke Board training on relevant topics such as regulatory developments, changes in the Companies Act 2006 or accounting requirements. Directors are also encouraged to devote an element of their time to self-development. This is in addition to any guidance that may be given from time to time from the Company Secretary.

### BOARD EFFECTIVENESS

The Board undertook a self-evaluation of its effectiveness at the end of 2015. A questionnaire was issued to each member of the Board for completion and results submitted to the Chairman. In addition the Chairman also held one to one meetings with each of the Directors to ascertain their views on the Board. The Chairman has reviewed the responses received from both the completed questionnaires and the one to one meetings and reported on the conclusions to the Board which were discussed in early 2016. The process provided the Board with useful feedback on a number of issues such as the need to improve on Board Management Information to support the Board when focusing on the strategic issues facing the business in future. The Board also intends to carry out an externally facilitated evaluation in 2016.

The SID in discussions with other members of the Board has assessed the performance of the Chairman. They are satisfied that the Chairman was devoting a significant amount of time to the Group's business and that he had performed effectively since his appointment during 2015. In particular they were satisfied that the Chairman has ensured that the Board focused on the key issues facing the Group.

### INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The Audit Committee and Risk Committee have been in operation throughout the relevant period and overseen the Group's system of internal control. Material risk or control matters, together with the appropriate remedial action, are reported by the Audit Committee and Risk Committee to the Board. The Board monitors the ongoing process by which Top Risks to the Group are identified, measured, managed, monitored, reported and challenged. This process is consistent with the Risk Management Framework, Internal Control and related Financial and Business reporting guidance issued by the Financial Reporting Council in September 2014, and has been in place for the relevant period under review and up to the date of approval of the Annual Report and Accounts. The key elements of the Group's system of internal control include regular meetings of the Executive and Risk Management Committees together with annual budgeting, monthly financial and operational reporting for all businesses within the Group. Conduct and compliance is monitored by management, the Group's Risk department, Internal Audit and, to the extent it considers necessary to support its Audit Report, the external auditor.

The Board assesses the effectiveness of the Group's system of internal controls (including financial, operational and compliance controls and risk management systems) on the basis of:

- established procedures, including those already described, which are in place to manage perceived risks;
- reports by management to the Audit Committee and Risk Committee on the adequacy and effectiveness of the Group's system of internal control and any resultant control issues;
- under the direction of the Chief Risk Officer, the continuous Group-wide process for formally identifying, evaluating and managing the significant risks to the achievement of the Group's objectives; and
- reports from the Audit Committee on the results of internal audit reviews and work undertaken by other departments.

The Group's system of internal control is designed to manage rather than eliminate risk of failure to achieve the Group's objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board considers the materiality of financial and non-financial risks and the relationship between the cost of, and benefit from the system of internal control. During 2015 the Group continued to invest in its risk management capability to ensure that it remains relevant, appropriate and scalable to support the Group's objectives over the duration of the strategic plan. This ongoing investment will continue during 2016 with the embedding of these improvements in the Group's Risk Management Framework.

The Board regularly reviews the actual and forecast performance of the business compared with the annual plan, as well as other key performance indicators.

Lines of responsibility and delegated authorities are clearly defined. The Group's policies and procedures are regularly updated and distributed throughout the Group. The Audit Committee and Risk Committee receive reports on a regular basis on compliance with the Group's policies and procedures.



Shawbrook Bank Limited (the main operating subsidiary of the Group) is subject to regulation by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and as such undertakes an Internal Capital Adequacy Assessment Process (ICAAP) and an Individual Liquidity Adequacy Assessment Process (ILAAP) on a regular basis. These processes benefited from ongoing improvements in risk assessment during 2015 including, in the case of the ICAAP, an update to reflect the latest guidance from the PRA on approaches to the calculation of Pillar 2. The ICAAP and ILAAP are approved by the Board and reviewed by the PRA from time to time. The process involves an assessment of all the risks that the Group faces in their operating environment, the assessment of the likelihood of the risks crystallising and their potential materiality and the effectiveness of the control framework in mitigating each risk. This includes a thorough evaluation of how the Group would be impacted by severe, but plausible, periods of stress in its stress testing programme.

The purpose of the process is to establish the level and quality of capital resources that the business should maintain, both under current market conditions and under a range of stressed scenarios, in order to ensure that financial resources are sufficient to successfully manage the effects of any risks that may crystallise.

#### ELECTION

All new Directors are subject to election at the first Annual General Meeting following their appointment by the Board. The Company's Articles of Association also states that all Directors are subject to election at every Annual General Meeting.

The Board explains the reasons why it believes each Director should be elected in the Notice of Meeting for the next Annual General Meeting. None of the Directors have been subject to election by the shareholders since the re-registration of Admission. Except for Graham Alcock, who will have been on the Board of the Bank for nine years, and who will be stepping down at the forthcoming Annual General Meeting, all other directors will stand for re-election. The Board believes that its performance continues to be effective and that Directors' re-election is also consistent with the Board's evaluation of the size, structure and composition of the Board.

#### DIVERSITY POLICY

The Board is committed to improving diversity in its membership and whilst new appointments continue to be based on skill, experience and knowledge, careful consideration is given to diversity. During the year the Nomination Committee recommended that the Board approve the introduction of a formal Diversity Policy to be implemented in 2016.

#### RELATIONS WITH SHAREHOLDERS

The Board remains committed to maintaining good relationships with shareholders. There is a good dialogue with institutional shareholders, although care is exercised to ensure that any price-sensitive information is released at the same time to all shareholders, in accordance with the requirements of the UKLA. The Chief Executive Officer and the Chief Financial Officer, under normal circumstances, would meet with institutional shareholders on a regular basis. Tom Wood, in a dual capacity has attended a number of investor road shows and has been available for additional meetings where requested. Institutional shareholders will in future be given the opportunity to meet with the Chairman and/or other Non-Executive Directors if they have concerns that have not, or cannot, be addressed through the Chief Executive Officer or the Chief Financial Officer.

The Chairman is responsible for ensuring that appropriate channels of communication are established between the Chief Executive Officer (and the other Executive Directors) and shareholders and ensuring that the views of the shareholders are made known to the Board; this includes feedback prepared by the Group's brokers on meetings held with institutional shareholders.

The Company recognises the importance of ensuring effective communication with all of its shareholders. An annual financial report is distributed to all shareholders and to other parties, who may have an interest in the Group's performance. This report, together with a wide range of other information, including the half-yearly financial report, interim management statements, regulatory announcements and current details of the Company's share price, are made available on the Company's website.

#### COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Directors consider that the Company has been in compliance with the provisions set out in the Code throughout the period from Admission on 1 April 2015 to the year ended 31 December 2015 with the exception of Principle B.1.2 and Principle B.2.4. There was a short period between 21 May 2015 following the appointment of Stephen Johnson as Deputy Chief Executive Officer and 24 August 2015 when Paul Lawrence was appointed as a Non-Executive Director when a majority of the Board, excluding the Chairman were not independent. Richard Pyman, whilst still an Executive Director during this period, took a leave of absence due to ill health on 21 May 2015 and subsequently resigned on 2 October 2015.

The Group did not have a formal Diversity Policy in place. Post IPO the Nomination Committee recommended that the Board approve the introduction of a formal Diversity Policy to be implemented in 2016

Prior to the IPO in April 2015, the Bank was not required to follow the Code although it did take account of a number of its principles. Prior to listing on 01 April 2015 the Bank did not comply with the following provisions of the Code:

- Historically, no disclosures regarding the status of independence were made in the Bank's Annual Report and Accounts. Whilst independent Non-Executive Directors are identified in the 2014 Annual Report and Accounts, the reasons for these judgements are not stated. The Group has subsequently complied with this requirement of the Code (see page 53).
- No re-elections of Directors have historically taken place. A policy was developed by the Group to ensure Directors submit themselves for re-election annually.
- Prior to the IPO, no formal whistleblowing policy was in place. A formalised policy and procedure for staff to raise issues regarding possible improprieties in matters of financial reporting or other matters has been established since (see page 61).
- No formal Nomination Committee and Remuneration Committee were in place prior to the IPO. These committees have become effective post IPO (see pages 56 and 65).
- Historically the Board did not have a Senior Independent Director. On 20 March 2015 Robin Ashton was appointed as Senior Independent Director of the Board.

#### INFORMATION ON SHARE CAPITAL AND OTHER MATTERS

The information about share capital required to be included in this Corporate Governance Report can be found on pages 83 and 84 in the Directors' Report.



**IAIN CORNISH**  
Chairman of the  
Nomination Committee

## REPORT OF THE NOMINATION COMMITTEE

Dear Shareholder

Having assumed the role of Chairman of the Board and the Committee on 6 July 2015, I am pleased to present the report of the Nomination Committee. First I would like to thank my predecessor, Sir George Mathewson for his leadership and his support following my recruitment.

The Committee's main activity since the IPO has been to focus on achieving the right balance of skills, knowledge and experience on the Board in the interests of taking the business forward in a listed environment. The Board considers that having the appropriate range of high calibre Directors is key to achieving the Group's strategic objectives and to providing appropriate oversight of regulatory matters and other risks facing the Group.

Having identified the need to broaden the skills of the Board, the Committee has been engaged in the recruitment and appointment of new Board members. This activity led to my own appointment as Chairman and the appointment of a new Chief Executive Officer, Steve Pateman and three new Independent Non-Executive Directors, Paul Lawrence, Sally-Ann Hibberd and David Gagie.

The Committee has also reviewed the leadership needs of the business and succession planning for Directors and other senior executives as well as reviewing the results of an internal Board performance evaluation process.

Further information on the activities of the Committee is provided in the following report.

**IAIN CORNISH**  
Chairman of the Nomination Committee

## Nomination Committee Membership

The Board Nomination Committee was formed at Admission and comprises the following members:

- the Chairman of the Board ; and
- two Independent Non-Executive Directors

Meetings are held at least four times per year. Individual meeting attendance during 2015 is set out below. The number of meetings held during the period that the Director held office is shown in brackets.

Member	Position	Attendance
Iain Cornish	Chairman	3 (3)
Sir George Mathewson	Chairman	1 (1)
Robin Ashton	NED	5 (5)
Graham Alcock	NED	5 (5)

Iain Cornish was appointed as Chairman of the Board on 6 July 2015, following the resignation of Sir George Mathewson. He was immediately appointed as a member and Chairman of the Nomination Committee.

Sir George Mathewson was a member and Chairman of the Nomination Committee from Admission until his resignation from the Board on 6 July 2015.

Prior to Admission, the Bank's governance in relation to nomination matters was carried out by a jointly formed Remuneration and Nomination Committee. This Committee met once between 1 January 2015 and the date of Admission.

## Role of the Nomination Committee

A full copy of the terms of reference for the Nomination Committee can be obtained by request to the Company Secretary or via the Group's website at [www.shawbrook.co.uk](http://www.shawbrook.co.uk).

The Nomination Committee's principal function is to review the structure, size and composition of the Board. The Committee is responsible for identifying and nominating for the approval of the Board suitable candidates to fill Board vacancies. The Committee carries out a formal selection process for Executive and Non-Executive Directors and subsequently proposes to the Board any new appointments. Ultimate responsibility for the appointment of Directors resides with the Board.

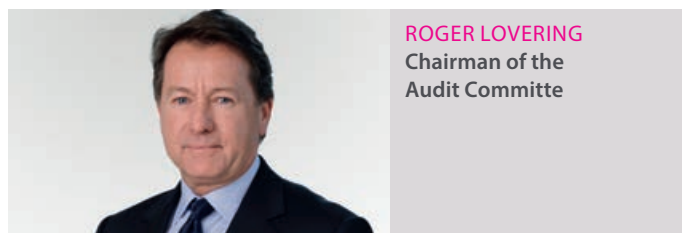
The Nomination Committee also oversees succession planning for Directors and Senior Managers below Board level.

The Chairman of the Nomination Committee reports to the Board on the outcome of meetings.

Since Admission the Nomination Committee has met five times. The Committee engaged in a comprehensive process to recruit new Directors to the Board in the period following Admission. The Nomination Committee engaged the services of a professional adviser, Promontory, particularly in relation to the appointment of Iain Cornish, the Chairman, and Steve Pateman, the Chief Executive and three new Non-Executive Directors. The Nomination Committee also engaged an external search consultancy firm, Lomond Consulting. Neither of these firms has any other connection with the Company.

During the relevant period the Nomination Committee considered the following principal items:

- A review of the current structure, size and composition of the Board;
- The time commitment expected of Non-Executive Directors;
- Leadership and succession planning;
- The proposed election of Directors at the forthcoming Annual General Meeting;
- The appointment of the Chairman;
- The appointment of the Chief Executive;
- The appointment of three new Non-Executive Directors;
- Responsibilities under the forthcoming Senior Managers Regime; and
- The introduction of a Diversity Policy.



**ROGER LOVERING**  
Chairman of the  
Audit Committee

## REPORT OF THE AUDIT COMMITTEE

Dear Shareholder

I am pleased to present my first report as Chairman of the Audit Committee, having assumed the role on 20 March 2015.

It was a busy year for the Committee in 2015, as we saw a combination of both the normal business agenda plus the IPO of the Company.

The Committee was heavily involved in the reviewing and commenting on the documents involved in the IPO, including the Financial Position and Prospects report, Working Capital Report and the financial statements.

In relation to the financial reporting of the company the Committee reviewed the 2015 annual accounts and the interim results for the six month period to 30 June 2015, plus the associated press releases and results presentations. The key accounting judgments were reviewed to ensure that they were still appropriate and reflected the performance of the business. These included loan loss impairments, effective interest rate calculations, hedge accounting, share based payments, accounting for goodwill and accounting treatment of the IPO costs.

The Committee worked closely with Internal Audit to support their work in reviewing the effectiveness of the Internal Control and Risk Management Framework.

Looking ahead to 2016 in addition to the routine audit schedule, the Audit Committee will focus on development of the Group's external reporting, oversight of the Group's control environment, effective monitoring and reviewing the internal and external audits, and the roll-out of the IFRS9 implementation programme.

I would like to take this opportunity to thank all my colleagues for their help and contributions during the last year.

**ROGER LOVERING**  
Chairman of the Audit Committee

## CORPORATE GOVERNANCE REPORT CONTINUED

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### Audit Committee Membership

The Board Audit Committee comprises four members. All members of the Committee are Independent Non-Executive Directors of the Company.

Meetings are held at least bi-monthly. Individual meeting attendance during 2015 is set out below. The number of meetings held during the period that the Director held office is shown in brackets.

Member	Position	Attendance
Roger Lovering	Chairman of the Committee	11 (11)
Sir Brian Ivory	Chairman of the Committee	5 (5)
Graham Alcock	NED	11 (11)
Robin Ashton	NED	11 (11)
Paul Lawrence	NED	2 (2)

Prior to Admission, the governance arrangements were operated by the trading subsidiary, Shawbrook Bank Limited. The above table includes reference to meetings of the Audit Committee of Shawbrook Bank Limited between the period of 1 January 2015 and the date of Admission. During this time, Sir Brian Ivory was Audit Committee Chairman. He resigned as Audit Committee Chairman on 20 March 2015 and from the Board of the Bank on 31 March 2015.

Roger Lovering was appointed as Chairman of the Audit Committee on 20 March 2015, following the resignation of Sir Brian Ivory as Audit Committee Chairman.

From the date of Admission, the members of the Audit Committee were Roger Lovering (Audit Committee Chairman), Robin Ashton and Graham Alcock, who each served on the Audit Committee throughout the reporting period. Paul Lawrence was appointed as a member of the Audit Committee on 24 August 2015.

The Company Secretary acts as secretary to the Audit Committee. Other individuals attend at the request of the Audit Committee Chairman and during the year the external auditor, Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Internal Audit and other senior managers as appropriate would usually attend meetings to report to the Audit Committee and provide clarification and explanations where appropriate. The Audit Committee also meets with the external and internal auditors without executive management at least once a year. Since Admission, the Audit Committee has met on five occasions.

The Board is satisfied that Roger Lovering has recent and relevant financial experience, as referred to in the Code.

### Role of the Audit Committee

A full copy of the terms of reference for the Audit Committee can be obtained by request to the Company Secretary or via the Group's website at [www.shawbrook.co.uk](http://www.shawbrook.co.uk).

The role of the Audit Committee is to assist the Board in discharging its duties and responsibilities for financial reporting, corporate governance and internal control. The Audit Committee is also primarily responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve the auditor's remuneration and terms of engagement. The Audit Committee's duties include keeping under review the scope and results of the audit work, its cost effectiveness and the independence and objectivity of the auditor. The Audit Committee also monitors the volume and nature of non-audit services provided by the auditor.

### Audit Committee Key Responsibilities

Financial reporting	Internal Controls	External Audit	Internal Audit	Whistleblowing
Monitor the integrity of the Group financial statements and review of the accounting policies	Review the adequacy and effectiveness of internal controls	Approve the appointment of or termination of the external auditor	Approve the appointment or termination of the Internal Auditor	Review the adequacy and security of the Whistleblowing arrangements
Review and report to the Board on significant financial issues and judgements	Review responsiveness of management when addressing any identified control weaknesses	Oversee the relationship with the external auditor including, term of engagement, remuneration, effectiveness and independence and objectivity	Monitor and review effectiveness	To review any Whistleblowing incidents that may arise
Review and challenge where necessary the estimates and judgements by management in relation to all financial statements	Review and approve internal control statements in the Annual Report & Accounts	Agree the policy for the provision of non-audit services and the policy for employment of former employees of the external auditor	Approve the annual audit plan	
Review the Annual Report and Accounts and other financial reporting, advising the Board on whether, taken as a whole it is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Group's position and performance, business model and strategy		Review the findings of the external auditor and consider management's response	Monitor management's responsiveness to the findings and recommendations	
Assess and challenge the going concern and long term viability assessment undertaken by management		Meets at least once a year with the external auditor without management present	Meeting regularly with Internal Audit without management present	
		Monitor the independence of the external auditor	Monitor the independence of the Internal Auditor	

### Report of the Audit Committee

During the relevant period the Audit Committee discharged its responsibilities by performing the following activities:

#### Financial reporting

During the year, the Audit Committee reviewed and discussed the financial disclosures made in the Annual Report and Financial Statements, Half-yearly financial report, interim management statement and the other trading statements made by the Group together with any related management letters, letters of representation and reports from the external auditor. Significant financial reporting issues and judgments were considered together with any significant accounting policies and changes proposed to them.

#### Tax

The recoverability of the deferred tax asset requires consideration of the future levels of taxable profit in the Group. The Committee considered the recognition of deferred tax assets with reference to the Group's approved strategic plan and agreed with management's judgement that the deferred tax assets were appropriately supported by forecast taxable profits. This assessment incorporated the anticipated impacts of the tax measures announced by the Chancellor of the Exchequer in the 2015 Autumn Budget Statements.

Furthermore, the Senior Accounting Officer provided an unqualified certificate to HMRC certifying that the Group had appropriate tax accounting arrangements throughout the financial year.

#### Significant Areas of Judgement

During 2015 the following significant issues and accounting judgements were considered by the Committee in relation to the 2015 Annual Report and Financial Statements.

#### Impairment of loans and advances

The Audit Committee reviewed collective and individual loan impairment allowances. Significant judgements and estimates reviewed included the adequacy of loss emergence periods and risk charges across the collective impairment allowances and the management overlays in the individual allowances. The Committee considered and challenged the provisioning models and management overlays and concluded that the impairment provisions were appropriate as at 31 December 2015.

### **Effective interest rate**

The Audit Committee reviewed the income recognition under the Effective Interest Rate methodology. Significant judgement areas reviewed include the technical and practical application of the accounting standards in the context of the Group's experience following the identification of changes in customer behaviour and expected lives of certain products.

The Committee considered and challenged the judgements applied by management in determining the EIR, including reviewing the appropriateness of the redemption profiles and the impact of changes to existing redemption profiles. The Committee agreed that management's judgements were appropriate at 31 December 2015.

### **Impairment assessment of goodwill**

During the year management has undertaken a comprehensive review of the methods used to determine both the CGU's carrying values and recoverable amounts. The Committee considered and challenged management's conclusions on the indicators of impairment and the methodology used to determine the carrying values and recoverable amounts. The Committee concluded and agreed that the recoverable amounts of all the CGU's exceeded the carrying values and no impairment was required at 31 December 2015, having placed emphasis on the assessment of the goodwill attributed to Business Credit (£24.2m) due to the financial performance of the business during the year. The Committee challenged both the discount rate and the forecast cash flows used in calculating the recoverable amounts and performed sensitivity analysis on the key assumptions applied.

Based on the work performed by the Committee, it was concluded and agreed that the recoverable amounts of all the CGUs, including Business Credit, exceeded the carrying values and no impairment was required at 31 December 2015.

### **Fair value of share-based payments**

The Audit Committee reviewed the accounting treatment of the SAYE and LTIP schemes and the arrangements for a number of new senior hires. During the course of 2015 there were a number of modifications to the existing scheme and new schemes that resulted from the IPO. The Committee concluded that the accounting treatment and valuation assumptions were appropriate as at 31 December 2015. Significant judgements and estimates reviewed include the use of the Black-Scholes model for valuing share options and the calculation of the IFRS2 charges.

### **Fair, balanced and understandable**

The Committee considered on behalf of the Board whether the 2015 Annual Report and Financial Statements taken as a whole are fair, balanced and understandable, and whether the disclosures are appropriate. The Committee is satisfied that the 2015 Annual Report meets this requirement, and in particular, that appropriate disclosure has been made with respect to any developments in the year. In justifying this statement the Committee has considered the robust procedures around the preparation, review and challenge of the Report and the consistency of the narrative sections with the financial statements. The Annual Report is drafted by the Executive with overall governance and co-ordination provided by the Annual Report and Accounts Disclosure Committee comprising a team of cross-functional senior management and the Audit Committee Chairman, and attended by the Group's external auditor at the invitation of the Audit Committee Chairman. Assurances are sought by the Audit Committee on each section of the Annual Report in advance of the final sign off by the Audit Committee and ultimately the Board.

Following its review, the Committee is satisfied that the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders and other stakeholders to assess the Group's position and performance, business model and strategy and has advised the Board accordingly.

### **Internal Control and Risk Management**

Together with the Risk Committee, the Audit Committee has performed a robust assessment of the Group's internal control, risk management framework and principal risks and uncertainties. Details of the risk management systems in place and principal risks and uncertainties are provided within the Risk Management Report on pages 32 to 42. The Group's system of internal control is designed to manage rather than eliminate risk of failure to achieve the Group's objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Lines of responsibility and delegated authorities are clearly defined. The Group's policies and procedures are regularly updated and distributed throughout the Group. The Audit Committee receives reports on a regular basis on compliance with the Group's policies and procedures and the effectiveness of the Group's systems and controls. The Group's Internal Audit function as the third line of defence is outsourced to Deloitte LLP to provide the Group with assurance that the specialist nature of the Group's activities can be fully assessed.

The Group Risk and Internal Audit functions review the extent to which the system of internal control is effective; is adequate to manage the Group's principal risks; safeguard the Group's assets; and, in conjunction with the Company Secretary and the Group's Legal and Compliance Teams, ensure compliance with legal and regulatory requirements. It provides independent and objective assurance on risks and controls to the Board and senior management.

Internal Audit's work is focused on areas of greatest risk to the Group, as determined by a structured risk assessment process involving Executive Directors and senior management. The output from the process is summarised in an annual audit plan, which is approved by the Audit Committee.

The role of the Internal Audit department and the scope of its work continue to evolve to take into account of changes within the business and emerging best practice.

On behalf of the Board, the Audit Committee confirms that through discharging its responsibilities under its terms of reference as described on page 52 and also undertaking regular reviews of the effectiveness of the Group's system of internal control as set out on page 54 it is able to confirm that the Committee was satisfied that the Group's systems of internal control were appropriately designed and operated effectively.

## Report of the Audit Committee

### External auditor

The Audit Committee has responsibility for overseeing the relationship with the external auditor and approves the external auditor's engagement letter, audit fee and audit and audit strategy (including the planned levels of materiality). The external auditor attends the Audit Committee meetings as appropriate and meets at least annually with the Audit Committee without executive management. The Chairman of the Audit Committee also meets privately with the external auditors at least once a year.

During the year, the Audit Committee received regular detailed reports from the external auditor including a formal written reports dealing with the audit objectives; the auditor's qualifications, expertise and resources; effectiveness of the audit process; procedures and policies for maintaining independence; and compliance with the ethical standards issued by the Auditing Practices Board. The external auditor's management letter is reviewed, as is management's response to issues raised and progress is monitored against actions identified in these reports. The Audit Committee monitors the latest ethical guidance regarding rotation of audit partners. Non-audit services provided by the external auditor is regularly monitored by the Audit Committee. The Group has a formal policy for the engagement of the external audit firm for non-audit services. The policy defines and describes permitted and prohibited services, independence considerations, those services that are pre-approved as a matter of policy as well as those which require specific Audit Committee approval. The Audit Committee considers whether the external audit firm is the most appropriate firm for the specific services required and consider any threats to independence in the form of self-review or involvement in management decisions. The value of the fees is also considered with reference to the pre-approved monetary approval thresholds. The fees paid to KPMG for audit and non-audit services are set out at page 100 in the 'notes to the financial statements'.

The Audit Committee is satisfied with the performance of the external auditor during the year and the policies and procedures in place to maintain their objectivity and independence, and has recommended that they be re-appointed at the forthcoming Annual General Meeting.

In December 2015 the Committee assessed the effectiveness of the external auditor and the audit process. The review included seeking the views of Audit Committee members, Executives and Senior Managers. The review was very positive and concluded that the external audit process was effective.

### Tenure of the external auditor

The Group appointed KPMG Audit plc as the external auditor from 2011 to 2014, and KPMG LLP thereafter. The Group has not carried out a formal tender process as a result of the IPO. KPMG LLP has continued as external auditor. However, the Committee has kept under review regulatory and legislative developments around the tenure of auditors and will in future undertake a formal competitive tender at the appropriate time. The current KPMG LLP Audit Director, Simon Clark, will be replaced on the audit team at the conclusion of the 2015 audit in accordance with the rotation requirements of the ethical standards of the Accounting practice Board. Following discussions with KPMG LLP and consideration by the Committee Chairman and the Chief Financial Officer of possible candidates, approval has been given to the appointment of John Ellacott as the Group's new audit partner from 2016.

The Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

### Auditor's independence and objectivity

The external auditor provides some non-audit services, primarily in the provision of taxation and regulatory advice and in relation to corporate transactions that may arise from time to time. In order to ensure that auditor objectivity and independence are safeguarded the following controls have been implemented:

- A formal policy on the use of the auditor for non-audit work has been agreed by the Audit Committee. In summary, this ensures that work would usually only be awarded when, by virtue of the auditor's knowledge, skills or experience, the auditor is clearly to be preferred over alternative suppliers;
- The Audit Committee receives and reviews each year an analysis of all non-audit work awarded to the auditor over the financial period; and
- The Audit Committee receives each year a report from the external auditor as to any matters that the auditor considers bear on its independence and which need to be disclosed to the Audit Committee.

### Internal Audit

Due to the size and nature of the business, the Group has outsourced the Internal Audit Function to Deloitte LLP who was appointed on 27 June 2013. The terms of the Internal Audit function are set out in the Internal Audit Charter. The Audit Committee approves the annual audit plan and internal audit methodology for Internal Audit and monitors progress against the plan during the year. The Committee is satisfied that this continues to be the most appropriate way of managing the delivery of internal audit services but will review this on at least an annual basis.

Internal Audit carried out a significant number of audits during 2015 of varying size and complexity. Thematic audits focused on new business processes, capital and liquidity and the risk management framework. Audit reports are circulated to the Audit Committee members prior to each scheduled meeting and the Audit Committee monitors progress against actions identified in these reports.

The Audit Committee has established a questionnaire based procedure to monitor and review Internal Audit's effectiveness using feedback from the Board and Senior Management. The Audit Committee also assesses annually the resources the Internal Audit has to complete its remit. Internal Audit has unrestricted access to all Group documentation, premises, functions and employees as required to enable it to perform its functions. The appointment and removal of Internal Audit is the responsibility of the Audit Committee.

### Whistleblowing

A formalised whistleblowing policy and procedure for staff to raise issues regarding possible improprieties in matters of financial reporting or other matters has been established and was reviewed during the year. The Audit Committee is responsible for monitoring the effectiveness of the Group's whistle blowing procedures and any notifications made. The Audit Committee is charged with ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence and performing suitable subsequent follow-up action. An alternative reporting channel also exists whereby perceived wrongdoing may be reported via telephone to an external third party.

The Audit Committee has access to the services of the Company Secretarial department and is authorised to obtain independent professional advice if it considers it necessary.



**PAUL LAWRENCE**  
Chairman of the Risk Committee

## REPORT OF THE RISK COMMITTEE

Dear Shareholder

I am pleased to present the report of the Risk Committee, our first as a listed Company and my first as Chairman since taking on the role in August 2015.

Preparation for our new status as a listed Company saw substantially increased levels of activity across the organisation. This included a detailed review of our risk environment and the adequacy and effectiveness of our risk frameworks and infrastructure to ensure we can sustain our growth and business objectives within our risk appetite without losing our market competitiveness.

In addition to regularly reviewing key and emerging risks and monitoring the development of the risk infrastructure, the Committee provided input and oversight across a wide range of issues with particular focus on the enhanced risk management framework and regulatory requirements including conduct risk.

The Committee also reviewed and contributed to documents such as the ICAAP and ILAA before making recommendations to the Board.

Further information on the activities of the Committee and our governance structures and processes around risk are provided in the following report (and page 33 of the Risk Management Report).

**PAUL LAWRENCE**  
Chairman of the Risk Committee

## Risk Committee Membership

The Risk Committee comprises four members. All members are Independent Non-Executive Directors of the Company.

Meetings are held at least bi-monthly. Individual meeting attendance during 2015 is set out below. The number of meetings held during the period that the Director held office is shown in brackets.

Member	Position	Attendance
Paul Lawrence	Chairman of the Committee	3 (3)
Robin Ashton	Chairman of the Committee	6 (7)
Graham Alcock	NED	6 (7)
Sir Brian Ivory	NED	1 (1)
Roger Lovering	NED	7 (7)

Prior to Admission, the governance arrangements were operated by the trading subsidiary, Shawbrook Bank Limited. The above table includes reference to meetings of the Risk Committee between the period of 1 January 2015 and the date of Admission. Sir Brian Ivory resigned from the Risk Committee on 20 March 2015 and from the Board of the Bank on 31 March 2015.

At the date of Admission, the members of the Risk Committee were Robin Ashton, Roger Lovering and Graham Alcock, who each served on the Risk Committee throughout the reporting period.

Paul Lawrence was appointed by the Board as member and Chairman of the Risk Committee on 24 August 2015. Robin Ashton remained a member of the Risk Committee, following Paul Lawrence's appointment as Risk Committee Chairman.

The Company Secretary acts as secretary to the Risk Committee. Other individuals attend at the request of the Risk Committee Chairman and during the year the external auditor, Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Internal Audit and other senior managers as appropriate would usually attend meetings to report to the Risk Committee and provide clarification and explanations where appropriate. Since Admission, the Risk Committee has met on seven occasions.

## Role of the Risk Committee

A full copy of the terms of reference for the Risk Committee can be obtained by request to the Company Secretary or via the Group's website at [www.shawbrook.co.uk](http://www.shawbrook.co.uk).

The Risk Committee has responsibility for, among other things, advising the Board on the Group's overall risk appetite and strategy. The Risk Committee will review the Group's risk assessment processes and methodology and its capability for identifying and managing new risk, alongside advising on proposed transactions and reviewing reports on any material breaches of risk limits. The Risk Committee is also responsible for monitoring and reviewing the effectiveness of the risk function and the capital adequacy requirements of the Group's relevant subsidiaries on an ongoing basis. Other key areas that the Risk Committee oversees are:

- Board Risk appetite;
- Credit Risk;
- Operational Risk;
- Conduct, Legal and Compliance Risk;
- Liquidity & Market Risk;
- Stress testing & capital requirements;
- Recovery and Resolution planning; and
- Inputs into Remuneration decisions.



## Key matters considered in detail by the Committee in 2015

### Board Risk Appetite

The strategic direction of the business flows through the Group's Risk Appetite Framework ('RAF'). It also ensures that the risk appetite articulated is the level of risk that the Board is willing to take in order to deliver its strategic objectives. During the year, significant work was undertaken to enhance the overarching framework for the Board to monitor and manage the Group's risk appetite. The Group's RAF includes the statements and principles that describe the Group's appetite, along with quantitative measures to help the Board monitor the degree to which the Group realises this appetite.

### Credit Risk

The controlled management of credit risk is critical to the Group's overall strategy. The Risk Committee provides oversight of the Risk Management Framework; ensures the Group has effective processes and controls to monitor, mitigate and manage credit risk; and provides oversight to the effectiveness of all credit risk management to ensure lending is within the Board's approved credit risk appetite.

### Operational Risk

The Committee received regular reports across the spectrum of operational risks and information security. The reports covered incidents that have arisen to allow the Committee to assess management's response and proposed remedial actions. Although a number of incidents were raised during the course of 2015, the Committee was satisfied that the action taken was appropriate and that the control of operational incidents continued to improve. In response to the growing threat posed by cyber crime, a full risk assessment was undertaken to assess the adequacy of the Group's internal control framework to respond to this threat and our planned investment to deal with increasing levels of cyber risk. The operational risk reports were developed throughout 2015 to include a focus on forward looking risks which permits a more strategic discussion at the Risk Committee level.

### Conduct, Legal and Compliance Risk

The Committee receives an update on compliance and conduct risks at each meeting. The Committee also receives updates from management on changes to the Group's regulatory environment to ensure the Board responds effectively and in a timely manner to changing regulation.

Topics debated during the year included culture, customer journeys, complaint metrics, intermediary oversight and the forthcoming introduction of the Senior Managers Regime.

### Liquidity & Market Risk

The Group's Treasury function is responsible for managing Treasury credit risk in line with the Board's approved risk appetite and wholesale credit policies. Wholesale counterparty limits are reviewed monthly through the Asset & Liability Committee (ALCO). The Risk Committee is responsible for over-seeing and reviewing the activities of Group Treasury via the ALCO.

### Stress Testing & Capital

The Committee has reviewed the Internal Capital Adequacy Assessment Process 'ICAAP' prior to submission to the Board for approval. This ICAAP contained the results of stress test scenarios both generic and peculiar to the Group.

### Recovery & Resolution Plan

The Committee reviewed and recommended the Recovery & Resolution Plan to the Board.

### Remuneration

The Risk Committee provided input into the Remuneration Committee to ensure that risk behaviours and the management of risk we appropriately reflected in the performance appraisal and compensation review processes.

### Primary areas of focus during the year

- Development and oversight of the Risk Framework to support business development and transformation programmes;
- Considering the Group's risk profile and risk appetite relative to the current and future strategy of the Group;
- Assess and monitor regulatory and legislative change;
- Review the design and implementation of risk management and strategies of the Group and the procedures for monitoring the adequacy and effectiveness of this process;
- Review of internal controls and risk management systems;
- Regular review of strategic, operational and credit risk events;
- Considering the adequacy and effectiveness of the technology infrastructure supporting the Risk Management Framework; and
- Monitoring the training and development requirements of the Group to ensure the requisite skills are in place to control risk and promote an effective risk culture.

### Other matters considered in detail by the Committee in 2015

Review of the cyber incident response plan to ensure the Group has suitable procedures to respond to an information security incident. Cyber risk is the risk that the Group is subject to some form of disruption arising from interruption to its IT and data infrastructure. The Committee approved the plan, including a costed investment in cyber risk controls to ensure the Group maintains appropriate levels of control to identify and counter the threats arising from cyber crime.

During 2015 the Group has enhanced its three lines of defence model, as outlined on page 35 in the Risk Management report. This model has been operationalised through the creation of a comprehensive suite of risk policies, embracing all aspects of the risk management agenda, including the credit, operational, reputational and conduct risk arenas under the auspices of Program Horizon, which is the program initiated in March 2015 to upgrade the risk architecture of the Group. As well as the creation and development of over 110 policy documents, the scope of Program Horizon includes development of credit grading models and the delivery of the Group's latest ICAAP. The ICAAP benefits from ongoing improvements in risk assessment that is consistent with the PRA's Statement of Policy on methodologies for calculating Pillar 2 capital published in July 2015.

A comprehensive and wide ranging review was undertaken of credit risk approval governance. Although the existing framework had served the Group well, against a background of growing scale in the divisional lending operations, increased volume of larger transactions and the development of portfolios which are less rules driven and require more qualitative judgements to be exercised, a review was necessary. The proposals presented sought to deliver under the following key principles:

- Providing the required level of independence, governance and assurance in relation to both material individual risks and the profile of the portfolio overall;
- Maintaining service standards by way of prompt turnaround times and commercial responses to financing proposals; and
- Preserving the 1st Line Division's culture of accountability for, and focus on, risk.

Revised authority levels were proposed based upon a balanced consideration between risk profile and current practice, namely:

- Those areas where credit approval becomes less 'Policy Rules' driven and requires a greater degree of qualitative judgement. The threshold broadly equates to maximum Regulatory definitions for Retail exposures (€1m-€1.5m);
- Independent credit approval for higher levels of risk exposure; and
- Minimising the impact on personnel and operations so that the lower value/higher volume flows continue to be processed via existing divisional channels in a mainly rules driven rather than judgement driven approach.

This revised framework was approved by the Committee and implemented towards the end of the year.

The Group is a specialist lending and savings bank for SMEs and consumers. The specialist nature of some of its lending through intermediaries and brokers may mean that some customers find themselves with an increased risk of an unfavourable outcome. In addition the Group is exposed to a risk that third parties do not comply with the Group's standards, values and ethics when dealing with the Group's customers. This may lead to increased conduct related redress, additional fraud or credit risk impairments. The Group works with carefully selected partners who take on the role of advising SMEs and consumers. The Group recognises the importance of taking ownership for the lending it originates and continually undertakes a review of their performance. In addition, experienced underwriters perform thorough checks on each application. The Group continually reviews its risk management approach to intermediaries, brokers and outsource partners to reflect the environment that the Bank operates in.

### **Priorities for 2016**

The priorities for the Risk Committee for 2016 include:

- Continued development and embedding of the Risk Management Framework;
- Active monitoring and management of the risk profile and performance against the revised Risk Appetite Framework to ensure alignment to the risk and corporate strategy;
- Review and approval of the 2016 Risk Assurance Plan;
- Review and recommendation of ICAAP, ILAAP and RRP to the Board;
- To receive and review reports relating to any significant issues that require, or are subject to remedial action or recommendations arising in the period under review;
- To ensure rigorous stress and scenario testing of the Group that explains the financial impact and extend of identified risks and threats, should these risks and threats come to pass; and
- Input into remuneration recommendations for senior staff.



**GRAHAM ALCOCK**  
Chairman of the  
Remuneration Committee

## STATEMENT BY THE REMUNERATION COMMITTEE CHAIRMAN

Dear Shareholder,

On behalf of the Board, as Chairman of the Remuneration Committee, I am delighted to present our first Directors' Remuneration Report as a listed Company. In accordance with the remuneration reporting regulations, this report has been split into two parts:

- The Remuneration Policy report, detailing the forward-looking policy within which all remuneration arrangements for our Executive Directors will operate, which is subject to a binding shareholder vote at the 2016 AGM; and
- The Annual Remuneration Report, which explains the operation of the Remuneration Policy for 2015 and a summary of its intended implementation in 2016, which is subject to an annual advisory shareholder vote.

The Board Remuneration Committee was formed at Admission. Our listing has given us a welcome opportunity to consider our executive remuneration arrangements in light of:

- our continuing need to drive the performance and risk culture of the business;
- our desire to incentivise and reward individuals to deliver the right outcomes for customers; and
- a need to attract the right calibre of leadership from a competitive market place.

Building on the framework included in our IPO Prospectus, we have therefore further developed our executive remuneration policy, aligned with the Group's strategy and generating returns for shareholders, and in line with regulatory requirements. In addition, we have taken into account typical market practice within the UK-listed environment, as well as practice within the financial services sector.

## Board changes

During the year we had a number of changes in our leadership. On 2 October 2015, Richard Pyman stood down as Chief Executive Officer, following a leave of absence due to ill health. Mr Pyman did not receive any salary, benefits and pension from the date that he stepped down from the Board, and no awards were made to him under the annual bonus or Performance Share Plan in 2015.

From the date of Mr Pyman stepping down from the Board, Tom Wood acted as interim Chief Executive Officer while continuing his role as Chief Financial Officer. In order to reflect his increase in his role and responsibility for this period, Mr Wood received an additional temporary allowance.

On 1 January 2016, Steve Pateman assumed the role of Chief Executive Officer. His salary level has been set at a level which reflects the wealth of experience he brings to the Group and his outstanding track record in the sector. His pension level has been set in line with the contribution offered by his previous employer, and he will participate in the annual bonus and PSP in accordance with our standard policy. Mr Pateman has been granted buyout awards in respect of remuneration forfeited from his previous employer.

Further information on the activities of the Committee and our governance structures are provided in the following report.

## GRAHAM ALCOCK Remuneration Committee Chairman

### Remuneration Committee Membership

The Board Remuneration Committee comprises three members including the Board Chairman.

Meetings are held at least four times per year. Individual meeting attendance during 2015 is set out below. The number of meetings held during the period that the Director held office is shown in brackets.

Member	Position	Attendance
Graham Alcock	Chairman of the Committee	8 (8)
Sir George Mathewson	NED	2 (2)
Iain Cornish	Chairman of the Board	5 (5)
Robin Ashton	NED	8 (8)

Iain Cornish was appointed as Chairman of the Board on 6 July 2015, following the resignation of Sir George Mathewson. He was immediately appointed as member of the Remuneration Committee.

Sir George Mathewson was a member of the Remuneration Committee from Admission until his resignation from the Board on 6 July 2015.

A full copy of the terms of reference for the Remuneration Committee can be obtained by request to the Company Secretary or via the Group's website at [www.shawbrook.co.uk](http://www.shawbrook.co.uk)

### 2015 bonus outturns

In 2015, bonus outcomes were based on a scorecard of financial, strategic and personal objectives. 2015 was a strong year for Shawbrook in terms of financial performance. The Group achieved underlying profit before tax of £80.1m, which represented 63% growth in the year. Our return on tangible equity exceeded expectations at 27.9%, and our cost:income ratio was 48.3%, in line with our targets.

We made significant progress in the transformation of the risk culture of the Bank over the year, which has resulted in real improvement in the Group's risk management processes. The Group also performed strongly in regards to culture and employee engagement.

The Committee assessed the individual performance of the Executive Directors over the year. Tom Wood performed a pivotal role as CFO during the successful IPO of the Group, and performed strongly as interim CEO for the last seven months of the year. Stephen Johnson also performed a pivotal role during the IPO, providing excellent support to Richard Pyman and Tom Wood in his role as Deputy CEO.

Based on these outcomes, in addition to the strong financial performance of the Bank outlined above, the Committee determined an award of 100% of maximum for Tom Wood and 95% of maximum for Stephen Johnson given their individual performances during the year.

No awards were granted to the Executive Directors under the Performance Share Plan (PSP) in 2015. The first awards will be granted in 2016, subject to a scorecard of measures, as detailed on page 80.

### Key changes to the remuneration structure for 2016

In order to encourage risk alignment and to further align the interests of the Executive Directors with the long-term interests of shareholders, we strengthened the post-vesting holding conditions applicable to PSP awards from the terms applicable in the IPO Prospectus. Directors are now required to hold any awards vesting under the PSP for two years following the date of vesting, in line with best practice.

In addition, we have implemented formal shareholding requirements, whereby Executive Directors must build, and hold, a shareholding of at least 200% of salary. This shareholding must be achieved within five years. The requirement was determined taking into consideration the nature of our business, a review of typical market practice, and evolving shareholder expectations.

As a Level 3 firm under the CRD IV regulations, we seek to comply with the spirit and letter of the requirements set out in the PRA Rulebook and the related guidance provided by the European Banking Authority (EBA), and therefore our proposed remuneration policy reflects this. As a result, we have voluntarily incorporated deferral and malus and clawback provisions on all incentive plans. We have also made the decision to voluntarily seek shareholder approval to implement a 2:1 cap on variable remuneration. We believe that this will allow us to ensure the sound risk management of the Company whilst retaining the alignment of the interests of our Directors with those of our shareholders.

Salaries for the Executive Directors, and the fee structure for the Non-Executive Directors, have been adjusted in light of the change in scope and nature of the roles, and to reflect the current FTSE-listed environment, particularly among our financial services peers. The salaries and fees applicable from 1 January 2016 can be seen in the 'Implementation of the Remuneration Policy' section.

### Looking ahead

In forming the remuneration policy, the Committee were mindful of 'future-proofing' the policy, especially in the light of the evolving regulatory landscape. We will keep the policy and its implementation under review, to ensure that the remuneration arrangements remain in line with regulatory requirements, shareholder expectations, and best practice.

As our first remuneration policy subject to shareholder approval, we have sought to create a compliant yet sufficiently flexible remuneration policy which can form the foundation of our remuneration arrangements for Directors in the coming years.

### Shareholder engagement

We recognise the importance of engaging with shareholders on our remuneration arrangements. We held discussions with our major shareholders in early 2016, prior to finalisation of our Remuneration Policy, to explain our approach to remuneration and gain relevant feedback.

I welcome any comments on the remuneration arrangements set out on the following pages from shareholders, and will be available to answer any queries regarding our remuneration policy at the forthcoming Annual General Meeting.

## DIRECTORS' REMUNERATION REPORT

### DIRECTORS' REMUNERATION POLICY

This section of the Directors' Remuneration Report sets out the Bank's Remuneration Policy, prepared in accordance with the amended Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

This Remuneration Policy will be submitted to shareholders in a binding vote at the 2016 AGM, from which date it will take effect. It is intended that the Remuneration Policy applies for three years following approval, subject to any changes that would require re-approval.

### REMUNERATION PRINCIPLES

Through the Remuneration Policy, Shawbrook seeks to reward employees for their contribution, and motivate them to deliver the best outcomes for stakeholders. This Policy is underpinned by the Bank's over-riding remuneration principles:

1. Remuneration will be determined within the Bank's stated risk appetite, defined as 'maintaining a balanced strategy to reward our employees for appropriate conduct and performance'. Safeguarding the right outcomes for customers is at the heart of this.
2. The remuneration structures will be developed in alignment with the appropriate regulatory environment.
3. There will be an appropriate mix of long-term and short-term incentive arrangements in place which will assist in driving the long term security, soundness and success of the Bank.
4. The long-term and short-term incentive plans will be subject to appropriate performance measures, ensuring the right balance between these elements of the reward package.
5. Pay outcomes will be determined with reference to total reward principles, e.g. when making bonus decisions we will take into account total aggregate remuneration with reference to the external market.
6. Base pay decisions will primarily be determined by the size and scope of the role, as well as any market adjustments, including cost of living wage movement or movement in the market for key roles or skills. External pay data, when available, will provide the basis for decisions.
7. Variable pay decisions will be determined by the overall business performance, as well as individual performance evaluation measured against agreed performance objectives, the culture of the Bank, and conduct of the individual.
8. The Chief Risk Officer (CRO) will have appropriate input into the setting of remuneration policies for the Bank and will be consulted by RemCo in relation to senior management awards.
9. Remuneration policies will be communicated in a clear and transparent way for all colleagues, and in a timely way.
10. Annual pay and bonus decisions will reflect:
  - Contribution to Group results;
  - Alignment with the Group's values;
  - Appropriate risk behaviour; and
  - Transparency.

The Bank's approach to remuneration outcomes ensures that employees are rewarded fairly, encourages a culture where customers are at the core, whilst protecting shareholder interests and continuing to drive the Bank's strong financial performance.

In applying the remuneration principles, we have made the decision to voluntarily implement the CRD IV cap on variable remuneration. As a result, the variable remuneration awards made to Executive Directors will not exceed 200% of fixed pay.

### CONSIDERATION OF RISK

A core principle for the design of Shawbrook's Remuneration Policy has been to ensure that risk management is at its core. Key features of the Remuneration Policy which incorporate risk management include:

- An appropriate balance between fixed and variable remuneration, in line with the Bank's strategy and risk appetite levels.
- An appropriate balance between short-term and long-term performance measures, and significant time horizons applying to incentive plans due to bonus deferral and Performance Share Plan (PSP) holding period policies.
- A significant proportion of variable remuneration being paid in equity at senior levels within the Bank.
- A wide range of performance measures, which take into account the Bank's short-term and long-term strategy, as well as key risk considerations.
- The use of a bonus underpin, ensuring that bonus payouts are only permitted if the Bank's overall performance is satisfactory, including underlying financial performance, sustainability, customer, risk management and regulatory capital ratio as part of a formal risk adjustment process at year end.
- The inclusion of malus and clawback provisions on all incentive plans, and annual consideration of any events as part of the risk adjustment process.

### CONSIDERATION OF SHAREHOLDER VIEWS

As a newly listed Company, we have had limited opportunity to engage with shareholders on remuneration to date. However, during early 2016, we approached our major shareholders to gain their views on, and help shape, our Remuneration Policy.

It is the Committee's intention that shareholder approval of the Remuneration Policy will be sought every three years. The Committee will actively seek dialogue with the Bank's major shareholders when appropriate, and any feedback received will be considered during the Committee's annual review of the Policy. The Committee will also take into consideration AGM voting outcomes where appropriate. The Committee will also consult with shareholders when any significant changes to the Policy are proposed.

### CONSIDERATION OF EMPLOYEE VIEWS AND REMUNERATION ARRANGEMENTS

In determining the Remuneration Policy for Executive Directors, the Committee takes into consideration the pay and employment conditions of the wider employee Group. In particular, when determining Executive Director salary increases, the Committee will consider the salary increases being awarded to the wider employee Group.

The Bank does not perform a formal consultation process on the remuneration of Executive Directors with other employees. However, the Company has introduced arrangements to facilitate all employees acquiring shares in the Company and employees will therefore be able to vote on the Executive Directors' remuneration in the same way as other shareholders.

There is no employee representative on the Committee. Instead, the views of employees are taken into account by HR. One of the duties of the HR Director is to brief the Board on employee views and, as a regular invitee to Remuneration Committee meetings, the HR Director ensures that decisions are made with appropriate insight to colleagues' views.

## DIRECTORS' REMUNERATION REPORT CONTINUED

The remuneration for Executive Directors and the wider employee Group follow a common set of remuneration principles, as shown on page 67, which are embodied in the Company's remuneration policy. Particular points of note are:

- All employees are eligible to receive an element of variable pay (in the form of a discretionary bonus, and PSP for some key individuals);
- Share ownership is encouraged through the Company's Save As You Earn (SAYE) scheme. Key individuals also participate in the PSP; and
- All employees receive Company benefits, including life assurance, private medical insurance and eligibility for a Group personal pension plan. Where an employee does not take up the Group personal pension plan, they are automatically auto-enrolled into the Group's stakeholder pension plan, unless they choose to opt out.

In addition, an additional one-off IPO share award was granted to employees under the Shawbrook Bank Incentive Plan 2015 to allow them to share in the success of the Company on Admission:

- Those employees who joined the Bank after 1 January 2014 received a gross award of £1,500;
- Those who joined between 1 January 2013 and 31 December 2013 received a gross award of £2,000; and
- Those who joined before 1 January 2013 received a gross award of £2,500.

The IPO Awards vested on Admission. Each participant received ordinary shares in full or partial satisfaction of the IPO Award, with any balancing amount settled in cash.

### REMUNERATION POLICY FOR DIRECTORS

The policy table below summarises the key components of the Remuneration Policy that will be applied when setting the remuneration packages for Executive Directors.

Element	Purpose and link to strategy	Operation and performance measures	Opportunity
<b>Salary</b>	<p>To recruit, motivate and retain Executive Directors of the required calibre.</p> <p>Reflect the individual's experience, performance and responsibility.</p>	<p>Salaries are normally reviewed annually, with any changes typically taking effect from 1 March.</p> <p>Salaries are reviewed taking into consideration a number of factors, including:</p> <ul style="list-style-type: none"> <li>• Size and scope of the role;</li> <li>• Skills and experience of the individual;</li> <li>• Performance of the Bank and the individual;</li> <li>• Salary increases for the wider employee population; and</li> <li>• Pay levels for similar roles at companies of a similar size and complexity.</li> </ul> <p>Salary levels may also be adjusted to take account of any significant regulatory changes. This is not expected during the life of this policy.</p>	<p>There is no maximum salary or fixed pay allowance level or increase that may be given in any year, but any increases will normally not exceed those awarded to the wider employee population.</p>
<b>Pension</b>	<p>To provide a competitive post-retirement benefit in order to retain Executive Directors of the required calibre.</p>	<p>Executive Directors may participate in the Bank's Group Personal Pension Plan. Where an employee does not take up the Group personal pension plan, they are automatically auto-enrolled into the Group's stakeholder pension plan, unless they choose to opt out.</p> <p>Executive Directors may receive a cash allowance in lieu of a pension contribution.</p> <p>Contribution levels depend on individual circumstances.</p>	<p>Up to 35% of salary for the CEO and 15% for other Executive Directors in respect of any financial year.</p> <p>Actual pension levels for the year under review are listed in the table in the Annual Remuneration Report on page 74.</p>
<b>Benefits</b>	<p>To provide a competitive and appropriate benefits package in order to motivate and retain Executive Directors of the required calibre.</p>	<p>Executive Directors receive a range of benefits, including private health cover for the Director and his immediate family, life insurance, discounted gym membership and permanent health insurance.</p> <p>Additional benefits may be provided as reasonably required, for example relocation benefits.</p> <p>Executive Directors are eligible to participate in any HMRC approved all-employee share plans operated by the Bank on the same basis as other employees. The Bank currently operates a SAYE plan and may also provide benefits under a SIP in the future.</p>	<p>There is no maximum value of benefits, as the cost of benefits may vary in accordance with market conditions.</p>

Element	Purpose and link to strategy	Operation and performance measures	Opportunity
<b>Annual Bonus</b>	<p>To incentivise and reward the achievement of short-term financial and non-financial objectives which are closely linked to the Bank's strategy.</p> <p>Deferral into shares reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and risk alignment.</p>	<p>Annual bonuses are based on Bank and individual performance over one year. At least 50% of the bonus will be based on financial performance, with the remainder based on strategic/non-financial and personal objectives.</p> <p>The measures, and their applicable weightings and targets, are set at the beginning of each year.</p> <p>0% of maximum will pay out for threshold performance.</p> <p>Details of the performance targets set will be provided in the Annual Remuneration Report when deemed no longer commercially sensitive.</p> <p>The award level is determined by the Committee based on actual performance against the targets set. However, the Committee has discretion to reduce the formulaic outcome (including to zero) where the outcome is not reflective of the overall performance of the Bank, or as a result of the risk adjustment process.</p> <p>50% of any bonus paid will be deferred into awards under the Deferred Share Bonus Plan (DSBP). The awards will normally be released in three equal tranches after one, two and three years, subject to continued employment. Deferral levels and any deferral/holding periods may be amended to take account of any regulatory changes during the life of the Policy or such other factors the Committee considers appropriate.</p> <p>Annual bonus awards are subject to the Bank's malus and clawback provisions, set out on page 70.</p>	<p>The normal maximum bonus opportunity in respect of any financial year is 100% of salary; however the Committee may make awards of up to 100% of fixed pay.</p>
<b>Performance Share Plan (PSP)</b>	<p>To incentivise and reward the delivery of the Group's long-term strategy and growth in shareholder value over a sustained period of time.</p>	<p>PSP awards will normally be made annually, based on a combination of total shareholder return (TSR), internal financial measures and key strategic/non-financial measures. At least 50% of a PSP award will be subject to TSR and/or financial measures.</p> <p>Performance measures will normally be tested over a period of three years (or such other period as the Committee determines otherwise). Typically, 25% of maximum will pay out for threshold performance. The Committee has discretion to reduce the formulaic outcome (including to zero) where the outcome is not reflective of the overall performance of the Bank or as a result of the risk adjustment process.</p> <p>Personal performance in the year prior to award may also be taken into account when determining award levels.</p> <p>Any awards that vest, net of tax and NIC liabilities, are subject to a further holding period. There will be a minimum five year period between grant and sale.</p> <p>Performance, vesting and holding periods may be amended to take account of any regulatory changes during the life of the Policy.</p> <p>PSP awards are subject to the Group's malus and clawback provisions, set out on page 70.</p>	<p>The normal maximum PSP opportunity in respect of any financial year is 100% of salary.</p> <p>The PSP rules allow for awards of up to 300% of salary to be made in exceptional circumstances. However, any PSP award will comply with the 2:1 variable remuneration cap.</p>
<b>Shareholding guidelines</b>	<p>To align the interests of Executive Directors and shareholders.</p>	<p>Executive Directors are expected to build and maintain a minimum shareholding in the Company within five years of the later of recruitment or the Bank's listing.</p> <p>Executives must retain at least 50% of shares acquired on vesting of PSP awards (net of tax) until the guideline is met.</p>	<p>At least 200% of salary.</p>

## DIRECTORS' REMUNERATION REPORT CONTINUED

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### PERFORMANCE MEASURES FOR VARIABLE REMUNERATION

The Committee considers that the balance of performance measures, which includes financial, strategic, and personal objectives, means that remuneration is aligned to shareholders and regulatory requirements.

Financial and strategic measures have been chosen as the Committee considers that these will incentivise the Executive Directors to deliver strong financial performance which results in value creation for shareholders.

The Committee also understands that executives should be incentivised to display the appropriate risk and conduct behaviours, and therefore performance measures are likely to include specific measures which are directly linked to executives' individual performance in these areas.

The Committee will review the specific performance measures annually to ensure that executives are appropriately incentivised to deliver the Company's strategic priorities.

In exceptional circumstances, the Committee may vary any performance condition applicable to a PSP award in accordance with its terms if anything happens which causes the Committee to consider it appropriate, provided that it considers the amended condition to be fair, reasonable and not materially less challenging but for the event in question.

### TERMS OF SHARE AWARDS

Share-based awards granted under the DSBP and the PSP:

- a) may be made in the form of nil-cost options, conditional share awards or forfeitable shares;
- b) may incorporate the right, subject to any regulatory requirements to the contrary, to receive the value of dividends which would have been payable on the shares that vest under an award since the date of grant of the award. This amount may be paid in cash or shares and may assume the dividends had been reinvested in shares on a cumulative basis;
- c) may be settled in cash at the Committee's discretion; and
- d) may be adjusted in the event of a variation of share capital, demerger, special dividend or other transaction that will materially affect the value of the Company's shares in the Committee's opinion.

### PAYMENTS IN RELATION TO LEGACY AWARDS

Any remuneration payments and payments for loss of office not in line with the Remuneration Policy detailed out above may nevertheless be satisfied where (i) the terms of the payment or award were agreed before the Policy came into effect, as set out in the Listing Prospectus where relevant (such payments or awards will be set out in the Annual Remuneration Report for the relevant year), and (ii) the individual was not a Director of the Company at the time and in the Committee's opinion was not in consideration for becoming a Director of the Company.

### MALUS AND CLAWBACK

To ensure compliance with the applicable regulatory requirements, and as a method for sound risk management, all variable remuneration is subject to malus and clawback provisions. The specific terms are set out in the incentive plan rules as well as the Executive Directors' service contracts.

Malus and clawback may be implemented in exceptional circumstances, on such basis that the Committee in its discretion considers to be fair, reasonable and proportionate.

Under the malus provisions, exceptional circumstances may include, but are not limited to, reputational damage, failure of risk management or poor underlying performance. Malus adjustments may include:

- Prior to the earlier of the normal vesting date of DSBP awards and the third anniversary of the date of grant, reducing the number of shares under the DSBP (including to nil); and
- Prior to the normal vesting date of PSP awards, reducing the amount of any PSP awards (including to nil).

Under the clawback provisions, exceptional circumstances may include, but are not limited to, a material misstatement in the published results of the Bank for the period to which the award related, an error in calculating the incentive payment, or misconduct of the individual. Clawback adjustments may include:

- Reducing an individual's cash bonus outcome for the current year (including to nil);
- Requiring a cash repayment in respect of any shares delivered under the DSBP and/or PSP;
- Reducing any other outstanding share awards the individual holds; and
- The individual returning some or all of the shares acquired under his award to the Company.

DSBP awards may be clawed back within three years of grant and PSP awards within three years of the normal vesting date of the relevant award.



## NON-EXECUTIVE DIRECTOR FEES

The policy table below summarises the key components of the Remuneration Policy that will be applied when setting the remuneration packages for Non-Executive Directors.

Element	Purpose and link to strategy	Operation and performance measures	Opportunity
<b>Non-Executive Directors' fees</b>	<p>To recruit and retain Non-Executive Directors of the required calibre.</p> <p>Reflect the time commitment required and scope of responsibility.</p>	<p>The Chairman and Non-Executive Directors are entitled to an annual fee, with additional fees payable to the Senior Independent Director, the Chairman and members of the Audit, Risk and Remuneration Committees and any Committee formed following the approval of the policy. Additional fees are also payable to the members of the Nomination Committee. The Chairman does not receive any additional fee for his membership of the Remuneration Committee nor for being Chairman of the Nomination Committee.</p> <p>Fees are reviewed annually.</p> <p>Fees are set at a level that reflects the responsibilities of the role and the time commitment required, and the fee levels offered at companies of a similar size and complexity.</p> <p>The Chairman and Non-Executive Directors are reimbursed for reasonable expenses incurred while performing their duties to the Bank.</p>	<p>There is no maximum fee increase that may be given in any year, but any increases will take into consideration increases awarded to Executive Directors and the wider employee population.</p>

## RECRUITMENT AND APPOINTMENT TO THE BOARD

In the event of appointing a new Executive Director, the remuneration package offered will be determined in line with the following principles:

- The Committee will seek to pay no more than is necessary;
- The Committee will consider all relevant factors, including the calibre and experience of the individual and the scope of the role, as well as the interests of the Bank and its shareholders;
- Salary will be set taking into account the review principles set out in the policy table on page 68. Where appropriate, the salary may be set at an initially lower level with the intention to make phased salary increases over a number of years (which may be above those for the wider employee Group) to achieve the appropriate market positioning;
- The remuneration package will align with the policy table on page 68. The maximum variable pay opportunity will be within the maximum limits set out in the table, and will be within the 2:1 ratio of variable remuneration to fixed remuneration. This limit excludes any buy-out awards, which are governed as set out in the paragraph below;
- Where an Executive Director is appointed from within the Bank or following corporate activity or reorganisation (e.g. merger with another Company), the normal policy would be to honour any legacy arrangements in line with the original terms and conditions;
- Where a new Executive Director has to relocate to take up the appointment, either in the UK or from overseas, practical and/or financial support may be given in relation to relocation and mobility;
- In order to facilitate recruitment, the Committee may need to 'buy out' variable remuneration arrangements forfeited or forgone on leaving a previous employer. The value of the buy-out awards will broadly be the equivalent of, or less than, the value of the award being bought out. In accordance with regulatory requirements, these 'buy-out awards' will take into consideration relevant factors including, but not limited to:
  - The form of the award;
  - Any performance conditions attached to those awards;
  - The vesting profile of the awards and the likelihood of vesting; and
  - Relevant regulatory guidance in place in relation to buy-out awards.
- The Company may rely on the exemption in the Listing Rules (9.4.2) to allow any such buy-out awards to be made in line with this Policy without requiring separate shareholder approval.

## SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The notice periods and dates of the current Executive Directors' service contracts are shown below:

Name	Date of service contract	Notice period by Company	Notice period by Director
Steve Pateman Chief Executive Officer	1 October 2015 <sup>1</sup>	6 months	6 months
Tom Wood Chief Financial Officer	1 April 2015	12 months	12 months
Stephen Johnson Deputy Chief Executive Officer	28 July 2015	12 months	12 months

<sup>1</sup> Steve Pateman's appointment was effective from 1 January 2016.

## DIRECTORS' REMUNERATION REPORT CONTINUED

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The Bank's policy going forward for new Directors is that service contracts for an Executive Director may be terminated with six months' notice by either the Bank or the individual, unless there is evidence of gross misconduct or other circumstances where the individual may be summarily dismissed by written notice. The Committee reserves the right to use a 12 month notice period upon recruitment of a new Executive Director if necessary.

The Bank may terminate employment by making a payment in lieu of notice equivalent to salary and the cost of benefits and pension during the unexpired period of notice.

Under the terms of their service contracts, Executive Directors receiving salary in lieu of notice are required during that period to take all reasonable steps to find an alternative remunerated position to mitigate their loss to the Company.

Non-Executive Directors (including the Chairman) are appointed via letters of appointment, which are available for inspection at the Company's registered office. Non-Executive Directors are initially appointed for a three-year term, and may serve for a second term, at the Board's discretion.

The appointment of the Chairman may be terminated with three months' notice by either the Bank or the individual. The corresponding notice periods for other Non-Executive Directors are one month by either party.

Non-Executive Directors are not entitled to any compensation for loss of office other than fees paid for their notice period.

The Executive Directors' service contracts and the Non-Executive Directors' letters of appointment are available for inspection by shareholders at the Company's registered office.

### **PAYMENTS FOR LOSS OF OFFICE**

The Remuneration Policy relating to payments for loss of office reflects the service contracts in place as well as the relevant incentive plan rules.

There is no automatic or contractual right to incentive payments. The Committee will consider the specific circumstances of the cessation of employment when exercising its discretion, including the rationale for departure and the performance to the date of cessation, with payments made on a case-by-case basis.

The Committee reserves the right to make additional termination payments where such payments are consistent with an existing legal obligation (or by way of damages for breach of such an obligation), or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

### **Treatment of in year annual bonus and outstanding DSBP awards**

In general, outstanding annual bonus awards will lapse on cessation of employment, unless the Committee determines otherwise.

As a general rule, unvested DSBP awards will not lapse on cessation of employment, except in the circumstances of dismissal for gross misconduct, voluntary resignation or a similar 'bad leaver' reason determined by the Committee, in which case the awards will lapse immediately unless the Committee determines otherwise. Where DSBP awards do not lapse, the awards will ordinarily vest on the original vesting date, subject to the operation of malus and/or clawback, unless the Committee determines that the awards should vest on the individual's cessation of employment.

Where an individual is dismissed for cause, any vested nil-cost options held under the DSBP will also lapse, unless the Committee determines otherwise. If an individual dies, his unvested DSBP awards will normally vest immediately.

### **Treatment of outstanding PSP awards**

The Committee will determine whether an Executive Director is a good leaver in its absolute discretion. However typical good leaver scenarios will include cessation of employment due to injury, ill-health, disability, retirement, the sale of the individual's employing entity out of the Group, or any other circumstances for which the Committee determines good leaver status is appropriate. As a general rule, unvested PSP awards will lapse immediately on cessation of employment, unless determined to be a good leaver. In this case, the awards will ordinarily vest on the original vesting date, unless the Committee determines that the awards should vest on the individual's cessation of employment.

Where an individual is dismissed for cause, any vested nil-cost options he holds under the PSP will also lapse, unless the Committee determines otherwise. If an individual dies, his unvested PSP awards will normally vest immediately on the good leaver terms set out above.

If the Committee determines the outstanding awards should vest, the proportion vesting will be subject to:

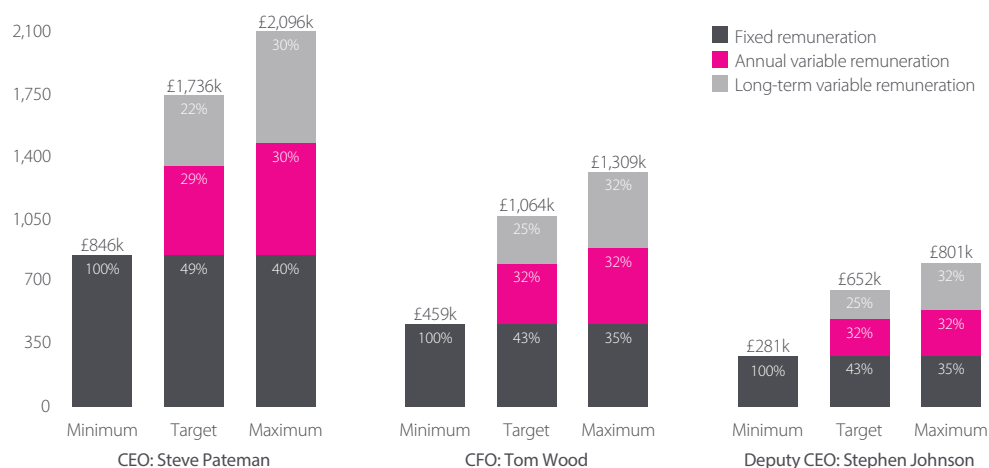
- The satisfaction of any applicable performance conditions measured over the original performance period (or, where appropriate the period to the individual's cessation of employment);
- The operation of malus and/or clawback; and
- Pro-rating of awards to reflect the reduced period of time between grant and early vesting as a proportion of the original vesting period (unless the Committee determines otherwise).

Any holding periods applicable to shares acquired under PSP awards may continue to apply following cessation of employment at the Committee's discretion.

### ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY

The charts below illustrate the potential 2016 remuneration outcomes for the Executive Directors under the new Remuneration Policy, in the following three scenarios:

Scenario	Description	Assumptions
<b>Minimum performance</b>	Minimum remuneration receivable.	<ul style="list-style-type: none"> <li>Fixed pay (salary as at 1 January 2016), pension and benefits.</li> <li>No payouts under incentive plans.</li> </ul>
<b>Target performance</b>	Value of remuneration payable for achieving performance in line with expectations.	<ul style="list-style-type: none"> <li>Fixed pay (as above).</li> <li>80% of maximum bonus opportunity.</li> <li>62.5% of PSP awards vesting.</li> </ul>
<b>Maximum performance</b>	Value of remuneration payable for achieving performance in excess of the 'maximum' targets set.	<ul style="list-style-type: none"> <li>Fixed pay (as above).</li> <li>100% of maximum bonus opportunity.</li> <li>100% of PSP awards vesting.</li> </ul>



### REMUNERTION PAYMENTS AND PAYMENTS FOR LOSS OF OFFICE

Remuneration payments and payments for loss of office will only be made if consistent with this remuneration policy or otherwise approved by an Ordinary Resolution by shareholders.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### ANNUAL REMUNERATION REPORT

This section of the Directors' Remuneration Report summarises how Shawbrook implemented the Remuneration Policy in 2015, and how it is intended to be operated in 2016. This Annual Remuneration Report will be submitted to shareholders in an advisory vote at the 2016 AGM. Where required, sections of the Annual Remuneration Report have been audited by KPMG LLP - this is indicated where appropriate.

#### Consideration by the Directors of matters relating to Directors' remuneration

Prior to Admission, the Bank's governance in relation to remuneration matters was carried out by a jointly formed Remuneration and Nomination Committee. This Committee met once between 1 January 2015 and the date of Admission.

Material assistance was provided to the Committee by the General Counsel and Company Secretary, the Head of Secretariat, the Interim Chief Executive Officer & Chief Financial Officer and the Interim Human Resources Director. These individuals attended certain meetings by invitation but were not present for discussions on their own remuneration.

From 20 October 2015, the Committee received advice on executive remuneration from Deloitte LLP, following a competitive tender process. Prior to that, advice was provided by New Bridge Street. Both Deloitte LLP and New Bridge Street are founding members of the Remuneration Consultants Group and adhere to its Code of Conduct.

Following appointment, Deloitte LLP provided advice and information in respect of the development of the Bank's Remuneration Policy, its reporting under the Directors' Remuneration Reporting Regulations, and compliance with other regulatory requirements, and were paid fees totalling £47,650 for the period. Deloitte has also provided risk advisory, internal audit and real estate advisory services to Shawbrook during 2015.

New Bridge Street provided advice in respect of executive remuneration arrangements in the period leading up to, and immediately following, Shawbrook's IPO. Fees paid to New Bridge Street for the period from IPO to October 2015 were £41,000.

The Committee is satisfied that the advice received from all parties was objective and independent.

#### Single total figure of remuneration (audited)

The tables below set out the single total figure of remuneration for Executive and Non-Executive Directors for the financial year ended 31 December 2015, reflecting remuneration received from appointment to the Shawbrook Group plc Board in 2015.

#### Year ended 31 December 2015:

Executive Director	Richard Pyman <sup>1,3,6</sup>	Tom Wood <sup>1,4,6</sup>	Stephen Johnson <sup>2</sup>
Salary/fee (£000)	251	423	171
Taxable benefits (£000)	2	10	1
Pension <sup>5</sup> (£000)	20	23	12
Annual bonus (£000)	–	424	235
SAYE (£000)	–	3	3
<b>Total (£000)</b>	<b>273</b>	<b>883</b>	<b>422</b>
Legacy share plan <sup>6</sup> (£000)	3,425	7,954	
<b>Total (£000)</b>	<b>3,698</b>	<b>8,837</b>	<b>422</b>

#### Notes:

1. Appointed on 20 March 2015.
2. Appointed on 21 May 2015.
3. Richard Pyman stepped down as CEO on 2 October 2015.
4. Inclusive of additional allowance of £110,000 (based on annualised allowance of £175,000) for acting as Interim CEO for the period 21 May to 31 December 2015.
5. Pension contributions or allowances.
6. Richard Pyman and Tom Wood had previously subscribed for B and/or C ordinary shares in the Company, the terms of which provided for their conversion into ordinary shares upon the IPO on a basis determined by reference to the IPO price. As a result of this conversion, Richard Pyman held 1,181,164 ordinary shares and Tom Wood held 2,742,841 ordinary shares.

Non Executive Director	Sir George Mathewson <sup>7</sup>	Iain Cornish <sup>8</sup>	Graham Alcock <sup>9</sup>	Robin Ashton <sup>9</sup>	Sally-Ann Hibberd <sup>10</sup>	Paul Lawrence <sup>11</sup>	Roger Lovering <sup>9</sup>	Lindsey McMurray <sup>12</sup>	James Scott <sup>13</sup>
Fees (£000)	31	94	56	61	10	32	64	–	–
<b>Total (£000)</b>	<b>31</b>	<b>94</b>	<b>56</b>	<b>61</b>	<b>10</b>	<b>32</b>	<b>64</b>	<b>–</b>	<b>–</b>
Legacy share plan (£000) <sup>14</sup>	3,590	–	–	2,308	–	–	–	–	–
<b>Total (£000)</b>	<b>3,621</b>	<b>94</b>	<b>56</b>	<b>2,369</b>	<b>10</b>	<b>32</b>	<b>64</b>	<b>–</b>	<b>–</b>

## Notes:

- Appointed on 20 March 2015 and stepped down from the Board on 6 July 2015.
- Appointed on 6 July 2015.
- Appointed on 20 March 2015.
- Appointed on 5 November 2015.
- Appointed on 24 August 2015.
- Pollen Street Capital was paid £30,000 for the services of Lindsey McMurray for the years ended 31 December 2014.
- James Scott was a Director of Laidlaw Acquisitions Limited prior to Admission. He resigned on 20 March 2015. He received no fee for this position.
- Sir George Mathewson and Robin Ashton had previously subscribed for B and/or C ordinary shares in the Company, the terms of which provided for their conversion into ordinary shares upon the IPO on a basis determined by reference to the IPO price. As a result of this conversion, Sir George Mathewson held 1,237,874 ordinary shares and Robin Ashton held 795,776 ordinary shares.

The tables below set out the single total figure of remuneration for Executive and Non-Executive Directors for the financial year ending 31 December 2014, reflecting remuneration received from appointment to the Shawbrook Bank Limited Board in 2014:

**Year ended 31 December 2014:**

Director	Richard Pyman <sup>1,3</sup>	Tom Wood	Ian Henderson <sup>2</sup>
Salary/fee (£000)	225	275	264
Taxable benefits (£000)	2	34	1
Pension (£000)	16	21	6
Annual bonus (£000)	125	150	–
Other <sup>4</sup> (£000)	–	–	100
<b>Total</b>	<b>368</b>	<b>480</b>	<b>371</b>

## Notes:

- Appointed on 2 April 2014.
- Stepped down on 2 April 2014.
- Richard Pyman stepped down as CEO on 2 October 2015.
- Termination payment

Director	Sir George Mathewson	Sir Brian Ivory	Graham Alcock	Robin Ashton	Roger Lovering
Fees	123	119	27	50	60

The Group paid Pollen Street Capital Limited £30,000 for the services of Lindsey McMurray.

**Additional disclosures in respect of the single total figure of remuneration table (audited)****Salary/fees**

Salaries for the Executive Directors were reviewed on Admission, in light of the change in scope and nature of the roles, and to reflect the current FTSE-listed environment. The table below sets out the salaries for the Executive Directors from the date of Admission.

	Salary pre-Admission	Salary from Admission
Richard Pyman <sup>1</sup>	£300,000	£350,000
Tom Wood <sup>2</sup>	£275,000	£325,000
Stephen Johnson	n/a	£260,000 <sup>3</sup>

- Richard Pyman stepped down from the Board on 2 October 2015.
- Since Richard Pyman stepped down as Chief Executive Officer, Tom Wood has been acting as interim Chief Executive Officer while continuing his role as Chief Financial Officer. In addition to the salary quoted above, he has received a temporary allowance of £175,000 p.a. for his role as interim Chief Executive Officer.
- Stephen Johnson was appointed Deputy Chief Executive Officer on 21 May 2015. The £260,000 salary figure shown in the table is his effective salary from appointment to the Board, on an annualised basis.

Salaries for the Executive Directors were increased following Admission to reflect the increased responsibilities associated with Shawbrook's status as a listed Company. Salaries were determined following a benchmarking review of similar peers and are now more aligned with the market. Future salary increases will be made in line with the Directors' Remuneration Policy.

As shown in the table above, since his appointment as interim Chief Executive Officer, Tom Wood has received an additional allowance of £175,000 p.a. On the commencement of Steve Pateman's employment as Chief Executive Officer on 1 January 2016, Tom Wood was no longer eligible for this allowance.

Details of Steve Pateman's remuneration arrangements on recruitment are shown on page 79.

## DIRECTORS' REMUNERATION REPORT CONTINUED

Similarly, fees for the Non-Executive Directors were set on Admission, as shown below. The fees remained at these levels throughout 2015, except for the Chairman fee, as shown in the table below:

	Fees from Admission	Fees from 1 August 2015
NED base fee	£65,000 <sup>1</sup>	£65,000
Chairman fee	£122,700 <sup>2</sup>	£190,000

1. Paul Lawrence received an additional fee of £25,000 p.a. in 2015 in relation to his role as Chairman of the Risk Committee and a fee of £5,000 p.a. in 2015 in relation to his role as a member of the Audit Committee.
2. Fees received by Sir George Mathewson at the time of Shawbrook's Admission to the Main Market. Sir George stepped down from the Board on 6 July 2015 and was succeeded as Chairman of the Board by Iain Cornish. Mr Cornish's fees are £190,000 per annum. These fees are more in line with FTSE 250 market practice and reflect Mr Cornish's experience and knowledge of the financial services industry.

### Taxable benefits

Taxable benefits comprise private medical insurance for all Directors and a living allowance for the CFO (ceased from April 2015).

### Pension

In 2015, Executive Directors received employer pension contributions of 7.5% of salary.

### All-employee share plans

Eligible employees were invited to subscribe for options over ordinary shares of 1 pence ('Ordinary Shares') with an exercise price of 259.76 pence per share, a 20% discount to the average closing middle market quotation of an Ordinary Share for the three dealing days immediately preceding the date on which the invitation to participate was made on 7 September 2015. The options have a savings contract start date of 1 December 2015 and are exercisable between 1 December 2018 and 1 June 2019. The options have no performance and all options are outstanding.

On 2 October 2015, some of these options to buy ordinary shares were granted under the terms of the Sharesave Scheme to certain Executive Directors of the Company.

Name	Number of options
Tom Wood	6,929
Stephen Johnson	6,929

### Annual bonus

As detailed in the IPO Prospectus, for 2015 the Executive Directors were eligible to participate in the annual bonus, with a maximum annual bonus opportunity of 100% of salary.

For each Executive Director, the 2015 annual bonus outcome was based on performance against a scorecard of measures, weighted 65% on financial measures, and 35% on non-financial measures reflecting the strategic goals of the Bank, and individual objectives. The table below illustrates performance against the targets set for each measure.

Measure	Weighting	Threshold	Target	Maximum	Outcome
Underlying PBT	45%	£55.5m	£79.5m	£83.5m	£80.1m
Return on Tangible Equity	10%	15%	23%	27%	26.9% <sup>1</sup>
Cost:income ratio	10%	56%	48%	44%	48%
Risk management	20%	Remuneration Committee judgement			See below
Customer (NPS)	7.5%	18	30	34	34
Culture & employee engagement	7.5%	Remuneration Committee judgement			See below

1. The actual underlying return on equity of 27.9% included a positive uplift of c.1% due to the revaluation of deferred tax assets following the implementation of the 8% bank surcharge. The Remuneration Committee determined it was appropriate to exclude this uplift for the purposes of determining bonus outcomes.

Following a review of the Bank's risk management performance over the year, based on input from the Chief Risk Officer, the Committee determined a payout of 62.5% under the risk management element of the scorecard. This outcome reflects the significant effort that has been put into transforming the risk culture of the Bank over the year, which has resulted in substantial improvement, especially during the second half of the year.

During the year, the Bank has performed strongly against the culture and employee engagement element of the scorecard, particularly in regards to the improvement in the risk culture among employees and staff turnover rates. As a result, the Committee determined that a payout of 100% of maximum was warranted under this element.

The Committee assessed the individual performance of the Executive Directors over the year. During 2015, Tom Wood performed a pivotal role as CFO during the successful IPO of the Group, and stepped up as interim CEO for seven months of the year, during which he led the Bank following IPO. As a result of his outstanding commitment and contribution to the Bank over the year, including performing a number of roles, the Committee exercised their discretion to award him a bonus of 100% of salary.

Stephen Johnson also performed a pivotal role during the IPO, providing excellent support to Richard Pyman and Tom Wood in his role as Deputy CEO. As a result, the Committee determined an overall bonus level of 95% of salary was warranted for Stephen Johnson.

50% of the annual bonus earned has been paid in cash, with the other 50% deferred into Shawbrook shares under the Deferred Share Bonus Plan, which will vest in equal tranches after one, two and three years in March of 2017, 2018 and 2019. The bonuses earned by the Executive Directors are summarised in the table below:

Director	Bonus outcome (% of maximum)	Amount paid in cash	Amount deferred into shares
Tom Wood	100%	£212,000	£212,000
Stephen Johnson	95%	£118,000	£118,000

#### **Performance Share Plan**

No PSP awards were granted in 2015.

#### **Scheme interests awarded during the financial year (audited)**

No PSP awards were granted to Executive Directors in 2015. It is intended that the first awards under the PSP will be granted in 2016.

#### **Payments to past Directors (audited)**

There were no payments made to past Directors relating to 2015.

#### **Payments for loss of office (audited)**

Richard Pyman stepped down from the role of Chief Executive Officer on 2 October 2015, following a period of ill health.

Mr Pyman did not receive any salary, benefits and pension from the date that he stepped down from the Board. No awards were made to Mr Pyman under the 2015 annual bonus and he held no outstanding awards under the Performance Share Plan.

#### **Statement of Directors' shareholding and share interests (audited)**

As set out in the Remuneration Policy table above, Executive Directors are required to achieve and maintain, within five years, a shareholding in the Bank of at least 200% of salary. Until this is achieved, Executive Directors must retain at least 50% of shares acquired on vesting of PSP awards (net of tax).

Unvested shares, including shares under the Deferred Share Bonus Plan, are not taken into account when assessing achievement against the shareholding requirement.

#### **Interests in shares**

The table below summarises the shareholdings as at 31 December 2015, and achievement against the shareholding requirements, of the Executive Directors.

Director	Shares owned outright <sup>1</sup>	Current shareholding (% of salary) <sup>2</sup>	Requirement met?
Richard Pyman	885,873	892%	Yes
Tom Wood	2,057,131	2,232%	Yes
Stephen Johnson	3,847,429	5,218%	Yes

#### Notes

- Directors' beneficial holdings in the ordinary shares of the Bank, including holdings of connected persons.
- Current shareholding valued using the three-day average share price to 31 December 2015 of 352.6p.

The table below summarises the shareholdings of Sir George Mathewson and Robin Ashton at 31 December 2015. The other Non-Executive Directors have not been included in the table as they currently hold no shares in the Company.

Director	Shareholding at 31 December 2015
Sir George Mathewson	928,406
Robin Ashton	596,832

There have been no changes in the share interests of the current Directors between 31 December 2015 and to March 2016.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Change in remuneration of the CEO compared to the wider employee population

The table below sets out the increase in salary, benefits (excluding pension) and bonus of the CEO compared to that of the wider employee population.

	% change in salary (2014 to 2015)	% change in annual bonus (2014 to 2015)	% change in benefits <sup>2</sup> (2014 to 2015)
Chief Executive Officer <sup>1,2</sup>	92%	239%	12%
All employees <sup>3</sup>	7%	19%	1%

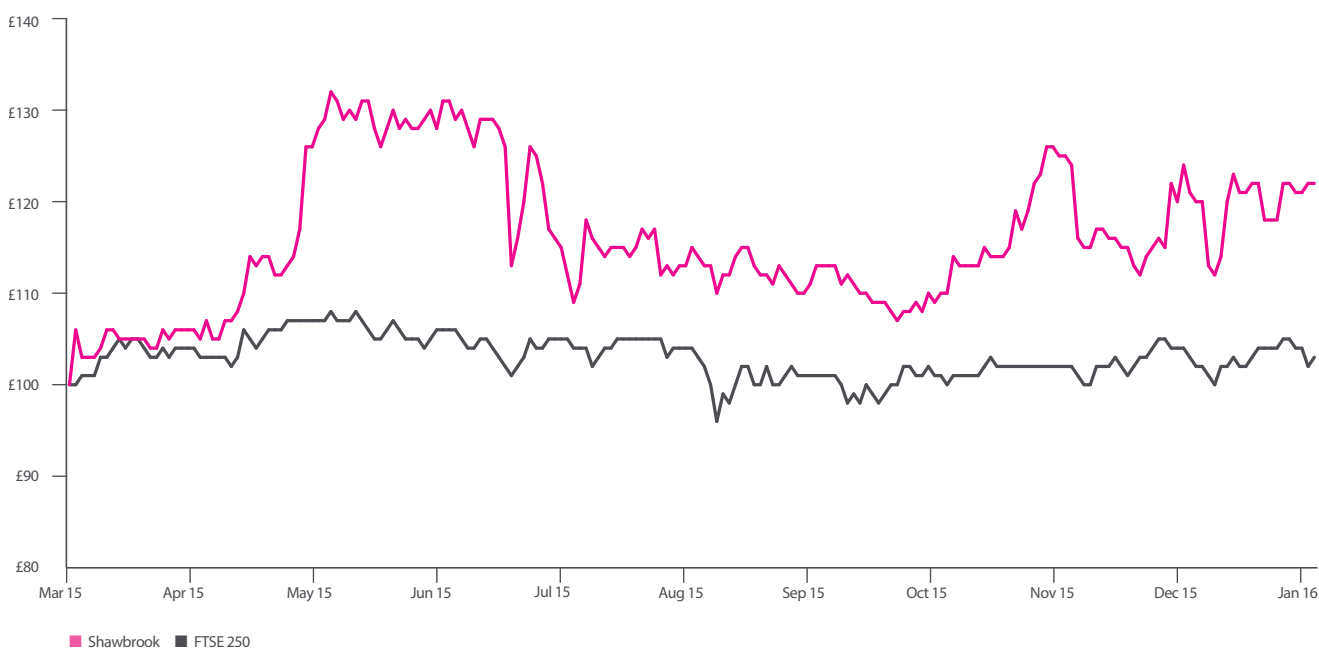
1. Based on the salary of Richard Pyman for the period between January and May 2015 and Tom Wood (including an 'acting up' allowance) for the period between June and December 2015.
2. Note that the Chief Executive's salary increased to reflect the associated additional responsibility and duties of leading a publicly listed Company.
3. Adjusted for movements in colleague numbers and other impacts to ensure a like for like comparison.

Figures for 'All employees' have been calculated using data for all relevant colleagues except the CEO, which is considered to be the most appropriate Group of colleagues for these purposes.

### Historical TSR performance and CEO remuneration outcomes

The chart below compares the TSR performance of the Bank to that of the FTSE 250 from the date of Admission (8 April 2015) to the end of the 2015 financial period.

The Remuneration Committee considers the FTSE 250 to provide the most relevant comparison as Shawbrook is currently a constituent of this index.



The table below summarises the single total figure of remuneration and annual bonus payout as a percentage of maximum for the period used above. Please note that in future years, once the first tranche of PSP awards have vested, the table will also include PSP vesting as a percentage of maximum.

	Period to 31 December 2015
Single total figure of remuneration – Richard Pyman & Tom Wood <sup>1</sup>	<b>£6,694,417</b>
Annual bonus payout – Tom Wood (% of maximum)	<b>100%</b>

1. Based on the total remuneration of Richard Pyman for the period between January and May 2015 and Tom Wood (including an allowance as Interim CEO) for the period between June and December 2015.



### Relative importance of spend on pay

The table below illustrates the total staff costs and dividends paid to shareholders over the relevant financial year and immediately preceding financial year.

	Year ended 31 December 2015	Year ended 31 December 2014	% change
Total staff costs	<b>£46,611,275</b>	£31,204,152	49%
Dividends paid	n/a	n/a	n/a

1. No dividends were paid in 2014 or 2015.

### External appointments for Executive Directors

Executive Directors are permitted to hold external Board appointments. External appointments (and the treatment of any related fees) are also subject to prior approval of the Board.

Stephen Johnson is a Director of Latchglen Limited, but does not receive any fees in respect of this appointment. At the time of writing, neither Steve Pateman nor Tom Wood held any external appointments.

### Recruitment arrangements for Chief Executive Officer

Following the departure of Richard Pyman on 2 October 2015, it was announced that Steve Pateman would join Shawbrook Group as CEO on 1 January 2016. His base salary has been set at £625,000 to reflect the wealth of experience he brings to the Group and his outstanding track record of building highly successful SME banking businesses.

Mr Pateman's benefits, bonus opportunity and PSP opportunity have been set in line with the current policy for all Executive Directors. His pension allowance is 35% of salary, in line with the pension provision offered by his previous employer.

His bonus opportunity will be 100% of salary, of which 50% will be deferred under the Deferred Share Bonus Plan on the same basis as all other Executive Directors, and his PSP awards will typically be made in shares to the equivalent value of up to 100% of salary.

In addition to the above, Mr Pateman has also received one-off share awards in relation to his recruitment:

- An award of shares was granted to him over 552,623 shares by Special Opportunities Fund (Guernsey) LP over Shawbrook Group plc shares (or options). This grant is in respect of awards forfeited from his previous employer, is of equivalent value and will be subject to the same deferral schedule as those awards, as well as malus and clawback provisions. Other shareholders have not suffered any dilution as a result of this award.
- A further award over 71,408 ordinary shares has been granted by the Company to compensate him for the reduction in fixed remuneration from his previous employment. This award vested immediately and the resulting net shares will be subject to a three year holding period. This award was necessary to secure Steve Pateman's services.

### Implementation of the Remuneration Policy for 2016

The Remuneration Policy will be implemented in 2016 in line with the Policy Report above.

### Salary

The Committee reviewed the salaries of the Executive Directors during 2015, following a market review of salary levels. The salaries effective from 1 January 2016 are as follows:

	2016 salary	2015 salary
Steve Pateman	<b>£625,000</b>	n/a
Tom Wood	<b>£425,000</b>	£325,000
Stephen Johnson	<b>£260,000</b>	£260,000

Following a benchmarking review of peer organisations, the CFO's salary was adjusted from 1 January 2016, in order to ensure that total compensation is competitive and aligned to the market in light of our voluntary implementation of a 2:1 cap on variable remuneration.

### Pension

As detailed above, with effect from 1 January 2016, the CEO will receive a pension allowance of 35% of salary. A review of pension levels for the other Executive Directors is currently being undertaken, subject to the maximum pension level set out in our Policy Table above.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Annual bonus

The maximum annual bonus opportunity remains unchanged at 100% of salary for Executive Directors. As for 2015, 50% of any bonus earned will be deferred under the DSBP in line with the Policy table on page 68.

For 2016, the annual bonus will be based on:

Measure	Weighting
<b>Financial measures</b>	
PBT	35%
Return on Tangible Equity	10%
Cost:income ratio	10%
<b>Non-financial measures</b>	
Risk management	15%
Customer (NPS)	5%
Culture & employee engagement	5%
<b>Individual measures</b>	
Individual performance	20%

The 2016 bonus structure and weightings have been adjusted to allow for a specific element of the bonus to be awarded for individual performance against specified short-term business objectives, as agreed at the beginning of the financial year. For each Executive Director, individual performance will be assessed against a personal scorecard of financial and non-financial metrics (including financial, strategic, risk, customer, and people measures).

The 2016 bonus targets are considered to be commercially sensitive and have therefore not been disclosed upfront. Performance against these targets will be provided in next year's Annual Remuneration Report.

### Performance Share Plan

PSP grants in 2016 will be equal to 100% of salary for Executive Directors. Any awards that vest will be subject to a two-year holding period following the end of the three-year performance period.

The PSP awards vest subject to the achievement of a balanced scorecard of measures, as set out in the table below:

Measure	Weighting	Target performance requirement	Maximum performance requirement
<b>Financial measures</b>			
Relative TSR	20%	Median against peer Group	Upper quartile against peer Group
Earnings per share	40%	20% growth p.a.	35% growth p.a.
<b>Non-financial measures</b>			
Customer (NPS)	20%	26	34
Risk management	20%	Judgemental assessment against a number of factors (see below)	

We intend to use the following Group of selected peers for assessing TSR performance for the 2016 awards:

- Aldermore Group plc
- Arrow Global
- Barclays
- Close Brothers
- HSBC
- International Personal Finance
- Lloyds Banking Group
- OneSavings Bank
- Paragon Group of Companies
- Provident Financial
- Royal Bank of Scotland
- Secure Trust Bank
- Standard Chartered
- Virgin Money

The risk and compliance factors which will be taken into consideration by the Committee at the time of vesting include: Board risk appetite metrics, material regulatory breaches, completion of actions of regulatory/audit/control effectiveness reviews, regulatory change programmes and customer complaints.

The Remuneration Committee retains the discretion to adjust the formulaic outcome to reflect the overall performance of the Group, any significant risk events during the period, or for any other circumstances as deemed appropriate by the Remuneration Committee.

Any vested awards will be subject to a further holding period following the end of the three-year performance period, during which time Executive Directors will not be able to sell any shares earned.

#### **Non-Executive Director Fees**

The Board reviewed the fees for the Non-Executive Directors in early 2016. As a result of additional benchmarking undertaken, and to reflect the typical fee structure seen in the UK-listed environment, it was decided to introduce additional fees for the Senior Independent Director, the Chairmen and members of the Audit, Risk and Remuneration Committees, and members of the Nomination Committee. As the role of Nominations Committee Chairman is performed by the Chairman of the Board, it was determined that there should be no additional fee for this role. The Chairman of the Board also receives no additional fee for his membership of the Remuneration Committee.

The new fee structure will take effect from 1 January 2016, and is shown in the table below:

	Fees from 1 January 2016
NED base fee	£65,000
Chairman fee	£190,000
SID fee	£10,000
Audit and Risk Committee Chairman fee	£20,000
Remuneration Committee Chairman fee	£5,000
Audit and Risk Committee membership fee	£5,000
Remuneration and Nomination Committee membership fee	£2,500

#### **STATEMENT OF VOTING AT AGM**

This will be the first year that the Directors' Remuneration Report is put to shareholders for approval. The results of the vote will be disclosed in the 2016 Annual Remuneration Report.

#### **APPROVAL**

This report was reviewed and approved by the Board on 2 March 2016.

#### **GRAHAM ALCOCK**

**Remuneration Committee Chairman**

2 March 2016

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

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The Directors are responsible for preparing the Annual Report and Accounts and the Group and Parent Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

The Directors as at the date of this statement whose names and functions are set out on pages 48 to 49 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

**DANIEL RUSHBROOK**

**Company Secretary**

2 March 2016

## DIRECTORS' REPORT

The Directors' information on pages 83 to 86 inclusive (together with the sections of the Annual Report incorporated by reference) constitute the Directors' Report that is required by law. This Directors' Report also includes additional disclosures required by the UKLA's Disclosure and Transparency Rules and Listing Rules. They consider that the Annual Report and Financial Statements for the year ended 31 December 2015 taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders and other stakeholders to assess the Group's position and performance, business model and strategy.

### RESULTS FOR THE YEAR

The Group made a profit before tax for the year of £70.1m (2014: £45.3m) and a profit after tax of £58.5m (2014: £34.5m). The Company made a loss before tax for the year of £4.6m (2014: profit £0.3m) and a loss after tax of £4.5m (2014: profit £0.3m). The reconciliation of statutory results to underlying results is set out in the Strategic Report.

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8 this Directors' Report and the Strategic Report on pages 8 to 44 comprise the management report.

### DIVIDENDS

The Directors do not propose to recommend a final dividend in respect of the year ended 31 December 2015.

### DIRECTORS

The Directors who served during the year were:

Lindsey McMurray

James Scott (resigned 20 March 2015)

The following Directors were appointed on 20 March 2015:

Sir George Mathewson (resigned 6 July 2015)

Robin Ashton

Graham Alcock

Roger Lovering

Richard Pyman\* (resigned 2 October 2015)

Tom Wood\*

The following Directors were appointed after 20 March 2015:

Stephen Johnson was appointed on 21 May 2015\*

Iain Cornish was appointed on 6 July 2015

Paul Lawrence was appointed on 24 August 2015

Sally-Ann Hibberd was appointed on 5 November 2015

Steve Pateman was appointed on 1 January 2016\*

David Gagie was appointed on 1 January 2016

\* Executive Director

The biographical details of all current Directors are given on pages 48 to 49 of this Annual Report.

In accordance with the recommendations of the UK Corporate Governance Code, with the exception of Graham Alcock who will be stepping down, all Directors will offer themselves for appointment at the forthcoming AGM.

### DIRECTORS' INTERESTS

The Directors' interests (and those of any persons connected with them) in the share capital of the Company from Admission and as at 31 December 2015 are set out on page 77 of the Directors' Remuneration Report.

### POWERS AND APPOINTMENT OF DIRECTORS

Rules about the appointment and replacement of Directors are set out in the Company's Articles of Association. In accordance with the recommendations of the Code, all Directors shall retire from office and may

offer themselves for re-appointment at the Annual General Meeting. The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association. Changes to the Company's Articles of Association must be approved by shareholders passing a special resolution and must comply with the provisions of the Companies Act 2006 and the FCA's Disclosure and Transparency Rules.

### DIRECTORS' INDEMNITIES

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Company may indemnify any Director or former Director of the Company or any associated Company against any liability and may purchase and maintain for any Director or former Director of the Company or any associated company insurance against any liability.

The Directors of the Company have entered into individual deeds of indemnity with the Company which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force from 1 April 2015 or from the date of appointment for those Directors appointed after 1 April 2015 and are in force as at the date of this Directors' Report. The deeds remain in force for the duration of a Director's period of office and thereafter in respect of any claims made in accordance with the indemnity in respect of the matters arising during the Director's period of office.

The Group has maintained appropriate Directors' and Officers' liability insurance in place throughout 2015.

### CORPORATE GOVERNANCE REPORT

The Corporate Governance Report can be found on pages 45 to 66 and, together with this report of which it forms part, fulfils the requirements of the corporate governance statement for the purpose of the Financial Conduct Authority's Disclosure and Transparency Rules (DTR).

### SHARE CAPITAL

The Company's share capital comprises one class of ordinary share with a nominal value of 0.01p each. At 31 December 2015, 250,500,000 ordinary shares were in issue.

### RESTRICTIONS ON THE TRANSFER OF SHARES

There are no specific restrictions on the transfer of shares of the Company which are governed by the general provisions of the Articles of Association and prevailing legislation.

### RIGHTS ATTACHING TO SHARES

On a show of hands, each member has the right to one vote at general meetings of Company. On a poll, each member would be entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the Company's share capital and all shares are fully paid.

### NEW ISSUES OF SHARE CAPITAL

Under section 551 of the Companies Act 2006, the Directors may allot equity securities only with the express authorisation of shareholders which may be given in General Meeting, but which cannot last more than five years. Under section 561 of the Companies Act, the board may also not allot shares for cash (otherwise than pursuant to an employee Share Scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

## DIRECTORS' REPORT CONTINUED

The Directors were granted the authority to issue and allot shares at a General Meeting held on 31 March 2015 just prior to the IPO. The Board was authorised to allot shares (1) in respect of the corporate reorganisation prior to the IPO up to a nominal amount of £2,000,000; (2) for the purposes of the IPO up to £400,000; and (3) for any other purposes up to an aggregate nominal amount of £833,333. The Board considers it would be appropriate to seek a renewal of the shareholder approval for such authority at the forthcoming Annual General Meeting. Details of the resolution for such authority are included in the Notice of the forthcoming Annual General Meeting.

The Company block listed a total of 500,000 ordinary shares on 11 December 2015 otherwise there have been no other allotments since the IPO.

### PURCHASE OF OWN SHARES

Under section 701 of the Companies Act 2006 a Company may make a market purchase of its own shares if the purchase has first been authorised by a resolution of the Company.

The Directors were granted the authority to repurchase shares at a general meeting held on 31 March 2015 just prior to the IPO to repurchase up to a maximum of 2,500,000 ordinary shares. No such purchase has been made. The Board considers it would be appropriate to seek a renewal of the shareholder approval for the authority to purchase shares of up to 10% of its issued share capital at the forthcoming Annual General Meeting.

Details of the resolution renewing the authority are included in the Notice of the forthcoming Annual General Meeting.

### SUBSTANTIAL SHAREHOLDINGS

In accordance with the Disclosure and Transparency Rules DTR 5, the Company as at 12 February 2016 (being the latest practicable date before publication of this report), has been notified of the following disclosable interests in its issued ordinary shares:

Shareholder	Ordinary shares held	% of voting rights
Special Opportunities Fund (Guernsey) LP <sup>1</sup>	111,158,600	44.37%
Fidelity Mgt & Research	21,598,244	8.62%
Kames Capital plc	13,261,897	5.29%

<sup>1</sup> This figure has been updated to reflect the transfer of 256,631 shares to Steve Pateman on 19 February 2016.

Interests as at 31 December 2015 were as follows:

Shareholder	Ordinary shares held	% of voting rights
Special Opportunities Fund (Guernsey) LP	111,479,498	44.50%
Fidelity Mgt & Research	21,237,919	8.48%
Kames Capital plc	13,411,897	5.35%

### RELATIONSHIP WITH MAJOR SHAREHOLDER

On Admission of its shares following the IPO in April 2015, the Company entered into a relationship agreement (the 'Relationship Agreement') with its major shareholder SOF General Partner (Guernsey) LP (the 'Major Shareholder'). Pursuant to the Relationship Agreement, the Major Shareholder has been granted the right to appoint up to two Directors to the Board so long as it holds a substantial interest in 20% of the Company's ordinary 0.01 pence shares; one Director if it holds a relevant interest in 10% of the Company's ordinary 0.01 pence shares. Despite the Major Shareholder holding 44.37% in the Company's shares (as indicated in the table above), the Major Shareholder currently only has one appointee at

<sup>1</sup> This will be the latest data before publication of the accounts.

the Board. The Board confirms that, since the IPO, the Company has complied with the independence provisions included in the Relationship Agreement and that, so far as the Company is aware, the Major Shareholder and its associates have also complied with such provisions.

### DISCLOSURE OF INFORMATION UNDER LISTING RULE (LR) 9.8.4R

Additional information, where not already contained in the Directors' Report, required to be disclosed by Listing Rule 9.8.4R, where applicable to the Company, can be found in the following sections of the annual report:

Subject matter	Page reference
A statement of the amount of interest capitalised by the Group	Note 3 of the Financial Statements
Details of long term incentive schemes	Page 76 of the Remuneration Report

### POST-BALANCE SHEET EVENTS

There have been no significant events between 31 December 2015 and the date of approval of the Financial Statements which would require a change to or additional disclosure in the Financial Statements.

### CHANGE OF CONTROL

The Company is not party to any significant contracts that are subject to change of control provisions in the event of a takeover bid.

There are no agreements between the Company and its Directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

### SIGNIFICANT CONTRACTS

Details of related party transactions are set out in note 32 to the Financial Statements.

There are no contracts of significance in which a Director is interested.

### BUSINESS ACTIVITIES

The Group's business activities, together with the factors likely to affect its future development and performance and its summarised financial position are set out on pages 18 to 31 of the Strategic Report.

### EMPLOYEES

The Group is committed to being an equal opportunities employer and opposes all forms of discrimination. Applications from people with disabilities will be considered fairly and if existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

The Group regularly provides employees with information of concern to them, which incorporates the Group's current performance and its future aims and strategies. The Group conducts an Annual Employee Survey and uses the results of this survey to improve performance in areas that are important to staff. A monthly newsletter providing business updates and background information on the Group is circulated to all staff.

### EMPLOYEE SHARE SCHEMES

All employees may participate in the Company's Save as You Earn SAYE Scheme. Full details of the Company's Employee Share Schemes are set out on page 102.

### EMPLOYEE BENEFIT TRUST

Equiniti Trust (Jersey) Limited is the trustee of the Shawbrook Group plc Employee Benefit Trust, an independent trust, which holds shares for the benefit of employees and former employees of the Group. Unless otherwise directed by the Company, the trustee has agreed to waive all rights to any dividends which may at any time be payable on any shares held by the trust. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the Group funds the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 27 on page 113 of the Financial Statements.

### POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made charitable donations of £87k (2014: £56k) during the financial year and did not make any political donations or incur any political expenditure during the financial year.

### GOING CONCERN

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the twelve months from the reporting date. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the 12 months from the reporting date, including a range of stressed scenarios, the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the 12 months from the reporting date and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

### FAIR, BALANCED AND UNDERSTANDABLE

The Directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, strategy and business model.

Details of the governance procedures which have been embedded to support this can be found in the Audit Committee Report.

### FUTURE DEVELOPMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Information about future developments, internal control and financial risk management systems in relation to financial reporting and financial risk management systems in relation to financial reporting and financial risk management objectives and policies in relation to the use of financial instruments can be found in the following sections of the Annual Report which are incorporated into this report by reference:

Future developments – please refer to the Strategic Report pages 8 to 31.

Internal control and financial risk management systems in relation to financial reporting- please refer to the Corporate Governance Report pages 54 to 55.

Financial risk management objectives and policies in relation to the use of financial instruments – please refer to the Risk Management Report pages 32 to 39 and Note 30 of the Financial Statements.

### DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that:

1. so far as each of the Directors is aware, there is no relevant audit information of which the auditor is unaware; and
2. the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

### EMISSIONS REPORTING

#### Environment Overview

We recognise our responsibility to minimise our environmental impact by protecting natural resources and operating sustainability. As a financial services organisation with no industrial processes we require limited natural resources to carry out our business activities, and therefore have a limited impact on the local and wider environment. However we continuously look to improve upon our process of incorporating environmental considerations into our day to day operations as well as our wider Group strategy.

#### 2015 Performance

In line with the GHG ('Greenhouse Gas') protocol framework, we have calculated the GHG emissions associated with our Scope 1 and 2 operations using DEFRA conversion factors. Scope 1 includes fuel emissions from building and Company vehicles and Scope 2 includes our emissions from purchased electricity. We are not currently reporting our Scope 3 emissions due to limited data in relation to our leased assets, employee travel, water usage and waste management. However we will endeavour to include these in our 2016 Sustainability Report.

In 2015, our Total GHG emissions were 583.1 tCO<sub>2</sub>e, equating to 1.14 tCO<sub>2</sub>e per employee, down 1.35% overall and 24.67% per employee since 2014. As expected, the largest source of GHG emissions in 2015 was our purchased electricity consumption. This is due to limited on-site fuel emissions and the use of grey fleet instead of Company vehicles.

Our total GHG emissions are reported as tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) and are calculated in line with the GHG protocol framework. In addition to reporting our total emissions, we have also disclosed the emissions per employee as an intensity ratio.

### SHAWBROOK BANK LTD ENVIRONMENTAL IMPACT TABLE

Baseline Year	2014
Consolidation Approach	Financial Control
Emission factor data source	DEFRA/DECC (2015) and World Resource Institute (2015) GHG Protocol tool
Assessment Methodology	The Greenhouse Gas Protocol Revised Edition (2004)
Intensity Ratio	Emissions per FTE

## DIRECTORS' REPORT CONTINUED

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### GHG EMISSIONS

	2015	2014	Change 2014 to 2015 (%)
Total Scope 1 CO <sub>2</sub> e emissions (t) <sup>1</sup>	<b>61.5</b>	50.1	22.75
	<b>61.5</b>	50.1	22.75
Total Scope 2 CO <sub>2</sub> e emissions (t)	<b>521.6</b>	541.0	-3.59
Lutea House	<b>268.1</b>	269.7	-0.59
Croydon	<b>95.8</b>	100.5	-4.68
Dorking	<b>88.7</b>	95.2	-6.83
Glasgow	<b>47.7</b>	52.1	-8.45
Wisbech	<b>21.3</b>	23.5	-9.36
Total Scope 1 & Scope 2 CO <sub>2</sub> e emissions (tonnes)	<b>583.1</b>	591.1	-1.35
Total emissions per FTE (t)	<b>1.13</b>	1.50	-24.67

<sup>1</sup> All reported figures have been stated in accordance with the latest DEFRA/GHG Protocol Gas Conversion Factors for Company reporting.

### 2016 Sustainability

Going forward we will continue to monitor and report our GHG emissions, working to improve our energy efficiency across the Shawbrook portfolio. As mentioned we will look to collate, calculate and report our Scope 3 emissions in preparation for the 2016 Sustainability Report, while implementing environmental measures to reduce consumption and GHG emissions. Shawbrook recently reported energy consumption to the Environment Agency in line with the mandatory government 'Energy Savings Opportunity Scheme', which has identified £62,650 worth of potential savings opportunities – representing a 32% reduction on overall consumption.

### AUDITOR

Resolutions to reappoint KPMG LLP as the Group's auditor and to give the Directors the authority to determine the auditor's remuneration will be proposed at the Annual General Meeting.

### ANNUAL GENERAL MEETING

Shawbrook Group plc's first Annual General Meeting will be held at Instinctif Partners, 65 Gresham Street, London EC2V 7NQ on 9 June 2016 at 10 a.m. Notice of the forthcoming Annual General Meeting of the Company, which includes the business to be transacted and resolutions to be considered at the meeting, appear in the document accompanying this Report and Accounts.

By order of the Board

### STEVE PATEMAN

Chief Executive Officer

2 March 2016



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHAWBROOK GROUP PLC

## OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Shawbrook Group Plc for the year ended 31 December 2015 set out on pages 90 to 133. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of significance, were as follows:

#### **Impairment of loans and advances to customers (£13.5m)**

Refer to page 59 (Report of the Audit Committee), page 105 (Accounting policy, Critical accounting estimates and judgements and financial disclosures).

**The risk** is that impairment provisions on loans and advances to customers are misstated. Loans for which there is objective evidence that an impairment event has occurred are assessed individually for impairment. If there is deemed to be no evidence that an impairment exists on an individual basis, loans are assessed collectively for impairment.

It is the judgements made by the Directors for collective provisioning which are the most significant as they are the most sensitive to adjustment. The two key judgements in the collective provisioning assessment are the likelihood of default and the emergence period and it is the latter which is the single most critical judgement as there is limited historic data on which to accurately assess it.

The Group's individual provisions are also subjective as a result of the judgements needed and the relatively limited amount of historic experience on some of the portfolios in what is a benign economic environment. The Asset Finance, Business Credit and Commercial portfolios represent 76% of the Group's total loans. These loans are individually monitored and the assessment of individual provisions for these loan portfolios involves knowledge of each borrower. The key judgement for individual provisions on these portfolios is the recoverable value of underlying collateral.

The Secured and Consumer portfolios represent 24% of the Group's total loans. These portfolios comprise smaller value loans to a larger number of customers and they are grouped into homogenous buckets and monitored using arrears statistics which feed into the individual provisioning calculations. The key judgement on these portfolios is the propensity to default, particularly on the Consumer portfolio.

A management overlay is applied to the modelled provisioning balances to reflect risk factors not taken into account by the models. This requires judgement in relation to the factors to be reflected as well as their estimated value.

**Our response** – In this area our audit procedures included:

- Testing the design, implementation and operating effectiveness of key controls over the capture, monitoring and reporting of loans and advances to customers;
- Substantively validating the year end impairment models for collective and individual provisioning by re-performing calculations and agreeing a sample of data inputs to source documentation. We also assessed whether the data used in the models is complete and accurate through testing a sample of relevant data fields and their aggregate amounts against data in the source systems;
- Critically assessing and challenging the assumptions used by the Group in their impairment models using our understanding of the Group, the historical accuracy of its estimates, current and past performance of the Group's loans and our knowledge of the industry in respect of similar loan types;
- Benchmarking key assumptions, methodology and overall provision levels/ ratios against the Group's peers. We also compared other inputs such as house price inflation to market information to mitigate the risk of error in collateral valuations;
- Considering the sensitivity of the collective and individual provisioning models to changes in the key assumptions;
- Undertaking a detailed assessment of a sample of exposures for individual impairment in the Asset Finance, Business Credit and Commercial portfolios, taking a risk based approach to focus on those with the greatest potential impact on the financial statements. Our assessment specifically challenged the Group's assumptions of expected future cash flows including the valuation of realisable collateral through inquiry with credit managers and inspecting correspondence and independent valuation reports;
- Examining a sample of performing loans to evaluate if any indicators of impairment existed to test the completeness of individual impairment provisions;
- Critically assessing the rationale for the inclusion of elements in the management overlay as well as the value of the overlay with reference to our own knowledge of the industry; and
- Considering the adequacy of the Group's disclosures in relation to impairment about the changes in estimate occurring during the period and the sensitivity to the key assumptions.

#### **Income recognition (£212.7m)**

Refer to page 60 (Report of the Audit Committee), page 99 (Accounting policy, Critical accounting estimates and judgements and financial disclosures).

**The risk.** Interest and fees earned on loans are recognised using the effective interest rate ('EIR') method which spreads directly attributable cashflows over the expected lives of the loans. The Directors apply judgement in deciding which cashflows, including transaction costs, are spread on an EIR basis and assessing the redemption profiles used to spread those cashflows. The most critical element of judgement in this area is the estimation of the redemption profiles of the loans, informed by past customer behaviour of when loans have been paid off.

**Our response** – In this area our audit procedures included:

- Inspecting a sample of new product literature to ensure that pricing structure, fees and costs are appropriately incorporated into the EIR models as required by the relevant accounting standards;
- Agreeing a sample of data inputs to source information from the systems. We assessed whether the data used in the models is complete and accurate through testing a sample of relevant data fields and their aggregate amounts against data in the source systems;
- Evaluating the accuracy of the models by re-performing a sample of calculations, testing for model inconsistencies between the portfolios

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHAWBROOK GROUP PLC

## CONTINUED

and comparing the methodology used to the requirements of the relevant accounting standards;

- Challenging the appropriateness of key assumptions used in the EIR models, including the expected lives, by comparing these to historical trends within the Group, the Group's forecasts and our own expectations based on our knowledge of the Group and experience of the industry in which it operates;
- Considering the sensitivity of the model to changes in key assumptions;
- Benchmarking the Group's expected life assumptions to peer data and/or market information for comparable lending and where available; and
- Considering the adequacy of the Group's disclosures about the changes in estimate occurring during the period and the sensitivity to the key assumptions.

### Goodwill Impairment (£44.8m)

Refer to page 60 (Report of the Audit Committee), page 109 (Accounting policy, Critical accounting estimates and judgements and financial disclosures)

**The risk** is that goodwill amounts held on the balance sheet are not supported by future cashflows of the underlying business. The recoverable amounts for each cash generating unit ('CGU') are calculated using discounted future cash flow forecasts and compared to the carrying value for each CGU. In calculating the recoverable amounts, the Directors' make judgements over certain key inputs including revenue growth, discount rate and long term growth rates.

£24.2m of the total goodwill balance relates to Business Credit, being the area of most significant judgement in light of financial performance in the year. Both the discount rate and the forecast cash flows used in calculating the recoverable amounts are critical elements of judgement in this area.

**Our response** – In this area our audit procedures included:

- Assessing whether the CGUs have been appropriately identified in relation to the requirements of the accounting standards, with consideration of how Directors monitor and manage the business;
- Considering the adequacy of the Group's disclosures about the key assumptions, including the sensitivity of the recoverable amount to those assumptions;

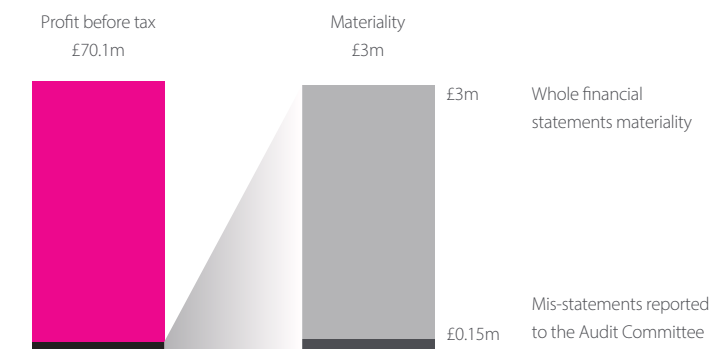
For Business Credit specifically our procedures included:

- Assessing the appropriateness of the Group's forecasting approach and the calculation of discount rates with the support of our valuation specialists;
- Comparing discount rates used to externally available information for other financial services institutions;
- Challenging forecast cash flows and growth rates in the context of the historical experience of the CGU as well as our knowledge of the market and wider economic environment;
- Considering the consistency of forecast cashflows used in the impairment model with management forecasts and other key internal documents; and
- Considering the sensitivity of the recoverable amounts to changes in key assumptions.

### 3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £3.0 million, determined with reference to a benchmark of Group profit before tax of which it represents 4.3 %.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.15 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.



The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% of total Group Revenue, Group profit before tax, and total Group assets.

### 4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

### 5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Group Viability statement on page 42, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 31 December 2018; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

### 6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Report of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 85 and 42, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 55 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

#### **Scope and responsibilities**

As explained more fully in the Directors' Responsibilities Statement set out on page 82, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**SIMON CLARK**  
**(SENIOR STATUTORY AUDITOR)**

FOR AND ON BEHALF OF KPMG LLP, STATUTORY AUDITOR

CHARTERED ACCOUNTANTS  
15 CANADA SQUARE, LONDON, E14 5GL

2 March 2016

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £m	2014 £m
Interest income and similar income	3	<b>216.9</b>	156.7
Interest expense and similar charges	4	<b>(63.8)</b>	(54.0)
<b>Net interest income</b>		<b>153.1</b>	<b>102.7</b>
Operating lease rentals		<b>14.9</b>	15.7
Other income		<b>1.1</b>	1.1
Depreciation on operating leases	16	<b>(12.2)</b>	(13.1)
<b>Net income from operating leases</b>		<b>3.8</b>	<b>3.7</b>
Fee and commission income	5	<b>13.1</b>	7.6
Fee and commission expense		<b>(2.8)</b>	(1.7)
<b>Net fee and commission income</b>		<b>10.3</b>	<b>5.9</b>
Fair value gains/(losses) on financial instruments	15	<b>(0.3)</b>	(0.1)
<b>Net operating income</b>		<b>166.9</b>	<b>112.2</b>
Administrative expenses	6	<b>(88.7)</b>	(59.1)
Impairment losses on loans and advances to customers	14	<b>(6.5)</b>	(6.7)
Provision for liabilities and charges	23	<b>(1.6)</b>	(1.1)
<b>Total operating expenses</b>		<b>(96.8)</b>	<b>(66.9)</b>
<b>Profit before taxation</b>		<b>70.1</b>	<b>45.3</b>
Income tax charge	12	<b>(11.6)</b>	(10.8)
<b>Profit after taxation, being total comprehensive income, attributable to owners</b>		<b>58.5</b>	<b>34.5</b>
Earnings per share	Note	2015 Pence	2014 Pence
Basic	35	<b>24.1</b>	17.7
Diluted	35	<b>24.1</b>	17.7

The notes on pages 95 to 130 are an integral part of these financial statements.

## CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
<b>Assets</b>					
Cash and balances at central banks		521.9	–	313.1	–
Loans and advances to banks		30.9	–	36.6	0.2
Loans and advances to customers	13	3,319.1	–	2,284.8	–
Derivative financial instruments	15	2.8	–	3.7	–
Property, plant and equipment	16	48.6	–	49.7	–
Intangible assets	17	54.7	–	49.5	–
Deferred tax assets	18	14.1	–	9.8	–
Other assets	19	7.9	4.2	6.8	–
Investment in subsidiaries	20	–	272.2	–	186.0
Subordinated loan receivable	26	–	75.0	–	–
<b>Total assets</b>		<b>4,000.0</b>	<b>351.4</b>	<b>2,754.0</b>	<b>186.2</b>
<b>Liabilities</b>					
Customer deposits	21	3,186.4	–	2,421.0	–
Due to banks	22	39.9	–	41.0	–
Provisions for liabilities and charges	23	0.9	–	0.6	–
Other liabilities	24	331.2	1.3	41.9	–
Subordinated debt	26	74.0	74.0	30.8	–
<b>Total liabilities</b>		<b>3,632.4</b>	<b>75.3</b>	<b>2,535.3</b>	<b>–</b>
<b>Equity</b>					
Share capital	27	2.5	2.5	185.3	185.3
Share premium account		87.3	87.3	1.3	1.3
Capital redemption reserve		183.1	183.1	–	–
Retained earnings		94.7	3.2	32.1	(0.4)
<b>Total Equity</b>		<b>367.6</b>	<b>276.1</b>	<b>218.7</b>	<b>186.2</b>
<b>Total equity and liabilities</b>		<b>4,000.0</b>	<b>351.4</b>	<b>2,754.0</b>	<b>186.2</b>

The notes on pages 95 to 130 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 2 March 2016 and were signed on its behalf by:

**IAIN CORNISH**

Chairman

Registered number 07240248

**TOM WOOD**

Chief Financial Officer

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Share Capital £m	Share Premium £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Balance as at 1 January 2014	138.0	–	–	(2.5)	135.5
<b>Total comprehensive income for the year:</b>					
Profit for the year	–	–	–	34.5	34.5
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>34.5</b>	<b>34.5</b>
Share based payments	–	–	–	0.1	0.1
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					
Issue of shares	47.3	1.3	–	–	48.6
<b>Total contributions by and distributions to owners</b>	<b>47.3</b>	<b>1.3</b>	<b>–</b>	<b>–</b>	<b>48.6</b>
<b>Balance at 31 December 2014</b>	<b>185.3</b>	<b>1.3</b>	<b>–</b>	<b>32.1</b>	<b>218.7</b>
Balance as at 1 January 2015	185.3	1.3	–	32.1	218.7
<b>Total comprehensive income for the year:</b>					
Profit for the year	–	–	–	58.5	58.5
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>58.5</b>	<b>58.5</b>
Share based payments	–	–	–	4.1	4.1
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					
Cancellation of shares	(183.1)	–	183.1	–	–
Issue of shares	0.3	89.7	–	–	90.0
Cost of share issues	–	(3.7)	–	–	(3.7)
<b>Total contributions by and distributions to owners</b>	<b>(182.8)</b>	<b>86.0</b>	<b>183.1</b>	<b>–</b>	<b>86.3</b>
<b>Balance as at 31 December 2015</b>	<b>2.5</b>	<b>87.3</b>	<b>183.1</b>	<b>94.7</b>	<b>367.6</b>

The notes on pages 95 to 130 are an integral part of these financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Share Capital £m	Share Premium £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Balance as at 1 January 2014	138.0	–	–	(0.6)	137.4
<b>Total comprehensive income for the year:</b>					
Profit for the year	–	–	–	0.1	0.1
<b>Total comprehensive income for the year</b>	–	–	–	<b>0.1</b>	<b>0.1</b>
Share based payments	–	–	–	0.1	0.1
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					
Issue of shares	47.3	1.3	–	–	48.6
<b>Total contributions by and distributions to owners</b>	<b>47.3</b>	<b>1.3</b>	–	–	<b>48.6</b>
<b>Balance at 31 December 2014</b>	<b>185.3</b>	<b>1.3</b>	–	<b>(0.4)</b>	<b>186.2</b>
Balance as at 1 January 2015	185.3	1.3	–	(0.4)	186.2
<b>Total comprehensive income for the year:</b>					
Loss for the year	–	–	–	(4.5)	(4.5)
Dividends received	–	–	–	4.0	4.0
<b>Total comprehensive income for the year</b>	–	–	–	<b>(0.5)</b>	<b>(0.5)</b>
Share based payments	–	–	–	4.1	4.1
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					
Cancellation of shares	(183.1)	–	183.1	–	–
Issue of shares	0.3	89.7	–	–	90.0
Cost of share issues	–	(3.7)	–	–	(3.7)
<b>Total contributions by and distributions to owners</b>	<b>(182.8)</b>	<b>86.0</b>	<b>183.1</b>	–	<b>86.3</b>
<b>Balance as at 31 December 2015</b>	<b>2.5</b>	<b>87.3</b>	<b>183.1</b>	<b>3.2</b>	<b>276.1</b>

The notes on pages 95 to 130 are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
<b>Cash flow from operating activities:</b>					
Profit/(Loss) for the year before taxation		70.1	(4.6)	45.3	0.1
Adjustments for non-cash items	28	27.1	4.1	23.8	0.1
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>					
		97.2	(0.5)	69.1	0.2
<b>Increase/decrease in operating assets and liabilities:</b>					
Increase in mandatory balances with central banks		(0.6)	-	(1.0)	-
Increase in loans and advances to customers		(1,040.3)	-	(749.0)	-
Decrease/(increase) in derivatives		0.9	-	(3.7)	-
(Increase)/decrease in other assets		(1.1)	(79.2)	0.7	-
Increase in customer deposits		765.4	-	958.1	-
Increase in provisions for liabilities and charges		0.3	-	0.2	-
Increase/(decrease) in other liabilities		287.2	1.4	12.0	(1.6)
<b>Net change in operating assets and liabilities:</b>					
		11.8	(77.8)	217.3	(1.6)
Tax paid		(13.8)	-	(4.6)	-
<b>Net cash flow generated from/(used by) operating activities</b>					
		95.5	(78.3)	281.8	(1.4)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(14.8)	-	(11.0)	-
Sale of property, plant and equipment		2.7	-	2.2	-
Purchase of intangible assets		(6.1)	-	(3.9)	-
Investment in subsidiaries net of cash and cash equivalents acquired		-	(86.2)	(76.3)	(47.2)
Dividend received from subsidiary		-	4.0	-	-
<b>Net cash used by investing activities</b>					
		(18.2)	(82.2)	(89.0)	(47.2)
<b>Cash flows from financing activities</b>					
Increase in amounts due to banks		(1.1)	-	16.4	-
Repayment of Centric Group third party funding		-	-	(138.2)	-
Repayment of subordinated debt	26	(33.7)	-	-	-
Issue of subordinated debt	26	74.0	74.0	-	-
Proceeds from the issue of ordinary share capital		86.3	86.3	47.3	48.6
<b>Net cash from/(used by) financing activities</b>					
		125.5	160.3	(74.5)	48.6
<b>Net increase/(decrease) in cash and cash equivalents</b>					
		202.5	(0.2)	118.3	-
Cash and cash equivalents at 1 January		348.0	0.2	229.7	0.2
<b>Cash and cash equivalents at 31 December</b>					
	28	550.5	-	348.0	0.2

The notes on pages 95 to 130 are an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2015

#### 1. BASIS OF PREPARATION

##### 1.1 Reporting entity

Shawbrook Group plc is domiciled in the UK. The Company's registered office is at Lutea House, Warley Hill Business Park, Brentwood, Essex, CM13 3BE. The Consolidated Financial Statements of Shawbrook Group plc, for the year ended 31 December 2015, comprise the results of the Company and its subsidiaries (together referred to as the Group and individually as Group entities).

##### 1.2 Basis of accounting

The Group's financial statements have been prepared on a historical cost basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements are drawn up in accordance with the Companies Act 2006. No individual profit or loss account or related notes are presented for the Company as permitted by section 408 (4) of the Companies Act 2006.

##### 1.3 Functional and presentation currency

The consolidated financial statements are presented in pounds Sterling, which is the Group's functional currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in profit or loss. Non-monetary items (which are assets and liabilities which do not attach to a right to receive or an obligation to pay a fixed or determinable number of units of currency) measured at amortised cost and denominated in foreign currencies are translated at the exchange rate at the date of the transaction.

##### 1.4 IPO Costs

Qualifying costs directly attributable to the issue of share capital were charged directly to equity and other associated costs were charged to the Income Statement.

##### 1.5 Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for at least 12 months following the year end. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for at least 12 months following the year end, including a range of stressed scenarios, the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for at least 12 months following the year end, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

##### 1.6 Basis of consolidation

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Entities are regarded as subsidiaries where the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to affect those returns. Inter-Company transactions and balances are eliminated upon consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that power over an investee, exposure or rights to variable returns and the ability to affect these returns ceases. A Special Purpose Entity (SPV) is an entity which is formed for a single, well-defined and narrow, lawful purpose. The Group did not have any SPEs in the year. Accounting policies are applied consistently across the Group.

These financial statements consolidate the results of the subsidiary companies set out in note 31.

##### 1.7 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS adopted in the EU requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on Management's best knowledge of the amount, actual results may differ ultimately from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes to the financial statements which the estimate or judgement relates to as follows:

Area of significant judgement or estimate	Note reference
Effective interest rate	3
Fair value of share based payments	10
Impairment of loans and advances	14
Impairment assessment of goodwill	17

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

##### 1.8 New Standards and interpretations not yet adopted

A number of International Accounting Standards Board (IASB) pronouncements have been issued but are not effective for this financial year. The standards considered most relevant to the Group are as follows:

###### – IFRS 9 'Financial Instruments'

Effective from 1 January 2018 and not yet endorsed by the EU. The standard largely replaces IAS 39, addressing recognition, basis of valuation, income recognition methods, impairment and hedging for financial instruments.

While areas such as the amortised cost basis of valuation and the effective interest rate method of recognition are largely unchanged in the new standard, the new basis of accounting for impairments is likely to have a significant impact on the Group due to the requirement of earlier recognition of losses. Changes to the hedging rules are not expected to have a significant impact on the Group as the Group currently uses limited hedge accounting.

Early adoption is permitted once endorsed by the EU. The Group has started to design systems to facilitate phase one of the process, and has plans in place to build and implement all required systems and processes before the effective date. The Group has commissioned external consultants to assist in monitoring the development of IFRS 9, considering the associated impact on the Group's financial statements and ensuring total compliance with the standard; the Group intends to adopt the standard on the date it becomes effective.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. BASIS OF PREPARATION continued

#### – IFRS 16 'Leases'

Effective from 1 January 2019 and not yet endorsed by the EU. The standard replaces IAS 17, IFRIC 4, SIC-15 and SIC 27. It applies to all leasing arrangements. The standard introduces a new recognition model that recognises all leases on a lessee's balance sheet (subject to certain exemptions), reducing off-balance sheet financing and increasing balance sheet value and operating profit. Lessor accounting is largely unchanged. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is considering the impact on the Group's financial statements, although the standard is not anticipated to have a material impact on the Group; the Group intends to adopt the standard on the date it becomes effective.

#### – Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'

Effective from 1 February 2016 and not yet endorsed by the EU. The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. While this is not an outright ban, it creates a high hurdle for when these methods may be used for intangible assets. This is unlikely to have a material impact on the Group. The Group intends to adopt the standard on the date it becomes effective.

#### – IFRS 15 'Revenue from Contracts with Customers'

Effective from 1 January 2018 and not yet endorsed by the EU. The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. It also does not apply if two companies under the same line of business exchange non-monetary assets to facilitate sales to other parties.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This is unlikely to have a material impact on the Group. The Group intends to adopt the standard on the date it becomes effective.

### 2. OPERATING SEGMENTS

The Group has six reportable operating segments as described below which are based on the Group's five lending Divisions plus a Central segment which represents the Deposit business, Central functions and shared central costs. The underlying basis is the basis on which financial information is presented to the chief operating decision maker which excludes certain items included in the statutory results.

The following summary describes the operations in each of the Group's reportable segments:

- Commercial Mortgages – provides the following key products, distributed primarily via a broker panel of c. 400 accredited brokers:
  - Residential: loans to experienced buy-to-let property investors;
  - Semi-Commercial: loans for mixed use residential and commercial property operated by either seasoned SMEs or investors;
  - Commercial: loans for properties operated by either seasoned SMEs or investors;

- Short term loans: loans for property refurbishment for professional property investors; and
- HMO Investment: loans for multilet properties operated by property investors.

- Asset Finance – provides the following key products, predominately originated via a direct origination team who have long standing relationships with clients:

- Corporate Asset Finance: provides full pay-out finance leases and hire purchase agreements to UK SMEs secured on hard, mainly wheeled, assets;
- Block and Wholesale Finance: provides block lines and wholesale facilities to SMEs secured against loan receivables; and
- Healthcare Finance: provides operating and finance leases to the NHS Trusts and other private healthcare providers.

- Business Credit – provides asset based working capital and loan facilities to SMEs with invoice discounting as the core product for all clients accounting for 77% of the book. It also complements the invoice discounting facility with loans secured against stock, plant and machinery and property. New business is originated through a national network of direct sales staff providing full UK coverage.

- Secured Lending – second charge mortgage lender, loans typically used for home improvements, large consumer purchases and debt consolidation. The book is weighted towards London and the South East, distributed through a broker panel of c. 85 accredited brokers.

- Consumer Lending – provides the following key products, predominantly to prime home owners:

- Home improvement loans sold by c. 100 established suppliers focussing on products such as windows, kitchens, bedrooms, bathrooms, conservatories and solar panels;
- Holiday ownership loans sold through proven specialist time share providers;
- Retail point of sale loans sold through c. 20 retailers; and
- Personal loans.

- Central – this represents the reconciling items between the total of the five lending segments and the consolidated income statement. As well as common costs, Central includes the Group's Treasury function and Retail Savings business which are responsible for raising finance on behalf of the lending segments.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group are included below.

Performance is measured based on the product contribution as included in the internal Management reports. All revenue for each operating segment is earned from external customers.

## 2. OPERATING SEGMENTS continued

Year ended 31 December 2015	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Central £m	Total Business £m
Interest income and similar income	74.3	56.3	10.9	42.1	28.9	4.4	216.9
Interest expense and similar charges	(24.6)	(14.6)	(4.3)	(13.3)	(6.9)	(0.1)	(63.8)
<b>Net interest income</b>	<b>49.7</b>	<b>41.7</b>	<b>6.6</b>	<b>28.8</b>	<b>22.0</b>	<b>4.3</b>	<b>153.1</b>
Operating lease rentals	–	14.9	–	–	–	–	14.9
Other income	–	1.1	–	–	–	–	1.1
Depreciation on operating leases	–	(12.2)	–	–	–	–	(12.2)
<b>Net income from operating leases</b>	<b>–</b>	<b>3.8</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3.8</b>
Fee and commission income	0.1	4.3	8.3	0.2	0.2	–	13.1
Fee and commission expense	(0.7)	–	(0.5)	(1.1)	(0.5)	–	(2.8)
<b>Net fee and commission income</b>	<b>(0.6)</b>	<b>4.3</b>	<b>7.8</b>	<b>(0.9)</b>	<b>(0.3)</b>	<b>–</b>	<b>10.3</b>
Fair value gains/(losses) on financial instruments	–	–	–	–	–	(0.3)	(0.3)
<b>Net operating income</b>	<b>49.1</b>	<b>49.8</b>	<b>14.4</b>	<b>27.9</b>	<b>21.7</b>	<b>4.0</b>	<b>166.9</b>
Administrative expenses	(8.5)	(7.4)	(6.4)	(5.6)	(8.7)	(52.1)	(88.7)
Impairment losses on loans and advances to customers	(0.3)	(1.5)	(2.3)	(0.6)	(1.8)	–	(6.5)
Provision for liabilities and charges	–	–	–	–	–	(1.6)	(1.6)
<b>Statutory profit before tax</b>	<b>40.3</b>	<b>40.9</b>	<b>5.7</b>	<b>21.7</b>	<b>11.2</b>	<b>(49.7)</b>	<b>70.1</b>
Underlying adjustments	–	–	–	–	0.6	9.4	10.0
<b>Profit before tax on an underlying basis</b>	<b>40.3</b>	<b>40.9</b>	<b>5.7</b>	<b>21.7</b>	<b>11.8</b>	<b>(40.3)</b>	<b>80.1</b>
Income tax charge (Underlying basis)							(12.8)
<b>Profit for the year on an underlying basis</b>							<b>67.3</b>
Assets	1,595.9	761.2	183.3	487.2	333.4	639.0	4,000.0
Liabilities	–	–	–	–	–	(3,632.4)	(3,632.4)
<b>Net Assets/(Liabilities)</b>	<b>1,595.9</b>	<b>761.2</b>	<b>183.3</b>	<b>487.2</b>	<b>333.4</b>	<b>(2,993.4)</b>	<b>367.6</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 2. OPERATING SEGMENTS continued

Year ended 31 December 2014	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Central £m	Total Business £m
Interest income and similar income	474	45.3	5.9	35.0	20.3	2.8	156.7
Interest expense and similar charges	(16.6)	(12.6)	(2.6)	(11.2)	(5.1)	(5.9)	(54.0)
<b>Net interest income</b>	<b>30.8</b>	<b>32.7</b>	<b>3.3</b>	<b>23.8</b>	<b>15.2</b>	<b>(3.1)</b>	<b>102.7</b>
Operating lease rentals	–	15.7	–	–	–	–	15.7
Other income	–	1.1	–	–	–	–	1.1
Depreciation on operating leases	–	(13.1)	–	–	–	–	(13.1)
<b>Net income from operating leases</b>	<b>–</b>	<b>3.7</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3.7</b>
Fee and commission income	–	2.2	5.0	0.2	0.2	–	7.6
Fee and commission expense	(0.2)	–	(0.2)	(0.9)	(0.4)	–	(1.7)
<b>Net fee and commission income</b>	<b>(0.2)</b>	<b>2.2</b>	<b>4.8</b>	<b>(0.7)</b>	<b>(0.2)</b>	<b>–</b>	<b>5.9</b>
Fair value gains/(losses) on financial instruments	–	–	–	–	–	(0.1)	(0.1)
<b>Net operating income</b>	<b>30.6</b>	<b>38.6</b>	<b>8.1</b>	<b>23.1</b>	<b>15.0</b>	<b>(3.2)</b>	<b>112.2</b>
Administrative expenses	(6.3)	(7.3)	(3.3)	(4.2)	(5.5)	(32.5)	(59.1)
Impairment losses on loans and advances to customers	(1.0)	(1.5)	(0.3)	0.1	(4.0)	–	(6.7)
Provision for liabilities and charges	–	–	–	–	–	(1.1)	(1.1)
<b>Statutory profit before tax</b>	<b>23.3</b>	<b>29.8</b>	<b>4.5</b>	<b>19.0</b>	<b>5.5</b>	<b>(36.8)</b>	<b>45.3</b>
Underlying adjustments	–	–	–	–	–	3.8	3.8
<b>Profit before tax on an underlying basis</b>	<b>23.3</b>	<b>29.8</b>	<b>4.5</b>	<b>19.0</b>	<b>5.5</b>	<b>(33.0)</b>	<b>49.1</b>
Income tax charge (Underlying basis)							(10.8)
<b>Profit for the year on an underlying basis</b>							<b>38.3</b>
Assets	968.9	564.1	169.8	401.3	226.9	423.0	2,754.0
Liabilities	–	–	–	–	–	(2,535.3)	(2,535.3)
<b>Net Assets/(Liabilities)</b>	<b>968.9</b>	<b>564.1</b>	<b>169.8</b>	<b>401.3</b>	<b>226.9</b>	<b>(2,112.3)</b>	<b>218.7</b>

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are managed on a Group basis.

### 3. INTEREST RECEIVABLE AND SIMILAR INCOME

#### Accounting policy

Revenue represents income derived from loans and advances to customers, operating lease rentals together with fees and commissions receivable.

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method ('EIRM').

The EIRM is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument, for example prepayment options, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Income from finance lease and instalment credit agreements is recognised over the period of the leases so as to give a constant rate of return on the net investment in the leases.

Fees and commissions which are not considered integral to the EIR are recognised on an accruals basis when the service has been provided or received.

#### Critical accounting estimates and judgements

##### Effective interest rate

IAS 39 requires interest earned from loans and advances to be measured under the EIRM. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. Management reviews the expected lives on a segmental basis, whereby products of a similar nature are grouped into cohorts that represent homogenous behavioural attributes.

The key assumptions applied by management in the EIR methodology are behavioural life of the assets and the quantum of future early settlement fee income. The expected life behaviours are subjected to changes in internal and external factors and may result in adjustments to the carrying value of loans which must be recognised in the Statement of Profit and Loss. Management has limited historical experience of customer behaviours due to the relative immaturity of the portfolios and therefore models expected behaviour based on market trends and experience. The actual behaviour of the portfolios are compared to the modelled behaviour on a quarterly basis and the modelled behaviours are adjusted if the modelled behaviour materially deviates from actual behaviour, with adjustments recognised in the Statement of Profit and Loss.

During 2015 management assessed that the level of early redemption fees exceeded the modelled levels due to higher redemptions driven by higher liquidity levels in the market. The modelled behavioural lives were adjusted, resulting in an adjustment to the Statement of Profit and Loss increasing profit by £2.4m.

Management continues to perform sensitivity analyses on the EIR models applied. An increase/(decrease) in the behavioural life of a loan by 10% per calendar month would result in a net income statement increase/(decrease) of £0.6m (2014: £0.1m).

	2015 £m	2014 £m
Interest paid by customers	212.7	153.8
Interest received from derivative financial instruments	2.9	1.0
Interest on loans and advances to banks	1.3	1.9
<b>Interest receivable and similar income</b>	<b>216.9</b>	<b>156.7</b>

The interest income recognised during the year on loans impaired was £1.0m (2014: £1.0m). The group did not capitalise any interest during the year.

### 4. INTEREST EXPENSE AND SIMILAR CHARGES

	2015 £m	2014 £m
Interest paid to depositors	59.9	50.2
Interest on amounts due to banks	1.0	0.5
Interest on subordinated debt	2.9	3.2
Other interest	-	0.1
<b>Interest expense and similar charges</b>	<b>63.8</b>	<b>54.0</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 5. FEE AND COMMISSION INCOME

	2015 £m	2014 £m
Fee income on loans and advances to customers	8.8	5.4
Credit facility related fees	4.3	2.2
<b>Fee and commission income</b>	<b>13.1</b>	<b>7.6</b>

### 6. ADMINISTRATIVE EXPENSES

#### Accounting policy

#### Operating lease rentals

Rentals received from operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

	Note	2015 £m	2014 £m
Staff costs	8	46.6	31.2
Depreciation (excluding operating lease assets)	16	1.5	1.0
Amortisation of intangible assets	17	0.9	0.4
Operating lease rentals – land and buildings		1.1	0.7
Other administrative expenses		34.4	25.2
<b>Administrative expenses</b>		<b>84.5</b>	<b>58.5</b>
IPO related costs		4.2	0.6
<b>Total administrative expenses</b>		<b>88.7</b>	<b>59.1</b>

### 7. AUDITOR'S REMUNERATION

	2015 £000	2014 £000
Audit of these financial statements	100	50
<b>Amounts receivable by the Company's auditor and their associates in respect of other services</b>		
Audit of the financial statements of subsidiaries of the Company	385	338
Tax compliance services	86	58
Other tax advisory services	72	–
Audit related assurance services	200	40
All other assurance services	30	92
Corporate finance services	400	335
All other services	124	162
	<b>1,397</b>	<b>1,075</b>

### 8. EMPLOYEES

The average number of persons employed by the Group (including Directors) during the year was as follows:

	2015 No.	2014 No.
Customer facing	319	269
Non-customer facing	195	145
	<b>514</b>	<b>414</b>

The aggregate payroll costs of these persons were as follows:

	2015 £m	2014 £m
Wages and salaries	41.1	27.3
Social security costs	3.9	2.7
Pension costs	1.6	1.2
	<b>46.6</b>	<b>31.2</b>

### 9. EMPLOYEE RETIREMENT OBLIGATIONS

#### Accounting policy

The Group does not operate a pension scheme. Pension contributions are paid to staff and Directors personal pension schemes. The costs of the Group's contributions to defined contribution pension arrangements are recognised as an employee benefit expense when they are due.

The Group made contributions of £1.6m (2014: £1.2m) during the year.

## 10. EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS

### Accounting policy

Where the Group engages in share based payment transactions in respect of services received from certain of its employees, these are accounted for as equity settled share based payments in accordance with IFRS 2. The equity is in the Ordinary £0.01 Shares.

The grant date fair value of a share based payment transaction is recognised as an employee expense, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. In the absence of market prices, the fair value of the equity at the date of the grant is estimated using an appropriate valuation technique.

The amount recognised as an expense in the Statement of Profit and Loss is based on amortising the grant date fair value at a constant rate to the vesting date. Taxation on the amount recognised as an expense is charged to the Statement of Profit and Loss. Tax benefits of equity settled share-based payment transactions that exceed the tax effected cumulative remuneration expenses are considered to relate to an equity item and are recognised directly in equity.

### Critical accounting estimates and judgements

The fair value of shares in the employee Share Scheme was determined using valuation models. The inputs to these models require management judgement to estimate the probability and timings of events taking place in the future. The significant inputs used in the models include the attrition rates, expected volatility, expected dividend yield and expected life. The share-based payment recognised can be materially affected by these assumptions and the key drivers of change in the value are timing, probability and attrition rates.

The combined charge to the Consolidated Income Statement was £4.1m (2014: £0.1m). The composition of the charge was PSP £3.4m, LTIP £0.6m and SAYE £0.1m.

### Performance Share Plan

On 31 January 2011 the Performance Share Plan was introduced for Directors and senior employees. All shares were issued at a price of £1 per share. Holders were entitled to receive a return on the shares acquired in the event of a prescribed exit event of the A shareholders. The Incentive Share Scheme was governed by the Company's Articles of Association and is deemed by Management to be an equity settled scheme and has been accounted for as such in the financial statements of both the Company and its subsidiary, Shawbrook Bank Limited. Participants had to remain in employment or be deemed as a good leaver to continue to qualify for the scheme. This scheme ceased during 2015.

Details of shares issued are shown in the table below:

	2015 No. of shares	2014 No. of shares
<b>At 1 January</b>	<b>106,381</b>	94,630
Granted	<b>3,704</b>	19,750
Forfeited	<b>(2,696)</b>	(7,999)
Converted to £0.01 ordinary shares	<b>(107,389)</b>	–
<b>At 31 December</b>	<b>–</b>	<b>106,381</b>

The average fair value of shares issued was £5.15 (2014: £5.15). The fair values of the shares at the date of grant were valued using the Black-Scholes valuation model. The assumptions used are as follows:

	2015	2014
Expected volatility	<b>20%</b>	20%
Risk free rate	<b>0.4%</b>	0.4%
Dividend yield	<b>0%</b>	0%
Expected life	<b>1–2 years</b>	<b>1–2 years</b>

Although the Black-Scholes equation assumes predictable constant volatility, this is not observed in real markets. In order to estimate the annualised volatility we have assessed the past standard deviation of the stock price of comparable quoted banks over various time frames.

### Long Term Incentive Plan (LTIP)

During 2015 a number of share awards were granted to a set of individuals excluding Directors. The individuals are entitled to receive an award to acquire a specific number of ordinary shares in Shawbrook Group PLC, subject to performance conditions. The scheme is deemed to be an equity settled scheme and has been accounted for as such in the financial statements of both the Company and its subsidiary, Shawbrook Bank Limited. The share awards are subject to performance conditions, being the Group earning a defined underlying profit before tax in 2017, and subject to the Group maintaining its threshold capital and liquidity requirements.

Details of shares issued are shown in the table below:

	2015 No. of shares
<b>At 1 January</b>	–
Granted	<b>1,492,901</b>
Forfeited	–
<b>At 31 December</b>	<b>1,492,901</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 10. EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS continued

The fair value of the shares is based on the share price at the dates of the grant discounted for any expected dividends over the vesting period. The weighted average fair value of the shares issued adjusted for dividends was £3.25.

#### Save-As-You-Earn Scheme (SAYE)

In October 2015 the Save-As-You-Earn (SAYE) scheme was introduced for all employees. The Scheme provides employees with the opportunity to take part in a tax efficient savings scheme and to acquire Shawbrook Group plc shares at a discount to market value. The shares subject to this option have no restrictions, save those restrictions applying as a matter of law, regulation and the Company's dealing code. The SAYE scheme is governed by the Company's Articles of Association and is deemed by Management to be an equity settled scheme and has been accounted for as such in the financial statements of both the Company and its subsidiary, Shawbrook Bank Limited.

Detail of shares issued are shown in the table below:

	2015 No. of shares
<b>Shares in existence at 1 January 2015</b>	–
Granted	1,104,214
Forfeited	–
<b>Outstanding at 31 December 2015</b>	<b>1,104,214</b>

The fair value of the call options was calculated as £0.71. The awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. The awards vest over a period of three years.

	2015 £
Share price	3.10
Expected volatility	25.90%
Risk free rate	0.74%
Dividend yield	2.08%
Weighted average remaining contractual life (years)	3.17

### 11. DIRECTORS' REMUNERATION

	2015 £000	2014 £000
Directors' emoluments	1,894.3	30.0
Contributions to money purchase scheme	55.5	–
<b>Directors' remuneration</b>	<b>1,949.8</b>	<b>30.0</b>

### 12. TAXATION

#### Accounting policy

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Recognised in the Income Statement	2015 £m	2014 £m
<b>Current tax:</b>		
Current year	15.8	11.5
Adjustment in respect of prior years	0.1	0.5
<b>Total current tax</b>	<b>15.9</b>	<b>12.0</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary difference	(3.9)	(0.8)
Adjustment in respect of prior years	(0.4)	(0.4)
<b>Total deferred tax</b>	<b>(4.3)</b>	<b>(1.2)</b>
<b>Total tax charge</b>	<b>11.6</b>	<b>10.8</b>



**12. TAXATION** continued

Tax reconciliation	2015 £m	2014 £m
<b>Profit before tax</b>	<b>70.1</b>	<b>45.3</b>
Implied tax charge thereon at 20.25% (2014: 21.5%)	14.2	9.7
<b>Adjustments:</b>		
Prior year adjustment	(0.3)	0.1
Disallowable expenses and other permanent differences	0.9	1.0
Effect of tax rate changes	(3.2)	
<b>Total tax charge</b>	<b>11.6</b>	<b>10.8</b>

Reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on an aggregation of the rate of 18% substantively enacted at the balance sheet date and the additional 8% of tax suffered in relation to the banking surcharge.

**13. LOANS AND ADVANCES TO CUSTOMERS****Accounting policy****Assets acquired in exchange for loans**

Included within loans and advances to customers are assets acquired in exchange for loans, instalment credit and finance lease receivables as part of an orderly realisation. The asset acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the lease (net of impairment allowance) at the date of exchange. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Income Statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write down, is also recognised in the Income Statement, together with any realised gains or losses on disposal.

Loans and advances to customers include those classified as loans and advances, finance leases and instalment credit advances as summarised below:

	2015 £m	2014 £m
Loan receivables	2,873.0	1,861.4
Finance lease receivables	114.3	114.0
Instalment credit receivables	331.8	309.4
<b>Total loans and advances to customers</b>	<b>3,319.1</b>	<b>2,284.8</b>

At 31 December 2015, loans and advances to customers of £612.3m (2014: £535.2m) were pre-positioned with the Bank of England and HM Treasury for use as collateral within the Funding for Lending Scheme.

Loan receivables	Note	2015 £m	2014 £m
Gross: loan receivables		2,883.5	1,870.4
Less: allowances for impairment losses	14	(10.5)	(9.0)
<b>Net loan receivables</b>		<b>2,873.0</b>	<b>1,861.4</b>

The Group provides finance lease and instalment credit agreements to customers for a variety of assets including plant and machinery, taxis and aviation and marine vessels. These assets provide security against the gross receivables. Included within instalment credit receivables are block discounting facilities of £105.6m (2014: £79.9m).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 13. LOANS AND ADVANCES TO CUSTOMERS continued

Finance lease receivables	Note	2015 £m	2014 £m
<b>Gross amounts receivable</b>			
within one year		55.3	54.7
in the second to fifth year inclusive		79.9	78.8
after five years		0.5	1.0
		<b>135.7</b>	134.5
Less: unearned finance income		(19.4)	(19.8)
Less: allowances for impairment losses	14	(2.0)	(0.7)
<b>Net investment in finance lease receivables</b>		<b>114.3</b>	<b>114.0</b>
Amounts falling due:			
within one year		44.7	41.2
in the second to fifth year inclusive		69.2	72.0
after five years		0.4	0.8
<b>Net investment in finance lease receivables</b>		<b>114.3</b>	<b>114.0</b>
<b>Instalment credit receivables</b>	Note	2015 £m	2014 £m
<b>Gross amounts receivable</b>			
within one year		176.3	149.3
in the second to fifth year inclusive		198.1	201.5
after five years		0.8	4.0
		<b>375.2</b>	354.8
Less: unearned finance income		(42.4)	(44.0)
Less: allowances for impairment losses	14	(1.0)	(1.4)
<b>Net investment in instalment credit receivables</b>		<b>331.8</b>	<b>309.4</b>
Amounts falling due:			
within one year		152.4	118.5
in the second to fifth year inclusive		178.9	186.9
after five years		0.5	4.0
<b>Net investment in instalment credit receivables</b>		<b>331.8</b>	<b>309.4</b>
<b>Cost of equipment acquired during the year</b>		2015 £m	2014 £m
Finance leases		68.2	66.4
Instalment credit		170.0	270.8
<b>Total cost of equipment acquired during the year</b>		<b>238.2</b>	<b>337.2</b>

## 14. IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS

### Accounting policy

On an ongoing basis the Group assesses whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower; and
- Initiation of bankruptcy proceedings.

If there is objective evidence that an impairment loss on an individual financial asset has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Objective evidence of impairment of a portfolio of receivables exists if objective data indicates a decrease in expected future cash flows from a collection of receivables and the decrease can be measured reliably but cannot be identified with the individual receivables in the portfolio in which case a collective provision is applied.

The Group operates a forbearance policy in situations where it becomes aware that an individual customer is experiencing financial hardship. Repayment options are discussed with the customer that is appropriate to the customer's specific situation. The Group seeks to ensure that any forbearance results in a fair customer outcome and will not repossess an asset unless all other reasonable attempts to resolve the position have failed. Further information is provided on page 118.

### Critical accounting estimates and judgements

Individual impairment losses on loans and advances are calculated based on an assessment of the expected cash flows and the underlying collateral. For the purpose of collective impairment, financial assets are grouped on the basis of similar risk characteristics. Collective provisions are calculated using roll rates on different segments of the loan book not subject to an individual provision. Management also consider the need for a management overlay to take into account additional risk factors of the portfolio. The management overlay has led to an increase of £1.9m (2014: £1.8m) to the impairment allowances to reflect management's assessment of risk.

The key assumptions, being the emergence periods, cost of risk and roll rates, are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. For loans and advances to the extent that:

- There is a change of one month in the emergence period across all portfolios, this would have the effect of changing the collective provision by £0.5m (2014: £0.5m);
- There is a change in the loss rate by 10 basis points, this would have the effect of changing the collective provision by £1.5m (2014: £1.1m);
- There is an increase in the forced sale discount by 5%, this would have the effect of increasing the individual provisions by £0.4m (2014: £0.4m); and
- There is an increase in the propensity to default by 10%, this would have the effect of increasing the individual provisions by £1.0m (2014: £0.8m).

The movement in the allowances for losses in respect of loans, finance leases and instalment credit agreements during the year was as follows:

	2015 £m	2014 £m
<b>At 1 January</b>	<b>11.1</b>	5.4
Charge for impairment losses	<b>6.5</b>	6.7
Provisions utilised	<b>(4.1)</b>	(1.0)
<b>At 31 December</b>	<b>13.5</b>	<b>11.1</b>
<b>Analysis of impairment type:</b>		
Loan receivables	<b>10.5</b>	9.0
Finance lease receivables	<b>2.0</b>	0.7
Instalment credit receivables	<b>1.0</b>	1.4
<b>At 31 December</b>	<b>13.5</b>	<b>11.1</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 15. DERIVATIVE FINANCIAL INSTRUMENTS

#### Accounting policy

##### **Derivatives and hedge accounting**

The Group's derivative activities are entered into for the purposes of matching or eliminating risk from potential movements in interest rates in the Group's assets and liabilities.

The Group uses interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are reviewed regularly for their effectiveness. Fair values are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flow models and option pricing models. Derivatives are measured as assets where their fair value is positive and liabilities where their fair value is negative.

The Group has adopted hedge accounting in accordance with IAS 39 which specifies that the hedge relationship must be clearly documented at inception and the derivative must be expected to be highly effective in offsetting the hedged risk. Effectiveness is tested throughout the life of the hedge relationship.

The Group does not apply a credit valuation adjustment (CVA) or debit valuation adjustment (DVA) of its derivative exposures as the Group's portfolio is fully collateralised. The Group does not apply funding fair value adjustment (FFVA) or its derivative exposures as it deems the adjustment to be immaterial).

Fair values of derivatives are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows at a benchmark interest rate, typically Libor or its equivalent.

##### **Fair Value Hedge**

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit and loss.

The Group uses derivatives to reduce exposure to market risks, and not for trading purposes. The Group uses the International Swaps and Derivatives Association (ISDA) Master Agreement to document these transactions in conjunction with a Credit Support Annex ('CSA'). The fair value of derivatives is set out below:

	Notional Amount £m	Fair Value of assets £m
<b>Interest rate swaps</b>		
Interest rate swaps: <b>At 31 December 2015</b>	<b>535.0</b>	<b>2.8</b>
Interest rate swaps: <b>At 31 December 2014</b>	<b>195.0</b>	<b>3.7</b>
<b>Gains and losses from derivatives and hedge accounting are as follows:</b>	<b>2015 £m</b>	<b>2014 £m</b>
(Loss)/Gain on derivative financial instrument	<b>(0.9)</b>	3.7
Fair value gain/(loss) on hedged risk	<b>0.6</b>	(3.8)
<b>Fair value loss on financial instruments</b>	<b>(0.3)</b>	<b>(0.1)</b>

It is the Group's policy to enter into master netting and margining agreements with all derivative counterparties. In general, under master netting agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are aggregated into a single net amount being payable by one party to the other and the agreements terminated.

Under the margining agreements where the Group has a net asset position valued at current market values, in respect of its derivatives with a counterparty, then that counterparty will place collateral, usually cash, with the Group in order to cover the position. Similarly, the Group will place collateral, usually cash, with the counterparty where it has a net liability position.

**15. DERIVATIVE FINANCIAL INSTRUMENTS** continued

The table below illustrates the amounts that are covered by enforceable netting arrangements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. loans and advances).

	Amounts subject to enforceable netting arrangements					Amounts not subject to enforceable netting arrangements £m
	Effect of offsetting on balance sheet			Related amounts not offset		
	Gross Amount £m	Amount offset %	Net amount reported on balance sheet £m	Cash collateral £m	Net amount £m	
<b>2015</b>						
Assets						
Derivative financial instruments	2.8	–	2.8	2.8	–	–
<b>Total assets</b>	<b>2.8</b>	<b>–</b>	<b>2.8</b>	<b>2.8</b>	<b>–</b>	<b>–</b>
<b>2014</b>						
Assets						
Derivative financial instruments	3.7	–	3.7	3.5	0.2	–
<b>Total assets</b>	<b>3.7</b>	<b>–</b>	<b>3.7</b>	<b>3.5</b>	<b>0.2</b>	<b>–</b>

Collateral amounts (cash and non-cash financial collateral) are reflected at their fair value; however this amount is limited to the net balance sheet exposure in order not to include any over-collateralisation.

**16. PROPERTY, PLANT AND EQUIPMENT****Accounting policies****Operating leases**

Included within property, plant and equipment are assets leased to customers under operating leases in respect of medical equipment. The net book value of operating leases represents the original cost of the equipment less cumulative depreciation. Rentals are recognised on a straight line basis over the lease term. Depreciation is recognised on a straight line basis to a residual value over the life of the associated agreement.

**Depreciation**

Tangible fixed assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment as follows:

- Office equipment                      three years/five years
- Fixtures and fittings                  five years
- Motor vehicles                          four years
- Freehold property                      50 years
- Leasehold costs                        life of the lease
- Operating leases\*                      life of the lease

\* Operating leases are assets leased to customers

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

**Assets acquired in exchange for loans**

Included within property, plant and equipment are assets acquired in exchange for operating leases as part of an orderly realisation. The asset acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the lease (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Income Statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write down, is also recognised in the Income Statement, together with any realised gains or losses on disposal.

**Residual values**

The residual values of assets under operating leases are reviewed by management for impairment, taking into account the nature and state of condition of the assets. Where the residual value of the assets exceeds the estimated recoverable amount, the assets are impaired and the impairment charged to the profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 16. PROPERTY, PLANT AND EQUIPMENT continued

	Freehold property £m	Leasehold property £m	Fixtures, fittings & equipment £m	Assets on operating leases £m	Total £m
<b>Cost</b>					
At 1 January 2014	0.2	0.1	2.9	73.1	76.3
Acquired in business combinations	–	–	0.1	–	0.1
Additions	–	–	2.5	9.0	11.5
Disposals	–	–	–	(3.5)	(3.5)
Transfer to finance leases	–	–	–	(1.1)	(1.1)
<b>At 31 December 2014</b>	<b>0.2</b>	<b>0.1</b>	<b>5.5</b>	<b>77.5</b>	<b>83.3</b>
Additions	–	–	4.7	10.1	14.8
Disposals	–	–	–	(14.8)	(14.8)
Transfer to finance leases	–	–	–	(5.5)	(5.5)
<b>Balance at 31 December 2015</b>	<b>0.2</b>	<b>0.1</b>	<b>10.2</b>	<b>67.3</b>	<b>77.8</b>
<b>Depreciation</b>					
At 1 January 2014	–	0.1	1.2	21.2	22.5
Depreciation charge for the year	–	–	1.0	13.1	14.1
Disposals	–	–	–	(2.1)	(2.1)
Transfer to finance leases	–	–	–	(0.9)	(0.9)
<b>At 31 December 2014</b>	<b>–</b>	<b>0.1</b>	<b>2.2</b>	<b>31.3</b>	<b>33.6</b>
Depreciation charge for the year	–	–	1.5	12.2	13.7
Disposals	–	–	–	(13.1)	(13.1)
Transfer to finance leases	–	–	–	(5.0)	(5.0)
<b>Balance at 31 December 2015</b>	<b>–</b>	<b>0.1</b>	<b>3.7</b>	<b>25.4</b>	<b>29.2</b>
<b>Net book value</b>					
At 31 December 2014	0.2	–	3.3	46.2	49.7
<b>At 31 December 2015</b>	<b>0.2</b>	<b>–</b>	<b>6.5</b>	<b>41.9</b>	<b>48.6</b>

## 17. INTANGIBLE ASSETS

### Accounting policies

#### Goodwill

Goodwill has arisen on the acquisition of companies whose businesses have been integrated within the Group and reflects the difference between the consideration paid and the fair value of net assets acquired. Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment by reviewing detailed cash flow projections from the Group's latest approved forecast. Goodwill is stated at cost less any accumulated impairment losses.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed. Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units ('CGU'). An impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of pre-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the cash generating unit.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. An impairment loss is recognised if the carrying amount of an asset is greater than its recoverable amount. No impairment losses were recognised during 2015 (2014: £nil).

#### Computer software

Expenditure on software development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of direct labour and software licence costs. Other development expenditure is recognised in the income statement as an expense is incurred. Capitalised developments are stated at cost less accumulated amortisation and less accumulated impairment losses.

#### Amortisation

Intangible assets are amortised on a straight line basis through administrative expenses over the estimated useful life of the asset according to the following timescales:

- Computer software & licences                      3–7 years

#### Critical accounting estimates and judgements

The review of goodwill for impairment reflects management's best estimate of future cash flows of the CGU's and the rates used to discount these cash flows, both which are subject to uncertain factors as follows:

- The future cash flows of the CGU's are sensitive to projected cash flows based on the forecasts and assumptions regarding the projected periods and the long-term pattern of sustainable cash flows thereafter.
- The rates used to discount future expected cash flows can have a significant effect on their valuations and are based on the Capital Asset Pricing Model, which incorporates inputs reflecting a number of variables. These variables are subject to fluctuations beyond management's control, are subject to uncertainty and require the exercise of significant judgement.

The factors and inputs are described in more detail in the note below.

	Goodwill £m	Computer software £m	Total £m
At 1 January 2015	44.8	4.7	49.5
Additions during the year	–	6.1	6.1
Amortised in the year	–	(0.9)	(0.9)
<b>At 31 December 2015</b>	<b>44.8</b>	<b>9.9</b>	<b>54.7</b>
	Goodwill £m	Computer software £m	Total £m
At 1 January 2014	21.1	1.1	22.2
Acquired in business combinations	23.7	0.1	23.8
Additions during the year	–	3.9	3.9
Amortised in the year	–	(0.4)	(0.4)
<b>At 31 December 2014</b>	<b>44.8</b>	<b>4.7</b>	<b>49.5</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 17. INTANGIBLE ASSETS continued

#### Impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

	2015 £m	2014 £m
Secured Lending	6.4	6.4
Asset Finance	10.5	10.5
Consumer Lending	1.1	1.1
Business Credit	24.2	24.2
Commercial Mortgages	2.6	2.6
<b>At 31 December</b>	<b>44.8</b>	<b>44.8</b>

The recoverable amounts of the CGUs have been calculated based on their value in use ('VIU'), determined by discounting the cash flows expected to be generated from the continuing use of the CGU. No impairment losses were recognised in 2015 (2014: £nil) because the recoverable amounts of the CGUs were determined to be higher than their carrying values.

The key assumptions used in the calculation of value in use were as follows:

	31 December 2015	
Pre-tax Discount rate	%	13.80
Terminal value growth rate	%	2.50
Cash flow period (Years)		5

**Discount rate:** The discount rate is an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset, which is derived using CAPM. The CAPM depends on inputs reflecting a number of financial and economic variables including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. For the 31 December 2015 test, the methodology used to determine the discount rate for the business was refined to more accurately reflect the risk profile of the Group. In addition, for the purposes of testing goodwill for impairment, management supplements this process by comparing the discount rate derived using the internally generated CAPM with costs of capital rates produced by external sources.

**Terminal value growth rate:** The terminal value growth rate is an estimate of the rate of growth of future cash flows beyond the cash flow period of 5 years. The rate is estimated by management, taking into account rates disclosed by comparable institutions.

**Management's judgement in estimating the cash flows of a CGU:** Five years of cash flows were included in the discounted cash flow model, which is based on a Board approved plan. A long-term growth rate into perpetuity has been determined as the long term compound annual profit before tax growth rate estimated by Management.

The Dividend Discount Model ('DDM') is used to calculate the recoverable amount of future cash flows. The DDM discounts future cash flows (post-tax profits) generated by the CGU, however the cash flows are reduced by any earnings retained to support the growth in the underlying CGU loan books through higher regulatory capital requirements. Forecasted post-tax profits were based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth.

The key assumptions described above may change as economic and market conditions change. The Group estimated that reasonably possible changes in these assumptions would not cause the recoverable amount of any CGU to decline below the carrying amount.

### 18. DEFERRED TAX

#### Accounting policy

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



**18. DEFERRED TAX** continued

Deferred tax assets are attributable as follows:

	2015 £m	2014 £m
Accelerated tax depreciation	13.5	9.6
Deferred tax on acquisition adjustments	(0.1)	(0.2)
Other	0.7	0.4
<b>Deferred tax asset</b>	<b>14.1</b>	<b>9.8</b>
<b>At 1 January</b>	<b>9.8</b>	<b>8.6</b>
Current period movement – recognised in income	0.7	0.8
Prior year adjustment	0.4	0.4
Effect of tax rate changes	3.2	–
<b>At 31 December</b>	<b>14.1</b>	<b>9.8</b>

The Group had a deferred tax asset of £14.1m at 31 December 2015 (2014: £9.8m) resulting primarily from decelerated capital allowances. The business plan projects profits in future years sufficient to recognise the £14.1m deferred tax asset. The tax assets will unwind over the remaining life of the underlying leased assets with which they are associated.

Reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on an aggregation of the rate of 18% substantively enacted at the balance sheet date and the additional 8% of tax suffered in relation to the banking surcharge.

**19. OTHER ASSETS**

	2015 £m	2014 £m
Other debtors	1.9	4.1
Prepayments	6.0	2.7
<b>Total other assets</b>	<b>7.9</b>	<b>6.8</b>

**20. INVESTMENT IN SUBSIDIARIES**

	Company 2015 £m	Company 2014 £m
At 1 January	186.0	138.8
Issue of share capital in Shawbrook Bank Limited	82.1	47.1
Share based payments	4.1	0.1
<b>At 31 December</b>	<b>272.2</b>	<b>186.0</b>

**21. CUSTOMER DEPOSITS**

	2015 £m	2014 £m
Instant access	102.9	52.4
Term deposits and notice accounts	3,080.3	2,364.9
Fair value adjustment for hedged risk	3.2	3.7
<b>Total customer deposits</b>	<b>3,186.4</b>	<b>2,421.0</b>

**22. DUE TO BANKS**

Total amounts due to banks of £39.9m includes £36.3m of Treasury Bills (2014: £37.5m) which are monies arising from the sale and repurchase of Treasury Bills drawn under the Bank of England's Funding for Lending Scheme (FLS) and fall due for repayment in 2016 and 2017.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 23. PROVISIONS FOR LIABILITIES AND CHARGES

	2015 £m	2014 £m
At 1 January	0.6	0.4
Provisions utilised	(1.3)	(0.9)
Provisions made during the year	1.6	1.1
<b>At 31 December</b>	<b>0.9</b>	<b>0.6</b>

#### Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Group pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members, including the Group, over this period.

The Group's FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme year 2015/16. This amount was calculated on the basis of the Group's current share of protected deposits taking into account the regulator's estimate of total management expense levies for the scheme year.

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012 and an instalment of this was paid during the year. No provision in respect of the capital compensation levy is included in the provision at 31 December 2015.

### 24. OTHER LIABILITIES

	Group 2015 £m	Group 2014 £m
Other creditors	306.6	23.8
Corporation tax payable	7.4	5.3
Accruals	17.2	12.8
<b>Total other liabilities</b>	<b>331.2</b>	<b>41.9</b>

Other creditors has increased to £306.6m in 2015 (2014: £23.8m). This is due to amounts owing to a bank in relation to the purchase of a loan book.

### 25. OPERATING LEASES

#### Leases as lessee

Non-cancellable operating lease rentals on land and buildings are payable as follows:

	2015 £m	2014 £m
Less than one year	1.0	0.8
Between one and five years	3.6	2.3
	<b>4.6</b>	<b>3.1</b>

#### Leases as lessor

Operating lease rentals receivable from agreements classified as property, plant and equipment, as disclosed in note 16, are receivable as follows:

	2015 £m	2014 £m
Less than one year	12.4	14.4
Between one and five years	18.3	20.3
More than five years	1.1	0.5
	<b>31.8</b>	<b>35.2</b>

## 26. SUBORDINATED DEBT

### Accounting policy

The subordinated debt is a non-derivative financial liability with fixed or determinable payments. The subordinated debt is recognised initially at fair value and subsequently measured at amortised cost. Interest costs arising are capitalised in accordance with agreed terms and incorporated into the total debt payable and recognised on an effective interest rate basis.

### Subordinated debt liability:

The Group issued £75m fixed rate reset callable subordinated notes due 2025 with an initial semi-annual coupon of 8.50%, which was listed for trading on the London Stock Exchange on 28 October 2015. Fees of £1m were incurred on the issuance. On the same date the subordinated debt dated 31 October 2013 was cancelled and repaid.

	2015 £m	2014 £m
At 1 January	30.8	27.6
Issued in year	74.0	–
Repaid in year	(33.7)	–
Interest expense	2.9	3.2
<b>Total subordinated debt at 31 December</b>	<b>74.0</b>	<b>30.8</b>

### Subordinated debt receivable:

Following the issue of subordinated debt to the market, subordinated debt was issued from the Bank to the Group on consistent terms with the listed loan notes.

The subordinated debt ranks behind any claims against the Group from all depositors and creditors.

## 27. SHARE CAPITAL

On 31 March 2015, the Company underwent a capital restructuring prior to its Admission to the London Stock Exchange. This resulted in the conversion of certain A, B and C ordinary shares into deferred shares with the remaining shares being converted into ordinary shares of £1 each. Each Ordinary share of £1 was then subdivided into 100 ordinary shares. The deferred shares were repurchased by the Company and cancelled, generating a capital contribution reserve of £183,067,856 which is distributable.

On 8 April 2015, upon Admission to the London Stock Exchange, the Company issued 31,034,483 £0.01 shares for consideration of £90,000,000. This generated a share premium of £89,689,655. A further 500,000 £0.01 ordinary shares were issued under a block listing in December 2015. The market value of shares issued on 8 April 2015 was £2.90 per share.

### Ordinary shares of £0.01 each: issued and fully paid

	31 December 2015 No.	31 December 2014 No.
<b>Ordinary £0.01 shares</b>	<b>250,500,000</b>	<b>–</b>
	<b>Total No.</b>	<b>Total No.</b>
<b>On issue at 31 December 2014</b>	<b>–</b>	<b>–</b>
Converted from £1 ordinary shares	218,965,517	2,189,655
Issued during the year	31,534,483	315,345
<b>On issue at 31 December 2015</b>	<b>250,500,000</b>	<b>2,505,000</b>

Each Ordinary Share of £0.01 has full voting, dividend and capital distribution rights, including on a winding up, and does not have any rights of redemption. Par value is £0.01 per share.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 27. SHARE CAPITAL continued

#### Ordinary shares of £1 each: authorised and issued

	31 December 2015 No.	31 December 2014 No.
Ordinary Class A	–	185,147,511
Ordinary Class B	–	100,000
Ordinary Class C	–	10,000
<b>Total</b>	<b>–</b>	<b>185,257,511</b>

	Class A No.	Class B No.	Class C No.	Total No.
<b>On issue at 31 December 2013</b>	<b>137,851,021</b>	<b>100,000</b>	<b>10,000</b>	<b>137,961,021</b>
Issued during the year	47,296,490	–	–	47,296,490
<b>On issue at 31 December 2014</b>	<b>185,147,511</b>	<b>100,000</b>	<b>10,000</b>	<b>185,257,511</b>
Converted to £0.01 ordinary shares	(2,079,655)	(100,000)	(10,000)	(2,189,655)
Cancelled during the period	(183,067,856)	–	–	(183,067,856)
<b>On issue at 31 December 2015</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

### 28. NOTES TO THE CASH FLOW STATEMENT

#### Accounting policy

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances at central banks, loans and advances to banks and building societies and short-term highly liquid debt securities with less than 3 months to maturity from the date of acquisition. Loans to banks and building societies comprise cash balances and call deposits.

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Non-cash items in the cash flow statement	Note			
Capitalisation of subordinated debt interest	26	2.9	–	3.2
Depreciation	16	13.7	–	14.1
Amortisation of intangible assets	17	0.9	–	0.4
Provisions against loans and advances to customers	14	6.5	–	6.7
Amortisation of Share Scheme fair value		4.1	4.1	0.1
Profit on sale of operating leased assets		(1.0)	–	(0.7)
<b>Total non-cash items</b>		<b>27.1</b>	<b>4.1</b>	<b>23.8</b>
		Group 2015 £m	Company 2015 £m	Group 2014 £m
Cash and cash equivalents				Company 2014 £m
Cash and balances at central banks		521.9	–	313.1
Loans and advances to banks		30.9	–	36.6
		552.8	–	349.7
Less: mandatory deposits with central banks		(2.3)	–	(1.7)
<b>Cash and cash equivalents</b>		<b>550.5</b>	<b>–</b>	<b>348.0</b>

Mandatory deposits are not available for use in the Group or Bank's day to day business and are non-interest bearing.

## 29. FINANCIAL INSTRUMENTS

### Accounting policies

#### **Financial assets**

The Group classifies its financial assets in the following categories:

- At fair value through profit or loss; and
- Loan receivables.

The Group's financial liabilities are designated as other financial liabilities at amortised cost and at fair value through profit or loss. A financial asset is measured initially at fair value plus the transaction costs that are directly attributable to its acquisition. A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue.

Derivative financial assets are classified at fair value through profit or loss.

The Group has not classified any assets or liabilities as held to maturity or as available for sale (AFS).

#### **Loan receivables**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to banks and building societies are classified as loans and receivables. Loans and advances to customers include finance leases and instalment credit advances.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The net investment in finance leases and instalment credit agreements represents the future lease rentals and instalments receivable less profit and costs allocated to future periods. Income is recognised throughout the life of the agreement to provide a constant rate of return on the net investment in each lease or instalment credit agreement.

Where an agreement is classified as an operating lease at inception, but is subsequently reclassified as a finance lease following a change to the agreement or an extension beyond the primary term, then the agreement is accounted for as a finance lease.

#### **Financial liabilities**

Customer deposits and amounts due to banks are non-derivative financial liabilities with fixed or determinable payments. Deposits and amounts due to banks are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

### Accounting policies

#### **De-recognition of financial assets and liabilities**

De-recognition is the point at which an asset or liability is removed from the balance sheet. The Group's policy is to derecognise financial assets when the contractual rights to the cash flows from the financial asset have expired or where all the risks and rewards of ownership have been transferred.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

If the terms of the financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the net present value of the cash flows from the original financial asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an unexpected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 29. FINANCIAL INSTRUMENTS continued

The Group determines fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little Management judgement and estimation. Observable prices and model inputs are usually available in the market for simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for Management judgement and estimation and also reduces the uncertainty associated with the determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads assist in the judgement as to whether a market is active. If, in the opinion of Management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs, the instrument in its entirety is classified as valued at Level 3 of the fair value hierarchy. 'Level 3' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

#### Cash and balances with central banks

Fair value approximates to carrying value because cash and balances at central banks have minimal credit losses and are either short-term in nature or reprice frequently.

#### Loans and advances to banks

Fair value was estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for loans with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is considered to approximate to their carrying amount.

#### Loans and advances to customers, customer deposits, derivatives, amounts due to banks and subordinated debt

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses if considered material. Fair values of derivatives are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.

#### Fair value hierarchy

The table below analyses the Group's financial instruments measured at amortised cost into a fair value hierarchy:

	2015 Level 3 £m	2015 Level 2 £m	2014 Level 3 £m	2014 Level 2 £m
<b>Financial assets</b>				
Cash and balances at central banks	521.9	–	313.1	–
Loans and advances to banks	30.9	–	36.6	–
Loans and advances to customers	3,319.1	–	2,284.8	–
<b>Financial liabilities</b>				
Customer deposits	–	(3,186.4)	–	(2,421.0)
Amounts due to banks	(39.9)	–	(41.0)	–
Subordinated debt	(74.0)	–	(30.8)	–

There were no transfers between levels of the fair value hierarchy during the year (2014: £nil).

The table below analyses the Group's financial instruments measured at fair value into a fair value hierarchy:

	2015 Level 3 £m	2015 Level 2 £m	2014 Level 3 £m	2014 Level 2 £m
<b>Financial assets</b>				
Derivative financial instruments	–	2.8	–	3.7

**29. FINANCIAL INSTRUMENTS** continued

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are shown in the following table:

	Loans and receivables £m	Other liabilities at amortised cost £m	Total Carrying amount £m	Fair Value £m
<b>At 31 December 2015</b>				
Cash and balances at central banks	521.9	–	521.9	521.9
Loans and advances to banks	30.9	–	30.9	30.9
Loans and advances to customers	3,319.1	–	3,319.1	3,351.0
	<b>3,871.9</b>	<b>–</b>	<b>3,871.9</b>	<b>3,903.8</b>
Customer deposits	–	3,186.4	3,186.4	3,189.7
Due to banks	–	39.9	39.9	39.9
Subordinated debt	–	74.0	74.0	74.0
	<b>–</b>	<b>3,300.3</b>	<b>3,300.3</b>	<b>3,303.6</b>
<b>At 31 December 2014</b>				
Cash and balances at central banks	313.1	–	313.1	313.1
Loans and advances to banks	36.6	–	36.6	36.6
Loans and advances to customers	2,284.8	–	2,284.8	2,340.6
	<b>2,634.5</b>	<b>–</b>	<b>2,634.5</b>	<b>2,690.3</b>
Customer deposits	–	2,421.0	2,421.0	2,447.8
Due to banks	–	41.0	41.0	41.0
Subordinated debt	–	30.8	30.8	30.8
	<b>–</b>	<b>2,492.8</b>	<b>2,492.8</b>	<b>2,519.6</b>

**30. RISK MANAGEMENT**

The main areas of risk that the business is exposed to are:

- Credit risk;
- Liquidity risk;
- Market risk;
- Capital risk and management;
- Operational risk; and
- Conduct Risk.

**Credit risk**

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. These risks are managed by the Board Risk Committee and Asset and Liability Committee. This risk has two main components:

- Customer risk (individual and business lending); and
- Treasury risk

The Group's maximum exposure to credit risk is the carrying value of its financial assets, without taking account of any underlying collateral, and contractual commitments, which represent agreements entered into but not advanced as at 31 December 2015.

	2015 £m	2014 £m
<b>Assets</b>		
Cash and balances at central banks	521.9	313.1
Loans and advances to banks	30.9	36.6
Loans and advances to customers	3,319.1	2,284.8
Derivative financial assets	2.8	3.7
	<b>3,874.7</b>	2,638.2
Contractual commitments	378.6	469.3
<b>Maximum exposure to credit risk</b>	<b>4,253.3</b>	<b>3,107.5</b>

The amount of collateral held at 31 December 2015 is £2,994.9m (2014: £2,063.4m) of which £2,086.6m (2014: £1,373.2m) is in the form of residential and commercial property and £908.3m (2014: £690.2m) is secured on other assets and debt receivables. Collateral held in relation to secured loans is capped at the amount outstanding on an individual loan basis.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 30. RISK MANAGEMENT continued

#### Credit quality of assets

##### Loans and receivables

The Group defines three classifications of credit quality (low risk, medium risk and higher risk) for all credit exposures. These are based on the following criteria:

- Commercial mortgages: A risk rating scale is applied to the individual loans and weighs the propensity of non-performance and write-offs. The combined propensity scores are scaled into a scale of low risk, medium risk and higher risk.
- Asset finance: Loans are classified with reference to the arrears position and provisions against the loans. Low risk items are items that are in arrears but have sufficient collateral against the outstanding balance, medium risk loans are in arrears, have sufficient collateral but are classified as medium risk due to forbearance measures applied, and higher risk loans are loans that are provided for.
- Business Credit: Loans are classified as low risk, medium risk and higher risk on a case-by-case basis and decisions are based on management's review of the individual circumstances of every case.
- Secured Lending: All cases are deemed low risk due to the collateral held against the outstanding loan balances.
- Consumer Lending: The classification of loans as low risk, medium risk and higher risk is based on the maturity of the loans outstanding.

The credit quality of asset that are neither past due nor impaired are as follows:

As at 31 December 2015	Commercial Mortgages		Asset Finance		Business Credit		Secured Lending		Consumer Lending		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Low Risk	1,577.7	99.5	684.6	99.3	168.6	91.6	470.9	100.0	331.8	99.9	3,233.6	99.2
Medium Risk	0.9	0.1	1.0	0.1	10.0	5.4	–	–	–	–	11.9	0.4
Higher Risk	5.7	0.4	3.9	0.6	5.6	3.0	–	–	–	0.1	15.2	0.4
<b>Total neither past due nor impaired</b>	<b>1,584.3</b>	<b>100.0</b>	<b>689.5</b>	<b>100.0</b>	<b>184.2</b>	<b>100.0</b>	<b>470.9</b>	<b>100.0</b>	<b>331.8</b>	<b>100.0</b>	<b>3,260.7</b>	<b>100.0</b>

#### Customer risk

The Group maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Group. A concession may be either of the following:

- A modification of the previous terms and conditions of an agreement, which the borrower is considered unable to comply with due to its financial difficulties, to allow for sufficient debt service ability, that would not have been granted had the borrower not been in financial difficulties; or
- A total or partial refinancing of an agreement that would not have been granted had the borrower not been in financial difficulties.

Forbearance in relation to an exposure can be temporary or permanent in nature depending on the circumstances, progress on financial rehabilitation and the detail of the concession(s) agreed. A forbearance classification can be discontinued when all of the following conditions have been met:

- The exposure is considered as performing, including, if it has been reclassified from the non-performing category, after an analysis of the financial condition of the borrower shows it no longer meets the conditions to be considered as non-performing;
- A minimum two year probation period has passed from the date the forbore exposure was considered as performing;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- None of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

As at 31 December 2015, the number of forbearance arrangements in place was 559 (2014: 531), the carrying value of which was £19.0m (2014: £8.7m) against which impairment provisions of £2.6m (2014: £2.9m) were held.

Forbearance as at 31 December 2015	2015 Number	Capital balances 2015 £m	Provisions 2015 £m	Coverage 2015 %
Consumer	249	1.7	1.1	64.7
Secured	170	5.1	0.3	5.9
Asset Finance	123	3.8	0.3	7.9
Commercial	14	2.6	0.3	11.5
Business Credit	3	5.8	0.6	10.3
<b>Total</b>	<b>559</b>	<b>19.0</b>	<b>2.6</b>	<b>13.7</b>

Forbearance as at 31 December 2014	2014 Number	Capital balances 2014 £m	Provisions 2014 £m	Coverage 2014 %
Consumer	390	2.8	2.3	82.1
Secured	122	3.7	0.4	10.8
Asset Finance	19	2.2	0.2	9.1
<b>Total</b>	<b>531</b>	<b>8.7</b>	<b>2.9</b>	<b>33.3</b>



**30. RISK MANAGEMENT** continued

There were five property repossessions during the year (2014: 10).

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment and assets are categorised as detailed in the tables below:

<b>Type of impairment assessment</b>	<b>Description</b>
Individual impairment	Where specific circumstances indicate that a loss is likely to be incurred.
Collective impairment	Impairment allowances are calculated for each portfolio on a collective basis, given the homogenous nature of the assets in the portfolio.
<b>Risk categorisation</b>	<b>Description</b>
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Past due but not impaired	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.
Impaired assets	Loans that are in arrears or where there is objective evidence of impairment and where the carrying amount of the loan exceeds the expected recoverable amount.

The Group enters into agreements with customers and where appropriate takes security. Loan receivables include amounts secured against property (commercial and residential), secured against other assets such as asset backed loans and invoice receivables. Finance lease and instalment credit is secured on a variety of assets including but not limited to plant and machinery.

The security profile of the loan receivable book is shown below:

	2015 £m	2014 £m
Loan receivables	2,873.0	1,861.4
Finance lease receivables	114.3	114.0
Instalment credit receivables	331.8	309.4
<b>Total loans and advances to customers</b>	<b>3,319.1</b>	<b>2,284.8</b>
<b>Loan receivables</b>	<b>2015 £m</b>	<b>2014 £m</b>
<b>Neither past due nor impaired</b>	<b>2,842.0</b>	<b>1,841.4</b>
<b>Past due but not impaired:</b>		
Up to 30 days	4.7	2.1
30–60 days	15.0	10.8
60–90 days	3.6	2.3
Over 90 days	5.7	2.8
	<b>29.0</b>	<b>18.0</b>
<b>Impaired</b>	<b>12.5</b>	<b>11.0</b>
	<b>2,883.5</b>	<b>1,870.4</b>
Less: allowances for impairment losses	(10.5)	(9.0)
<b>Net loan receivables</b>	<b>2,873.0</b>	<b>1,861.4</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 30. RISK MANAGEMENT continued

The Group enters into agreements with customers and where appropriate takes security. The security for Loans to customers is in the form of a first or second charge over property and debt receivables. Finance leases and instalment credit are secured on the underlying assets which can be repossessed in the event of a default. The security profile of loans and advances to customers is shown below:

	2015 £m	2014 £m
Secured on commercial and residential property	2,086.6	1,373.2
Secured on debt receivables	386.4	264.7
Secured by finance lease and instalment credit	449.1	425.5
Secured on other assets	72.8	–
<b>Total secured receivables</b>	<b>2,994.9</b>	<b>2,063.4</b>
Unsecured	337.7	232.5
<b>Gross loan receivables</b>	<b>3,332.6</b>	<b>2,295.9</b>

Collateral held in relation to secured loans is capped, after taking into account the first charge balance, at the amount outstanding on an individual loan basis.

Finance lease receivables	2015 £m	2014 £m
<b>Neither past due nor impaired</b>	<b>101.1</b>	<b>102.9</b>
<b>Past due but not impaired:</b>		
Up to 30 days	5.6	6.9
30–60 days	3.3	1.5
60–90 days	1.1	0.9
Over 90 days	1.7	1.6
	<b>11.7</b>	<b>10.9</b>
<b>Impaired</b>	<b>3.5</b>	<b>0.9</b>
	<b>116.3</b>	<b>114.7</b>
Less: allowances for impairment losses	(2.0)	(0.7)
<b>Net finance lease receivables</b>	<b>114.3</b>	<b>114.0</b>

Instalment credit receivables	2015 £m	2014 £m
<b>Neither past due nor impaired</b>	<b>317.6</b>	<b>305.2</b>
<b>Past due but not impaired:</b>		
Up to 30 days	11.3	3.6
30–60 days	1.9	0.4
60–90 days	0.4	0.2
Over 90 days	0.7	0.1
	<b>14.3</b>	<b>4.3</b>
<b>Impaired</b>	<b>0.9</b>	<b>1.3</b>
	<b>332.8</b>	<b>310.8</b>
Less: allowances for impairment losses	(1.0)	(1.4)
<b>Net instalment credit receivables</b>	<b>331.8</b>	<b>309.4</b>

2015	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
<b>Neither past due nor impaired</b>	<b>1,584.3</b>	<b>689.5</b>	<b>184.2</b>	<b>470.9</b>	<b>331.8</b>	<b>3,260.7</b>
<b>Past due but not impaired:</b>						
Up to 30 days	1.2	19.0	–	1.4	–	21.6
30–60 days	7.7	5.5	–	7.0	–	20.2
60–90 days	1.0	1.5	–	2.6	–	5.1
Over 90 days	1.4	2.4	–	4.1	–	7.9
<b>Total past due but not impaired</b>	<b>11.3</b>	<b>28.4</b>	<b>–</b>	<b>15.1</b>	<b>–</b>	<b>54.8</b>
<b>Impaired</b>	<b>1.9</b>	<b>4.4</b>	<b>1.8</b>	<b>3.1</b>	<b>5.9</b>	<b>17.1</b>
	<b>1,597.5</b>	<b>722.3</b>	<b>186.0</b>	<b>489.1</b>	<b>337.7</b>	<b>3,332.6</b>
Less: allowances for impairment losses	(1.6)	(3.0)	(2.7)	(1.9)	(4.3)	(13.5)
<b>Net loan receivables</b>	<b>1,595.9</b>	<b>719.3</b>	<b>183.3</b>	<b>487.2</b>	<b>333.4</b>	<b>3,319.1</b>

## 30. RISK MANAGEMENT continued

2014	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
<b>Neither past due nor impaired</b>	<b>963.8</b>	<b>502.4</b>	<b>169.9</b>	<b>387.0</b>	<b>226.1</b>	<b>2,249.2</b>
<b>Past due but not impaired:</b>						
Up to 30 days	0.4	10.5	–	1.7	–	<b>12.6</b>
30–60 days	4.4	1.9	–	6.4	–	<b>12.7</b>
60–90 days	–	1.1	–	2.3	–	<b>3.4</b>
Over 90 days	–	1.7	–	2.9	–	<b>4.6</b>
<b>Total past due but not impaired</b>	<b>4.8</b>	<b>15.2</b>	<b>–</b>	<b>13.3</b>	<b>–</b>	<b>33.3</b>
<b>Impaired</b>	<b>1.7</b>	<b>2.4</b>	<b>0.3</b>	<b>2.6</b>	<b>6.4</b>	<b>13.4</b>
	<b>970.3</b>	<b>520.0</b>	<b>170.2</b>	<b>402.9</b>	<b>232.5</b>	<b>2,295.9</b>
Less: allowances for impairment losses	(1.4)	(2.1)	(0.4)	(1.6)	(5.6)	(11.1)
<b>Net loan receivables</b>	<b>968.9</b>	<b>517.9</b>	<b>169.8</b>	<b>401.3</b>	<b>226.9</b>	<b>2,284.8</b>

The Group's lending portfolio is geographically diversified across the UK as shown below:

2015	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
East Anglia	60.3	30.6	29.2	16.9	17.8	154.8
East Midlands	37.2	23.9	4.8	18.7	27.7	112.3
Greater London	643.2	140.8	26.1	137.2	30.2	977.5
Guernsey/Jersey/Isle of Man	4.5	0.6	–	–	–	5.1
North East	16.7	7.5	4.8	8.6	19.3	56.9
North West	149.4	85.6	31.9	31.1	36.2	334.2
Northern Ireland	2.5	2.1	–	–	0.5	5.1
Scotland	78.7	104.5	14.0	29.5	46.5	273.2
South East	315.9	153.0	21.9	144.4	55.5	690.7
South West	126.3	55.9	7.3	41.2	26.9	257.6
Wales	24.6	41.0	11.6	15.1	12.8	105.1
West Midlands	63.4	26.3	24.5	23.7	36.9	174.8
Yorkshire/Humberside	74.8	50.5	9.9	22.7	27.4	185.3
	<b>1,597.5</b>	<b>722.3</b>	<b>186.0</b>	<b>489.1</b>	<b>337.7</b>	<b>3,332.6</b>

2014	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
East Anglia	34.8	26.1	36.2	14.1	13.3	124.5
East Midlands	29.6	21.2	6.7	16.7	19.7	93.9
Greater London	411.3	90.5	26.1	103.3	18.5	649.7
Guernsey/Jersey/Isle of Man	–	0.4	–	–	–	0.4
North East	15.5	5.1	2.1	8.2	14.5	45.4
North West	88.6	61.1	26.5	27.2	24.5	227.9
Northern Ireland	–	3.4	–	–	0.3	3.7
Scotland	43.4	85.7	3.7	27.9	34.8	195.5
South East	169.4	120.6	20.2	115.5	33.7	459.4
South West	82.1	45.9	6.6	35.8	19.0	189.4
Wales	17.8	20.8	8.8	13.5	8.5	69.4
West Midlands	31.9	22.3	21.1	21.2	27.5	124.0
Yorkshire/Humberside	45.9	16.9	12.2	19.5	18.2	112.7
	<b>970.3</b>	<b>520.0</b>	<b>170.2</b>	<b>402.9</b>	<b>232.5</b>	<b>2,295.9</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 30. RISK MANAGEMENT continued

The Group's lending portfolio falls into the following concentrations by loan size:

	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
<b>2015</b>						
0 – £50k	17.3	182.3	1.1	209.5	337.6	747.8
£50k – £100k	122.0	84.3	3.8	151.9	0.1	362.1
£100k – £250k	431.3	100.3	11.3	101.8	–	644.7
£250k – £500k	403.8	68.1	20.9	20.8	–	513.6
£500k – £1m	308.5	55.5	38.4	3.1	–	405.5
£1m – £2.5m	223.7	40.9	57.6	2.0	–	324.2
£2.5m – £5m	72.0	41.3	42.9	–	–	156.2
£5m – £10m	18.9	66.5	–	–	–	85.4
£10m – £25m	–	83.1	10.0	–	–	93.1
<b>Total</b>	<b>1,597.5</b>	<b>722.3</b>	<b>186.0</b>	<b>489.1</b>	<b>337.7</b>	<b>3,332.6</b>
	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
<b>2014</b>						
0 – £50k	4.1	168.3	0.2	202.2	232.5	607.3
£50k – £100k	67.1	64.5	4.6	121.8	–	258.0
£100k – £250k	274.5	71.2	9.4	64.2	–	419.3
£250k – £500k	244.7	47.3	22.9	10.9	–	325.8
£500k – £1m	194.0	37.5	31.2	1.8	–	264.5
£1m – £2.5m	134.5	36.7	61.1	2.0	–	234.3
£2.5m – £5m	39.3	29.0	29.5	–	–	97.8
£5m – £10m	12.1	40.4	11.3	–	–	63.8
£10m – £25m	–	25.1	–	–	–	25.1
<b>Total</b>	<b>970.3</b>	<b>520.0</b>	<b>170.2</b>	<b>402.9</b>	<b>232.5</b>	<b>2,295.9</b>

### Treasury credit risk

Treasury credit risk arises from the wholesale investments made by the Group's Treasury function, which is responsible for managing this aspect of credit risk in line with the Board approved risk appetite and wholesale credit policies. The credit quality of loans and advances to banks is assessed by rating agency designation as at 31 December 2015, based on Moody's long term ratings.

Loans and advances to banks	2015 £m	2014 £m
A1	9.1	18.6
A2	1.1	1.1
A3	20.7	–
Baa1	–	16.9
<b>Total credit risk</b>	<b>30.9</b>	<b>36.6</b>

The Group only lends to UK high-street banks. Deposits are placed either overnight or for a short term with a duration of less than three months. No collateral or other credit enhancements are held against loans and advances to banks.

The Group's exposure to the Bank of England is set out below:

Loans and advances to central banks	2015 £m	2014 £m
<b>Aa1</b>	<b>521.9</b>	<b>313.1</b>

Credit risk derived from derivative transactions is mitigated by collateralising the exposures. Such collateral is subject to the standard industry CSA and is paid or received on a regular basis. At 31 December 2015 cash collateral of £3.7m had been received by the Group (2014: £3.5m).

**30. RISK MANAGEMENT** continued**Liquidity risk****Accounting policy****Funding for Lending Scheme (FLS)**

The Group is a participant in the FLS which enables it to borrow highly liquid UK Treasury Bills in exchange for eligible collateral. The Treasury Bills issued are for an original maturity of nine months and if delivered back prior to their maturity date can be exchanged for further nine month Bills. Costs of borrowing are charged directly to the Income Statement.

The Treasury Bills are not recorded on the Group's balance sheet as ownership remains with the Bank of England. The risk and rewards of the collateral provided remains with the Group and continues to be recognised in the Group's Financial Statements.

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.

The table below analyses the Group's contractual undiscounted cash flows of its financial assets and liabilities:

	Carrying amount £m	Gross nominal inflow/(outflow) £m	Less than 1 month £m	1–3 months £m	3 months to 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m
<b>At 31 December 2015</b>								
<b>Assets</b>								
Cash and balances at central banks	521.9	521.9	519.6	–	–	–	–	2.3
Loans and advances to banks	30.9	30.9	30.9	–	–	–	–	–
Loans and advances to customers	3,319.1	3,453.1	86.3	98.5	431.4	440.5	1,087.6	1,308.8
	<b>3,871.9</b>	<b>4,005.9</b>	<b>636.8</b>	<b>98.5</b>	<b>431.4</b>	<b>440.5</b>	<b>1,087.6</b>	<b>1,311.1</b>
<b>Liabilities</b>								
Customer deposits	(3,186.4)	(3,289.1)	(364.3)	(198.5)	(1,409.2)	(912.4)	(404.7)	–
Due to banks	(39.9)	(40.3)	(15.5)	–	(0.2)	(24.6)	–	–
Subordinated debt	(74.0)	(138.8)	–	–	(6.4)	(25.5)	–	(106.9)
	<b>(3,300.3)</b>	<b>(3,468.2)</b>	<b>(379.8)</b>	<b>(198.5)</b>	<b>(1,415.8)</b>	<b>(962.5)</b>	<b>(404.7)</b>	<b>(106.9)</b>
<b>At 31 December 2014</b>								
<b>Assets</b>								
Cash and balances at central banks	313.1	313.1	311.4	–	–	–	–	1.7
Loans and advances to banks	36.6	36.6	36.6	–	–	–	–	–
Loans and advances to customers	2,284.8	2,337.2	40.8	60.2	333.7	1,121.2	–	781.3
	<b>2,634.5</b>	<b>2,686.9</b>	<b>388.8</b>	<b>60.2</b>	<b>333.7</b>	<b>1,121.2</b>	<b>–</b>	<b>783.0</b>
<b>Liabilities</b>								
Customer deposits	(2,421.0)	(2,535.3)	(172.9)	(188.9)	(1,023.5)	(1,150.0)	–	–
Due to banks	(41.0)	(41.7)	(16.6)	–	(0.2)	(24.9)	–	–
Subordinated debt	(30.8)	(79.6)	–	–	–	–	–	(79.6)
	<b>(2,492.8)</b>	<b>(2,656.6)</b>	<b>(189.5)</b>	<b>(188.9)</b>	<b>(1,023.7)</b>	<b>(1,174.9)</b>	<b>–</b>	<b>(79.6)</b>

The following table sets out the components of the Group's liquidity reserve:

	2015 Carrying amount £m	2014 Carrying amount £m	2013 Carrying amount £m
Balances with central banks	<b>519.6</b>	311.4	205.9
Loans and advances to banks	<b>30.9</b>	36.6	23.8
Debt securities	<b>270.0</b>	163.1	57.9
<b>Total liquidity reserve</b>	<b>820.5</b>	511.1	287.6

The total liquidity reserve includes £270.0m (2014: £163.1m) of securities issued by the Bank of England through FLS participation which are not recognised on the Consolidated Statement of Financial Position.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 30. RISK MANAGEMENT continued

The average liquidity reserve throughout the year was £510.0m (2014: £426.0m).

#### Asset encumbrance

The Group's assets can be used to support collateral requirements for central bank operations or third party repurchase transactions. Assets that have been set aside for such purposes are classified as 'encumbered assets' and cannot be used for other purposes.

All other assets are defined as 'unencumbered assets'. These comprise assets that are readily available to secure funding or meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.

The table below sets out the availability of the Group's assets to support future funding:

	Encumbered Pledged as collateral 2015 £m	Unencumbered Available as collateral 2015 £m	Unencumbered Other 2015 £m	Total 2015 £m
<b>Asset encumbrance 2015</b>				
Cash and balances at central banks	2.3	–	519.6	521.9
Loans and advances to banks	–	30.9	–	30.9
Loans and advances to customers	476.4	2,842.7	–	3,319.1
Property, plant and equipment	–	42.3	6.3	48.6
Derivative assets held for risk management	–	–	2.8	2.8
Non-financial assets	–	–	76.7	76.7
<b>Total assets</b>	<b>478.7</b>	<b>2,915.9</b>	<b>605.4</b>	<b>4,000.0</b>
<b>Asset encumbrance 2014</b>				
Cash and balances at central banks	1.7	–	311.4	313.1
Loans and advances to banks	–	36.6	–	36.6
Loans and advances to customers	438.0	1,846.8	–	2,284.8
Property, plant and equipment	–	46.2	3.5	49.7
Derivative assets held for risk management	–	–	3.7	3.7
Non-financial assets	–	–	66.1	66.1
<b>Total assets</b>	<b>439.7</b>	<b>1,929.6</b>	<b>384.7</b>	<b>2,754.0</b>

#### Liquidity risk – stress testing

Stress testing is a major component of liquidity risk management and the Group has developed a range of scenarios covering a range of market-wide and firm-specific factors. A comprehensive stress testing exercise is conducted at least annually and the methodology is incorporated into the Group's balance sheet risk management model to ensure that stress tests are run on a regular basis. The output of stress testing is circulated to the Board and to the ALCO who will use the results to decide whether to amend the Group's risk appetite and liquidity limits.

#### Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities change as a result of changes in market prices, the principal element being interest rate risk.

The Group has minimal foreign currency exposure and does not engage in any treasury trading operations.

The Group's treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's treasury policies. The ALCO approves the Group's treasury policies and receives regular reports on all aspects of market risk exposure, including interest rate risk.

#### Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the loan and savings products that we offer. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures.

#### Basis risk

Basis risk is the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics (for example, LIBOR and Bank of England Base Rate). This is monitored closely and regularly reported to the ALCO. This risk is managed by matching and where appropriate and necessary, through the use of derivatives, with established risk limits and other control procedures.

The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.

**30. RISK MANAGEMENT** continued**Foreign exchange risk**

Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Group has low levels of foreign exchange risk which is managed by natural hedging. The table below sets out the Group's exposure to foreign exchange risk:

Assets and liabilities in foreign currencies at Sterling carrying values 2015	Euros £m	US Dollars £m	Australian Dollars £m	Canadian Dollars £m
Loans and advances to banks	3.7	(1.6)	(0.1)	–
Loans and advances to customers	8.1	6.8	–	–
Amounts due to banks	(8.1)	(3.4)	–	–
<b>Net position</b>	<b>3.7</b>	<b>1.8</b>	<b>(0.1)</b>	<b>–</b>

Assets and liabilities in foreign currencies at Sterling carrying values 2014	Euros £m	US Dollars £m	Australian Dollars £m	Canadian Dollars £m
Loans and advances to banks	0.1	(0.9)	–	0.2
Loans and advances to customers	8.4	6.1	–	–
Amounts due to banks	(7.8)	(5.1)	–	–
<b>Net position</b>	<b>0.7</b>	<b>0.1</b>	<b>–</b>	<b>0.2</b>

**Foreign Exchange Sensitivity**

The Group estimates that a 5% movement in exchange rates would have no greater impact on the 2015 profit than an increase or decrease of £0.3m.

**Interest rate sensitivity gap**

The Group considers a parallel 200 basis points ('bps') movement to be appropriate for scenario testing given the current economic outlook and industry expectations. The Group estimates that a +/- 200 bps movement in interest rates paid / received would have impacted the economic value of equity as follows:

- +200 bps – £8.0m positive (2014: £16.5m positive)
- 200 bps – £24.5m positive (2014: £14.3m positive)

In addition, the effect of the same two interest rate shocks are applied to the balance sheet at year-end, to determine how the Net Interest Income may change on an annualised basis for one year, as follows:

- +200 bps - £19.9m positive (2014: £19.3m positive)
- 200 bps - £1.4m positive (2014: £1.8m positive)

In preparing the sensitivity analyses above, the Group makes certain assumptions consistent with expected and contractual re-pricing behaviour as well as behavioural repayment profiles, under the two interest scenarios, of the underlying balance sheet items. The results also include the impact of hedge transactions.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 30. RISK MANAGEMENT continued

The following table summarises the re-pricing periods for the Group's assets and liabilities at 31 December 2015. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

At 31 December 2015	Within 3 months £m	More than 3 months but less than 6 months £m	More than 6 months but less than 1 year £m	More than 1 year but less than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m
<b>Assets</b>							
Cash and balances at central banks	519.6	–	–	–	–	2.3	521.9
Loans and advances to banks	30.9	–	–	–	–	–	30.9
Loans and advances to customers	1,971.5	121.1	220.2	825.5	221.0	(40.2)	3,319.1
Other non-financial assets	2.7	3.2	5.9	26.9	3.6	85.8	128.1
	<b>2,524.7</b>	<b>124.3</b>	<b>226.1</b>	<b>852.4</b>	<b>224.6</b>	<b>47.9</b>	<b>4,000.0</b>
<b>Liabilities</b>							
Customer deposits	659.8	670.3	624.4	1,231.9	–	–	3,186.4
Due to banks	15.5	–	–	24.4	–	–	39.9
Other non-financial liabilities	–	–	–	–	–	332.1	332.1
Subordinated debt	–	–	–	–	74.0	–	74.0
Total equity	–	–	–	–	–	367.6	367.6
	<b>675.3</b>	<b>670.3</b>	<b>624.4</b>	<b>1,256.3</b>	<b>74.0</b>	<b>699.7</b>	<b>4,000.0</b>
<b>Notional values of derivatives</b>	<b>535.0</b>	<b>–</b>	<b>(50.0)</b>	<b>(485.0)</b>	<b>–</b>	<b>–</b>	
<b>Interest rate sensitivity gap</b>	<b>2,384.4</b>	<b>(546.0)</b>	<b>(448.3)</b>	<b>(888.9)</b>	<b>150.6</b>	<b>(651.8)</b>	<b>–</b>
<b>Cumulative gap</b>	<b>2,384.4</b>	<b>1,838.4</b>	<b>1,390.1</b>	<b>501.2</b>	<b>651.8</b>	<b>–</b>	<b>–</b>

The following table summarises the re-pricing periods for the Group's assets and liabilities at 31 December 2014. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

At 31 December 2014	Within 3 months £m	More than 3 months but less than 6 months £m	More than 6 months but less than 1 year £m	More than 1 year but less than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m
<b>Assets</b>							
Cash and balances at central banks	311.4	–	–	–	–	1.7	313.1
Loans and advances to banks	36.6	–	–	–	–	–	36.6
Loans and advances to customers	1,247.1	95.5	161.9	609.5	170.8	–	2,284.8
Other non-financial assets	3.6	3.6	7.1	30.7	1.2	73.3	119.5
	<b>1,598.7</b>	<b>99.1</b>	<b>169.0</b>	<b>640.2</b>	<b>172.0</b>	<b>75.0</b>	<b>2,754.0</b>
<b>Liabilities</b>							
Customer deposits	445.3	766.7	161.7	1,047.3	–	–	2,421.0
Due to banks	16.6	–	–	24.4	–	–	41.0
Other non-financial liabilities	–	–	–	–	–	42.5	42.5
Subordinated debt	–	–	–	–	30.8	–	30.8
Total equity	–	–	–	–	–	218.7	218.7
	<b>461.9</b>	<b>766.7</b>	<b>161.7</b>	<b>1,071.7</b>	<b>30.8</b>	<b>261.2</b>	<b>2,754.0</b>
<b>Notional values of derivatives</b>	<b>195.0</b>	<b>–</b>	<b>–</b>	<b>(195.0)</b>	<b>–</b>	<b>–</b>	
<b>Interest rate sensitivity gap</b>	<b>1,331.8</b>	<b>(667.6)</b>	<b>7.3</b>	<b>(626.5)</b>	<b>141.2</b>	<b>(186.2)</b>	<b>–</b>
<b>Cumulative gap</b>	<b>1,331.8</b>	<b>664.2</b>	<b>671.5</b>	<b>45.0</b>	<b>186.2</b>	<b>–</b>	<b>–</b>



**30. RISK MANAGEMENT** continued**Capital risk and management**

The following shows the regulatory capital resources managed by the Group and Bank:

	Group 2015 £m	Bank 2015 £m	Group 2014 £m	Bank 2014 £m
Share capital	2.5	175.5	185.3	174.5
Retained earnings	94.7	79.6	32.1	20.4
Share premium account	87.3	81.0	1.3	–
Merger reserve	–	1.6	–	1.6
Capital contribution reserve	183.1	4.4	–	0.3
Intangible assets	(54.7)	(33.5)	(49.5)	(28.4)
<b>Common equity tier 1 capital</b>	<b>312.9</b>	<b>308.6</b>	<b>169.2</b>	<b>168.4</b>
Subordinated debt	74.0	75.0	30.8	30.8
Collective impairment allowance	4.6	4.6	3.0	3.0
<b>Tier 2 capital</b>	<b>78.6</b>	<b>79.6</b>	<b>33.8</b>	<b>33.8</b>
<b>Total regulatory capital</b>	<b>391.5</b>	<b>388.2</b>	<b>203.0</b>	<b>202.2</b>

The regulatory capital reconciles to the total capital in the Group's Consolidated Statement of Financial Position as follows:

	Group 2015 £m	Bank 2015 £m	Group 2014 £m	Bank 2014 £m
<b>Regulatory capital</b>	<b>391.5</b>	<b>388.1</b>	<b>203.0</b>	<b>202.2</b>
Subordinated debt	(74.0)	(75.0)	(30.8)	(30.8)
Collective impairment allowance	(4.6)	(4.6)	(3.0)	(3.0)
Intangible assets	54.7	33.5	49.5	28.4
<b>Total equity</b>	<b>367.6</b>	<b>342.1</b>	<b>218.7</b>	<b>196.8</b>

**31. SUBSIDIARY COMPANIES****Accounting policy****Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Company has the following subsidiary companies whose results are included in these consolidated financial statements:

	Country of Incorporation	Class of shares held	Ownership	Principal activity
Shawbrook Bank Limited and its subsidiaries:	England & Wales	Ordinary	100%	Banking
Shawbrook Buildings and Protection Limited	England & Wales	Ordinary	100%	FCA authorised introducer of insurance
Link Loans Limited	England & Wales	Ordinary	100%	Non-trading
Singers Corporate Asset Finance Limited	England & Wales	Ordinary	100%	Dormant
Singers Healthcare Finance Limited	England & Wales	Ordinary	100%	Dormant
Singer and Friedlander Commercial Finance Limited	Scotland	Ordinary	100%	Dormant
Hermes Group Limited	England & Wales	Ordinary	100%	Dormant
Coachlease Limited	England & Wales	Ordinary	100%	Dormant
Centric Group Holdings Limited and its subsidiaries:	England & Wales	Ordinary	100%	Dormant
Centric Group Finance 2 Limited	England & Wales	Ordinary	100%	Dormant
Centric Group Finance Limited and its subsidiaries:	England & Wales	Ordinary	100%	Dormant
Centric Commercial Finance Limited	England & Wales	Ordinary	100%	Dormant
Resource Partners SPV Limited	England & Wales	Ordinary	100%	Dormant
Centric SPV 1 Limited	England & Wales	Ordinary	100%	Dormant
Centric SPV 2 Limited	England & Wales	Ordinary	100%	Dormant
Singer and Friedlander Finance Limited	England & Wales	Ordinary	100%	In Liquidation

East Anglian Finance Limited was sold on 18 February 2015.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 31. SUBSIDIARY COMPANIES continued

The following companies were dissolved at Companies House during 2015: Singers Asset Finance Holdings Limited, SAF Funding Limited, Ascot Funding Limited, Money2Improve Limited, Apple Holdco Limited and Apple Acquisition Limited.

#### Business combinations

##### Accounting policies

##### Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred in the consolidated accounts and capitalised within cost of investment in the Company accounts.

##### Acquisition accounting

The Group recognises identifiable assets and liabilities at their acquisition date fair values. Fair values are determined from the estimated future cashflows generated by the assets. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

	Note	2014 Fair values £m
Loans and advances to customers		195.5
Property, plant and equipment		0.1
Borrowings		(138.2)
Other net liabilities		(3.4)
<b>Net identifiable assets and liabilities</b>		<b>54.0</b>
<b>Consideration transferred:</b>		
Cash		70.0
Ordinary shares in Shawbrook Bank Ltd		7.7
<b>Total Consideration</b>		<b>77.7</b>
<b>Representing:</b>		
<b>Goodwill on acquisition</b>	17	<b>23.7</b>

### 32. RELATED PARTY TRANSACTIONS

Related parties of the Group include key Management personnel, close family members of key Management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key Management personnel or their close family members. Key Management personnel are defined as the Directors.

#### Company

Amounts owed to Group Companies:

	2015 £m	2014 £m
<b>Balance at 1 January</b>	<b>–</b>	<b>0.9</b>
Issue of share capital	90.0	–
Costs of issue of share capital	(3.7)	–
Investment in subsidiary	(82.0)	–
Repayment of subordinated debt	33.7	–
Issue of subordinated debt	(75.0)	–
Dividend received from Shawbrook Bank Limited	4.0	–
Professional fees and other costs	(0.3)	0.5
Transfer of funds	35.9	(1.4)
<b>Balance at 31 December</b>	<b>2.6</b>	<b>–</b>

### 32. RELATED PARTY TRANSACTIONS continued

During the year, Shawbrook Group plc entered into a £75m subordinated debt with its subsidiary, Shawbrook Bank Limited. The terms and conditions mirror the subordinated debt listed by the Company on the London Stock Exchange on 28 October 2015 (See note 26).

Pollen Street Capital is a private equity firm whose shares are held by Special Opportunities Fund (Guernsey) LP acting through its general partner and manager, SOF General Partner (Guernsey) Limited which holds its shares in Shawbrook through its nominee, SOF Annex Nominees Limited.

Target Group Limited is an investment of Pollen Street Capital Limited. The Group has an amortising term loan, secured on mortgage assets, to Target Financial Systems Limited, a wholly owned subsidiary of Target Group Limited. Income earned during the year was £0.6m (2014: £0.8m) and the balance outstanding at 31 December 2015 was £10.1m (2014: £7.3m).

The Group has also entered into a contract with Target Servicing Limited, a wholly owned subsidiary of Target Group Limited, for administration services on various portfolios. Target Servicing Limited services various portfolios, under customary commercial arrangements, on behalf of the Group. The Group has been charged £6.6m during 2015 for these services (2014: £4.6m) and no amounts were due at 31 December 2015. In addition, the Group paid £1.3m for additional services. During 2015 Target paid the Group £0.7m to settle a contingent liability from 2014 in respect of customer redress.

The Group has paid £1.4m (2014: £1.3m) in broker fees to Freedom Finance Limited, an investment company of Pollen Street Capital Limited since August 2014.

On 18 February 2015, the Group sold its entire shareholding in East Anglian Finance Limited to the shareholders of Pollen Street Capital Limited for £15k.

#### Transactions with key management personnel

The aggregate value of the transactions and outstanding balances related to key management personnel (as defined by IAS 24 Related Party Disclosure, were as follows:

	Transaction values for the year ended	
	31 December 2015 £000	31 December 2014 £000
Deposits	252	303
	Maximum balance for the year ended	
	31 December 2015 £000	31 December 2014 £000
Deposits	347	314
	Balance outstanding at	
	31 December 2015 £000	31 December 2014 £000
Deposits	62	314

The charge for share based payments provided to key Management personnel during 2015 was £4.1m (2014: £0.1m).

### 33. CAPITAL COMMITMENTS

The Group has capital commitments totalling £0.9m at 31 December 2015 (2014: £1.3m).

### 34. CONTINGENT LIABILITIES AND GUARANTEES

#### Accounting policies

##### Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

##### Contingent Liabilities

Contingent liabilities, which includes contingent liabilities related to legal proceedings or regulatory matters, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of Shawbrook Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015

### 34. CONTINGENT LIABILITIES AND GUARANTEES continued

#### Financial guarantee contacts

The Group entered into a financial guarantee contract to the amount of £2.5m. This contract is a continuous obligation which may be terminated by the Group on giving three months' written notice. The contract is fully collateralised through a first fix charge over a blocked deposit account to the amount of £2.5m.

#### Contingent liabilities

Part of the Group's business is regulated by the Consumer Credit Act ('CCA'), which contains very detailed and highly technical requirements. The Group continues to commission external reviews of its compliance with the CCA and other consumer regulations. The Group has identified some areas of potential non-compliance, although these are not considered to be material. While the Group considers that no material present obligation in relation to non-compliance with the CCA and other consumer regulations is likely, there is a risk that the eventual outcome may differ.

### 35. EARNINGS PER SHARE

IAS 33 requires that if the number of ordinary shares increases as a result of a capitalisation, bonus issue or share split then the calculation of basic and diluted earnings per share shall be adjusted retrospectively. The tables below are based on the number of shares in issue after the capital restructure as set out in Note 27. On this basis, the 31 December 2014 EPS has been restated from 20.9p to 17.7p.

	2015 Pence	2014 Pence
<b>Earnings per share</b>		
Basic	<b>24.14</b>	17.67
Diluted	<b>24.14</b>	17.67

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares held in employee benefit trusts.

Diluted EPS amounts are calculated by adjusting the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares outstanding for the effects of all the dilutive potential ordinary shares into ordinary shares, which comprise share options granted to employees.

There are no discontinued operations during the period (2014: £nil).

Basic and diluted EPS computations are based on profit attributable to ordinary equity holders of the parent of £58.5m (2014: £34.5m) and weighted number of ordinary shares of 242.3m (2014: 195.3m).

### 36. ULTIMATE PARENT COMPANY

No single entity or individual has a controlling interest in the Company. The largest company in which the results of the Group are consolidated is that headed by Shawbrook Group Plc (previously known as Laidlaw Acquisitions Limited), incorporated in England and Wales. No other financial statements include the results of the Group.

### 37. COUNTRY BY COUNTRY REPORTING ('CBCR')

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the EU Capital Requirements Directive IV (CRD IV).

The objective of the Country-by-Country Reporting requirements is to provide increased transparency regarding the source of the Financial Institution's income and locations of its operations.

Shawbrook Group Plc and its Subsidiaries are all UK registered entities, the activities of which are disclosed on page 127 of the Annual Report and Accounts.

The Group's net operating income, profit before taxation, income tax charge and the number of full time equivalent employees were:

	2015	2014
Net operating income (£m)	<b>166.9</b>	112.2
Profit before tax (£m)	<b>70.1</b>	45.3
Income tax charge (£m)	<b>(11.6)</b>	(10.8)
Average number of employees on a full time equivalent basis	<b>514</b>	414

The Group did not receive any public subsidies.

## GLOSSARY

<b>ALCO</b>	Asset and Liability Committee.
<b>BAC</b>	Board Audit Committee.
<b>BRC</b>	Board Risk Committee.
<b>Basel II</b>	The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the 'International Convergence of Capital Measurement and capital standards'.
<b>Basel III</b>	Global regulatory standard on Bank Capital Adequacy, Stress Testing and Market and Liquidity proposed by the Basel Committee on Banking Supervision in 2010. It aims to strengthen regulation, supervision and risk management in the banking sector. See also CRD IV.
<b>Basis Point (bps)</b>	One hundredth of a percent (0.01%). 100 basis points is 1%. It is used in quoting movements in interest rates or yields on securities.
<b>BBA</b>	British Bankers Association, the leading trade association for the UK banking sector.
<b>BIPRU</b>	The prudential sourcebook for banks, building societies and investment firms. The part of the Financial Conduct Authority's (FCA) Handbook that sets out these detailed prudential requirements for the banks that they regulate.
<b>Board</b>	The Company's Board of Directors.
<b>BOE</b>	Bank of England.
<b>Buy-to-let Mortgages</b>	Buy-to-let mortgages are those mortgages offered to customers purchasing residential property as a rental investment.
<b>Capital Requirements Regulation (CRR)</b>	The European Union has implemented the Basel III capital proposals through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), collectively known as CRD IV. CRD IV was implemented on 1 January 2014.
<b>Code</b>	The FRC's UK Corporate Governance Code (2014 edition).
<b>Common Equity Tier 1 Capital (CET1)</b>	The highest quality form of capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
<b>Cost of Risk</b>	Cost of risk is defined as impairment losses on financial assets divided by average principal employed for a given period.
<b>Cost:Income Ratio</b>	Calculated as administrative expenses plus provisions for liabilities and charges, divided by net operating income.
<b>CRD</b>	Capital Requirements Directive.
<b>CRD IV</b>	In June 2013, the European Commission published legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR) which form the CRD IV package. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. The rules are implemented in the UK via the PRA policy statement PS7/13 and came into force from 1 January 2014, with certain sections subject to transitional phase in.
<b>Customer Deposits</b>	Monies deposited by retail and commercial savings account holders. Such funds are recorded as liabilities of the Group.
<b>Deferred Tax Asset</b>	Income taxes recoverable in future periods as a result of deductible temporary differences (temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods) and the carry-forward of tax losses and unused tax credits.
<b>Earnings at Risk (EaR)</b>	Approach set out for the quantification of interest rate risk expressed as the impact of the sensitivity analysis on the change to net interest income.
<b>Effective Interest Rate (EIR)</b>	The effective interest rate method calculates the amortised cost of a financial asset or financial liability, and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or financial liability. Calculation of the effective interest rate takes into account all contractual terms of the financial instrument but includes all amounts received or paid that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.
<b>Encumbrance</b>	An interest in an asset held by another party. Encumbrance usually impacts the transferability of the asset and can restrict its free use until the encumbrance is removed.
<b>EPS</b>	Earnings per share.
<b>Expected Loss (EL)</b>	This is the amount of loss that can be expected by the Group calculated in accordance with PRA rules. In broad terms it is calculated by multiplying the Default Frequency by the Loss Given Default by the Exposure at Default.
<b>Exposure</b>	A claim, contingent claim or position which carries a risk of financial loss.
<b>Exposure at Default</b>	An estimate of the amount expected to be owed by a customer at the time of a customer's default.

## GLOSSARY CONTINUED

<b>Fair Value</b>	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
<b>FCA</b>	Financial Conduct Authority.
<b>Financial Services Compensation Scheme (FSCS)</b>	The Financial Services Compensation Scheme is the UK's independent statutory compensation fund for customers of authorised financial service firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by management expenses levies and, where necessary, compensation levies on the authorised firms.
<b>Forbearance</b>	Forbearance takes place when a concession is made on the contractual terms of a loan in response to borrowers' financial difficulties. Forbearance options are determined by assessing the customer's personal circumstances.
<b>FTP</b>	Funds Transfer Pricing.
<b>Full Time Equivalent (FTE)</b>	A full time employee is one that works a standard five day week. The hours worked by part time employees are measured against this standard and accumulated along with the number of full time employees and counted as full time equivalents. This is a more consistent measure of the amount of time worked than employee numbers which will fluctuate as the mix of part time and full time employees changes.
<b>Funding for Lending Scheme (FLS)</b>	The Bank of England launched the Funding for Lending scheme in 2012 to allow banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years. This was designed to increase lending to businesses by lowering interest rates and increasing access to credit.
<b>Group</b>	The Company and its subsidiaries.
<b>Gross Yield</b>	Gross yield is calculated as the sum of interest receivable and similar income, net income from operating leases, net fee and commission income and fair value losses on financial instruments divided by average principal employed.
<b>HPI</b>	House Pricing Index.
<b>IFRS</b>	International Financial Reporting Standards.
<b>ILAA</b>	Individual Liquidity Adequacy Assessment
<b>Impaired Assets</b>	Loans that are in arrears, or where there is objective evidence of impairment, and where the carrying amount of the loan exceeds the expected recoverable amount.
<b>Impairment Allowance</b>	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be individual or collective.
<b>Impairment Losses</b>	An impairment loss is the reduction in value that arises following an impairment review of an asset that determined that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Impairment losses can be difficult to assess and critical accounting estimates and judgements are made when determining impairment losses.
<b>Interest Rate Risk in the Banking Book (IRRBB)</b>	The risk to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.
<b>Internal Capital Adequacy Assessment Process (ICAAP)</b>	The Group's own assessment, based on Basel II requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events as they apply on a solo level and on a consolidated level.
<b>IASB</b>	International Accounting Standards Board.
<b>IPO</b>	Initial Public Offering.
<b>Leverage Ratio</b>	The leverage ratio is calculated as common equity tier 1 capital divided by the total of on and off balance sheet assets adjusted for deductions.
<b>LIBOR</b>	London Inter-Bank Offered Rate.
<b>Liquidity Coverage Ratio (LCR)</b>	The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress, and ideally, central bank eligible.
<b>Loan-to-Deposit Ratio</b>	The ratio of loans and advances to customers net of allowance for impairment divided by customer deposits.
<b>Loss Emergence Period</b>	The loss emergence period is the estimated period between impairment occurring and the loss specifically identified and evidenced by the establishment of an appropriate impairment allowance.
<b>Loss Given Default</b>	The estimated loss that will arise if a customer defaults. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.
<b>MLRO</b>	A Money Laundering Reporting Officer (MLRO) is the officer nominated within a firm or practice to make disclosures to the Serious Organised Crime Agency (SOCA) under the Proceeds of Crime Act 2002 and the Terrorism Act 2000.
<b>Neither past due nor impaired</b>	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.

<b>Net Interest Income</b>	The difference between interest received on assets and interest paid on liabilities.
<b>Net Interest Margin (NIM)</b>	Calculated as net operating income divided by average principal employed.
<b>Net Loans</b>	Loans and advances to customers, net of impairment provision, plus operating leases.
<b>Net Stable Funding Ratio (NSFR)</b>	The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. The ratio is required to be 100% with effect from 2018. Available stable funding would include such items as equity capital, preferred stock with a maturity of over one year, or liabilities with a maturity of over one year.
<b>Past due</b>	A financial asset such as a loan is past due when the counterparty has failed to make a payment when contractually due.
<b>Past due but not impaired</b>	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.
<b>PRA</b>	Prudential Regulation Authority.
<b>Repurchase Agreements or 'Repos'</b>	An agreement where one party, the seller, sells a financial asset to another party, the buyer, at the same time the seller agrees to reacquire and the buyer to resell the asset at a later date. From the seller's perspective such agreements are repurchase agreements (repos) and from the buyer's reverse repurchase agreements (reverse repos).
<b>Return on Lending Assets</b>	Return on lending assets before taxation is calculated as profit/(loss) before taxation divided by average principal employed.
<b>Risk-weighted Assets</b>	Sum of all risk-weighted assets as required for regulatory capital ratio measures.
<b>Secured Lending</b>	Lending on which the borrower uses collateral such as equity in their home.
<b>Standardised Approach</b>	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings of obligators (where available) and supervisory risk weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of specified business lines.
<b>Stress Testing</b>	Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.
<b>Tangible Equity</b>	A subset of shareholders equity that is not intangible assets.
<b>Tier 1 Capital</b>	A measure of banks financial strength defined by the PRA. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, but is subject to a deduction in respect of material holdings in financial companies.
<b>Tier 1 Capital Ratio</b>	Tier 1 capital as a percentage of risk-weighted assets.
<b>Tier 2 Capital</b>	A further component of regulatory capital defined by the PRA. It comprises eligible collective assessed impairment allowances under CRD IV.
<b>Total Capital Ratio</b>	Total regulatory capital expressed as a percentage of risk-weighted assets.
<b>TNAV</b>	Tangible net asset value.
<b>Unencumbered Assets</b>	Assets that are readily available to secure funding or to meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.
<b>Underlying EPS</b>	Underlying profit after taxation attributable to ordinary shareholders of the Parent Company divided by the weighted-average number of ordinary shares outstanding during the period excluding own shares held in employee benefit trusts or held for trading.
<b>Underlying return on tangible equity</b>	Underlying profit before taxation divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period divided by two.
<b>Underlying profit before taxation</b>	Statutory profit before taxation adjusted for distortive non-recurring items that are not part of the Group's ongoing business activities.
<b>Yield Curve</b>	A line that plots the interest rates, at a set point in time, of an asset class or swap rate at varying maturities. This can be used as a gauge to evaluate the future of interest rates.

## NOTES

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## NOTES

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**SHAWBROOK GROUP PLC**

Lutea House  
Warley Hill Business Park  
The Drive, Great Warley,  
Brentwood,  
Essex CM13 3BE

Company number 07240248