shawbrook

2022

Shawbrook Bank Limited
Annual Report and Accounts

Banking for the real world.

Annual Report and Accounts 2022

Shawbrook Bank Limited

(Company No: 00388466)

Contents

View our Annual Report and Accounts and Pillar 3 Disclosures online
Full versions of our Annual Report and Accounts and Pillar 3 Disclosures are available online at *www.shawbrook.co.uk/investors/*

Important disclaimer
Certain information contained in this Annual Report and Accounts, including any information as to the Group's strategy, market position, plans, or future financial or operating performance, constitutes 'forward-looking statements'. Such forward-looking statements are made based upon the expectations and beliefs of the Group's Directors concerning future events impacting the Group, including numerous assumptions regarding the Group's present and future business strategies and the environment in which it will operate going forward, which may prove to be inaccurate. As such, the forward-looking statements contained in this Annual Report and Accounts involve known and unknown risks and uncertainties, which may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Company information

Non-Executive Directors
John Callender
Cédric Dubourdieu
Lindsey McMurray
Paul Lawrence
Andrew Didham
Michele Turmore
Lan Tu
Janet Connor

Executive Directors
Marcelino Castrillo
Dylan Minto

Company Secretary
Andrew Nicholson

Registered office
Lutea House,
Warley Hill Business Park,
Brentwood,
Essex, CM13 3BE

Independent auditor
KPMG LLP
15 Canada Square,
London, E14 5GL

Banker
Royal Bank of Scotland plc
Bishopsgate,
London, EC2M 4RB

Solicitor
Slaughter and May
One Bunhill Row,
London, EC1Y 8YY

Company number
00388466

Strategic Report

Strategic Report

Strategic Report

Chairman's statement

> *"As a responsible organisation, we recognise that we have a critical role to play in supporting our customers who are under increasing pressure from surging living costs, rising inflation and supply chain disruption. Our flexibility to adapt and tailor our offering means we are well positioned to meet evolving customer needs and help them navigate through these uncertain times."*
>
> **John Callender**
> Chairman

I am pleased to introduce Shawbrook's 2022 Annual Report and Accounts, following another successful year for the Group. Against a backdrop of macroeconomic and political uncertainty, we continued to build on our established track record of strong profitability, driven by proven scalability, a diversified portfolio and robust risk management, whilst ensuring we provided our customers with the support they needed. The Group's impressive performance clearly demonstrates the benefits of our unique capabilities and agile approach.

Benefitting from our 'best of both' model
The impact of our 'best of both' model, combining modular technology with human expertise, within the specialist markets we operate in has become increasingly pronounced.

As well as focusing on improvements to customer experiences, our innovative use of data and technology is not only driving progress in building our next generation banking platform, but also continues to enhance our strong monitoring capabilities, giving us a more dynamic view into the risks we manage.

Alongside investments in digital and data, our innovative and entrepreneurial culture is key to driving progress. Built on the principles of practical, personal and creative, our approach continued to both attract and retain highly talented people with deep industry expertise, reflected in the Group's consistently strong employee engagement scores. To build on this, we are both providing our people with opportunities to grow their careers, while also nurturing new talent through the provision of several development schemes, including our new 'Thrive' apprenticeship programme.

Supporting our customers and people
As a responsible organisation, we recognise that we have a critical role to play in supporting our customers who are under increasing pressure from surging living costs, rising inflation and supply chain disruption. Our flexibility to adapt and tailor our offering means we are well positioned to meet evolving customer needs and help them navigate through these uncertain times.

We also remain acutely aware of the instability felt from the volatile external environment and how the heightened cost of living continues to impact many of our people. As a result, we have introduced various initiatives to support our colleagues throughout the year. Our success is only possible because of their hard work and commitment and, on behalf of the Board, I would like to thank them all.

Expanding our funding base
To support our sustainable growth trajectory we continued to build our diverse funding base, with retail deposits remaining core to the maintenance of our stable balance sheet. Our focus on service quality, dynamic pricing and digital innovation, coupled with our breadth of savings products, supported the expansion of our funding base, with the Group's customer deposits exceeding the £10 billion threshold for the first time.

Extending our positive impact
Our purpose extends to the wider society and the Board is committed to implementing an impactful Environmental, Social and Governance (ESG) strategy, which enables us to play our part in supporting the communities in which we operate. Throughout the year, we further developed our climate strategy to support our customers' transition to a low carbon future, whilst managing the associated risks and opportunities. In line with our commitment to enhanced transparency, we have published our inaugural set of standalone climate-related financial disclosures alongside this report.

Our ambition to encourage and enable equality, diversity and inclusion (EDI) continued to be championed throughout the year, both through internal activity and the extension of our social partnership network. In addition to our well-established partnership with the Saracens Foundation, we also teamed up with education charity Future First. Complementing our purpose, this new partnership is aimed at social mobility and provides young people with the opportunity to engage with relatable role models and broaden their horizons.

Outlook
2022 has given us the opportunity to further demonstrate the attractiveness of our differentiated approach and the agility of our model. We remain ambitious as a business, committed to delivering for our customers and well positioned to identify new opportunities in adjacent markets with complementary dynamics to those we serve today. Our conservative approach to risk management, together with the strength and stability of our liquidity and capital position, also ensure that we are well equipped to deal with turbulence and to meet the challenges that may arise in this uncertain environment.

Strategic Report

Chief Executive Officer's statement

"Everyone at Shawbrook should be proud of what we've achieved, but even prouder of how we achieved it.

Customers across all of our markets have a pressing funding need, often complex or time-sensitive and frequently both. They choose Shawbrook for our ability to understand their individual requirements and to deliver the right finance solution quickly and seamlessly. To do this consistently and at scale requires the combination of great technology and human ingenuity – the 'best of both'."

Marcelino Castrillo
Chief Executive Officer

2022 was an exceptionally good year for Shawbrook, not just in terms of what was delivered, but the way in which it was achieved. As well as achieving a record £238.4 million profit before tax, we delivered a return on tangible equity of 20.1% and served over 425,000 customers, doing so against an extreme macroeconomic backdrop. Events in Ukraine and the subsequent wake of economic and political uncertainty that followed impacted the entire sector in ways that were impossible to predict. Yet the flexibility, agility and resilience we have engineered within Shawbrook helped us remain active in our markets and continue meeting the needs of more customers than ever before.

Our 'best of both' model enabling out-performance
Customers across all of our markets have a pressing funding need, often complex or time-sensitive and frequently both. They choose Shawbrook for our ability to understand their individual requirements and to deliver the right finance solution quickly and seamlessly. To do this consistently and at scale requires the combination of great technology and human ingenuity – the 'best of both'.

Accelerating our digital strategy
Investment in great talent across a range of disciplines including design and engineering, has contributed to the enhancement of our digital capabilities. For example, in 2022, we created our new Digital SME Lending business, leveraging our asset finance expertise into a proposition more relevant to the customer needs of today. An end-to-end digital journey, including auto-decisioning, provides simple and seamless funding to small businesses regardless of whether they come to us direct or through their preferred broker.

During 2022, we made significant progress in engineering the infrastructure required to put data at the centre of our organisation. Combining proprietary data with external data sources, including Open Banking and Credit Account Information Sharing (CAIS) data, our ability to generate powerful insights to inform decision-making, product design, underwriting, pricing and customer management has been made available across the organisation.

Our strong record of successfully working with a growing community of partners continued to attract leading providers during the year. We continued to co-develop Vision, a digital portfolio monitoring tool now running within our Real Estate and SME portfolios, enabling us to generate deeper data-driven insights into credit performance. We also extended our MyShawbrook portal and its partner ecosystem to include bridging and commercial investment applications with integrated valuations, driving a vastly improved broker experience.

A destination for the very best talent
Technology is only half of the equation at Shawbrook and, in 2022, we continued to focus on the attraction and retention of exceptional talent. We also strengthened our employee value proposition, introduced a number of support measures to help our people with the increased cost of living and continued to embed our purpose and culture. This focus on fostering a highly engaged workforce and championing inclusivity across the organisation was reflected in an impressive employee engagement score of 82%.

Delivering positive impact
During 2022, we continued to evolve our ESG strategy, focusing on those areas in which we can deliver the greatest impact.

Diversity of ideas, experiences and opinions are not only welcome at Shawbrook, but are essential to our success. During 2022, we launched several initiatives to help attract young talent into financial services and more specifically to Shawbrook. Our new 'Thrive' apprenticeship programme has been designed for young people aged 18 to 24 from different backgrounds, who may have limited opportunity or appetite to go to university, or to experience other early career opportunities. I have been hugely impressed by the first cohort of young people we have taken on as apprentices and I am excited to see how we can support their professional development at Shawbrook.

Climate change has significant implications for us as an organisation and our key stakeholders. Our climate strategy forms a core part of our ESG strategy and flows from our purpose. We are committed to reducing our climate impact and being a net zero[1] organisation by 2050[2], with the aim of being net zero for our own operations by 2035[3]. We have also taken further steps to ensure lending and partner decisions take account of ESG considerations.

Creating long-term sustainable value
Combining our ability to execute quickly with a longer-term perspective will ensure we create sustainable value for our customers, colleagues and communities. This approach is also evident in the active management of our risks and capital. Our underlying credit performance remained strong throughout the year, but we prudently increased impairment provisions at the year end to reflect the uncertain macroeconomic outlook, which increased our cost of risk to 51 bps (2021: 40 bps). The investments made in digital and data continue to enhance our ability to identify signs of stress, while we maintain dialogue with those customers who require additional support through our highly experienced recoveries team.

---

1 We use the term 'net zero' to describe a reduction in greenhouse gas emissions coupled with carbon removal (e.g. carbon capture through nature-based solutions or technology) for residual emissions.

2 Scope includes own operations (scope 1, 2 and 3 excluding purchased goods and services) and financed emissions for the Group's Property Lending Portfolios, as defined on page 31 of the Shawbrook Group plc 2022 Annual Report and Accounts.

3 This excludes purchased goods and services and financed emissions.

Chief Executive Officer's statement

Retail deposits continue to fund the balance sheet, with liabilities growing by c.31% to £10.9 billion and our total savings customer base increasing to c.225,000. Our retail savings proposition provides the Group with stable funding, with further capacity available through Bank of England wholesale facilities. With the successful completion of three fully retained securitisations throughout the year, our capital and liquidity strength underpin our strategic growth ambitions.

In March 2023, we announced the agreement, subject to regulatory approval, to acquire Bluestone Mortgages Limited (BML), a specialist mortgage lender focused primarily on owner occupied mortgages. Since first establishing a platform lending funding arrangement in 2017, we have maintained a successful relationship with BML and are delighted to have strengthened our long-standing partnership through this acquisition. By welcoming BML into the Group, we can use our combined capabilities and scale to offer an even stronger proposition to UK homeowners.

Outlook

While the external landscape changed significantly over the course of 2022, the flexibility of our model continued to play to our advantage. We are well positioned for further sustainable growth across our diverse markets and remain alert to further inorganic opportunities.

I am reassured by the financial strength of our platform and the resilience of our model given the likelihood of continued market volatility. The success of 2022 allows us to look ahead with confidence in our ability to respond to the immediate needs of the customers we serve today and to commit to prudent investment in the long-term sustainable growth of Shawbrook.

Strategic Report

About Shawbrook

Shawbrook in numbers

Deep expertise in a broad range of carefully selected markets, allowing us to continue to deliver sustainable growth
- 25% Annual loan book growth[1] to £10.5 billion (2021: £8.6 billion)

Combining technology and data with human talent and judgement
- 39.8% Adjusted cost to income ratio[2] (2021: 42.5%); 39.9% Statutory cost to income ratio (2021: 40.7%),
- 51 bps Cost of risk (2021: 40 bps)

Continued profitability through a growing and engaged customer base
- £238.4 million Profit before tax (2021: £197.4 million)
- 4.6/5 Trustpilot score (2021: 4.6/5)
- c.425,000 Customers served (2021: c.350,000)

Track record of superior returns
- 20.1% Return on tangible equity (2021: 20.2%)
- 5.1% Net interest margin (2021: 4.9%)

Conservative capital management
- 12.9% CET1 capital ratio (2021: 12.6%)
- 15.9% Total capital ratio (2021: 16.2%)

Skilled and experienced colleagues working towards an ambitious vision
- 82% Employee engagement score (2021: 80%)
- 1,198 Employees[3] (2021: 1,035)

Group gender metrics
- All employees | 2022: 54% Male, 46% Female (2021: 56% Male, 44% Female)
- Senior Management team | 2022: 73% Male, 27% Female (2021:76% Male, 24% Female)
- Executive Committee | 2022: 80% Male, 20% Female (2021: 78% Male, 22% Female)
- Board | 2022: 60% Male, 40% Female (2021:78% Male, 22% Female)

[1] Loan book growth of 22% from £8.6 billion at 31 December 2021 to £10.5 billion at 31 December 2022. When adjusted to add back the sale of a portfolio of loans from Real Estate that completed in January 2022, which had a carrying amount at the point of derecognition of £298.3 million, loan book growth is 25%.

[2] The adjusted cost to income ratio is calculated by excluding the charge for provisions of £0.8 million (2021: £7.0 million credit).

[3] The Group's average number of employees during the period is calculated in line with the Companies Act 2006 requirement.

About Shawbrook

We are a specialist bank. Driven by our purpose, **to power up ingenuity to create opportunity**, we support real estate professionals, SMEs and consumers with their pressing and often complex funding needs**.**

We use our ‘best of both’ proposition, combining great technology and human ingenuity to understand our customers’ individual requirements and deliver the right finance solutions seamlessly and at scale.

We embrace a multi-channel distribution model which, coupled with our sophisticated approach to risk management and our digital capabilities, means we can act nimbly and resourcefully to meet the evolving needs of our customers.

Our inclusive culture is one that fosters creativity and pragmatism, and we continue to build on our track record of innovation and strong returns to grow carefully across a diverse range of specialist customer segments.

Our diversified product offering

Real Estate

Supports the UK property sector through a range of diverse commercial and residential mortgage products offered to professional landlords, investors and homeowners.

- Buy-to-let
- Bridging finance
- Commercial investment
- Owner occupied mortgages
- Second charge mortgages

£5.9bn loan book

SME

Supports UK SMEs by providing a range of debt-based financing solutions through the following business units:

- Digital SME lending
- Corporate lending
- Structured lending
- Development finance

£2.6bn loan book

Consumer Lending

Provides unsecured personal lending to consumers for multiple purposes through a range of partners and direct through its digital proposition.

- Unsecured personal loans
- Partner finance

£0.5bn loan book

Savings

Provides a wide range of savings solutions with competitive interest rates, including easy access, notice and fixed term accounts and fixed cash ISAs.

- Personal savings
- Business savings

£10.9bn deposits

The Mortgage Lender

Supports customers with more complex income profiles, including the self-employed, entrepreneurs and first time buyers.

- Buy-to-let
- Owner occupied mortgages

£1.5bn loan book

About Shawbrook

Our business model: next generation banking platform

Our next generation banking platform is designed to provide excellent customer experiences and optimise returns, with our 'best of both' proposition at the centre of our approach. Our proven and scalable business model provides multiple avenues for growth through a diverse product portfolio and multi-channel distribution.

About Shawbrook

Our strategy

Financial review

“2022 was a year of much uncertainty and volatility, yet our results reflect the strength of our ’best of both’ proposition that supports our customers’ needs, underpinned by our strong and prudent capital and liquidity profile. During 2022, we delivered a return on equity of 20.1%, loan book growth of 25%[1], enhanced margins and cost efficiency, whilst continuing to invest in our accelerated digital strategy. Our announcement to acquire Bluestone Mortgages Limited (BML), which is subject to regulatory approval, further demonstrates our commitment to the specialist mortgage market and our ability to supplement our organic growth with additional scale through consolidation. Despite the volatile backdrop to the year, the strength of Shawbrook was demonstrated through the successful refinancing of our Additional Tier 1 instrument and we continue to build on our funding diversification strategy with three successful retained securitisations, supporting our strategic ambitions for growth.”

Dylan Minto
Chief Financial Officer

Performance indicators

Definitions of all metrics included in the following tables are provided on page 157.

Financial performance metrics

	2022 %	2021 %	Change
Gross asset yield	**6.8**	6.0	0.8%
Liability yield	**(1.8)**	(1.1)	(0.7%)
Net interest margin	**5.1**	4.9	0.2%
Management expenses ratio	**(2.0)**	(2.0)	–
Cost to income ratio (statutory/adjusted[2])	**39.9 / 39.8**	40.7 / 42.5	(0.8%) / (2.7%)
Cost of risk	**(0.51)**	(0.40)	(0.11%)
Return on lending assets before tax	**2.5**	2.5	–
Return on tangible equity	**20.1**	20.2	(0.1%)

Financial position metrics

	2022	2021	Change
Assets and liabilities			
Loan book (£m)	**10,495.2**	8,607.9	21.9%
Average principal employed (£m)	**9,375.7**	7,869.8	19.1%
Customer deposits (£m)	**10,914.5**	8,358.6	30.6%
Wholesale funding (£m)	**1,615.1**	1,519.5	6.3%
Liquidity			
Liquidity coverage ratio (%)	**321.2**	247.8	73.4%
Capital and leverage[3]			
Common Equity Tier 1 capital ratio (%)	**12.9**	12.6	0.3%
Total Tier 1 capital ratio (%)	**14.6**	14.7	(0.1%)
Total capital ratio (%)	**15.9**	16.2	(0.3%)
Leverage ratio[4] (%)	**8.8**	8.0	0.8%
Risk-weighted assets (£m)	**7,385.7**	6,134.0	20.4%

1 When adjusted to add back in the sale of a portfolio of loans from Real Estate in January 2022, which had a carrying amount at the point of derecognition of £298.3 million.
2 The adjusted cost to income ratio is calculated by excluding the charge for provisions of £0.8 million (2021: £7.0 million credit).
3 Capital and leverage metrics are shown on a transitional basis after applying IFRS 9 transitional arrangements. A comparison of the Group’s reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the ‘fully loaded’ basis) is provided on page 82.
4 The leverage ratio as at 31 December 2022 is calculated based on the guidelines contained within PS21/21 ‘The UK leverage ratio framework’, which became effective on 1 January 2022. The revised calculation now excludes central bank claims as long as they are matched by liabilities of the same currency and equal or longer maturity. Comparative information as at 31 December 2021 has not been restated and is reported based on the disclosure rules in force at that time (i.e. including claims on central banks). Information is therefore not directly comparable year-on-year.

Financial review

Summary of statutory results for the year

	2022 £m	2021 £m	Change
Operating income[1]	**640.6**	474.9	34.9%
Interest expense and similar charges	**(164.4)**	(88.9)	(84.9%)
Net operating income	**476.2**	386.0	23.4%
Administrative expenses	**(189.3)**	(164.2)	(15.3%)
Impairment losses on financial assets	**(47.7)**	(31.4)	(51.9%)
Provisions	**(0.8)**	7.0	(111.4%)
Total operating expenses	**(237.8)**	(188.6)	(26.1%)
Statutory profit before tax	**238.4**	197.4	20.8%
Tax	**(58.7)**	(47.9)	(22.5%)
Statutory profit after tax	**179.7**	149.5	20.2%

Loan growth of 25%[2] delivered through ongoing investment in our customer proposition
Our franchises reported strong growth during the year, resulting in the total loan book growing to £10.5 billion (2021: £8.6 billion). We carefully monitored the changing economic environment throughout the year, adjusting risk appetite and pricing as appropriate. Loan book growth in the year totalled £1.9 billion (£2.2 billion when adjusted for the Real Estate portfolio sale in January 2022), driven by another year of strong originations in our core SME and Real Estate businesses[3].

Enhanced profitability driven by net interest margin improvement and careful cost management
Profit before tax increased to £238.4 million (2021: £197.4 million), with operating income increasing by 34.9%, administrative expenses increasing by 15.3% and impairment losses by 51.9%. Net operating income increased by 23.4% to £476.2 million (2021: £386.0 million) and net interest margin increased to 5.1% (2021: 4.9%) reflecting the margin improvement we are achieving in a rising interest rate environment.

We continue to manage costs carefully and, during the year, invested further in automating several customer propositions and in growing our employee numbers in the key technical areas supporting business growth. Administrative expenses increased to £189.3 million (2021: £164.2 million), which is partly attributable to recognising a full year of costs for The Mortgage Lender Limited (TML) in 2022 following the acquisition, compared to 10 months in 2021, along with higher people and technology costs. This resulted in the adjusted cost to income ratio (excluding the charge for provisions) improving to 39.8% (2021: 42.5%). We continue to hold a provision for customer remediation and conduct issues of £5.5 million (2021: £13.5 million) and review its adequacy regularly, with a £0.8 million net charge for the year (2021: £7.0 million credit).

Robust management of our loan book supported by prudent risk appetite
The careful and robust management of loan books remains a strategic priority and the Group's overall arrears rate remains relatively stable at 1.9% (2021: 1.7%). Additionally, the proportion of loans in stages 2 and 3 remains in line with the prior year and the underlying credit quality of the portfolio continues to perform strongly. The economic scenarios used in the expected credit loss (ECL) calculations have been updated for the latest macroeconomic assumptions and the weightings remain unchanged compared to H1 2022 (40% for the base case, 10% for the upside scenario, 35% for the downside scenario, and 15% for the severe downside scenario). Overall, a net £47.7 million impairment loss on financial assets was recognised for the year (2021: £31.4 million), with a cost of risk of 51 bps (2021: 40 bps) and the total loss allowance coverage increased to 1.1% (2021: 0.9%). This increase reflects the underlying growth of the loan book since last year and the impact of updates to the economic outlook and the addition of a prudent new cost of living post model adjustment recognised in H2 2022.

Conservative capital management and funding diversification provide the foundation for future growth
We continue to optimise our capital resources while maintaining a robust and prudent risk appetite. Our Common Equity Tier 1 capital ratio was 12.9% (2021: 12.6%) and our total capital ratio was 15.9% (2021: 16.2%). The movement in the capital ratios over the year reflects the retained profit after tax of £179.7 million, offset by growth in risk-weighted assets of £1,251.7 million, the coupon paid on Additional Tier 1 capital securities and a reduction in the transitional IFRS 9 relief. The transitional arrangements for IFRS 9 provide a benefit of 0.3% (2021: 0.2%) to the Common Equity Tier 1 capital ratio and 0.3% (2021: 0.2%) to the total capital ratio.

1 Includes interest income calculated using the effective interest rate method, other interest and similar income, net operating lease income, net fee and commission income, net gains on derecognition of financial assets measured at amortised cost, net (losses)/gains on derivative financial instruments and hedge accounting and net other operating income.
2 When adjusted to add back in the sale of a portfolio of loans from Real Estate in January 2022, which had a carrying amount at the point of derecognition of £298.3 million.
3 During the year, the naming convention of certain lending segments have been changed to better reflect their operations. The previously named 'Property Finance' lending segment is now referred to as 'Real Estate' and 'Business Finance' is now referred to as 'SME'.

Financial review

The Group's current Total Capital Requirement is 9.07% (Pillar 2A requirement of 1.07%) and with total regulatory capital of £1,171.5 million, the Group remains comfortably above regulatory requirements. The Group is well capitalised to take advantage of the significant opportunities we have identified in our chosen specialist lending markets through both organic and inorganic growth opportunities.

The Group is not required to comply with the Prudential Regulation Authority (PRA) leverage ratio framework, however we maintain our returns with prudent levels of leverage. The leverage ratio for the Group, based on the new calculation guidelines that came into effect in January 2022[1], is 8.8% compared to the revised minimum requirement of 3.25% (2021: 8.0% compared to the minimum requirement of 3%). Risk-weighted assets as a proportion of the loan book has reduced slightly to 70% (2021: 71%).

The liquidity coverage ratio remains prudently positioned at 321.2% (2021: 247.8%).

We continue to diversify our funding base but remain predominantly funded by retail and SME customers. As interest rates increased during the year and competition intensified in the deposit market, our strong savings proposition and considered pricing continued to attract customers. This resulted in growth of 30.6%, increasing our deposit book by £2.6 billion during the year to £10.9 billion. Our retail deposit book is supplemented with wholesale funding primarily through the Bank of England's TFSME programme, with drawn balances remaining at £1.2 billion (2021: £1.2 billion). Our profile is further diversified by strategically undertaking securitisations which provide funding, capital and income benefits or, if retained due to market conditions, are used as further collateral with the Bank of England or in repo transactions with third parties.

As part of our ongoing risk mitigation strategy, the Group seeks to minimise interest rate risk and during the year we extended this to hedge pipeline loans to protect future margins. Additionally, we hedged our free capital over a duration up to five years to provide further stability of earnings. Finally, in 2022, we commenced fair valuing of originations from TML, BML and strategic platform lending partnerships which result in the movement on these assets being recorded in the statement of other comprehensive income, and being held on our balance sheet until wholesale market pricing normalises and we complete structured asset sales.

Outlook

Recent events in the global banking sector have demonstrated the importance of prudent financial risk management. At Shawbrook, we manage our liquidity and market risk to conservative risk appetite and, as at 31 December 2022, we had a liquidity coverage ratio of 321.2%, held in high quality liquid assets, with no exposure to any fixed rate long-term investments.

As we have consistently demonstrated, we are well positioned to support our customers through these uncertain times and can adapt quickly and innovatively to challenges as they may present themselves. The Group has a strong capital and liquidity base to continue to meet the changing needs of our customers, colleagues and business partners in the future. We are confident that by focusing on our core competencies, digitalising and automating our 'best of both' model and continuing to invest in our people, that we will build on our track record of continued growth and profitability.

1 The leverage ratio as at 31 December 2022 is calculated based on the guidelines contained within PS21/21 'The UK leverage ratio framework', which became effective on 1 January 2022. The policy statement changes the minimum leverage ratio from 3% to 3.25% and the calculation now excludes central bank claims as long as they are matched by liabilities of the same currency and equal or longer maturity.

Creating value for our stakeholders (S172 statement)

This section describes how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006.

Effective stakeholder engagement is central to the development and execution of our strategy and is critical to helping us achieve our purpose and ensuring the sustainability of our business. Throughout 2022, the Board (including its sub-committees) continued to engage with and consider the needs of the Group's stakeholders.

Customers
The interests of our customers are at the core of our strategy, so understanding what is important to them is key to our long-term success. We stay closely connected with our customer base, using the insights gained through regular engagement to inform our strategy and respond to their evolving needs. In support of this, throughout the year our Chief Executive Officer initiated several targeted feedback sessions with a range of our high-profile customers, helping to improve our understanding of their individual needs and how we can better serve the, often complex, markets we operate in.

To enhance the customer experience and drive ongoing improvements to customer outcomes, a Group-wide Customer Experience Framework was launched during 2022. The framework seeks to provide focused insights to help our people to better understand and take actions to improve the Shawbrook experience. The Board advocates our customer-centric approach, and since the initial Board agreement was provided, the framework has produced actionable insights for business improvements.

Throughout the year, we progressed our digital agenda, making further investments in technology to enable more digital interaction and enhance the customer experience. For example, we initiated the development of a new and improved experience for our Savings customers, utilising in-depth research to drive rich customer insights. The Board was engaged in the design and development process, providing feedback and additional insights into customer needs and behaviours. Pre-and post-launch the Board will continue to receive progress updates, demonstrating improvements made to our customer experiences, as well as the business benefits.

The Group's product development activities are driven by our evolving customer needs. Acknowledging the positive impact that Open Banking will likely have on our customers, we explored new ways to utilise alternative data sources to help make more informed decisions. This included the launch of our Open Banking backed Consumer Lending proposition in collaboration with ClearScore.

Distribution partners
We work with a range of like-minded distribution partners to help deploy our products across our diverse markets. These partnerships form an essential part of our business model and enable the successful delivery of our strategy. Working in partnership provides us with deeper access and insights into our markets, driving better customer outcomes.

Regular and open dialogue with our distribution network enables us to stay informed. Throughout the year, we sought regular feedback from our partners to help us evolve our proposition in a way that best serves their needs and those of our end customers. This included direct broker meetings and network events, attended by our Chief Executive Officer, to better understand the additional improvements we can make to support them.

Feedback from our partner network continued to influence our investments in automation and simplification. In our Enterprise franchise, broker feedback was critical in the initiation and ongoing development of our 'next generation underwriting' project. Leveraging the best of digital and our deep human expertise to enhance our underwriting capabilities, the changes we are making are aimed at providing a better broker experience through improved efficiency and faster time to completion. The Board received regular status updates on the project including insight into specific broker feedback.

Employees
Our Board remains committed to promoting an environment where our employees are encouraged to reach their full potential and, in doing so, help the business to deliver its purpose and strategic ambitions.

Listening and responding to our employees' views forms a key part of our culture. During 2022, we continued to deploy our bi-annual employee engagement surveys and the People Engagement Forum meetings, attended by a selection of the Group's Directors. The insights gathered from these sources help us to ensure we maintain an enhanced understanding of employee sentiment and determine future focus areas. Our all staff calls also provide an opportunity to keep employees abreast of key business developments and to ask any questions.

Alongside more formal channels, we also introduced a range of new initiatives during the year that helped to bring a more informal feel to employee engagement. This included an employee breakfast Q&A session hosted by the Group's Chairman, attended alongside the Group's Senior Independent Director. A selection of our directors also participated in our "60 seconds with" video campaign series, sharing their own personal stories, anecdotes and thoughts on our purpose with employees.

Recognising the importance of celebrating our successes internally, we launched a new employee recognition scheme, aimed at praising those who go the extra mile in living and breathing our experience principles of Personal, Practical and Creative as we continue to deliver on our purpose.

We remain steadfast in our commitment to promoting a fairer and more inclusive environment for our people and, in doing so, support our community and the environment in which we operate. Through our evolving approach to EDI, we introduced a number of initiatives endorsed by the Board aimed at achieving this, including our partnership with Future First, the continued evolution of the 'Empower Her' project in partnership with the Saracens Foundation and the launch of our new apprenticeship programme, 'Thrive'.

Creating value for our stakeholders (S172 statement)

Suppliers
The Board recognises that our suppliers have an important part to play in the successful delivery of the Group's operations. Supported by more than c.900 active third parties, our supplier network provides us with the goods and services that we rely on to deliver good outcomes for our stakeholders.

To improve cultural alignment, we regularly review our supply chain and engage with our supplier community to help ensure they are acting responsibly and continue to align to our core standards and regulatory requirements.

Regular updates concerning performance of the Group's material third parties are also provided to the Board, in accordance with regulatory requirements. These include management information, performance measures and risk oversight to drive continuous improvement.

The Board also oversees the Group's newly approved Third Party Risk Management Policy. Approved in 2022 to replace the Group's Outsourcing Policy, this sets out the relevant rules and guidance to ensure that procurement, contracting and supplier management activities are undertaken in line with relevant regulatory standards.

Every year, the Board approves the Group's modern slavery statement and we expect all our suppliers to be compliant with the Modern Slavery Act 2015. We have expectations of high business standards and extend these to the suppliers we work with, requiring them to uphold human rights, health and safety and legal compliance. These requirements are included within our contractual agreements with all suppliers. We perform due diligence on all suppliers at the start of any contractual relationship, which includes screening checks for criminal and regulatory breaches and specifically includes checks regarding the Modern Slavery Act.

Regulators
Shawbrook is regulated by both the PRA and the FCA. The Board engages regularly with our regulators on a range of topics and is committed to further developing our relationships, ensuring they remain strong, open and transparent.

The Board is kept informed on regulatory interactions, initiatives, and developments through the standing updates it receives at each meeting from its Risk Committee and management reports. The Group's Chief Risk Officer also provides regular updates to the Risk Committee on regulatory engagement and change initiatives to ensure all key messages are shared effectively.

Update meetings on key strategic topics were held with the Chairman and Executive Directors, supported by regular engagement with Senior Management, covering prudential and conduct aspects.

Investors
Our investors include both our private equity backed Shareholder and our debt investors.

Our Shareholder's interests are represented at Board by two appointed Non-Executive Directors. The relationship with our Shareholder is open and transparent. Throughout 2022, our Shareholder and their expert teams remained actively engaged in the Group's core activity, including strategic decision-making, with our management team able to draw on their expertise as required. Our Shareholder also helps to bring different perspectives into the Boardroom, providing insights on strategic topics. During the year, a dedicated session was held on EDI during the year.

We also continued to enhance our debt investor relations activity and established a more proactive communications programme to increase transparency and enhance relations with our debt investor community. In addition to our full and half year results roadshows, where investors are given the opportunity to meet with key stakeholders to discuss performance, we continued to release our quarterly and event-driven announcements to ensure we stayed connected throughout the year.

Community
Our community stakeholder group includes both our local community and the wider environment.

As an organisation that cares deeply and takes its responsibilities seriously, we are passionate about supporting the communities that we impact as well as contributing to a more sustainable future. Our Board approved ESG strategy continues to develop to align with our strategic ambitions.

The Strategic Report was approved by the Board of Directors on 29 March 2023 and was signed on its behalf by:

Marcelino Castrillo
Chief Executive Officer

Corporate Governance Report

Corporate Governance Report

Corporate Governance Report

Corporate governance

This section explains the Board's role and activities and how corporate governance operates throughout the Group. The Group recognises that corporate governance provides the framework within which we form our decisions and build a business that is focused on creating long-term value to all stakeholders.

The Company is not required to adopt the 'comply or explain' approach of the UK Corporate Governance Code 2018 (the 'Code') published by the Financial Reporting Council. However, the Company recognises the value of a strong approach to corporate governance and takes account of the Code's principles and provisions when making decisions if deemed appropriate.

The Company has complied with all the principles and provisions of the Code throughout the financial year and up until the date of this report, except as explained below.

The Board
The Board takes account of the views of the Company's Shareholder and has regard to wider stakeholder interests and other relevant matters in its discussions and decision-making. The Board recognises that stakeholders' interests are integral to the promotion of the Company's long-term sustainable success. Further information about how the Board considers the interests of its stakeholders can be found in the Strategic Report, starting on page 15.

Composition, Board balance and time commitment
The Board currently consists of ten members, namely the Chairman, five Independent Non-Executive Directors, two Executive Directors and two Institutional Directors.

The Independent Non-Executive Directors have substantial experience across all aspects of banking, including relevant skills in financial management, regulatory matters, credit assessment and pricing, liability management, technology, operational and conduct matters. The Independent Non-Executive Directors are considered to be of sufficient calibre and experience to influence the decision-making process.

The Board considers that the balance of skills and experience is appropriate to the requirements of the Group's business and that the balance between Executive and Independent Non-Executive Directors allows it to exercise objectivity in decision-making and proper control. 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 governance procedures are followed) and, as required, external advice at the expense of the Group.

The Board, with the assistance of the Nomination and Governance Committee, keeps under review the structure, size, and composition of the Board (and undertakes regular evaluations to ensure it retains an appropriate balance of skills, knowledge, and experience). The membership of the various Board committees and the expected time commitment of the Directors is closely monitored.

The terms of appointment of the Independent Non-Executive Directors specify the amount of time they are expected to devote to the Group's business. They are currently required to commit at least four days per month, which is calculated based on the time required to prepare for and attend all Board and committee meetings, meetings with the Shareholder and with Executive Management and training.

Meetings and attendance
The Board holds joint meetings of Shawbrook Group plc and Shawbrook Bank Limited at regular intervals, at which standing items such as the Group's financial and business performance, risk, compliance, human resources, and strategic matters are reviewed and discussed. A comprehensive Board pack and agenda is circulated beforehand, allowing Directors to consider the issues to be discussed. Detailed minutes and any actions arising out of discussions are documented.

The Board and Board committees held a number of scheduled meetings during 2022 at which senior executives, external advisors and independent advisors were invited, as required, to attend and present on business developments and governance matters. The Company Secretary and/or his deputy attended all Board meetings and he, or his nominated deputy, attended all Board committee meetings.

Corporate governance

Board meetings and activity in 2022
The following table set out the number of scheduled meetings attended*

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination and Governance Committee
John Callender (Chair)[1]	8/8	–	–	5/5	4/4
Marcelino Castrillo[2]	8/8	–	–	–	–
Dylan Minto[3]	8/8	–	–	–	–
Robin Ashton[4]	4/4	3/3	3/3	3/3	3/3
Lan Tu[5]	7/7	4/4	5/5	3/3	3/3
Janet Connor[6]	6/6	3/3	4/4	–	–
Lindsey McMurray[7]	6/8	6/6	6/6	4/5	3/4
Cédric Dubourdieu[8]	6/8	3/6	3/6	4/5	3/4
Paul Lawrence[9]	7/8	6/6	6/6	4/5	4/4
Andrew Didham[10]	8/8	6/6	6/6	–	–
Michele Turmore[11]	8/8	6/6	6/6	5/5	2/3

The attendance above reflects the number of scheduled Board and committee meetings held during 2022. During the year, there were also a number of ad-hoc Board and committee meetings to deal with matters arising outside of the usual meeting schedule. The majority of Directors made themselves available at short notice for these meetings.

Notes to the above table:

* Meetings were held from January to December 2022.

[1] John Callender attended each Audit and Risk Committee meeting in 2022.
[2] Marcelino Castrillo attended each Audit, Risk, Remuneration and Nomination and Governance Committee meeting in 2022.
[3] Dylan Minto attended each Audit and Risk Committee meeting in 2022.
[4] Robin Ashton stepped down from the Board and all Board Committees on 30 June 2022.
[5] Lan Tu joined the Board and all Board Committees on 10 March 2022.
[6] Janet Connor joined the Board and the Audit and Risk Committees on 1 May 2022. She is not a member of and did not attend any Remuneration or Nomination and Governance Committee meetings in 2022.
[7] Due to prior commitments, Lindsey McMurray was unable to attend two Board meetings, one Remuneration Committee meeting and one Nomination and Governance Committee meeting in 2022.
[8] Due to prior commitments, Cedric Dubourdieu was unable to attend two Board meetings, three Audit and Risk Committee meetings, one Remuneration and one Nomination and Governance Committee meeting in 2022.
[9] Due to prior commitments, Paul Lawrence was unable to attend one Board meeting and one Remuneration Committee meeting in 2022.
[10] Andrew Didham is not a member of Remuneration or Nomination and Governance Committees however he attended one Nomination and Governance Committee meeting in 2022.
[11] Michele Turmore was appointed to the Nomination and Governance Committee on 17 March 2022. Due to prior commitments, she missed one of its meetings in 2022.

Corporate Governance Report

Corporate governance

The activities undertaken by the Board in 2022 were intended to help promote the long-term sustainable success of the Company.

The scheduled Board meetings focused on five main themes in 2022:

- **Strategy and execution,** including approving and overseeing the Group's key strategic targets and monitoring the Group's performance against these targets; reviewing and approving key projects aimed at developing the business; and reviewing the strategy of individual franchises.
- **Financial performance,** including setting financial plans, annual budgets and key performance indicators and monitoring the Group's results against them; approving financial results for publication; and monitoring and approving the approach to the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).
- **Risk management, regulatory and other related governance,** including reviewing and agreeing the Group's key policies; scanning for future risks; setting risk appetites; reviewing the Group's solvency position and forecast; and monitoring the Group's approach to financial crime and climate change.
- **Spotlights,** including deep dive sessions on franchise strategy, purpose, the customer experience framework and insights, being a product and customer focused organisation, employee engagement, funding strategy, Consumer Duty, environmental, social and governance (ESG) and climate change.
- **Board and Board committee governance,** including receiving reports from the Board's committees; updating terms of reference for the committees; approving the appointment of Lan Tu and Janet Connor and approving the renewal of the appointment of Michele Turmore; and implementing an externally facilitated annual review of Board effectiveness.

In addition to routine business, the Board considers and discusses key issues that impact on the business as they arise. Members of the Executive team spend a considerable amount of time with the different franchises and business functions, ensuring that the Board's strategy is being implemented effectively throughout the Group, and that our employees' views and opinions are reported back to the Board and Board committees.

Board Strategy Day

The Board sets aside time each year outside the annual Board calendar to give the Directors the opportunity to focus solely on strategic matters relating to the Group. In November 2022, the Board, Executive Management and representatives of the Shareholder met to discuss key themes on the financial plans of the Group, the competitive landscape, purpose, inorganic opportunities and the Group's future strategy.

Board effectiveness review

During the reporting period, an external Board effectiveness review was conducted, focusing on Board performance in 2022. More information about the nature and outcomes of this review can be read in our Parent Company's Annual Report and Accounts.

Conflicts of interest

All Directors have a duty to avoid situations that may give rise to a conflict of interest (in accordance with Section 175 of Companies Act 2006). Formal procedures are in place to deal with this. 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. This will then be considered by the Board, which will take into account the circumstances of the conflict when deciding whether to permit it (and whether to impose any conditions). Any actual or potential conflicts of interest are recorded in a central register and Directors are also required, on an annual basis, to confirm that they are not aware of any circumstances that may affect their fitness and propriety, and therefore their ability, to continue to serve on the Board. In addition, Directors are required to seek the Board's approval of any new appointments or material changes in external commitments.

Induction, training 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 financial services company. The Group also provides additional induction materials and training for those Directors who are also committee Chairs. The content of our Director induction programmes are tailored, with input from the new Director. The induction information is delivered in a variety of formats, including face to face meetings with the Chairman, Board Directors, Executive Management and key employees and with input from external advisers, as appropriate. This is supplemented by the provision of key governance documents as reading material, including policies, procedures, Board and committee minutes, the Board meeting schedule, the Group structure chart, the Financial Conduct Authority (FCA) Handbook, regulatory codes/requirements and information on directors' duties and responsibilities under the Companies Act 2006 and other relevant legislation.

An ongoing programme of training is available to all members of the Board, which includes professional external training and bespoke Board training on relevant topics such as regulatory and governance developments, changes to the Companies Act 2006 or accounting requirements. Directors are also encouraged to devote an element of their time to self-development, including attendance at relevant external seminars and events. This is in addition to any guidance that may be given from time to time by the Company Secretary.

Each year, an annual Board training schedule is agreed. In 2022, the Board received training in respect of cyber security, capital optimisation, ESG/climate, interest rate risk and equality, diversity and inclusion.

The Chairman is responsible for reviewing the training needs of each Director and for ensuring that Directors continually update their skills and knowledge of the Group. All Directors are advised of changes in relevant legislation, regulations and evolving risks, with the assistance of the Group's advisers where appropriate.

Corporate governance

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

Risk management and system of internal controls

The Board has overall responsibility for the Group's system of internal controls and for monitoring its effectiveness. The Audit Committee and Risk Committee have been in operation throughout the relevant period and oversee the Group's system of internal controls. Material risk or control matters are reported by the Audit Committee and Risk Committee to the Board. The Board monitors the ongoing process by which top risks affecting the Group are identified, measured, managed, monitored, reported and challenged. This process is consistent with both the Group's Risk Management Framework and with internal control and related financial and business reporting guidance issued by the Financial Reporting Council. The key elements of the Group's system of internal controls include regular meetings of the Executive Management and risk governance committees, together with annual budgeting and monthly financial and operational reporting for all businesses within the Group. Conduct and compliance are monitored by Management, the Group risk function, 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) based on:

- established procedures, including those already described, which are in place to manage perceived risks;
- reports by Executive Management to the Audit Committee and Risk Committee on the adequacy and effectiveness of the Group's system of internal control and significant 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 controls is designed to manage, rather than eliminate, the 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 controls.

During 2022, the Group continued to strengthen its risk management and internal controls capability to ensure that it remained relevant, appropriate and scalable to support the Group's objectives over the duration of the strategic plan and continued to invest further in its risk management capability. These included the appointment of a new Risk Director for the Enterprise franchise, the appointment of a new Chief Risk Officer for The Mortgage Lender Limited, the appointment of a new Director of Credit Risk in the second line of defence and continued enhancements to financial crime controls.

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 principal operating subsidiary of the Group) is subject to regulation by the Prudential Regulation Authority (PRA) and the FCA and as such undertakes an ILAAP and ICAAP on an annual basis. The ICAAP process benefited from ongoing improvements during 2022; the process involves an assessment of all the risks that the Group faces in its operating environment, the likelihood of those 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, to ensure that financial resources are sufficient to successfully manage the effects of any risks that may crystallise.

Cyber resilience

The Group recognises the importance of cyber resilience. The Board oversees the Group's cyber resilience approach and the level of investment into cyber security, providing robust challenge and scrutiny to ensure that the Group is adequately mitigating the threats it faces. The Board recognises that specialist knowledge is required in this area and therefore seeks relevant advice from third parties where appropriate. The cyber resilience strategy is routinely monitored by the Risk Committee and reviewed by the Board across a series of engagements throughout the year. These engagements consider the latest cyber threat intelligence assessments, the specialist nature of cyber threats, any outsourcing risks faced by the Group in this area and the protective controls the Group has in place via its Adaptive Security Architecture. This ensures that the strategy remains fit for purpose to combat the potential cyber threats that the Group may face.

Directors' Report

Corporate governance statement
The Directors of the Company present their report together with the audited financial statements for the year ended 31 December 2022. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

Subject	Pages
Business activities and future development	8-16
Corporate governance	18-21
Events after the reporting period	154
Internal controls and financial risk management	21
Relationship with suppliers	16
Results for the year	93-98
Use of financial instruments	128-132, 143-148

Section 414 of the Companies Act 2006 requires the Directors to present a Strategic Report in the Annual Report and Accounts. The information can be found on pages 4 to 16.

The Group has chosen, in accordance with Section 414C (11) of the Companies Act 2006, and as noted in this Directors' Report, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' Report.

Principal activities
The Company and its subsidiaries comprise the 'Group'. The Company is a banking institution, which is authorised by the PRA and regulated by both the FCA and the PRA.

Results for the year
The Group made profit before taxation for the year of £238.4 million (2021: £197.4 million) and profit after taxation of £179.7 million (2021: £149.5 million).

The Company made profit before taxation for the year of £284.6 million (2021: £203.8 million) and profit after taxation of £213.0 million (2021: £153.5 million).

Dividends
The Directors are not recommending a final dividend in respect of the year ended 31 December 2022 (2021: £nil).

Directors
The Directors who served during the year were as follows:

- John Callender
- Marcelino Castrillo
- Dylan Minto
- Robin Ashton (resigned as a Director of the Board on 30 June 2022)
- Lan Tu (appointed as a Director of the Board on 10 March 2022)
- Janet Connor (appointed as a Director of the Board on 1 May 2022)
- Lindsey McMurray
- Cédric Dubourdieu
- Paul Lawrence
- Andrew Didham
- Michele Turmore

Employees with disabilities
Applications for employment by people with disability are given full and fair consideration, bearing in mind the respective aptitudes and abilities of the applicant concerned and our ability to make reasonable adjustments to the role and the work environment. In the event of an existing employee becoming disabled, all reasonable effort is made to ensure that appropriate training is given and their employment with the Group continues. Training, career development and promotion of a disabled person is, as far as possible, identical to that of an able-bodied person.

Human rights and Modern Slavery Act
Shawbrook has zero-tolerance to any modern slavery and by having the correct tools and regularly reviewing our policies, we can ensure that any occurrences are swiftly addressed. In 2022, we continued to take the appropriate steps to prevent slavery and human trafficking from both our business and supply chain. A full copy of our modern slavery statement can be found on the Group's website at:
www.shawbrook.co.uk/modern-slavery-act/

Appointment and retirement of Directors
The Company's Articles of Association set out the rules for the appointment and replacement of Directors and expects that all Directors shall retire from office and may offer themselves for re-appointment at the Annual General Meeting.

Power of Directors
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 the Shareholder passing a special resolution and must comply with the provisions of the Companies Act 2006. The Company's Articles of Association can be viewed on the website:*www.shawbrook.co.uk/investors/*

Directors' Interests
None of the Directors hold shares in the Company.

Directors' indemnities
The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Group 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 Group have entered into individual deeds of indemnity with the Group, which constitute 'qualifying party indemnity provisions' entered into by the Directors and the Company. The deeds of indemnity protect the Directors to the maximum extent permitted by the law and by the Articles of Association of the Company, in respect of any liabilities incurred in connection with the performance of their duties as a Director of the Company and any associated Group company, as defined by the Companies Act 2006.

The Group has maintained appropriate Directors' and Officers' liability insurance throughout 2022.

Directors' Report

Company Secretary
All Directors have access to the services of the Company Secretary in relation to the discharge of their duties. In January 2023, Daniel Rushbrook, the previous Company Secretary, stood down from the role and was replaced by Andrew Nicholson. Andrew Nicholson can be contacted at the Company's registered office, details of which are on page 3.

Climate metrics and targets
The Group's climate related disclosures can be read in the ESG section in our Parent Company's Annual Report and Accounts.

Going concern
The financial statements are prepared on a going concern basis. To assess the appropriateness of this basis, the Directors have considered a wide range of information relating to present and future conditions, including the Group's current financial position and future projections of profitability, cash flows and capital resources. The Directors also considered the Group's risk assessment framework and potential impacts that the top risk identified may have on the Group's financial position and longer-term strategy.

The Group continues to have a proven business model, as demonstrated by its continued levels of profitability, and remains well positioned in each of its core markets. The Directors believe the Group is well capitalised and efficiently funded, with high levels of liquidity.

The Directors have reviewed the Group's capital and liquidity plans, which have been stress tested under a range of severe but plausible scenarios as part of the annual planning process and the annual ICAAP and ILAAP. In this reporting period, stress testing incorporated two PRA prescribed scenarios, the 2022 PRA Annual Cyclical Scenario and the 'Late Action' scenario published within the 2021 Climate Biennial Scenario, which incorporates a disorderly transition to net zero. The stressed forecasts indicate that under these stressed scenarios the Group continues to operate with sufficient levels of liquidity and capital for the next 12 months, with the Group's capital ratios and liquidity remaining in excess of regulatory requirements.

Based on the above, the Directors believe that the Group has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of the financial statements and the Group has sufficient capital and liquidity to enable it to continue to meet its regulatory requirements as set out by the PRA. Accordingly, the Directors concluded that it is appropriate to adopt the going concern basis in preparing these financial statements.

Political and charitable donations
The Group did not make any political donations during the year (2021: £nil).

Share capital
The Company is a company limited by shares. Details of the Company's issued share capital are shown in Note 39 of the Financial Statements.

The Company's share capital comprises one class of ordinary share with a nominal value of £1.00 each. As at 31 December 2022, 175,487,207 ordinary shares were in issue. There were no movements in the issued share capital during either of the reported years.

Restrictions on the transfer of shares
According to the Articles of Association and prevailing legislation there are no specific restrictions on the transfer of shares of the Company.

Rights attaching to shares
On a show of hands, each member has the right to one vote at General Meetings of the 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 one person has any special rights of control over the Company's share capital and all shares are fully paid.

New issues of share capital
Subject to the Framework Agreement and under Section 551 of the Companies Act 2006, the Directors may allot equity securities only with the express authorisation of the Shareholder. Under Section 561 of the Companies Act 2006, the Board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to the Shareholder 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 Shareholder.

Purchase of own shares by the Company
Under Section 701 of the Companies Act 2006, the Group may make a purchase of its own shares if the purchase has first been authorised by a resolution of the Shareholder.

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.

Corporate Governance Report

Directors' Report

Disclosure of information to the auditor
The Directors confirm that:

- so far as each of the Directors is aware, there is no relevant audit information of which the auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors 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.

Directors' responsibility statement
The Directors are responsible for preparing the Annual Report and Accounts and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors must prepare the Group financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Parent Company financial statements on the same basis.

Under Company Law, the Directors must not approve the accounts 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 the Group's financial statements, the Directors are required to properly select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and provide additional disclosures when compliance with the specific requirements of applicable accounting standards is insufficient to enable an understanding of the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Finally, the Directors must assess the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company, enabling them to ensure that its financial statements comply with the Companies Act 2006. Additionally, the Directors are responsible for safeguarding the Group's assets and, hence, take reasonable steps to prevent and detect fraud and other irregularities. The Directors are responsible for maintaining and ensuring the integrity of the corporate and financial information included on the Group's website at: *www.shawbrook.co.uk.* Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 3 confirms 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 Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report (on pages 4 to 16) and the Directors' Report (on pages 22 to 24) include a fair review of: the business' development and performance; 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;
- the Annual Report and Accounts comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for the Shareholder to assess the Group's position and performance, business model and strategy.

The Directors' Report was approved by the Board of Directors on 29 March 2023.

By order of the Board.

Andrew Nicholson
Company Secretary

Risk Report

Risk Report

Naming convention of lending segments
During the year, the naming convention of certain lending segments has been changed to better reflect their operations. Throughout the Risk Report, it should be noted that the previously named 'Property Finance' lending segment is now referred to as 'Real Estate' and Business Finance' is now referred to as 'SME'.

Risk Report

Approach to risk management

Shawbrook Bank Limited (the 'Company') and its subsidiaries (together, the 'Group') seek to manage the risks inherent in its business activities and operations through close and disciplined risk management. This aims to quantify the risks taken, manage and mitigate them as far as possible and price for them in order to produce an appropriate commercial return through the cycle.

The Group's approach to risk management continues to evolve in response to changes in the business model and the products offered, changes in the way customers want to engage with the Group, as well as external changes and developments such as the increase to cost of living.

Throughout 2022, further investment was made in key areas of risk management. Notable activities and changes include the following:

- The annual review of the Group's Risk Management Framework (RMF) and risk appetite were approved in February 2022 and March 2022, respectively.
- Continued investment has been made by the Group in its risk management capability. This has included the appointment of a Chief Risk Officer for The Mortgage Lender Limited (TML) and a new Risk Director for the Enterprise franchise, along with the appointment of a new Director of Credit Risk in the second line of defence.
- Continued investment in the development of the Group's internal audit function.
- Enhancements to financial crime controls have continued, with the approval of a new target operating model. This is further supported by the appointment of additional resources in the first line of defence to operationalise the new control environment.
- The Group has also appointed a Chief Product Officer to lead the development and building of digital products and services in order to support how customers expect to engage with the Group. As part of this, the Group has decentralised responsibility for product management to the Enterprise and Consumer franchises, with oversight provided by the Executive Committee and the Board, as appropriate.
- Investment in the strategic approach to risk management has continued, with work on 'Consumer Duty', climate change and investment in risk technology and management information as a primary source of control. This has included application programming interface connectivity to a number of leading partners that will be valuable in identifying potential problem loans.
- The Group believes data and analytics are key to the delivery of its objectives and, alongside the development of a cloud-based data lake, the Group has invested in modernising its analytics in advance of the implementation of the latest regulatory requirements for model risk management. The Group also announced an extended license for the SAS Viya platform, which will support advances into machine learning in addition to data visualisation and analytics in the Cloud.
- Climate change is a global issue with implications for all of the Group's stakeholders. Playing a role in addressing climate change presents both commercial risks and opportunities and offers the potential for a positive impact for future generations. The Group recognises its role and plans to play its part in supporting the transition by continuing to invest in the provision of more sustainable customer solutions and taking tangible actions to reduce its own climate impact. The Group has continued to invest in climate data and completed its first assessment of lending emissions in relation to lending on property. Powered with this insight, the Group developed its first quantitative scenario analysis using the Climate Biennial Exploratory Scenario late action pathway published by the Bank of England in 2021. Shawbrook has also completed its inaugural Task Force on Climate-Related Financial Disclosures (TCFD) Report.
- Considerable economic uncertainty has remained throughout 2022, with the increase to cost of living, inflation, the conflict in Ukraine and the potential for supply chain disruption. These matters all require careful monitoring to identify the risks that need to be addressed. These are being monitored through a specifically designed set of early warning indicators.
- In response to recent changes in the economic environment, the Group has ensured that its affordability policies remain appropriate and continues to support good outcomes for its customers. The Group has also made some changes to position its risk appetite in advance of any potential economic headwinds.
- Horizon risk management is key to supporting a longer-term view of risk in order to support the delivery of the Group's objectives. To enhance this, the Group Risk Management Committee has evolved to include a rolling programme of external specialists in the key sectors that the Group is engaged in to explore horizon risks.
- In January 2023, the Group appointed a new Chief Compliance Officer. This will bring together the responsibilities of the Senior Management Functions (SMFs) SMF16 ('compliance oversight function') and SMF17 ('money laundering reporting function').

Risk Report

Approach to risk management

Key elements to risk management
Effective risk management is recognised as being key to the execution of the Group's strategy. The Group's approach to risk management is underpinned by five key elements:

- Risk strategy
- Risk appetite
- Risk Management Framework
- Governance
- Culture

The following information provides further details about each of these key elements.

Risk strategy
The risk strategy is an integral part of the Group's strategy. It sets out the strategic risk management objectives that will support the achievement of the Group's commercial goals and the operation and activities of each customer franchise that will facilitate the delivery of those aims. The risk strategy sets out which risks are to be acquired or incurred and how they will be managed. The risk strategy is embedded in the Group strategy with short- and medium-term objectives outlined in the Group's Risk Plan, which is approved annually by the Board in February. The Group's Risk Plan includes the risk priorities for the Group's risk function, together with the risk plans for the customer franchises and central functions.

The strategic risk management objectives are to:

- identify material risks arising in the day-to-day activities and operations of the Group;
- quantify the risks attached to the execution of the Group's business plans;
- set an appropriate risk appetite with calibrated measures and limits;
- optimise the risk/reward characteristics of business written;
- set minimum standards in relation to the acquisition and management of risk;
- secure and organise the required level and capability of risk infrastructure and resources;
- reflect the impact of internal controls;
- undertake remedial action where any weaknesses are identified; and
- scan the horizon for emerging risks.

Risk appetite
The level of risk that the Group is willing to tolerate in operating the various elements of its business are defined in the RMF. This articulates qualitative and quantitative measures of risk that are cascaded across various areas of the Group's operations, calibrated by reference to the Group's risk appetite and absolute capacity for risk absorption.

During the year ended 31 December 2022, the Group completed the annual review, together with some interim reviews, of the Group's risk appetite.

The Risk Appetite Statement is not static and evolves to support the Group's business objectives, the operating environment and risk outlook. Whilst the Group Risk Appetite Report provides an aggregated measure of performance against risk appetite, it is not just a reporting tool. It also provides a framework that is used dynamically to inform strategic and operational management decisions, as well as supporting the business planning process.

The Risk Appetite Statement is reviewed periodically by the Risk Committee and agreed with the Board on an annual basis, or more frequently if required. A dashboard with the status of each metric is monitored monthly by the Group Risk Management Committee and the Executive Committee. The Group Risk Management Committee and the Board exercise their judgement as to the appropriate action required in relation to any threshold breach, dependent on the scenario at the time.

As set out in the following illustration, the Risk Appetite Statement identifies five risk appetite objectives that are further subdivided into 23 appetite dimensions. The objective assessment of each risk appetite dimension is supported by qualitative statements and a series of quantitative measures that are weighted by their importance to the overall appetite. In line with industry best practice, climate risk is considered in each of the risk appetite objectives.

Risk appetite objectives	Strategic risk	Credit risk	Liquidity and market risk	Operational risk	Compliance, conduct and financial crime risk
Risk appetite dimensions	Profit volatility Financial strength Lending growth	Credit risk Concentration risk	Funding and liquidity Interest rate risk in the banking book	Technology risk (including systems) Information risk Third party risk Physical assets and security Process execution Change risk People risk Model risk Data risk	Product design Sales and distribution risk Post sales service Culture Financial crime Data privacy risk
	Climate risk				

Approach to risk management

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 managed within the parameters of a single comprehensive RMF. This sets out minimum requirements and ensures consistent standards and processes are set across the Group. Risks are identified, measured, managed, monitored, reported and controlled using the RMF. The design and effectiveness of the framework is overseen and reviewed by the Risk Committee.

Responsibility for risk management sits at all levels across the Group. The Board sets the 'tone from the top' and all colleagues are expected to adopt the role of 'risk manager' in all aspects of their role.

The RMF describes the various activities, techniques and tools that 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 that is capable of being communicated to and clearly understood by all of the Group's employees.

The RMF 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 Group, which can provide robust review and challenge, as well as be challenged. Operationally, the RMF is organised around a number of principal risks (see page 42).

Governance
All of the Group's risk activities are subject to detailed and comprehensive governance arrangements that set out how risk-based authority is delegated from the Board to the Executive Committee and the various risk management committees and individuals. Risk governance and oversight is detailed further in the following section, starting on page 29.

Culture
The Group is led by an experienced management team with a combination of significant underwriting expertise, institutional and regulatory banking experience at various major financial institutions and specialist lenders and product engineering expertise. This heritage provides the platform for a set of values and behaviour where the customer is at the heart of the decision-making process and the customer franchises are held fully accountable for risk performance. At the individual level, this process begins with the induction programme and job descriptions, is carried into the setting of individual objectives and performance reviews and is ultimately reflected in the compensation and reward structure. The Group conducts regular surveys for all of its employees, to help identify any emerging risks and to promote engagement.

Risk governance and oversight

The monitoring and control of risk is a fundamental part of the management process within the Group. Risk governance describes the architecture through which the Board allocates and delegates primary accountability, responsibility and authority for risk management across the Group.

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

Accountability, responsibility and authority for risk management is delegated to the Chief Executive Officer and Chief Risk Officer, who in turn allocate responsibility for oversight and certain approvals across a number of management committees. The Managing Directors of each customer franchise are assigned the designated role of SMF18 ('other overall responsibility function').

Authority and responsibility for material operational risk management, decision-making and risk assurance is vested in the Chief Risk Officer and the risk function. Lesser levels of authority are cascaded to Senior Management within the first line of defence.

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 RMF.

Individuals are encouraged to adopt an open and independent culture of challenge, which is important in 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 Managers and Certification 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.

The Group's principal risks are detailed on page 42. Oversight of these principal risks is illustrated below. Climate risk is embedded in each of the principal risks and is overseen by the Chief Risk Officer.

Oversight / Principal risk	Board			
	Risk Committee			Audit Committee
	First line	Second line		Third line
Credit risk	Credit management in customer franchises	Credit risk	Group Risk Management Committee	Internal audit
Liquidity and market risk	Treasury	Market and liquidity risk	Asset and Liability Committee	Internal audit
Operational risk	All customer franchises and central functions	Prudential risk	Group Risk Management Committee	Internal audit
Compliance, conduct and financial crime risk	All customer franchises	Compliance and financial crime	Group Risk Management Committee	Internal audit
Strategic risk	Executive Directors and Senior Management	Prudential risk	Executive Committee	Internal audit
Systems and change risk	Chief Technology Office	Prudential risk	Executive Committee	Internal audit

Risk governance and oversight

Three lines of defence model
The RMF is underpinned by the 'Three Lines of Defence' model, which is summarised in the illustration below:

Additional information regarding the three lines of defence are provided in the following sections.

First line of defence
Responsibility for risk management resides in the frontline customer franchises together with the central functions. 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 the Group's risk policies and act within the risk appetite parameters set and approved by the Board.

The first line of defence comprises the customer franchises and the central functions. The central functions include:

- the finance function led by the Chief Financial Officer;
- the customer service and experience function led by the Customer Operation and Service Support Director;
- the technology function led by the Chief Technology Officer;
- the product function led by the Chief Product Officer;
- the human resources and marketing function led by the Chief People and Marketing Officer; and
- the legal function led by the General Counsel.

Operational resilience oversight is performed by the Customer Operation and Service Support Director on behalf of the Executive Committee.

Each 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 are reviewed annually, with any material changes requiring approval at committee level.

The first line of defence has its own operational policy, process and procedure manuals and controls to demonstrate and document how it conforms to the approved policies. 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 their particular activity and the customer franchise and central function heads are responsible for ensuring there is a 'risk aware' culture within the first line of defence. For certain key policies, employees within the customer franchises complete regular online training programmes to ensure knowledge is refreshed and current.

Risk Report

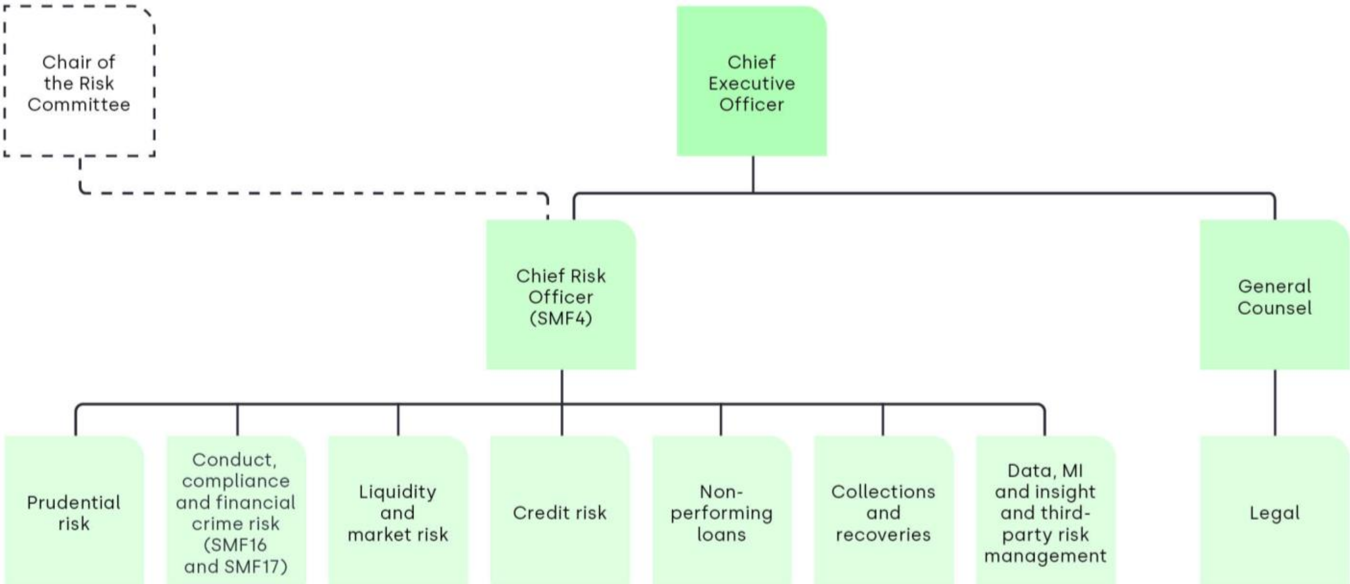
Risk governance and oversight

Second 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. The Chief Risk Officer reports to the Chief Executive Officer and laterally to the Chair of the Risk Committee. The Chief Risk Officer is also provided with unfettered access to the Chairman of the Board. The second line of defence also includes the General Counsel, who reports to the Chief Executive Officer.

The second line of defence is necessarily and deliberately not customer facing and has no responsibility for any business targets or performance. It provides independent challenge and control of the first line of defence, which is delivered through the following:

- the design and build of the various components of the RMF and embedding these, together with the risk strategy and risk appetite, across the Group;
- 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 Committee and the Board;
- issuing and maintaining the suite of Group risk policies;
- in relation to outsourced services, the setting of policies and subsequent assessment of policy conformance;
- undertaking physical reviews of risk management, controls and capability in the first line units and providing risk assurance reports to the Executive Committee and the Board on all aspects of risk performance and compliance with the RMF;
- providing advice and support to the first line of defence in relation to risk management activities;
- credit approvals between delegated authority and the threshold for Credit Approval Committee; and
- undertaking stress testing exercises and working with the finance and treasury functions on the production of the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan and Resolution Pack.

The Group's high-level risk structure is illustrated below. 'SMF' references included in the below diagram refer to designated roles stipulated by the Senior Managers and Certification Regime.



Third line of defence
The third line of defence comprises the internal audit function, led by the Chief Internal Auditor.

The third line of defence provides independent assurance directly to the Board and Audit Committee on the activities of the Group and the effectiveness of the RMF and internal controls. The internal audit function reports directly to the Chair of the Audit Committee, as well as the Chief Executive Officer, and is independent of the first and second lines of defence.

The third line of defence has access to the activities and records of both the first and second lines of defence. It can inspect and review adherence to policies and controls in the first line, the monitoring of activities in the second line and the setting of policies and controls in the second line.

The third line of defence does not independently establish policies 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 the reports and reviews compiled by the second line as a starting point, but is not restricted to them or necessarily influenced by their findings.

The scope of work of the third line of defence is agreed with the Audit Committee and is designed to provide an independent assessment of the adequacy and effectiveness of governance, risk management and the 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.

Risk governance and oversight

Risk policies and controls

The RMF 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 overseen by the Group's risk function, headed by the Chief Risk Officer and are approved by the Board or, where delegated, the appropriate Risk Committee. The suite of policies is grouped according to importance and principal risks within a Board approved policy hierarchy and framework.

Group-level risk policies are supplemented, as required, by customer franchise specific risk processes and procedures, which detail more specific and tailored criteria. The customer franchise specific processes and procedures are required to be compliant with Group policy and dispensations or waivers are required where gaps are identified. These process and procedure manuals provide employees at all levels with day-to-day direction and guidance in the execution of their duties.

The effectiveness of and compliance with risk policy frameworks is evaluated on a continuous basis through the monthly reporting requirements (including risk policy exceptions reporting). Additionally, a biannual risk and control self-assessment, supplemented by a programme of audits, thematic risk assurance reviews and quality control testing, is undertaken by each of the three lines of defence. The Group has also implemented an annual attestation process to confirm compliance with the RMF and identify risk management priorities for the next 12 months.

Asset class policies

The Group controls its lending activities through 21 asset class policies and a further 9 lending policies. This provides a 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 (PD), loss given default (LGD) and expected credit loss (ECL) metrics, which facilitates risk reporting, risk adjusted profitability analysis and modelling for stress testing and capital adequacy purposes. During 2022, the Group continued to utilise a matrix that sits above the asset class policies to highlight the key criteria that are reserved for Board approval.

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 management committee.

Top and emerging risks

The Group's top and emerging risks are identified through the process outlined in the RMF (see page 28) and are considered regularly by the Group Risk Management Committee and subsequently by the Risk Committee.

Top risks are those risks that could cause the delivery of the Group's strategy, results of operations, financial condition and/or prospects to differ materially from expectations.

Emerging risks are those that have unknown components, the impact of which could crystallise over a longer period and could include certain other factors beyond the Group's control, including escalation of terrorism or global conflicts, natural disasters, epidemic outbreaks and similar events.

As at 31 December 2022, the Group has identified nine top risks (2021: seven top risks) and has not identified any emerging risks (2021: two emerging risks). The difference in the number of top and emerging risks in the current year compared to 2021 is attributable to financial crime and climate risk now being included as top risks rather than emerging risks.

The nine themes identified as top risks are as follows:

- Economic and competitive environment
- Credit impairment
- Geopolitical risk
- Intermediary, outsourcing and operational resilience
- Information and cyber security risk
- Pace of regulatory change
- Pace, scale of change and people risk
- Financial crime
- Climate risk

Information on the following pages provides a review of each of these themes.

The links to key performance metrics provided in the top risk reviews refer to those detailed in the 'Shawbrook in numbers' summary on page 8.

Risk Report

Top and emerging risks

Economic and competitive environment	Movement: increased

Overview

There remains significant ongoing uncertainty regarding the future economic trajectory for the UK, which could affect the Group's performance. Revisions to the National Accounts show that the economy is no bigger than it was before the pandemic, with the UK expected to enter a shallow recession. Markets have calmed following the change in UK prime minister, but the outlook is a higher path for interest rates over the next couple of years to address inflation, with SMEs in particular vulnerable to rising rates. More targeted support for energy prices could mean a further squeeze on real incomes for many, with prospect for a modest rise in unemployment and lower house prices.

The trading environment is expected to be challenging in the face of a steep increase in interest rates and lower demand. Housing transactions are expected to reduce just below the long run average of 1.2 million transactions per year, with rental supply reaching its peak.

Links to key performance metrics

- Loan book
- Customers served
- Cost of risk
- Net interest margin
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Reduced gross lending from lower demand as customers defer major purchases and investment in light of higher interest rates and lower real income leading to lower buying power. This may be partly offset by lower early settlement of loans.
- Increased impairments if a significant number of SMEs experience financial distress or insolvency, or if consumers experience an increase in unemployment.
- A prolonged economic downturn may impact the Group's ability to fund strategic investment to meet the needs of customers and improve operations.
- Rising competition may compress Group margins and impact on target returns.

How we manage this risk

- The Group continues on its digital journey and, following the launch of the MyShawbrook portal for buy-to-let products in 2021, the MyShawbrook portal was extended across the bridging and commercial investment product ranges, streamlining the application process through the provision of fast valuation-backed credit decisions. This tool will help the Group to enhance the customer experience whilst allowing the Group to react quickly to changes in the macroeconomic environment.
- The Group continues to deploy its proprietary portfolio management tool to provide powerful insights into monitoring loan book risk and performance across its Real Estate and SME portfolios. The Group has continued to evolve its early warning indicators.
- The Group has carefully considered its risk appetite in its selected markets. The Group has hosted regular in-focus sessions with external experts in its key markets and completed regular product and sector reviews to identify any early warning indicators.
- Investment in additional resources in the first and second lines of defence continues to strengthen the Group's ability to identify and manage potential problem loans.
- The Group undertakes a comprehensive assessment of its risk appetite under baseline and alternative scenarios to ensure that it can meet its objectives in plausible economic conditions.

Focus areas for 2023

- Targeted application of risk appetite in carefully selected sectors to align with the economic outlook as it emerges.
- Scale the business through the implementation of further automation in lending and savings operations and digital self-service.
- Utilisation of third parties and technology to increase capacity in originations, servicing and collections activities in order to position the Group to meet the needs of its customers.
- Continue to invest in outsourcing controls and oversight to manage any additional risk that the Group may be exposed to.
- Support the wider adoption of Agile through the embedding of a product and engineering model.
- Invest in technology resources to deliver the engineering requirements of the accelerated digital strategy.

Risk Report

Top and emerging risks

Credit impairment	Movement: increased

Overview

The Group's growing loan book brings with it exposure to credit impairment if customers are unable to repay loans and any outstanding interest and fees.

The economic outlook will play a key role in driving the impairment profile in the foreseeable future. The rising interest rate environment, rising inflation, and cost of living impacts on real income could impact affordability. In turn, this could put upward pressure on the Group's cost of risk. SMEs are particularly vulnerable to increasing interest rates and increased energy costs.

Links to key performance metrics

- Cost of risk
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Increases in credit impairment could lead to a material reduction in profitability and retained earnings. In turn, this may impact the Group's capital ratios and its ability to meet its objectives.
- Lack of preparation for the transition from origination to in-life management may lead to missed opportunities to support customers, potentially causing increased impairment and customer harm.

How we manage this risk

- The Group's risk appetite is calibrated to facilitate achievement of the business strategy and is modified as required to reflect uncertainty in the economic and competitive landscape.
- The Group has enhanced its underwriting guidelines and affordability policy to ensure that it remains appropriate in the current and emerging environment. Asset class policies have also been cautiously reviewed to position the Group appropriately.
- Additional investment in permanent employees to focus on potential problem loans has managed the number of watchlist and forbearance cases and will continue to respond proactively to uncertainty in the economic outlook.
- The impact on impairment models is regularly monitored and reported to internal committees and judgemental adjustments to modelled ECLs are reviewed by the Model Management Sub-Committee and approved by the Group Impairment Committee.

Focus areas for 2023

- Increase focus on product and sectoral risk to support the Group's evolution of risk appetite in an uncertain economic environment.
- Continue to develop strategic credit management information to ensure timely and accurate reflection of risk in the Group's lending segments, thus enhancing the Group's ability to make proactive decisions.
- Continue to develop the granularity and accuracy of the Group's stress testing capability.
- Further embed the Group's portfolio management tool within the lending businesses.
- Regular review of the evidence supporting all key areas of judgement used in support of the model-based ECL.

Top and emerging risks

Geopolitical risk	Movement: increased

Overview

The geopolitical environment remains uncertain, with conflict in Ukraine, possible Brexit-related changes to the Northern Ireland protocol and the potential for a Scottish referendum, amongst others.

The Group operates predominantly in England, Wales, and Scotland and has no direct exposure to Russia or the Ukraine. However, the Group is exposed to the second order impacts on supply chains and the impact of inflation on the real incomes of its customers.

Links to key performance metrics

- Loan book
- Cost to income ratio
- Customers served
- Cost of risk
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Lower economic growth, labour shortages and disruption to supply chains could impact the level of private sector investment in the UK. In turn, this could negatively impact on demand for loans, funding and deposits.
- Trade disagreements could potentially elevate economic issues, as seen with the rise in inflation during 2022. This could lead to higher interest rates and may impact loan impairments.
- Credit spreads could widen leading to reduced investor appetite for the Group's debt securities. This could impact the Group's cost of and/or access to funding and the ability to grow its loan portfolios.
- The Group's operational resilience may be impacted by the need to transition activities from non-UK firms.

How we manage this risk

- The Group undertakes a comprehensive assessment of its risk appetite and stress tests its lending and deposit portfolios to ensure that it can meet its objectives in plausible economic conditions.
- The Group regularly engages with its critical suppliers to foresee and mitigate any impact on services provided to the Group.
- The Group continues to strengthen its capital position and pursue a diversified funding structure. The Group has completed a number of securitisations of its loan portfolios and has invested in the capability to complete additional securitisations, markets permitting.
- The Group monitors and screens for sanctions issued by the UK (The Office of Financial Sanctions Implementation), EU and USA (The Office of Foreign Assets Control), participating in industry level discussions through UK Finance, to mitigate the risk of breaching specific Russia-related prohibitions and all other sanctions.
- The Group has reviewed its register of outsource providers and has no gaps in EU General Data Protection Regulation Article 28 clauses.

Focus areas for 2023

- Ensure that all outsourcers and third parties are operationally resilient in the event of geopolitical uncertainty, including the review of business continuity plans and disaster recovery plans and regular tests of technology resilience using tools such as penetration testing.
- Continue to develop a range of mitigating actions, including the use of robust stress tests that contain the risk of geopolitical risk by comparing the economic scenarios assessed in IFRS 9 with those used in the ICAAP.
- Continue to monitor the situation in Ukraine. Although the Group does not have any direct exposure, it does have indirect exposure, for example the impacts of rising energy prices, cost of living and inflation, potential supply chain issues faced by customers and increased cyber security threats. The Group has updated its affordability policy and will continue to monitor to ensure that its lending remains appropriate. The Group will continue to closely monitor the cyber perimeter and information security risks, as detailed on page 37, and will continue to engage with key third parties.

Top and emerging risks

Intermediary, outsourcing and operational resilience	Movement: no change

Overview

The Group uses a number of material third parties to support the delivery of its objectives. The availability and resilience of its core customer facing systems and ability to operate in line with regulatory requirements play a key role in supporting the Group's reputation in its chosen markets.

The specialist nature of some of the Group's lending through intermediaries and brokers could mean some customers find themselves with an increased risk of an unfavourable outcome. This may result from the interpretation of Mortgage Conduct of Business regulation, Consumer Credit sourcebook, the Consumer Duty and other regulations, along with the oversight of third parties where it may be exposed to Consumer Credit Act Section 75 and Section 140 risk.

Links to key performance metrics

- Loan book
- Customers served

How this could impact our strategy or business model

- The Group may be impacted by the failure of material third parties to deliver on the Group's policies and regulatory obligations. This may lead to increased complaints, customer harm, redress costs and damage to the Group's reputation through regulatory censure. This may also lead to increased contingent liabilities in certain areas where the Group is exposed to Section 75 and Section 140 liabilities, which impacts on the Group's profitability and capital resources.
- Failure of a material third-party supplier may lead to customer harm, complaints, loss of confidence in the Group and potentially regulatory censure.
- The Group, as a deposit taker, could be impacted if a systems failure prevented a significant number of payments being made, which may lead to financial stability being undermined.
- The potential for operational disruption could have a material impact on profitability or viability.

How we manage this risk

- The Group has continued to invest in its relationship with its key third parties, with a focus on strong customer outcomes, particularly as customers deal with increasing cost of living pressures. This has included increased reporting on the performance of material third parties at the Group Risk Management Committee, Risk Committee and Board, as appropriate.
- The Group has identified all of its important business services and has invested in resources to develop policies, processes and procedures to support the effective operation of each.
- The Group has developed and implemented an operational resilience roadmap and important business service dashboard mapping. This includes an update to impact tolerances to promote greater operational resilience.
- The Group has further invested in cloud technology to increase the resilience of its core systems, provide backup for core information and to automate its watchlist and other key management information. This has also included the onboarding of climate related management information.

Focus areas for 2023

- Continue progress in embedding the Operational Resilience Framework through scenario testing to refine the Group's impact tolerances in assessing both intolerable customer harm and the risk to safety and soundness of the Group.
- Continue to review the Group's contracts to meet the requirements of SS2/21 on outsourcing and third-party management, as well as focusing on embedding SS4/21 on operational continuity in resolution, including the impact on risk appetite.
- Continue to work closely with the Group's partners to ensure that appropriate and, where necessary, skilled capacity is in place to service the expected increase in customer contact as a result of anticipated cost of living pressures.
- Continue to accelerate investment in digital enhancements, including the embedding of Agile and product engineering within its product segments and the automation of its credit risk management information.

Top and emerging risks

Information and cyber security risk	Movement: increased

Overview

The cyber threat remains significant and high profile across all industries. Cyber security and information risk continues to be a focus area for regulators and is increasingly assessed as an integral part of operational resilience. This includes an increase in public awareness on cyber risk in the face of increasingly targeted, destructive ransomware attacks experienced over recent years in the market.

Information and cyber security risk is further heightened by the conflict in Ukraine.

Links to key performance metrics

- Loan book
- Customers served
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Increasing customer demand could exceed the Group's ability to provide highly reliable and widely available systems and services, leading to a fall in confidence and customer attrition.
- The evolving nature and scale of criminal activity could increase the likelihood and severity of attacks on the Group's systems.
- Customer franchise value and customer trust could be significantly eroded by a successful attack on the Group's systems, leading to a diversion of funds or the theft of customer data.

How we manage this risk

- The Group continually reviews its control environment for information security to reflect the evolving nature of the threats to which the Group is exposed.
- 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 preventative and detective controls and a programme of cyber awareness education and training.
- The Group continues to invest in its technology layer, including the use of cloud computing resources to improve resilience and the implementation of additional controls to support the security of its core systems. This includes investment in automated application security testing tools and sensitive data discovery software.
- Development of customer franchise specific application and data heatmaps to manage legacy system risk, resilience and the build-up of technical debt. This has included a programme to reduce technical obsolescence by upgrading servers to modern equivalent infrastructure.
- In response to the conflict in Ukraine, the Group's Information Security team continues to operate at a heightened state of awareness in response to threat intelligence and security alerts and have implemented technical mitigation steps where possible, increased communications with employees to enhance vigilance and raise cyber awareness and engaged with critical third parties to understand their action plans in light of the increased risk.

Focus areas for 2023

- Continue to invest in capabilities to reduce the Group's exposure to a cyber-attack and continue the Group's alignment to ISO 27001 standards to further refine risk appetite and controls with respect to information security.
- Continue to embed the Chief Technology Office and information security controls within the Group's outsourcers and third parties.
- Continue the Group-wide implementation of data ownership and controls to promote improved accuracy of source customer data and improvements in management information.
- Continue the Group-wide implementation of Agile through the embedding of the product and engineering model.

Top and emerging risks

Pace of regulatory change	Movement: no change

Overview

The prudential and conduct regulatory regimes are subject to change and could lead to either an increase in the level and quality of financial resources, or change in policies and processes to meet regulatory requirements.

In relation to financial risk, in July 2022, the Financial Policy Committee reconfirmed that the UK countercyclical capital buffer would increase from 0% to 1% in December 2022 and, if the economy continued to progress, it would be expected to increase from 1% to 2% in July 2023. Other relevant prudential policy announcements in the next year include guidance on the implementation of the remaining Basel 3 banking standards, the minimum requirement for own funds and eligible liabilities review, the implementation of Basel 3.1 and the consultation on model risk management.

The financial sector will also continue to embed climate risk regulation and industry standards, which are subject to evolve over the coming years and will form a key part of the business strategy.

In relation to non-financial risks, implementation of operational resilience and third party and outsourcing regulations will continue, along with other high priority regulatory initiatives as published in the Regulatory Initiatives Grid, including the new Consumer Duty.

Links to key performance metrics

- Loan book
- Cost to income ratio
- Cost of risk
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- An increase in minimum regulatory capital requirements may directly impact on the Group's risk appetite and its ability to support its lending to current and potential future customers.
- Changes in regulatory capital requirements may lead the Group to change its business mix, exit certain business activities altogether, or not expand in areas despite otherwise attractive potential.
- An increase in minimum regulatory capital requirements may restrict distributions on capital instruments. This may impact upon the Group's ability to issue new, or refinance existing, capital instruments.
- Frequent change in regulation could also have wide ranging impacts beyond financial resources reflected through changes in internal policies and processes, people and systems resources, product offerings and the markets and customers served by the Group.

How we manage this risk

- The Group engages with regulators, industry bodies and advisors to actively engage in consultation processes. The Group reviews regulatory publications to assess their implications for the business and oversees the impact analysis through its Regulatory Change Working Group.
- The Group follows its prudential programme to update its ICAAP, ILAAP and Recovery Plan and Resolution Pack and considers the conclusions in the regular business planning processes that have taken place during the year.
- During 2022, the Group completed a refinance of £124 million of its Additional Tier 1 capital securities in a difficult market. The offering was positively received by investors and supports the optimisation of the Group's capital stack and maintenance of capital buffers.

Focus areas for 2023

- Ongoing stress testing of the Group's lending portfolios to quantify the impact of any changes on the strategy and business model.
- Completion of the annual review of the ICAAP and Recovery Plan and the Liquidity Supervisory Review and Evaluation Process.
- Implementation of controls to support the embedding of the new Consumer Duty and new Consumer Principle.

Top and emerging risks

Pace, scale of change and people risk

Movement: no change

Overview

The Group needs to deliver a significant number of projects over the duration of its 2023 plan in order to deliver on its objectives. Failure to deliver the required change may lead to disruptions in the delivery of its objectives.

ESG is a key pillar of the Group's purpose-led strategy and reflects the importance of sustainability, and equality, diversity and inclusion (EDI) in driving the long-term strategy and business model.

Links to key performance metrics

- Loan book
- Customers served
- Cost to income ratio
- Net interest margin
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Delivering what customers need and in the way that they want to engage with the Group is essential to building the Group and failure to do this may impact on originations, customer retention and profitability.
- People risk remains a key factor in the post-COVID environment as hybrid working and flexible working hours becomes the 'new normal'. Improvement in technology continues to create options for people to live and work from a place of their choice and firms that lag behind in their employee value proposition might find it difficult to attract the right talent.
- Failure to protect employees and promote mental health and wellbeing could lead to higher absence and lead to a reduction in employee engagement. This in turn could impact upon the Group's ability to look after its existing customers.
- A clear and purposeful ESG strategy is key to supporting long-term sustainable performance, including strong engagement from all employees.

How we manage this risk

- The Group continues to develop its employee value proposition to attract and retain the best talent to support its business strategy. The Group has adopted hybrid working, providing the opportunity to access a wider talent pool across the UK. The Group offers employees membership to a wellbeing app and access to an online GP service and completes a comprehensive workplace assessment process, with the provision of additional support and/or equipment where reasonable adjustments are required.
- The Group regularly conducts its employee engagement survey to gather views and suggestions from its employees to facilitate the creation of the best possible working environment. The Group maintained a positive employee engagement score in the latest survey conducted in November 2022 of 82% (2021: 80%).
- The Group has launched an ESG Sub-Committee and EDI Steering Committee, which focuses on four key pillars (belonging, race, gender and social mobility).
- The Group works with a number of external partnerships to build collaboration, insight and leverage best practice that will support employees and customers. This includes a partnership with the rugby union team, Saracens and supporting the Saracens Foundation, whose mission is to transform lives both on and off the pitch in order to build stronger communities. In 2022, the Group supported the 'Empower Her' project, working in partnership with the Saracens Foundation to support the next generation of female leaders through sport. The Group also launched 'Thrive', an apprenticeship programme designed to support young people from disadvantaged backgrounds into a career in financial services.

Focus areas for 2023

- The Group has organised its strategic priorities into a roadmap through which to prioritise its resources. Delivery of this roadmap is key to the Group's objectives and will continue throughout 2023.
- Continue to advance digital strategy through investment in people and technological resources to deliver the Group's objectives.
- Continue to work with external partnerships to further create opportunities to create future leaders.

Top and emerging risks

Financial crime

Movement: new top risk
(previously included as an emerging risk)

Overview

Financial crime is any kind of criminal conduct relating to money or to financial services or markets. This includes any offence involving:

- fraud or dishonesty;
- misconduct in, or misuse of information relating to, a financial market;
- handling the proceeds of crime; or
- the financing of terrorism.

Although the risk has always been present in the financial services industry, the increased use of digital channels has elevated the risk profile. With the development of technology, the type and impact of financial crime activities is likely to increase over the coming years.

Links to key performance metrics

- Loan book
- Cost to income ratio
- Customers served
- Cost of risk

How this could impact our strategy or business model

- An inadequate control environment for financial crime could lead to increased operational losses, credit impairment, increased manual reviews and potentially regulatory enforcement, penalties and/or censure.
- The reputational damage associated with financial crime could cause loss of customers and intermediaries, impacting the Group’s revenues and financial position and/or regulatory standing.
- The current hybrid working environment and the transition of resources to new work activities may impact the effectiveness of existing controls and increase internal fraud opportunities.

How we manage this risk

- The Group continues to enhance its control environment with respect to financial crime. This is closely monitored by the Executive Committee.
- The Group began implementation of an automated customer due diligence process in 2021 and automated transaction screening in 2022.
- The Group conducts a firm-wide financial crime risk assessment to assess compliance with Group policies. This focuses on the following risk categories: money laundering and terrorist financing risk, bribery and corruption risk, sanctions risk, tax evasion risk and fraud risk.
- The Group appointed a new Chief Compliance Officer and Money Laundering Reporting Officer, who reports to the Chief Risk Officer.
- The Group uses a combination of mandatory reads of policy, online training and communications to increase awareness of best practice.

Focus areas for 2023

- Continue to work on the implementation of the improved financial crime control framework, with key focus on the data automation as well as the automation of processes and controls such as customer due diligence and transaction monitoring.
- Continue to invest in resources and risk identification, prevention and control mechanisms to protect the Group’s customers and investors and protect the Group from the facilitation of financial crime.
- Continue to focus on adherence to economic sanctions and the shifting regulatory environment, in line with new and updated UK financial crime regulations.

Top and emerging risks

Climate risk

Movement: new top risk
(previously included as an emerging risk)

Overview

Climate change and society's response to it, presents financial risks which impact the Group's objectives. The risks arise through two primary channels: the physical effects of climate change and the impact of changes associated with the transition to a lower carbon economy.

Climate risk is an ongoing long-term cross cutting risk and a continued area of focus for the Group. The impact of climate risk on the Group's policies, customers, markets and products will be closely linked to the UK Government's policies on the transition to net zero and how other financial institutions embed climate risk in their business models.

Links to key performance metrics

- Loan book
- Customers served
- Cost of risk
- Net interest margin
- CET1 capital ratio
- Total capital ratio

How this could impact our strategy or business model

- Physical risks could lead to real impacts on the economy through business disruption, asset destruction and migration. This may drive market and credit losses to the Group through lower property and corporate asset values, lower household wealth and lower corporate profits. It may also result in potential for litigation where products do not deliver good outcomes for customers or there is a risk of greenwashing.
- The transition to a lower carbon economy could lead to lower growth and productivity and the potential for operational risks and underwriting losses.
- The transition to a low carbon economy presents an opportunity for the Group and inadequate preparations or delayed actions could impact on the Group's reputation with investors and the market, presenting a strategic risk to the Group through adverse selection.

How we manage this risk

- The Group considers the embedding of climate related matters to be a key initiative and, as such, has appointed the Chief Executive Officer and Chief Risk Officer as the responsible executives to oversee delivery of the Climate Change Plan.
- The Group has embedded the management of climate risk within each of its principal risks, with a focus on high materiality areas including strategic risk and credit risk, particularly within the Real Estate business.
- The Group has developed a proportionate approach to climate change in line with the requirements of SS3/19 and focuses its assessment on term loans in the Enterprise and TML franchises.
- The Group has partnered with leading climate data providers and consultancies to develop its understanding of physical and transition risk and has used this to develop its initial risk appetite statement and measures together with metrics, measures and initial climate risk disclosures and the TCFD roadmap.
- During 2022, the Group has developed lending emissions measures within its Real Estate business and has also developed and implemented its first quantitative scenario analysis for its Real Estate business.

Focus areas for 2023

- Extending climate measurement into SME lending to support the assessment of lending emissions and embedding climate risk further into its lending policy and strategy.
- Further consider the Group's approach to support financing to a low carbon economy and how those plans align to meeting net zero targets.

Principal risks

The principal risks faced by the Group are set out in the table below. Oversight of the Group's principal risks is outlined on page 29. Climate risk is embedded within each principal risk.

Certain information in the principal risks section is audited. Sections that are specifically marked as *'audited'* are covered by the Independent Auditor's Report starting on page 86. All other sections are unaudited.

Except where indicated, disclosures included in the credit risk, liquidity risk and market risk sections are at the consolidated Group level only. Where there is a significant difference between the Group and the Company, additional information is provided, as indicated within the disclosures.

Principal risk	Definition	Principal sources of exposure
Credit risk *(Audited)* See page 43	The risk that a borrowing client or treasury counterparty fails to repay some, or all, of the capital or interest advanced to them, due to lack of willingness to pay and/or lack of ability to pay. Credit risk can be further divided into customer credit risk (from core lending activity) and treasury credit risk (from treasury activity). Credit risk also includes credit concentration risk, which is the risk of exposure to particular groups of customers, sectors or geographies that, uncontrolled, may lead to additional losses that the Shareholder or the market may not expect.	The principal source of customer credit risk is the Group's loans and advances to customers. Treasury credit risk exposure is limited to short-term deposits placed with leading UK banks, repo and reverse repo exposures and high quality liquid assets purchased for inclusion in the Group's liquidity buffer.
Liquidity risk *(Partially audited)* See page 69	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 principal source of liquidity risk is the Group's retail and wholesale deposits, as well as affinity partnerships and bilateral/public securitisations.
Market risk *(Partially audited)* See page 73	The risk of financial loss through unhedged or mismatched asset and liability positions that are sensitive to changes in interest rates or currencies.	Exposure to market risk arises from the Group's core activities of offering loans and deposits to customers. All financial assets held by the Group are non-trading.
Operational risk See page 76	The risk of loss resulting from inadequate or failed internal processes, people and system failures, or from external events.	The principal sources of operational risk, as per the year-end risk and control self-assessment, are information, model, third-party suppliers and process execution.
Compliance, conduct and financial crime risk See page 77	Conduct risk: the risk that the Group's behaviour will result in poor customer outcomes and that the Group's people fail to behave with integrity. Compliance and financial crime risk: the risk of regulatory enforcement and sanction, material financial loss, or loss of reputation the Group may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice, or that the Group's processes may be used to commit financial crime.	The principal sources of compliance, conduct and financial crime risk are when customers suffer harm due to the Group, or its third-party suppliers and intermediaries, failure to meet expectations, or treat customers fairly, particularly when servicing the needs of customers with vulnerabilities. Compliance risk arises where the Group fails to identify or comply with applicable law and regulation. Financial crime risk arises where the Group's systems and controls are circumvented for the purposes of perpetrating financial crime, including fraud, bribery, money laundering and the financing of terrorist activity.
Strategic risk See page 77	The 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 lending volumes within the Group's risk appetite.	The principal sources of strategic risk are lending growth, financial strength and profit volatility.
Systems and change risk See page 77	Systems risk: the risk that new threats are introduced to the Group's critical systems resulting in them becoming unavailable during core operational times. Change risk: the risk that transition changes in the business will not be supported by appropriate change capability and be improperly implemented. It is also the risk that too many in-flight changes cause disruption to business operations.	The principal sources of systems and change risk are sufficient and up to date technology, together with appropriate innovation and delivery capacity.

Principal risks: Credit risk

Audited: *the credit risk section is covered in its entirety by the Independent Auditor's Report.*

This section provides information about:

- Managing credit risk
- Impairment of financial assets
- Exposure to credit risk
- Concentrations of credit risk
- Use of collateral to mitigate credit risk
- Forbearance

(a) Managing credit risk *(audited)*

Key aspects relating to the management of credit risk are the implementation of robust credit risk approval processes and the execution of credit monitoring processes. These are detailed further below.

Credit risk approval process

To manage credit risk, the Group operates a hierarchy of lending authorities based principally upon the size of the aggregated 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.

During the year ended 31 December 2022, organisational changes were implemented. This included TML credit approval authorities transitioning from the Chief Operating Officer in TML to the new Chief Risk Officer in TML. The delegation for Consumer Lending credit approval authorities remains with the Head of Regulated Lending and Customer Service. The delegation for all lending in SME within the Enterprise franchise continues to sit with the credit risk team in the Group's risk function.

Lending is advanced subject to the 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.

The Group is a responsible lender and affordability remains a key area of focus for the Group. The Group's approach to affordability is set out in the Group's affordability policy, which is embedded within each of the customer franchise's lending guides and systems. This policy has been updated several times to ensure that it remains appropriate in the current environment and adequately reflects the increase in inflation, interest rate changes and expenditure updates seen during the year. The Group also uses a number of external systems to check affordability and has the ability to refer to Open Banking information, subject to policy and customer consent.

Credit monitoring

Approval and ongoing monitoring controls are exercised both within the customer franchises and through oversight by the Group's 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 Group's risk function oversees collections and arrears management processes, which are managed internally or by selected third parties.

Throughout 2022, the Group continued to invest in its collections strategies and potential problem loan management teams to ensure that the Group is well positioned for a more challenging environment.

(b) Impairment of financial assets *(audited)*

To reflect the potential losses that the Group might experience due to credit risk, the Group recognises impairment provisions on its financial assets in the financial statements. In accordance with the Group's accounting policy (Note 7(w) of the Financial Statements), impairments are calculated using a forward-looking ECL model. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes.

The Group calculates ECLs and recognises a 'loss allowance' in the statement of financial position for its financial assets not held at fair value through profit or loss and for loan commitments.

The following sections provide details regarding the measurement and calculation of ECLs, the application of judgemental adjustments to modelled ECLs, analysis of the loss allowance recognised in the statement of financial position and an assessment of the critical accounting judgements and estimates associated with the impairment of financial assets.

Measurement of expected credit losses *(audited)*

Measurement of ECLs depends on the stage the financial asset is allocated to. Stage allocation is based on changes in credit risk when comparing credit risk at initial recognition to credit risk at the reporting date, as follows:

- **Stage 1:** when a financial asset is first recognised it is assigned to Stage 1. If there is no significant increase in credit risk (SICR) from initial recognition the financial asset remains in Stage 1. For financial assets in Stage 1, a 12-month ECL is recognised.
- **Stage 2:** when a financial asset shows a SICR it is moved to Stage 2. A financial asset in Stage 2 can be 'cured' and reclassified back to Stage 1 when there is no longer a SICR and any probation period has been completed. For financial assets in Stage 2, a lifetime ECL is recognised.
- **Stage 3:** when there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is moved to Stage 3. A financial asset in Stage 3 can be 'cured' and reclassified back to Stage 2 when it is no longer in default, or otherwise credit-impaired, and any probation period has been completed. For financial assets in Stage 3, a lifetime ECL is recognised.

For loan commitments, where the loan commitment relates to the undrawn component of a facility, it is assigned to the same stage as the drawn component of the facility.

In relation to the above:

- Lifetime ECL is defined as ECLs that result from all possible default events over the expected behavioural life of a financial instrument.
- 12-month ECL is defined as the portion of lifetime ECL that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

Principal risks: Credit risk

Assessing whether an asset shows a SICR and determining whether an asset is considered to be in default, or otherwise credit impaired, or is considered to be 'cured' are all identified as areas involving critical judgement and are detailed further starting on page 54.

In addition to the aforementioned three stages (Stage 1, 2 and 3), financial assets may be separately allocated as purchased or originated credit-impaired (POCI). POCI assets are financial assets that are credit-impaired on initial recognition. Once a financial asset is assigned as POCI, it remains in this category until derecognition irrespective of its credit quality. For POCI assets, the ECL is always measured on a lifetime basis. ECLs are only recognised (or released) to the extent the ECL has changed from the amount of credit impairment recognised on initial recognition.

Calculation of expected credit losses *(audited)*

ECLs are the discounted product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD). Each of these components are detailed further below.

ECLs are determined by projecting the PD, EAD and LGD for each future month for each exposure. The three components are multiplied together and adjusted to reflect forward-looking information. This calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the current effective interest rate, or the original effective interest rate if appropriate.

Probability of default

PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.

In relation to loans and advances to customers and loan commitments, the PD is based on internal and external individual customer information that is updated for each reporting period. The Group operates both a model-based PD and a slotting approach. The model-based PD is used for high volume portfolios such as those in Consumer Lending and for residential mortgages within Real Estate. Statistical modelling techniques are used to determine which borrower and account performance characteristics are predictive of default behaviour based on supportable evidence observed in historical data that is related to the group of accounts to which the model will be applied. The slotting approach has been developed and implemented for the low volume and high value obligors in SME and large ticket commercial property loans within Real Estate. Slotting in residential investment and commercial investment applies to facilities over a set threshold. Both processes deliver a point-in-time measure of default. Currently a coverage ratio method is used for loans originated through TML and certain other mortgages whilst a customer grading system is developed during 2023.

For the model-based portfolios, the measure of PD is based on information available to the Group from credit reference agencies and includes information from a broad range of financial services firms and internal product performance data and is applied at the borrower level. For the slotted portfolios, the measure of PD relates to attributes relating to financial strength, political and legal environment, asset/transaction characteristics, strength of sponsor and security.

For each asset class, the Group has a proprietary approach to extrapolate its best estimate of the point-in-time PD from 12 months to behavioural maturity to derive the lifetime PD. This uses economic response models that have been developed specifically to forecast the sensitivity of PD to key macroeconomic variables.

Exposure at default

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

EAD is designed to address increases in utilisation of committed limits and unpaid interest and fees that the Group would ordinarily expect to observe to the point of default, or through to the point of realisation of the collateral.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to the multiple scenarios.

Loss given default

LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

In relation to loans and advances to customers and loan commitments, the Group segments its lending products into smaller homogenous portfolios based on the Group's lending segments as detailed below. In all cases the LGD or its components are tested against recent experience to ensure that they remain current.

- **Real Estate and TML Mortgages:** the LGD is generally broken down into two parts. These include the Group's estimate of the probability of possession given default, combined with the loss given possession. The Group has continued to focus on the proportion of accounts that have not cured over an emergence period, rather than the proportion of accounts that enter possession in line with market best practice. The LGD is based on the Group's estimate of a shortfall, based on the difference between the property value after the impact of a forced sale discount plus a scenario specific market value decline and sale costs, and the loan balance with the addition of unpaid interest and fees and first charge claims with regards to second charge residential mortgages.
- **SME:** the LGD is based on experience of losses on repossessed assets where the Group has collateral, or management judgement in situations where the Group has minimal experience of actual losses.
- **Consumer Lending:** the LGD uses an estimate of the expected write-off based on an established contractual debt sale agreement supplemented by liquidation analysis for loans terminated or charged-off and the expected write-off for loans held for deceased and vulnerable customers or customers where there are outstanding complaints. There is no recovery portfolio.

Principal risks: Credit risk

Basis of calculation
A number of complex models are used in the calculation of ECLs, which utilise both the Group's historical data and external data inputs. The Group uses a bespoke calculation engine to estimate ECLs on either a collective or individual basis depending on the nature of the underlying portfolio and financial instruments. The collective assessment groups loans with shared credit risk characteristics through lines of business. The engine captures model outputs from the 12-month PD, Lifetime PD, LGD, EAD, macroeconomic models and staging analysis to calculate an estimate for each account.

Asset classes where the Group calculates ECLs on an individual basis include:
- Stage 3 and POCI assets where individual impairments are reviewed and approved by the customer franchise specific impairment committees and Group Impairment Committee;
- large and unique Stage 1 and Stage 2 loans in the Enterprise franchise; and
- treasury and interbank relationships (such as cash and balances at central banks, loans and advances to banks and investment securities).

Asset classes where the Group calculates ECLs on a collective basis include:
- Stage 1 and Stage 2 loans and certain Stage 3 exposures within the Enterprise franchise (except as identified above);
- mortgages originated through TML and platform loan agreements; and
- all loans within the Consumer franchise.

For ECLs calculated on a collective basis, exposures are grouped into smaller homogeneous portfolios based on the Group's lending segments and a combination of internal and external characteristics of the loans, as described below:

Real Estate	• Product asset class (owner-occupied second-charge lending, buy-to-let, bridging finance and commercial/semi-commercial investment) • Time on file • Exposure value
SME	• Business unit (digital SME, structured finance, corporate lending and development finance) • Time on file • Collateral type
Consumer Lending	• Product type (personal loans and home improvement/holiday ownership loans) • Time on file
TML Mortgages	• Product type (buy-to-let and owner-occupied lending)

Where loans are assessed on a collective basis, such as loans within Consumer Lending, recent experience is used to assess the LGD. For loans secured on residential and commercial property, recent experience of the probability of possession given default and the loss given possession is used to support the ECL. For loans to SMEs, an assessment is performed on a loan-by-loan basis, which is reviewed by the Group Impairment Committee if the impairment is in excess of £75,000. Where models are used, LGDs are calculated taking into account the valuations of available collateral and the experienced forced sale discounts when collateral has been realised. These factors are applied to all portfolios at each reporting date to derive the individual impairment requirement. These judgements are reviewed at the Group Impairment Committee and the Audit Committee.

Using forward-looking information in the calculation of expected credit losses
ECLs are required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Group has developed a proprietary approach to assess the impact of the changes in economic scenarios on the obligor level ECL. The Group has mapped each asset class to an external long-run benchmark series that is believed to behave in a similar way to the Group's portfolio over the economic cycle. For some low default portfolios, internal data has been used to support this assessment.

The Group has developed econometric models to establish how much of the historical series can be explained by movements in UK macroeconomic factors. The models deliver an estimate of the impact of a unit increase in default arising from a 1% increase in the underlying macroeconomic factors. The models are developed in line with the Group's Model Risk Governance Framework and are subject to review at least every six months. The models are tested across multiple sets of scenarios to ensure that they work in a range of scenarios, the output of the scenarios is a series of scalars by asset class and a scenario that can be applied to the underlying PDs to deliver a forward-looking ECL.

The Group has developed a proprietary approach to extrapolating its 12-month PDs over the behavioural maturity of the loans that the scalars can be applied to. The nature of the scenarios means that there will be an impact on both the PD and the number of obligors moving from Stage 1 to Stage 2 in line with the SICR criteria.

.

Principal risks: Credit risk

Judgemental adjustments to modelled ECLs *(audited)*

Limitations in the impairment models used to calculate ECLs may be identified through the ongoing performance monitoring and assessment and validation of the outputs from the models. Consequently, in certain circumstances, the Group makes judgemental adjustments to the modelled output to ensure the overall loss allowance recognised adequately reflects the risk in the portfolio.

All judgemental adjustments are carefully monitored and are reviewed and approved at least every six months at the Group Impairment Committee and the Audit Committee, along with other key impairment judgements. Where appropriate judgemental adjustments are incorporated into future model development.

In the current environment, judgemental adjustments have the potential to significantly impact the loss allowance recognised and involve the application of significant management judgement. Judgemental adjustments to modelled ECLs are therefore considered to be an area of critical judgement (see page 54).

During the year ended 31 December 2022, the Group specifically considered the impact of the increase to cost of living and the rapid increase in interest rates, as the Group's models have not been trained over a comparable period.

Judgemental adjustments take the form of post-model adjustments (PMAs) and overlays:

- **Post model adjustments:** PMAs are calculated at a granular level through data driven analysis to take into account particular attributes of the portfolio that have not been adequately captured by the models.
- **Overlays:** overlays are adjustments to the modelled outputs that do not meet the definition of a PMA. These include adjustments that are not calculated through modelled or data driven analysis.

Specific judgemental adjustments added to the modelled loss allowance are summarised below and are quantified in the following table.

- **Property-based PMA:** applied in the comparative year only to reflect loans where the underlying collateral is a block over 18 metres tall that may be subject to cladding risk. A PMA has not been included as at 31 December 2022 on the basis of materiality.
- **Consumer-based PMA:** applied in the comparative year only to reflect growth in the loan book since H2 2021 where the full risk has not emerged due to the lack of seasoning of the loans and changes in the underlying external customer credit data. A PMA has not been included as at 31 December 2022 as it is now captured by the Group's models.
- **Cost of living PMA:** applied in the current year only to reflect the refinance risk to a higher interest rate for Real Estate loans maturing during 2023, increased input prices and supply issues within SME and affordability risk in Consumer Lending. The PMA is applied to customers with a similar risk profile.
- **COVID-19 overlay:** applied in the comparative year only to account for customers that have taken a payment holiday in relation to COVID-19 to reflect the expected additional risk of default once the payment holiday has expired. The overlay has been calculated on the assumption that they will ultimately behave like loans in Stage 2.
- **High-risk sector overlay:** applied in the comparative year only to individual customers that are non-performing and in sectors assessed by the Group as being most vulnerable to particularly high inflation impacting input costs to reflect the additional risk of default.

				2022				2021
	Real Estate £m	**SME £m**	**Consumer Lending £m**	**Total £m**	Real Estate £m	SME £m	Consumer Lending £m	Total £m
Post-model adjustments								
Property-based PMA	**–**	**–**	**–**	**–**	0.3	–	–	0.3
Consumer-based PMA	**–**	**–**	**–**	**–**	–	–	2.0	2.0
Cost of living PMA	**2.5**	**3.2**	**1.1**	**6.8**	–	–	–	–
Total post-model adjustments	**2.5**	**3.2**	**1.1**	**6.8**	0.3	–	2.0	2.3
Overlays								
COVID-19 overlay	**–**	**–**	**–**	**–**	–	–	0.8	0.8
High-risk sector overlay	**–**	**–**	**–**	**–**	–	1.8	–	1.8
Total overlays	**–**	**–**	**–**	**–**	–	1.8	0.8	2.6
Total judgemental adjustments to modelled ECLs	**2.5**	**3.2**	**1.1**	**6.8**	0.3	1.8	2.8	4.9

Principal risks: Credit risk

Additional information regarding the judgemental adjustments applied by lending segment is provided below:

- **Real Estate:** the cost of living PMA in Real Estate is calculated on a portfolio segment basis and includes customers that are expected to exit their fixed rate agreement by 31 December 2023 and who are at higher refinance risk, demonstrated by lower credit grades and segments with lower debt service cover ratios. The PMA in Real Estate includes loans originated by TML and through the platform loan agreements on the basis of materiality. As at 31 December 2022, loans with a gross carrying amount of £310.4 million met these criteria and a PMA of £2.5 million was applied based on a Stage 2 ECL. The property-based PMA of £0.3 million applied in 2021 was removed due to materiality.
- **SME:** the cost of living PMA in SME considers customers at risk of higher input prices, higher energy costs and supply chain issues that the models have not be trained on. The Group has developed a proprietary credit risk profiling tool to assess customers at risk and concluded that, as at 31 December 2022, loans with a gross carrying amount of £204.0 million were at risk. With the exception of development finance loans, this PMA was calculated using a Stage 2 ECL. Development finance loans used an ECL based on a one credit grade increase to align to the Group's experience of loans where an extension is required. A PMA of £3.2 million was applied to reflect this. This PMA supersedes the high-risk sector overlay of £1.8 million applied in 2021, as the new PMA has been refined to reflect the economic environment at 31 December 2022.
- **Consumer Lending:** the cost of living PMA in Consumer Lending is calculated on a portfolio segment basis and considers potential vulnerable customers arising from historical lending that may be subject to affordability stretch following the rapid increase in inflation. As at 31 December 2022, loans with a gross carrying amount of £47.2 million were assessed to share these higher risk characteristics and a PMA of £1.1 million was applied based on a Stage 2 ECL. The consumer-based PMA of £2.0 million applied in 2021 has now been incorporated into the model, whilst the COVID-19 overlay of £0.8 million applied in 2021 was released due to materiality.

Judgemental adjustments are assigned between Stage 1 and Stage 2, with the majority allocated to Stage 1 given the forward-looking nature of the risks on affordability driven by higher inflation and refinance risk given higher interest rates.

Analysis of the loss allowance recognised *(audited)*

A summary of the loss allowance recognised in the statement of financial position in relation to each financial asset class is as follows. Except where noted, the loss allowance is recognised as a deduction from the gross carrying amount of the asset.

	2022			2021		
	Modelled ECL £m	**Judgemental adjustments** (See page 46) **£m**	**Total £m**	Modelled ECL £m	Judgemental adjustments (See page 46) £m	Total £m
Cash and balances at central banks	**<0.1**	**–**	**<0.1**	<0.1	–	<0.1
Loans and advances to banks	**<0.1**	**–**	**<0.1**	<0.1	–	<0.1
Loans and advances to customers at amortised cost	**105.0**	**6.8**	**111.8**	71.1	4.9	76.0
Loans and advances to customers at FVOCI (recognised in FVOCI reserve)	**2.4**	**–**	**2.4**	–	–	–
Investment securities	**<0.1**	**–**	**<0.1**	<0.1	–	<0.1
Assets held for sale	**–**	**–**	**–**	0.5	–	0.5
Loan commitments (recognised as a provision)	**0.5**	**–**	**0.5**	0.7	–	0.7
Total loss allowance recognised	**107.9**	**6.8**	**114.7**	72.3	4.9	77.2

For loans and advances to customers at amortised cost, loans and advances to customers at fair value through other comprehensive income (FVOCI) and loan commitments, additional analysis of the loss allowance recognised is provided starting on page 48, 52 and 53, respectively.

For cash and balances at central banks, loans and advances to banks and investment securities, the loss allowance is immaterial, totalling less than £0.1 million in both reported years. All assets within these asset categories are in Stage 1.

For assets held for sale, the loss allowance is £nil as there are no assets meeting the criteria to be classified as held for sale as at 31 December 2022. As at 31 December 2021, a portfolio of loans measured at amortised cost were classified as assets held for sale. The loss allowance on these loans was £0.5 million, which was recognised as a deduction from the gross carrying amount of the assets (see Note 25 of the Financial Statements). The loans were subsequently sold in January 2022. At the point of sale, the loss allowance, which remained at £0.5 million, was derecognised and forms part of the net gain on derecognition of financial assets measured at amortised cost recognised in the statement of profit and loss (see Note 13 of the Financial Statements).

Principal risks: Credit risk

Additional analysis of loans and advances to customers at amortised cost
For loans and advances to customers at amortised cost, the loss allowance is £111.8 million (2021: £76.0 million). The loss allowance is recognised as a deduction from the gross carrying amount of the asset (see Note 21 of the Financial Statements).

The following tables provide an analysis of the Group's loans and advances to customers at amortised cost by lending segment and the year-end stage classification:

	Enterprise				
As at 31 December 2022	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**TML Mortgages £m**	**Total £m**
Stage 1	**5,038.7**	**2,299.6**	**487.0**	**454.2**	**8,279.5**
Stage 2	**598.6**	**224.5**	**38.1**	**36.1**	**897.3**
Stage 3[1]	**197.7**	**84.0**	**4.4**	**1.8**	**287.9**
Gross carrying amount	**5,835.0**	**2,608.1**	**529.5**	**492.1**	**9,464.7**
Stage 1	**(7.8)**	**(19.7)**	**(14.1)**	**(1.6)**	**(43.2)**
Stage 2	**(4.0)**	**(11.6)**	**(6.7)**	**(0.3)**	**(22.6)**
Stage 3[1]	**(18.8)**	**(23.5)**	**(3.5)**	**(0.2)**	**(46.0)**
Loss allowance	**(30.6)**	**(54.8)**	**(24.3)**	**(2.1)**	**(111.8)**
Carrying amount[2]	**5,804.4**	**2,553.3**	**505.2**	**490.0**	**9,352.9**
Loss allowance coverage					
Stage 1	**0.2%**	**0.9%**	**2.9%**	**0.4%**	**0.5%**
Stage 2	**0.7%**	**5.2%**	**17.6%**	**0.8%**	**2.5%**
Stage 3	**9.5%**	**28.0%**	**79.5%**	**11.1%**	**16.0%**
Total loss allowance coverage	**0.5%**	**2.1%**	**4.6%**	**0.4%**	**1.2%**

	Enterprise				
As at 31 December 2021	Real Estate £m	SME £m	Consumer Lending £m	TML Mortgages £m	Total £m
Stage 1	4,437.6	1,952.3	427.4	498.4	7,315.7
Stage 2	620.3	178.4	17.3	15.2	831.2
Stage 3[1]	127.4	89.7	4.4	0.1	221.6
Gross carrying amount	5,185.3	2,220.4	449.1	513.7	8,368.5
Stage 1	(5.0)	(11.9)	(8.2)	(0.7)	(25.8)
Stage 2	(3.8)	(8.5)	(2.7)	(0.2)	(15.2)
Stage 3	(13.4)	(18.4)	(3.2)	–	(35.0)
Loss allowance	(22.2)	(38.8)	(14.1)	(0.9)	(76.0)
Carrying amount[2]	5,163.1	2,181.6	435.0	512.8	8,292.5
Loss allowance coverage					
Stage 1	0.1%	0.6%	1.9%	0.1%	0.4%
Stage 2	0.6%	4.8%	15.6%	1.3%	1.8%
Stage 3	10.5%	20.5%	72.7%	–	15.8%
Total loss allowance coverage	0.4%	1.7%	3.1%	0.2%	0.9%

1 Stage 3 includes POCI loans with a gross carrying amount of £19.8 million, of which £19.1 million is attributable to Real Estate and £0.7 million to SME (2021: £3.3 million, all attributable to SME). The associated loss allowance on these POCI loans is £3.6 million, all of which is attributable to Real Estate (2021: £nil).

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

The following tables provide an analysis of the Group's loans and advances to customers at amortised cost by agreement type and the year-end stage classification:

As at 31 December 2022	Loan receivables £m	Finance lease receivables £m	Instalment credit receivables £m	Total £m
Stage 1	**7,894.2**	**34.5**	**350.8**	**8,279.5**
Stage 2	**880.0**	**2.7**	**14.6**	**897.3**
Stage 3[1]	**269.5**	**2.5**	**15.9**	**287.9**
Gross carrying amount	**9,043.7**	**39.7**	**381.3**	**9,464.7**
Stage 1	**(41.2)**	**(0.2)**	**(1.8)**	**(43.2)**
Stage 2	**(21.1)**	**(0.1)**	**(1.4)**	**(22.6)**
Stage 3[1]	**(37.3)**	**(1.7)**	**(7.0)**	**(46.0)**
Loss allowance	**(99.6)**	**(2.0)**	**(10.2)**	**(111.8)**
Carrying amount[2]	**8,944.1**	**37.7**	**371.1**	**9,352.9**
Loss allowance coverage				
Stage 1	**0.5%**	**0.6%**	**0.5%**	**0.5%**
Stage 2	**2.4%**	**3.7%**	**9.6%**	**2.5%**
Stage 3	**13.8%**	**68.0%**	**44.0%**	**16.0%**
Total loss allowance coverage	**1.1%**	**5.0%**	**2.7%**	**1.2%**

As at 31 December 2021	Loan receivables £m	Finance lease receivables £m	Instalment credit receivables £m	Total £m
Stage 1	6,952.7	40.4	322.6	7,315.7
Stage 2	792.4	9.0	29.8	831.2
Stage 3[1]	193.3	4.6	23.7	221.6
Gross carrying amount	7,938.4	54.0	376.1	8,368.5
Stage 1	(23.3)	(0.5)	(2.0)	(25.8)
Stage 2	(13.3)	(0.4)	(1.5)	(15.2)
Stage 3	(25.2)	(1.9)	(7.9)	(35.0)
Loss allowance	(61.8)	(2.8)	(11.4)	(76.0)
Carrying amount[2]	7,876.6	51.2	364.7	8,292.5
Loss allowance coverage				
Stage 1	0.3%	1.2%	0.6%	0.4%
Stage 2	1.7%	4.4%	5.0%	1.8%
Stage 3	13.0%	41.3%	33.3%	15.8%
Total loss allowance coverage	0.8%	5.2%	3.0%	0.9%

1 Stage 3 loan receivables include POCI loans with a gross carrying amount of £19.8 million (2021: £3.3 million) and a loss allowance of £3.6 million (2021: £nil).

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

The following table provides an analysis of movements during the year in the loss allowance associated with loans and advances to customers at amortised cost. The table is compiled by comparing the position at the end of the year to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the year, with all other movements shown in the stage in which the asset is held at the end of the year.

				2022				2021 (Restated)[1]
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**25.8**	**15.2**	**35.0**	**76.0**	29.0	34.4	28.9	92.3
ECL charge/(credit) for the year								
Transfer from Stage 1	**(2.6)**	**2.1**	**0.5**	**–**	(2.8)	2.5	0.3	–
Transfer from Stage 2	**3.1**	**(4.3)**	**1.2**	**–**	7.5	(13.8)	6.3	–
Transfer from Stage 3	**–**	**3.0**	**(3.0)**	**–**	0.2	1.2	(1.4)	–
New financial assets originated or purchased	**17.2**	**3.6**	**6.0**	**26.8**	12.8	1.3	1.7	15.8
Financial assets derecognised (excluding disposals)	**(5.2)**	**(3.1)**	**(9.5)**	**(17.8)**	(7.6)	(9.3)	(10.3)	(27.2)
Changes in credit risk[2]	**4.9**	**6.1**	**15.8**	**26.8**	(12.4)	(1.1)	9.5	(4.0)
Net ECL charge/(credit) for the year	**17.4**	**7.4**	**11.0**	**35.8**	(2.3)	(19.2)	6.1	(15.4)
Other movements								
Financial assets derecognised on disposal	**–**	**–**	**–**	**–**	(0.4)	–	–	(0.4)
Financial assets transferred to assets held for sale	**–**	**–**	**–**	**–**	(0.5)	–	–	(0.5)
Total other movements	**–**	**–**	**–**	**–**	(0.9)	–	–	(0.9)
Total movement in loss allowance	**17.4**	**7.4**	**11.0**	**35.8**	(3.2)	(19.2)	6.1	(16.3)
As at 31 December	**43.2**	**22.6**	**46.0**	**111.8**	25.8	15.2	35.0	76.0

The net ECL charge for the year represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 18 of the Financial Statements). An analysis of this charge/(credit) by lending segment is provided in the following table.

	2022 £m	2021 £m
Real Estate	**8.4**	(8.1)
SME	**16.0**	1.8
Consumer Lending	**10.2**	(9.9)
TML Mortgages	**1.2**	0.8
Net ECL charge/(credit) for the year	**35.8**	(15.4)

The ECL charge in the current year, compared to the ECL credit in the comparative year, is predominantly attributable to the change in the economic outlook included within the calculation of ECLs to reflect the ongoing cost of living challenges (see page 56), combined with the cost of living PMA applied for the same reason (see page 46). Growth in the loan book is another contributory factor.

1 In the year ended 31 December 2022, the Group identified an inaccuracy in the method used to compute and track movements between stages and movement categories. As a result, the Group has restated the prior year comparatives of the table above to reflect the revised movements. Overall totals remain unchanged.

2 Changes in credit risk includes changes resulting from net changes in lending, including repayments, additional drawdowns and accrued interest, and changes resulting from adjustments to the models used in the calculation of ECLs, including model inputs and underlying assumptions.

Principal risks: Credit risk

In the comparative year, other movements in the loss allowance included the release of loss allowance upon disposal of financial assets. This was attributable to structured asset sales and the derecognised loss allowance formed part of the net gain on derecognition of financial assets measured at amortised cost recognised in the statement of profit and loss (see Note 13 of the Financial Statements). Other movements in the loss allowance also included the transfer of loss allowance from loans and advances to customers to assets held for sale. This transfer is a reclassification in the statement of financial position and had no impact in the statement of profit and loss.

Movements in the gross carrying amount of the Group's loans and advances to customers at amortised cost during the year that contributed to the changes in the associated loss allowance during the year are shown in the following table. The table is compiled by comparing the position at the end of the year to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the year, with all other movements shown in the stage in which the asset is held at the end of the year.

				2022				2021 (Restated)[1]
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**7,315.7**	**831.2**	**221.6**	**8,368.5**	5,410.9	1,552.3	156.3	7,119.5
Movements in gross carrying amount								
Transfer from Stage 1	**(590.2)**	**478.0**	**112.2**	**–**	(383.0)	345.6	37.4	–
Transfer from Stage 2	**295.0**	**(339.7)**	**44.7**	**–**	631.5	(745.7)	114.2	–
Transfer from Stage 3	**0.3**	**25.5**	**(25.8)**	**–**	0.3	12.9	(13.2)	–
New financial assets originated or purchased	**2,761.7**	**108.6**	**35.8**	**2,906.1**	3,434.8	52.3	9.5	3,496.6
Financial assets derecognised (excluding disposals)	**(1,396.2)**	**(174.6)**	**(71.4)**	**(1,642.2)**	(1,038.4)	(354.8)	(53.3)	(1,446.5)
Net changes in lending[2]	**(106.8)**	**(31.7)**	**(29.2)**	**(167.7)**	(98.9)	(30.2)	(28.8)	(157.9)
Financial assets derecognised on disposal	**–**	**–**	**–**	**–**	(343.0)	–	–	(343.0)
Financial assets transferred to assets held for sale	**–**	**–**	**–**	**–**	(298.5)	(1.2)	(0.5)	(300.2)
Total movement in gross carrying amount	**963.8**	**66.1**	**66.3**	**1,096.2**	1,904.8	(721.1)	65.3	1,249.0
As at 31 December	**8,279.5**	**897.3**	**287.9**	**9,464.7**	7,315.7	831.2	221.6	8,368.5

1 In the year ended 31 December 2022, the Group identified an inaccuracy in the method used to compute and track movements between stages and movement categories. As a result, the Group has restated the prior year comparatives of the table above to reflect the revised movements. Overall totals remain unchanged.

2 Net changes in lending includes repayments, additional drawdowns and accrued interest.

Principal risks: Credit risk

Additional analysis of loans and advances to customers at FVOCI
For loans and advances to customers at FVOCI, the loss allowance is £2.4 million (2021: £nil). The loss allowance does not reduce the carrying amount of these assets, which remain at fair value. Instead, the loss allowance is recognised in the FVOCI reserve.

The following table provides an analysis of loans and advances to customers at FVOCI by lending segment and the year-end stage classification as at 31 December 2022. There were no loans and advances to customers at FVOCI as at 31 December 2021 and, accordingly, no comparative table is provided.

	Enterprise		
As at 31 December 2022	**Real Estate £m**	**TML Mortgages £m**	**Total £m**
Stage 1	**296.5**	**988.9**	**1,285.4**
Stage 2	**6.9**	**21.9**	**28.8**
Stage 3	**1.6**	**0.6**	**2.2**
Carrying amount[1]	**305.0**	**1,011.4**	**1,316.4**
Stage 1	**(0.3)**	**(1.6)**	**(1.9)**
Stage 2	**(0.2)**	**(0.1)**	**(0.3)**
Stage 3	**(0.2)**	**–**	**(0.2)**
Loss allowance	**(0.7)**	**(1.7)**	**(2.4)**
Loss allowance coverage			
Stage 1	**0.1%**	**0.2%**	**0.1%**
Stage 2	**2.9%**	**0.5%**	**1.0%**
Stage 3	**12.5%**	**–**	**9.1%**
Total loss allowance coverage	**0.2%**	**0.2%**	**0.2%**

All loans and advances to customers at FVOCI represent mortgage loan receivables.

The following table provides an analysis of movements during the year in the loss allowance associated with loans and advances to customers at FVOCI. In the absence of any opening balance, the table is compiled with movements shown in the stage in which the asset is held at the end of the year.

	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
As at 1 January 2022	**–**	**–**	**–**	**–**
ECL charge for the year				
New financial assets originated or purchased	**1.9**	**0.3**	**0.2**	**2.4**
Net ECL charge for the year	**1.9**	**0.3**	**0.2**	**2.4**
As at 31 December 2022	**1.9**	**0.3**	**0.2**	**2.4**

The net ECL charge for the year represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 18 of the Financial Statements). Of the £2.4 million charge, £0.7 million is attributable to Real Estate and £1.7 million to TML Mortgages.

[1] Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

Movements in the carrying amount of loans and advances to customers at FVOCI during the year (excluding fair value adjustments for hedged risk) are shown in the following table. In the absence of any opening balance, the table is compiled with movements shown in the stage in which the asset is held at the end of the year.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January 2022	**–**	**–**	**–**	**–**
Movements in carrying amount				
New financial assets originated or purchased	**1,313.3**	**29.5**	**2.2**	**1,345.0**
Change in fair value	**(16.7)**	**(0.4)**	**–**	**(17.1)**
Net change in lending[1]	**(11.2)**	**(0.3)**	**–**	**(11.5)**
Total movements in carrying amount	**1,285.4**	**28.8**	**2.2**	**1,316.4**
As at 31 December 2022	**1,285.4**	**28.8**	**2.2**	**1,316.4**

Additional analysis of loan commitments
The loss allowance for loan commitments is £0.5 million (2021: £0.7 million). The loss allowance is recognised as a provision (see Note 33 of the Financial Statements).

The following table provides an analysis of movements during the year in the loss allowance associated with loan commitments. The table is compiled by comparing the position at the end of the year to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the year, with all other movements shown in the stage in which the asset is held at the end of the year.

				2022				2021
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**0.3**	**0.1**	**0.3**	**0.7**	2.4	0.7	0.1	3.2
ECL (credit)/charge for the year								
Transfer from Stage 1	**–**	**–**	**–**	**–**	(0.1)	0.1	–	–
Transfer from Stage 2	**–**	**–**	**–**	**–**	0.2	(0.2)	–	–
Transfer from Stage 3	**0.2**	**–**	**(0.2)**	**–**	–	–	–	–
New loan commitments	**0.1**	**–**	**–**	**0.1**	0.1	–	–	0.1
Loan commitments derecognised	**(0.2)**	**–**	**–**	**(0.2)**	(0.9)	–	–	(0.9)
Changes in credit risk[2]	**(0.1)**	**(0.1)**	**0.1**	**(0.1)**	(1.4)	(0.5)	0.2	(1.7)
Net ECL (credit)/charge for the year	**–**	**(0.1)**	**(0.1)**	**(0.2)**	(2.1)	(0.6)	0.2	(2.5)
As at 31 December	**0.3**	**–**	**0.2**	**0.5**	0.3	0.1	0.3	0.7

The net ECL credit for the year represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 18 of the Financial Statements).

1 Net changes in lending includes repayments, additional drawdowns and accrued interest.
2 Changes in credit risk includes changes resulting from net changes in committed amounts and changes resulting from adjustments to the models used in the calculation of ECLs, including model inputs and underlying assumptions.

Principal risks: Credit risk

Movements in the gross loan commitment during the year that contributed to the changes in the associated loss allowance during the year are shown in the following table. The table is compiled by comparing the position at the end of the year to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the year, with all other movements shown in the stage in which the asset is held at the end of the year.

				2022				2021
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**1,176.8**	**45.9**	**8.9**	**1,231.6**	1,020.1	58.9	9.7	1,088.7
Movements in gross loan commitments								
Transfer from Stage 1	**(46.6)**	**38.4**	**8.2**	**–**	(26.2)	26.2	–	–
Transfer from Stage 2	**23.0**	**(25.6)**	**2.6**	**–**	28.1	(33.5)	5.4	–
Transfer from Stage 3	**2.5**	**1.5**	**(4.0)**	**–**	9.6	–	(9.6)	–
New loan commitments	**416.7**	**8.5**	**–**	**425.2**	517.9	11.2	–	529.1
Loan commitments derecognised	**(351.4)**	**–**	**(11.2)**	**(362.6)**	(358.7)	–	–	(358.7)
Net changes in commitments	**349.0**	**(11.7)**	**(2.8)**	**334.5**	(14.0)	(16.9)	3.4	(27.5)
Total movement in gross loan commitments	**393.2**	**11.1**	**(7.2)**	**397.1**	156.7	(13.0)	(0.8)	142.9
As at 31 December	**1,570.0**	**57.0**	**1.7**	**1,628.7**	1,176.8	45.9	8.9	1,231.6

Critical judgements relating to the impairment of financial assets *(audited)*

The measurement of ECLs requires the Group to make a number of judgements. The judgements that are considered to have the most significant effect on the amounts in the financial statements are:

- assessing whether there has been a SICR (resulting in the financial asset being transferred to Stage 2);
- determining whether a financial asset is in default or is credit-impaired (resulting in the financial asset being transferred to Stage 3); and
- determining whether a financial asset is 'cured' (and is therefore reclassified back to a lower stage).

These judgements have an impact upon the stage the financial asset is allocated to and therefore whether a 12-month or lifetime ECL is recognised.

The impairment of cash and balances at central banks, loans and advances to banks, investment securities, assets held for sale and loan commitments is immaterial. As such, the area where these judgements have the most significant effect specifically relates to the impairment of loans and advances to customers.

Additional details regarding each of these significant judgement areas are provided in the following sections.

A further area of judgement that is considered to have a significant effect on amounts in the financial statements is the application of judgemental adjustments to modelled ECLs. Judgemental adjustments are adjustments to the modelled ECL amount when the Group judges that the modelled ECL does not adequately reflect the expected risk in the portfolio, or where there is a risk that the model cannot be expected to pick up based on previous experience. Details of judgemental adjustments to the modelled ECL are provided on page 46.

The Group reviews and updates these key judgements bi-annually, in advance of the Interim Financial Report and the Annual Report and Accounts. All key judgements are reviewed and recommended to the Audit Committee for approval prior to implementation.

Assessing whether there has been a significant increase in credit risk

If a financial asset shows a SICR, it is transferred to Stage 2 and the ECL recognised changes from a 12-month ECL to a lifetime ECL. The assessment of whether there has been a SICR requires a high level of judgement as detailed below. The assessment of whether there has been a SICR also incorporates forward-looking information. The use of forward-looking information is detailed on page 56.

For the purposes of the SICR assessment, the Group applies a series of quantitative, qualitative and backstop criteria:

- **Quantitative criteria:** this considers the increase in an account's remaining lifetime PD at the reporting date compared to the expected residual lifetime PD when the account was originated. The Group segments its credit portfolios into PD bands and has determined a relevant threshold for each PD band, where a movement in excess of threshold is considered to be significant. These thresholds have been determined separately for each portfolio based on historical evidence of delinquency.
- **Qualitative criteria:** this includes the observation of specific events such as short-term forbearance, payment cancellation, historical arrears or extension to customer terms (see following table for further details).
- **Backstop criteria:** IFRS 9 'Financial Instruments' includes a rebuttable presumption that 30 days past due is an indicator of a SICR. The Group considers 30 days past due to be an appropriate backstop measure and does not rebut this presumption.

Principal risks: Credit risk

As a general indicator, there is deemed to be a SICR if the following criteria are identified based on the Group's quantitative modelling:

Real Estate	**Residential and commercial investment mortgages:** • External mortgage payments in arrears from the credit reference agencies. The external arrears information is statistically a lead indicator of financial difficulties and potential arrears on the loan book; • loan account is forborne; • entry on to amber watchlist; • for portfolios where the origination PD is less than 1%, an additional SICR rule has been implemented whereby the minimum additive PD movement must be at least 10% to trigger a SICR and applies to the remaining rules; • for short-term loans with a modelled PD: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than four times the estimate at origination for those older than six months on book and 1.5 times for those less than six months on book; • for term loans with a modelled PD since origination: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than two times the estimate at origination; or • for all portfolios originated as slotted, or that have ever been slotted during its life: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than three times the estimate at origination. **Residential owner-occupied mortgages:** • All exposures are graded under the modelled approach. Where the modelled PD > 0.38% and the absolute movement in remaining lifetime PD is more than four times the estimate at origination; • where the customer has ever been six or more payments in arrears on any fixed term account at the credit reference agency; • where the customer has missed a mortgage payment in the last six months at the credit reference agency; or • loan account is forborne.
SME	• For accounts within the digital SME portfolio: where the absolute movement in the remaining lifetime PD is more than two times the estimate at origination; • loan account is forborne; or • entry on to amber watchlist.
Consumer Lending	• Non-personal loans: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than two times the estimate at origination; • personal loans: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than two times the estimate at origination; • county court judgements registered at the credit reference agencies of > £150 or > £1,000 in last three years; or • loan account is forborne.
TML Mortgages	• Where the customer has missed a mortgage payment; • loan account is forborne; or • entry on to amber watchlist.

Stage 2 criteria are designed to be effective indicators of a significant deterioration in credit risk. As part of the bi-annual review of key impairment judgements, the Group undertakes detailed analysis to confirm that the Stage 2 criteria remain effective. This includes (but is not limited to):

- **Criteria effectiveness:** this includes the emergence to default for each Stage 2 criterion when compared to Stage 1, Stage 2 outflow as a percentage of Stage 2, percentage of new defaults that were in Stage 2 in the months prior to default, time in Stage 2 prior to default and percentage of the book in Stage 2 that are not progressing to default or curing.
- **Stage 2 stability:** this includes stability of inflows and outflows from Stage 2 and 3.
- **Portfolio analysis:** this includes the percentage of the portfolio that is in Stage 2 and not defaulted, the percentage of the Stage 2 transfer driven by Stage 2 criterion other than the backstops and back-testing of the defaulted accounts.

For low credit risk exposures, the Group is permitted to assume, without further analysis, that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. The Group has opted not to apply this low credit risk exemption.

Principal risks: Credit risk

Determining whether a financial asset is in default or is credit-impaired

When there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is transferred to Stage 3. The Group's definition of default is fully aligned with the definition of credit-impaired.

The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default. These criteria include:

- when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- when the borrower is more than 90 days past due on any credit obligation to the Group; and
- when a credit obligation to the Group has gone past maturity or there is doubt that the exit strategy for the obligation is likely.

Inputs into the assessment of whether a financial asset is in default and their significance may vary over time to reflect changes in circumstances.

Determining whether a financial asset is cured

The Group considers a financial asset to be 'cured', and therefore reclassifies back to a lower stage, when the assessed criteria that caused movement into the higher stage are no longer present.

The following curing rules are applied by the Group:

- For Stage 3 loans with forbearance arrangements in place: the loan must first successfully complete its 12-month curing period to be transferred to Stage 2. Following this, the loan must successfully complete a 24-month forbearance probation period before the forbearance classification can be discontinued and it can be returned to Stage 1.
- For Stage 3 loans that have cured without forbearance: the loan must complete a 12-month probation in Stage 2 prior to returning to Stage 1.
- For loans in Stage 2 as a result of arrears: the arrears must be cured for a period of 180 days prior to returning to Stage 1.
- For loans in Stage 2 as a result of an increase in PD: a probation period of 90 days must be completed prior to returning to Stage 1.
- For Stage 2 loans with forbearance measures in place: the loan must complete a 24-month forbearance probation period before the forbearance classification can be discontinued and it can be returned to Stage 1.
- For loan products such as revolving credit facilities: the loan must be in 'amber watchlist' (monitoring) for 180-days prior to returning to Stage 1 and, if it has forbearance measures in place, it must complete a 24-month forbearance probation period, throughout which it must remain in 'amber watchlist', before the forbearance classification can be discontinued and it can be returned to Stage 1.

Critical accounting estimates relating to the impairment of financial assets *(audited)*

The calculation of ECLs requires the Group to make a number of assumptions and estimates. The accuracy of the ECL calculation would be impacted by movements in the forward-looking economic scenarios used, or the probability weightings applied to these scenarios and by unanticipated changes to model assumptions that differ from actual outcomes.

The key assumptions and estimates that, depending on a range of factors, could result in a material adjustment in the next financial year relate to the use of forward-looking information in the calculation of ECLs and the inputs and assumptions used in the ECL models. Additional information about both of these areas is set out below.

The impairment of cash and balances at central banks, loans and advances to banks, investment securities, assets held for sale and loan commitments is immaterial. As such, the area where the assumptions and estimates set out below could have the most significant impact specifically relates to the impairment of loans and advances to customers.

Forward-looking information

The Group incorporates forward-looking information into the calculation of ECLs and the assessment of whether there has been a SICR. The use of forward-looking information represents a key source of estimation uncertainty.

The Group uses four forward-looking economic scenarios: a base case (central view), an alternative upside scenario, an alternative moderate downside scenario and an alternative severe downside scenario.

The central view used is informed by the HM Treasury Central forecast that is published quarterly and used as part of the Group's corporate planning activity. Intra-quarter, the Group considers survey-based data and lead indicators to inform whether the central view continues to be appropriate. The Group focuses its view on the next five years as part of the narrative to the scenario but has rate paths that extend out beyond the planning period for the Group and up to 20 years.

For the alternative scenarios, the Group is not large enough to have an internal economist and therefore works with a third party on the narrative of the scenarios and the rate paths to ensure that they are internally consistent using the UK Treasury model. The rate paths used in the scenarios are consistent with the core UK macroeconomic factors that are published by the Bank of England as part of the annual stress testing exercise.

Risk Report

Principal risks: Credit risk

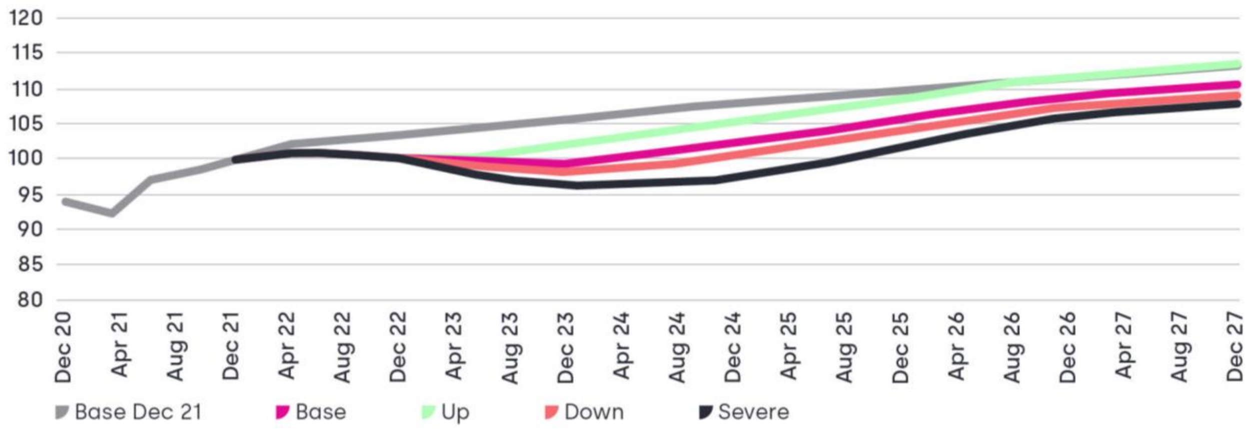
The nature and shape of the economic scenarios reflect the outlook of the UK economy.

As at 31 December 2022, the economic scenarios used reflect that the UK economy is expected to enter a shallow recession in all scenarios. The scenarios incorporate the elevated interest rate environment, which is now expected to remain elevated for longer, high inflation and the potential for a fall in house prices as increased interest rates reduce affordability, particularly for first time buyers.

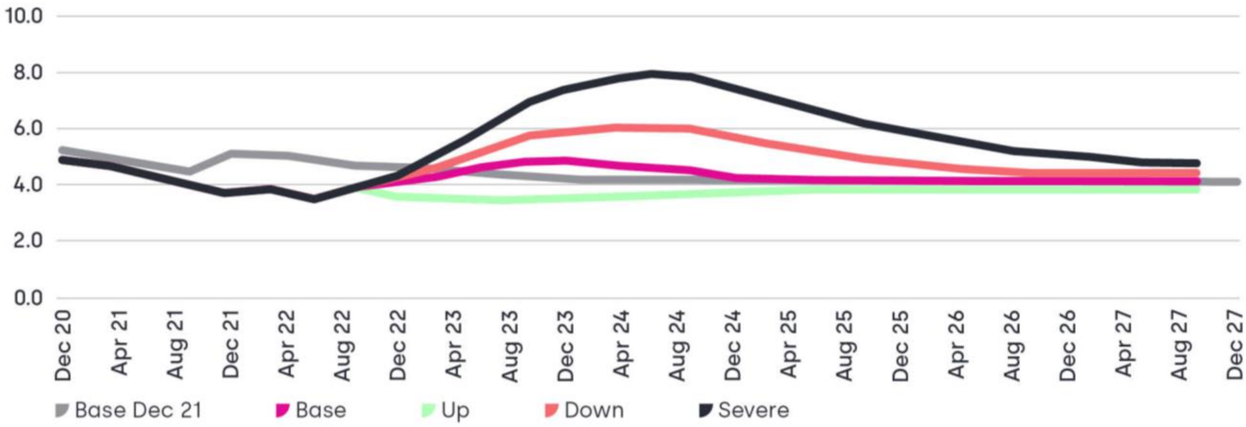
This is in contrast to the economic scenarios used as at 31 December 2021, which reflected the sharp growth that was seen in the UK in the first half of 2021 as COVID-19 restrictions ended, balanced against the remaining downside risks, such as acute material shortages, which were impacting growth in the short- to medium-term.

A summary of the economic variables used in both reported years are detailed in the following charts and tables:

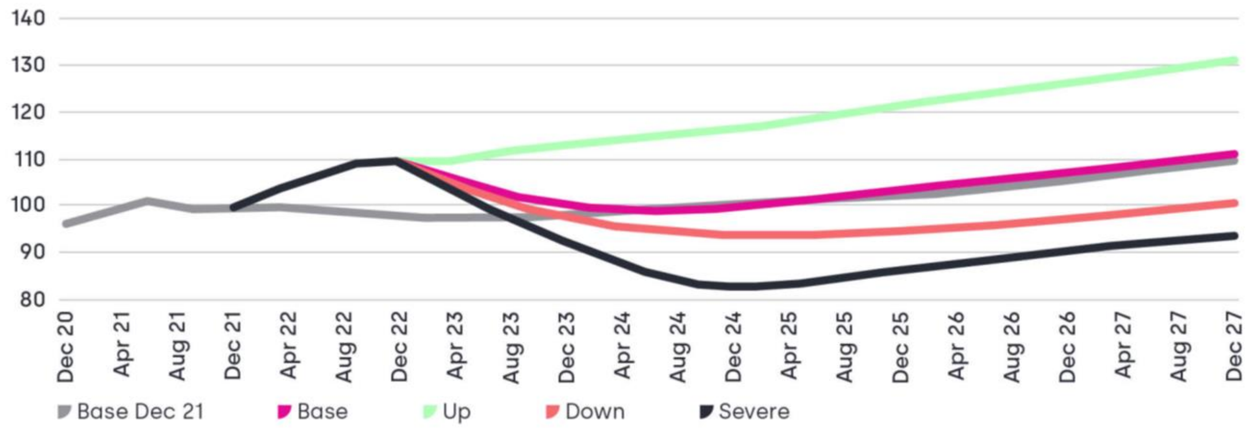
UK Real GDP (Indexed Dec 2021 = 100)



UK Unemployment (%)



UK Residential Property Prices (Indexed Dec 2021 = 100)



Principal risks: Credit risk

As at 31 December 2022		**2023**	**2024**	**2025**	**2026**	**2027**
GDP – % average change year-on-year	Base	**(1.1%)**	**1.8%**	**3.1%**	**3.3%**	**2.0%**
	Upside	**0.5%**	**3.1%**	**3.0%**	**3.0%**	**2.0%**
	Downside	**(1.7%)**	**0.7%**	**3.3%**	**3.3%**	**2.0%**
	Severe downside	**(3.0%)**	**(0.7%)**	**3.4%**	**4.5%**	**2.8%**
Bank Rate (%)	Base	**3.50%**	**2.75%**	**2.50%**	**2.25%**	**2.25%**
	Upside	**3.25%**	**2.50%**	**2.25%**	**2.25%**	**2.25%**
	Downside	**4.25%**	**3.75%**	**3.00%**	**2.25%**	**2.25%**
	Severe downside	**5.00%**	**4.75%**	**3.75%**	**2.75%**	**2.25%**
UK Unemployment (%)	Base	**4.8%**	**4.5%**	**4.1%**	**4.1%**	**4.1%**
	Upside	**3.5%**	**3.7%**	**3.9%**	**3.9%**	**3.9%**
	Downside	**5.7%**	**5.9%**	**4.9%**	**4.4%**	**4.4%**
	Severe downside	**6.9%**	**7.8%**	**6.2%**	**5.1%**	**4.7%**
Consumer Price Index – % change year-on-year	Base	**6.6%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
	Upside	**3.8%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
	Downside	**9.7%**	**2.2%**	**2.0%**	**2.0%**	**2.0%**
	Severe downside	**12.5%**	**6.2%**	**2.1%**	**2.0%**	**2.0%**
UK Residential House Price Index – % change year-on-year	Base	**(8.4%)**	**(0.3%)**	**3.7%**	**3.4%**	**3.6%**
	Upside	**3.4%**	**3.1%**	**4.3%**	**4.0%**	**3.6%**
	Downside	**(10.8%)**	**(3.9%)**	**0.6%**	**3.1%**	**3.6%**
	Severe downside	**(15.7%)**	**(10.4%)**	**4.3%**	**4.8%**	**3.9%**

As at 31 December 2021		2022	2023	2024	2025	2026
GDP – % average change year-on-year	Base	5.7%	2.3%	2.3%	1.7%	1.7%
	Upside	8.2%	2.4%	2.3%	1.7%	1.7%
	Downside	3.2%	3.1%	2.3%	1.7%	1.7%
	Severe downside	0.7%	3.6%	2.0%	1.8%	1.7%
Bank Rate (%)	Base	0.20%	0.50%	0.75%	1.00%	1.50%
	Upside	0.25%	0.75%	1.00%	1.25%	1.75%
	Downside	0.10%	0.20%	0.50%	0.75%	1.25%
	Severe downside	0.10%	0.20%	0.50%	0.75%	1.25%
UK Unemployment (%)	Base	4.6%	4.2%	4.1%	4.1%	4.1%
	Upside	4.0%	3.9%	3.9%	3.9%	3.9%
	Downside	5.9%	5.1%	4.8%	4.5%	4.5%
	Severe downside	7.9%	7.1%	5.7%	5.0%	5.0%
Consumer Price Index – % change year-on-year	Base	2.3%	1.7%	2.0%	2.0%	2.0%
	Upside	0.9%	2.0%	2.0%	2.0%	2.0%
	Downside	1.9%	1.7%	2.0%	2.0%	2.0%
	Severe downside	3.5%	1.9%	2.0%	2.0%	2.0%
UK Residential House Price Index – % change year-on-year	Base	(2.0%)	0.4%	1.9%	1.8%	3.7%
	Upside	4.1%	3.2%	3.1%	3.0%	3.7%
	Downside	(7.7%)	(1.3%)	3.6%	3.2%	3.7%
	Severe downside	(13.4%)	(3.9%)	7.4%	5.4%	3.7%

Principal risks: Credit risk

The probability weightings applied to the above scenarios are another area of estimation uncertainty. They are generally set to ensure that there is an asymmetry in the ECL. The probability weightings applied to the four economic scenarios used are as follows:

	2022	2021
Base	**40%**	60%
Upside	**10%**	10%
Downside	**35%**	25%
Severe downside	**15%**	5%

In determining the probability weightings, the Group has regularly considered the nature and probability of the alternative downside scenarios. The probability weightings applied are unchanged from that used at H1 2022 in the Interim Financial Report, with the downside and severe downside scenario weightings increasing by 10% each compared to 31 December 2021 to 35% and 15%, respectively, with a corresponding reduction in the base case weighting. This reflects the deterioration in the upside and base case scenarios and movement in risk toward the downside.

The Group undertakes a review of its economic scenarios and the probability weightings applied at least quarterly and more frequently if required. The results of this review are recommended to the Audit Committee and the Board prior to any changes being implemented.

The calculation of ECLs is sensitive to the assumptions made regarding the forward-looking scenarios used and the probability weightings applied. The Group performs sensitivity analysis to assess the impact on the loss allowance recognised on its loans and advances to customers. Loans and advances to customers at FVOCI are not included in this sensitivity analysis in the current year as the Group is developing its methodology to provide meaningful analysis. Sensitivity analysis therefore just looks at the impact of certain changes upon loans and advances to customers measured at amortised cost.

The following table shows the loss allowance as at 31 December 2022 for loans and advances to customers at amortised cost based on the probability-weighted multiple economic scenarios, as recognised in the statement of financial position, and the impact on this loss allowance if each individual forward-looking scenario was weighted at 100%.

In relation to the below analysis, in each of the scenarios, judgemental adjustments to modelled ECLs (PMAs and overlays) are assumed to be constant and have been added back into each of the scenarios.

		Increase/(decrease) in loss allowance if scenario weighted at 100%			
As at 31 December 2022	**Probability-weighted loss allowance per statement of financial position £m**	**Base £m**	**Upside £m**	**Downside £m**	**Severe downside £m**
Loans and advances to customers at amortised cost					
Real Estate and TML Mortgages[1]	**32.7**	**(2.6)**	**(8.8)**	**1.2**	**10.0**
SME	**54.8**	**(1.5)**	**(4.9)**	**1.1**	**4.7**
Consumer Lending	**24.3**	**(1.2)**	**(1.9)**	**0.5**	**3.3**
Total	**111.8**	**(5.3)**	**(15.6)**	**2.8**	**18.0**

[1] As detailed in the 2021 Annual Report and Accounts, in the year ended 31 December 2021, a new reportable segment, TML Mortgages, was added, which was previously reported as part of Real Estate. For the purpose of sensitivity analysis, TML Mortgages continues to be grouped in with Real Estate while the Group develops its methodology.

Principal risks: Credit risk

Model estimations
ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The Group considers the key assumptions impacting the ECL calculation to be within the PD and LGD. Sensitivity analysis is performed by the Group to assess the impact of changes in these key assumptions on the loss allowance recognised on loans and advances to customers measured at amortised cost.

A summary of the key assumptions and sensitivity analysis as at 31 December 2022 is provided in the following table.

Assumption	Sensitivity analysis
PD	• A 10% increase in the PD for each customer would increase the total loss allowance on loans and advances to customers at amortised cost by £5.2 million.
LGD: Real Estate and TML Mortgages[1]	
• Property value	• A 10% absolute reduction in property prices would increase the loss allowance on loans and advances to customers at amortised cost in the Real Estate and TML Mortgages segments by £8.7 million.
• Forced sale discount	• A 5% absolute increase in the forced sale discount would increase the loss allowance on loans and advances to customers at amortised cost in the Real Estate and TML Mortgages segments by £5.8 million.
LGD: SME	
• Absolute LGD value	• A 5% absolute increase in the LGD applied would increase the total loss allowance on loans and advances to customers at amortised cost in SME by £7.6 million.
LGD: Consumer Lending	
• Loss given charge-off	• A 10% absolute increase in the loss given charge-off would increase the loss allowance on loans and advances to customers at amortised cost in Consumer Lending by £3.1 million.

(c) Exposure to credit risk *(audited)*

Maximum exposure to credit risk
The following table presents the Group's maximum exposure to credit risk before taking into account any collateral held or other credit risk enhancements (unless such enhancements meet accounting offsetting enhancements).

For financial assets, the Group's maximum exposure to credit risk is the carrying amount (after the deduction of loss allowance where appliable). For the purposes of this disclosure, fair value adjustments for hedged risk recognised on loans and advances to customers are not included. For loan commitments, the maximum exposure to credit risk is the full amount of the committed facilities.

	2022 £m	2021 £m
Cash and balances at central banks	**2,037.1**	1,693.8
Loans and advances to banks	**263.5**	66.9
Loans and advances to customers at amortised cost	**9,352.9**	8,292.5
Loans and advances to customers at FVOCI	**1,316.4**	–
Investment securities	**691.0**	521.4
Derivative financial assets	**330.7**	21.5
Assets held for sale	**–**	299.7
Loan commitments	**1,628.7**	1,231.6
Maximum exposure to credit risk	**15,620.3**	12,127.4

[1] As detailed in the 2021 Annual Report and Accounts, in the year ended 31 December 2021, a new reportable segment, TML Mortgages, was added, which was previously reported as part of Real Estate. For the purpose of sensitivity analysis, TML Mortgages continues to be grouped in with Real Estate while the Group develops its methodology.

Principal risks: Credit risk

Credit risk grading
To assess exposure to credit risk, the Group has developed a credit risk grading system, as set out in the table below, which maps to a common master grading scale. This credit risk grading system is applied to the Group's financial assets for which a loss allowance is recognised, together with loan commitments. The grading system consists of 25 grades on a master grading scale, reflecting varying degrees of risk and default. Responsibility for setting risk grades lies with the approval point for the risk or committee, as appropriate. Risk grades are subject to regular reviews by the Group's risk function.

Credit risk grading	Master grading scale	PD range
Low risk	1-10	<=0.38%
Medium risk	11-15	>0.38% to <= 1.76%
High risk	16-25	>1.76%

The following information provides an analysis of the Group's exposures to credit risk by credit risk grade and year-end stage classification. The credit risk grade refers to the grades defined in the preceding table. The year-end stage classification refers to the IFRS 9 stage as defined on page 43. It should be noted that the credit risk grading is a point-in-time assessment, whereas the year-end stage classification is determined based on the change in credit risk since initial recognition. As such, for non-credit impaired financial assets, there is not a direct relationship between the credit risk grade and stage classification.

For cash and balances at central banks, loans and advances to banks and investment securities, all exposures are graded as low risk and are in Stage 1 in both reported years.

For assets held for sale the balance as at 31 December 2022 is £nil. As at 31 December 2021, £298.0 million of the carrying amount (after the deduction of loss allowance) was graded as low risk and was in Stage 1, £1.7 million was graded as high risk of which £1.2 million was in Stage 2 and £0.5 million was in Stage 3.

For loans and advances to customers at amortised cost and loan commitments, analysis is provided in the following tables. For loans and advances to customers at FVOCI, the Group is currently developing its credit grading model, consequently, credit grading information is not provided for these loans for this reporting period.

Loans and advances to customers at amortised cost	2022				2021 (Restated)[1]			
	Stage 1 £m	**Stage 2 £m**	**Stage 3[2] £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3[2] £m	Total £m
Low risk	**923.2**	**8.2**	**–**	**931.4**	1,147.9	44.1	1.8	1,193.8
Medium risk	**3,210.4**	**141.4**	**1.4**	**3,353.2**	3,347.2	244.4	–	3,591.6
High risk	**3,168.9**	**648.3**	**235.8**	**4,053.0**	1,583.7	518.9	214.8	2,317.4
Ungraded[1]	**977.0**	**99.4**	**50.7**	**1,127.1**	1,236.9	23.8	5.0	1,265.7
Gross carrying amount	**8,279.5**	**897.3**	**287.9**	**9,464.7**	7,315.7	831.2	221.6	8,368.5
Loss allowance	**(43.2)**	**(22.6)**	**(46.0)**	**(111.8)**	(25.8)	(15.2)	(35.0)	(76.0)
Carrying amount[3]	**8,236.3**	**874.7**	**241.9**	**9,352.9**	7,289.9	816.0	186.6	8,292.5

Loan commitments	2022				2021			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Low risk	**986.6**	**–**	**–**	**986.6**	576.7	–	–	576.7
Medium risk	**302.5**	**–**	**–**	**302.5**	323.8	5.6	–	329.4
High risk	**280.9**	**57.0**	**1.7**	**339.6**	276.3	40.3	8.9	325.5
Total amount committed	**1,570.0**	**57.0**	**1.7**	**1,628.7**	1,176.8	45.9	8.9	1,231.6

1 For certain mortgage loans, the Group is developing its credit grading model. These loans are classified as 'ungraded'. Comparative figures have been restated to reclassify loans that will be subject to the new grading methodology to the 'ungraded' category to improve comparability. The reclassification to the ungraded category in the comparative year comprised £153.2 million from low risk, £740.6 million from medium risk and £371.9 million from high risk.
2 Stage 3 includes POCI loans with a carrying amount of £16.2 million, of which £13.3 million is in the high risk grade and £2.9 million is ungraded (2021: £3.3 million, all high risk grade).
3 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

(d) Concentrations of credit risk *(audited)*

A concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group monitors concentrations of credit risk and implements limits on concentrations where necessary in order to mitigate and control credit concentration risk.

Additional analysis regarding concentrations of credit risk in relation to loans and advances to customers, the principal source of credit risk for the Group, is provided below. Amounts included in these tables present the combined carrying amount[1] of the Group's loans and advances to customers at amortised cost and at FVOCI.

Concentrations of credit risk by geographic location

The following tables present an analysis of the combined carrying amount of the Group's loans and advances to customers at amortised cost and at FVOCI by lending segment and geographic location. The Group is predominantly a UK lender and continues to maintain a geographically diverse portfolio spanning across the UK. Outside of the UK, a small proportion of loans are attributable to counterparties domiciled in the Channel Islands, representing 0.3% of total loans (2021: 0.4% of total loans).

	Enterprise				
As at 31 December 2022	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**TML Mortgages £m**	**Total £m**
East Anglia	**195.0**	**110.5**	**19.2**	**54.6**	**379.3**
East Midlands	**311.8**	**112.3**	**34.0**	**86.0**	**544.1**
Greater London	**2,033.0**	**670.6**	**54.6**	**399.7**	**3,157.9**
Guernsey/Jersey/Isle of Man	**16.1**	**13.1**	**–**	**–**	**29.2**
North East	**106.3**	**37.9**	**26.9**	**47.4**	**218.5**
North West	**585.7**	**281.2**	**58.0**	**147.1**	**1,072.0**
Northern Ireland	**6.0**	**1.0**	**0.2**	**–**	**7.2**
Scotland	**349.8**	**78.0**	**59.6**	**114.3**	**601.7**
South East	**1,211.9**	**349.2**	**97.2**	**330.6**	**1,988.9**
South West	**402.2**	**335.6**	**41.7**	**87.3**	**866.8**
Wales	**164.2**	**71.7**	**24.7**	**45.1**	**305.7**
West Midlands	**376.6**	**225.6**	**44.9**	**94.0**	**741.1**
Yorkshire/Humberside	**350.8**	**266.6**	**44.2**	**95.3**	**756.9**
Carrying amount[2]	**6,109.4**	**2,553.3**	**505.2**	**1,501.4**	**10,669.3**

	Enterprise				
As at 31 December 2021 (Restated)[1]	Real Estate £m	SME £m	Consumer Lending £m	TML Mortgages £m	Total £m
East Anglia	148.5	117.1	17.1	20.2	302.9
East Midlands	239.0	98.9	30.8	30.0	398.7
Greater London	1,786.9	599.0	48.4	146.5	2,580.8
Guernsey/Jersey/Isle of Man	24.3	11.3	–	–	35.6
North East	88.6	19.7	21.0	16.5	145.8
North West	463.2	238.6	49.3	48.1	799.2
Northern Ireland	5.3	1.2	0.5	0.1	7.1
Scotland	294.9	96.9	51.4	41.4	484.6
South East	1,043.7	255.2	81.5	99.1	1,479.5
South West	348.5	265.0	36.2	31.9	681.6
Wales	134.6	54.6	20.9	16.1	226.2
West Midlands	279.7	202.4	39.7	33.4	555.2
Yorkshire/Humberside	305.9	221.7	38.2	29.5	595.3
Carrying amount[2]	5,163.1	2,181.6	435.0	512.8	8,292.5

1 Comparative information in the concentration of credit risk tables as at 31 December 2021 was previously reported presenting the gross carrying amount (before loss allowance). Amounts have been restated to present the carrying amount (after loss allowance) i.e. deducting the £76.0 million loss allowance. This is to align with the Group's definition of 'maximum exposure to credit risk', which is in accordance with IFRS 7, and brings consistency with the amounts presented in the exposure to credit risk tables (see page 60).

2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

Concentrations of credit risk by loan size
The following tables present an analysis of the combined carrying amount of the Group's loans and advances to customers at amortised cost and at FVOCI by lending segment and loan size. The Group continues to manage concentration risk through product caps, restricting large exposures to higher credit graded customers, and through specific risk appetite limits on exposure to larger counterparties. Loans with a carrying amount exceeding £25.0 million represents 1.9% of total loans (2021: 1.0% of total loans) and 63.8% of total loans have a carrying amount of less than £1.0 million (2021: 63.2% of total loans).

	Enterprise				
As at 31 December 2022	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**TML Mortgages £m**	**Total £m**
0 – £50k	**146.2**	**31.3**	**504.9**	**26.4**	**708.8**
£50k – £100k	**473.1**	**38.4**	**0.3**	**169.8**	**681.6**
£100k – £250k	**1,582.9**	**91.4**	**–**	**647.1**	**2,321.4**
£250k – £500k	**1,389.1**	**106.7**	**–**	**483.0**	**1,978.8**
£500k – £1.0 million	**830.1**	**144.8**	**–**	**142.7**	**1,117.6**
£1.0 million – £2.5 million	**828.4**	**392.7**	**–**	**29.6**	**1,250.7**
£2.5 million – £5.0 million	**357.6**	**446.5**	**–**	**2.8**	**806.9**
£5.0 million – £10.0 million	**257.5**	**431.9**	**–**	**–**	**689.4**
£10.0 million – £25.0 million	**188.8**	**717.8**	**–**	**–**	**906.6**
> £25.0 million	**55.7**	**151.8**	**–**	**–**	**207.5**
Carrying amount[1]	**6,109.4**	**2,553.3**	**505.2**	**1,501.4**	**10,669.3**

	Enterprise				
As at 31 December 2021 (Restated)[2]	Real Estate £m	SME £m	Consumer Lending £m	TML Mortgages £m	Total £m
0 – £50k	157.6	46.3	434.6	13.4	651.9
£50k – £100k	429.3	39.4	0.4	57.1	526.2
£100k – £250k	1,395.5	91.6	–	223.7	1,710.8
£250k – £500k	1,183.8	93.1	–	155.6	1,432.5
£500k – £1.0 million	687.8	178.9	–	55.1	921.8
£1.0 million – £2.5 million	633.4	393.9	–	7.9	1,035.2
£2.5 million – £5.0 million	325.4	391.1	–	–	716.5
£5.0 million – £10.0 million	138.3	337.5	–	–	475.8
£10.0 million – £25.0 million	156.4	583.7	–	–	740.1
> £25.0 million	55.6	26.1	–	–	81.7
Carrying amount[1]	5,163.1	2,181.6	435.0	512.8	8,292.5

1 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

2 Comparative information in the concentration of credit risk tables as at 31 December 2021 was previously reported presenting the gross carrying amount (before loss allowance). Amounts have been restated to present the carrying amount (after loss allowance) i.e. deducting the £76.0 million loss allowance. This is to align with the Group's definition of 'maximum exposure to credit risk', which is in accordance with IFRS 7, and brings consistency with the amounts presented in the exposure to credit risk tables (see page 60).

Principal risks: Credit risk

Concentrations of credit risk by industry
The following tables present an analysis of the combined carrying amount of the Group's loans and advances to customers at amortised cost and at FVOCI by lending segment and industry. The industry segmentation of the Group's loans and advances to customers remains focused on mortgages and real estate activities, which represents 68.7% of the loan portfolio (2021: 66.1%).

	Enterprise				
As at 31 December 2022	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**TML Mortgages £m**	**Total £m**
Agriculture, forestry and fishing	**0.2**	**16.5**	**–**	**–**	**16.7**
Manufacturing	**2.6**	**203.4**	**–**	**–**	**206.0**
Transport, storage and utilities	**7.0**	**266.9**	**–**	**0.2**	**274.1**
Construction	**386.0**	**460.1**	**–**	**–**	**846.1**
Wholesale and retail trade	**13.1**	**192.0**	**–**	**–**	**205.1**
Real estate activities	**3,026.0**	**553.0**	**–**	**523.7**	**4,102.7**
Financial and insurance activities	**20.3**	**600.3**	**–**	**–**	**620.6**
Services and other[1]	**104.8**	**253.0**	**–**	**0.9**	**358.7**
Personal[1]:					
Mortgages	**2,243.0**	**8.0**	**–**	**976.6**	**3,227.6**
Other	**306.4**	**0.1**	**505.2**	**–**	**811.7**
Carrying amount[2]	**6,109.4**	**2,553.3**	**505.2**	**1,501.4**	**10,669.3**

	Enterprise				
As at 31 December 2021 (Restated)[1, 3]	Real Estate £m	SME £m	Consumer Lending £m	TML Mortgages £m	Total £m
Agriculture, forestry and fishing	0.2	20.2	–	–	20.4
Manufacturing	6.4	192.4	–	–	198.8
Transport, storage and utilities	5.3	239.8	–	–	245.1
Construction	315.9	383.5	–	–	699.4
Wholesale and retail trade	14.8	141.0	–	–	155.8
Real estate activities	2,415.6	557.4	–	153.7	3,126.7
Financial and insurance activities	18.5	456.8	–	–	475.3
Services and other[1]	91.8	184.2	–	–	276.0
Personal[1]:					
Mortgages	1,992.4	6.1	–	359.1	2,357.6
Other	302.2	0.2	435.0	–	737.4
Carrying amount[2]	5,163.1	2,181.6	435.0	512.8	8,292.5

1 A presentational change has been implemented in the current year to separate personal loans out of 'services and other'. Comparative figures have been restated accordingly.
2 Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.
3 Comparative information in the concentration of credit risk tables as at 31 December 2021 was previously reported presenting the gross carrying amount (before loss allowance). Amounts have been restated to present the carrying amount (after loss allowance) i.e. deducting the £76.0 million loss allowance. This is to align with the Group's definition of 'maximum exposure to credit risk', which is in accordance with IFRS 7, and brings consistency with the amounts presented in the exposure to credit risk tables (see page 60).

Principal risks: Credit risk

(e) Collateral held and other credit enhancements *(audited)*

As a key method of mitigating credit risk, the Group holds collateral and other credit enhancements against certain of its financial assets. The Group operates internal policies governing the acceptability of specific classes of collateral or credit risk mitigation. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The Group's policies regarding obtaining collateral have not significantly changed during the year and there has been no significant change in the overall quality of the collateral held by the Group since the prior year.

Derivative financial assets

All new eligible derivative transactions with wholesale counterparties are centrally cleared with cash posted as collateral to further mitigate credit risk. Residual and non-eligible trades are collateralised under a Credit Support Annex in conjunction with the ISDA Master Agreement.

Non-derivative financial assets

For loans and advances to banks and investment securities, collateral is generally not held. However, at times, certain securities are held as part of reverse repurchase agreements.

For loans and advances to customers, the Group obtains collateral for certain of its exposures.

The types of collateral obtained to secure customer loans is dependent upon the loan type:

- **Loan receivables:** amounts may be secured by a first or second charge over commercial and residential property, or against debt receivables or other assets such as asset backed loans and invoice receivables.
- **Finance lease receivables and instalment credit receivables:** amounts are secured against the underlying asset, which can be repossessed in the event of a default.

Collateral held in relation to secured loans is capped, after taking into account the first charge balance, at the carrying amount of the loan.

Certain customer loans have been offered under government support schemes (Coronavirus Business Interruption Loan Scheme and Recovery Loan Scheme). The UK Government provides the Group with a guarantee to protect 80% of any post recovery loss in the event of default on such loans, thus providing a form credit enhancement.

The following tables set out the security profile of the Group's loans and advances to customers by lending segment. Amounts included in the tables present the combined carrying amount of loans and advances to customers at amortised cost and at FVOCI. Loans with a government guarantee, as detailed above, are classified as secured for the purposes of this disclosure.

	Enterprise				
As at 31 December 2022	Real Estate £m	SME £m	Consumer Lending £m	TML Mortgages £m	Total £m
Secured on commercial and residential property	6,109.4	861.3	–	1,501.4	8,472.1
Secured on debt receivables	–	966.7	–	–	966.7
Secured on other assets	–	269.5	–	–	269.5
Secured on finance lease assets	–	37.7	–	–	37.7
Secured on instalment credit assets	–	371.1	–	–	371.1
Loans with 80% government guarantee	–	31.6	–	–	31.6
Total secured loans and advances to customers	6,109.4	2,537.9	–	1,501.4	10,148.7
Unsecured loan receivables	–	15.4	505.2	–	520.6
Carrying amount[1]	6,109.4	2,553.3	505.2	1,501.4	10,669.3

[1] Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

As at 31 December 2021 (Restated)[1]	Enterprise Real Estate £m	Enterprise SME £m	Consumer Lending £m	TML Mortgages £m	Total £m
Secured on commercial and residential property	5,163.1	704.4	–	512.8	6,380.3
Secured on debt receivables	–	784.5	–	–	784.5
Secured on other assets	–	214.5	–	–	214.5
Secured on finance lease assets	–	51.2	–	–	51.2
Secured on instalment credit assets	–	364.7	–	–	364.7
Loans with 80% government guarantee	–	43.6	–	–	43.6
Total secured loans and advances to customers	5,163.1	2,162.9	–	512.8	7,838.8
Unsecured loan receivables	–	18.7	435.0	–	453.7
Carrying amount[2]	5,163.1	2,181.6	435.0	512.8	8,292.5

Credit-impaired financial assets
The Group closely monitors collateral held for financial assets considered to be credit-impaired (Stage 3 and POCI), reflecting the increased likelihood that the Group may need to take possession of such collateral to mitigate credit losses.

The only asset categories with credit-impaired assets are loans and advances to customers at amortised cost and, in the current year, loans and advances to customers at FVOCI.

The below tables provide further information about the Group's credit-impaired loans at amortised cost and the related collateral held by lending segment. The fair value of collateral is capped at the carrying amount of the loan.

	Gross carrying amount		**Loss allowance**		**Carrying amount**		**Fair value of collateral held**
As at 31 December 2022	**Secured £m**	**Unsecured £m**	**Secured £m**	**Unsecured £m**	**Secured £m**	**Unsecured £m**	**£m**
Real Estate	**197.7**	**–**	**(18.8)**	**–**	**178.9**	**–**	**178.9**
SME	**84.0**	**–**	**(23.5)**	**–**	**60.5**	**–**	**60.5**
Consumer Lending	**–**	**4.4**	**–**	**(3.5)**	**–**	**0.9**	**n/a**
TML Mortgages	**1.8**	**–**	**(0.2)**	**–**	**1.6**	**–**	**1.6**
Total credit-impaired loans at amortised cost	**283.5**	**4.4**	**(42.5)**	**(3.5)**	**241.0**	**0.9**	**241.0**

	Gross carrying amount		Loss allowance		Carrying amount		Fair value of collateral held
As at 31 December 2021	Secured £m	Unsecured £m	Secured £m	Unsecured £m	Secured £m	Unsecured £m	£m
Real Estate	127.4	–	(13.4)	–	114.0	–	114.0
SME	89.7	–	(18.4)	–	71.3	–	71.3
Consumer Lending	–	4.4	–	(3.2)	–	1.2	n/a
TML Mortgages	0.1	–	–	–	0.1	–	0.1
Total credit-impaired loans at amortised cost	217.2	4.4	(31.8)	(3.2)	185.4	1.2	185.4

Credit-impaired loans at FVOCI have a carrying amount of £2.2 million, of which £1.6 million is attributable to Real Estate and £0.6 million to TML Mortgages. These loans are fully secured with the fair value of collateral deemed to be at least equal to the carrying amount.

[1] Comparative information as at 31 December 2021 was previously reported presenting the gross carrying amount (before loss allowance). Amounts have been restated to present the carrying amount (after loss allowance) i.e. deducting the £76.0 million loss allowance. This is to align with the Group's definition of 'maximum exposure to credit risk', which is in accordance with IFRS 7, and brings consistency with the amounts presented in the exposure to credit risk tables (see page 60).

[2] Excludes fair value adjustments for hedged risk recognised on loans and advances to customers.

Principal risks: Credit risk

The following table shows the distribution of loan-to-value ratios for the Group's credit-impaired mortgage assets held in the Real Estate and TML Mortgages lending segments. The loan-to-value is calculated as the ratio of the customer loan balance to the value of the collateral at origination. Amounts in the following table reflect the carrying amount of the credit-impaired mortgage assets.

	2022				2021 (Restated)[1]	
	Credit-impaired mortgage assets at amortised cost		**Credit-impaired mortgage assets at FVOCI**		Credit-impaired mortgage assets at amortised cost	
	Real Estate £m	**TML Mortgages £m**	**Real Estate £m**	**TML Mortgages £m**	Real Estate £m	TML Mortgages £m
Loan-to-value ratio						
Less than 50%	**12.2**	**–**	**0.1**	**–**	9.4	–
50-70%	**66.4**	**0.5**	**0.3**	**0.1**	43.1	–
71-90%	**100.1**	**1.1**	**1.2**	**0.5**	61.1	0.1
91-100%	**0.2**	**–**	**–**	**–**	0.4	–
More than 100%	**–**	**–**	**–**	**–**	–	–
Total credit-impaired mortgage assets	**178.9**	**1.6**	**1.6**	**0.6**	114.0	0.1

Repossessions
The Group's policy is to pursue the realisation of collateral in an orderly manner. For part of the comparative year ended 31 December 2021, the Group complied with regulatory and government guidelines issued in response to the coronavirus pandemic, which imposed restrictions on repossessions throughout the UK. The Group recommenced application of its normal repossessions policy when the restrictions were lifted and took possession of a number of properties during the remainder of 2021. There have been no restrictions in place on repossessions during 2022.

As at 31 December 2022, the Group held 17 repossessed properties with a carrying amount of £22.8 million (2021: 10 repossessed properties with carrying amount of £8.5 million).

(f) Forbearance *(audited)*

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 depending on the circumstances, progress on financial rehabilitation and the detail of the concession(s) agreed.

The Group excludes short-term repayment plans that are up to three months in duration from its definition of forborne loans.

The Group applies the European Banking Authority (EBA) Implementing Technical Standards on forbearance and non-performing exposures as defined in Annex V of Commission Implementing Regulation (EU) 2015/227. Under these standards, loans are classified as performing or non-performing in accordance with the EBA rules, as adopted by the Prudential Regulation Authority (PRA).

The EBA standards stipulate that a forbearance classification can be discontinued when all of the following conditions have been met:

- the exposure is considered to be performing, including where it has been reclassified from the non-performing category, after an analysis of the financial condition of the debtor showed that it no longer met the conditions to be considered as non-performing;
- a minimum two year probation period has passed from the date the forborne exposure was considered to be 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.

[1] Comparative information as at 31 December 2021 was previously reported presenting the gross carrying amount (before loss allowance). Amounts have been restated to present the carrying amount (after loss allowance), i.e. deducting the £13.4 million loss allowance recognised on credit-impaired loans in Real Estate, and are based on the origination loan-to-value ratio. This is to align with the Group's definition of 'maximum exposure to credit risk', which is in accordance with IFRS 7, and brings consistency with the amounts presented in other credit risk tables.

Principal risks: Credit risk

The following tables provide a summary of the Group's forborne loans and advances to customers by lending segment and year-end stage classification. Currently, all forborne loans are loans measured at amortised cost. There are no forborne loans in the TML Mortgages segment and, as such, this segment is not included in the tables.

		Gross amount of forborne loans			Loss allowance on forborne loans			
As at 31 December 2022	**Number**	**Performing £m**	**Non-performing £m**	**Total £m**	**Performing £m**	**Non-performing £m**	**Total £m**	**Coverage %**
Real Estate								
Stage 2	**148**	**8.8**	**3.8**	**12.6**	**–**	**(0.1)**	**(0.1)**	**0.8**
Stage 3	**497**	**–**	**46.2**	**46.2**	**–**	**(3.8)**	**(3.8)**	**8.2**
Total	**645**	**8.8**	**50.0**	**58.8**	**–**	**(3.9)**	**(3.9)**	**6.6**
SME								
Stage 2	**122**	**68.4**	**–**	**68.4**	**(4.0)**	**–**	**(4.0)**	**5.8**
Stage 3	**450**	**–**	**43.6**	**43.6**	**–**	**(10.3)**	**(10.3)**	**23.6**
Total	**572**	**68.4**	**43.6**	**112.0**	**(4.0)**	**(10.3)**	**(14.3)**	**12.8**
Consumer Lending								
Stage 2	**184**	**0.5**	**0.5**	**1.0**	**–**	**(0.2)**	**(0.2)**	**20.0**
Stage 3	**728**	**–**	**3.0**	**3.0**	**–**	**(2.4)**	**(2.4)**	**80.0**
Total	**912**	**0.5**	**3.5**	**4.0**	**–**	**(2.6)**	**(2.6)**	**65.0**
Total								
Stage 2	**454**	**77.7**	**4.3**	**82.0**	**(4.0)**	**(0.3)**	**(4.3)**	**5.2**
Stage 3	**1,675**	**–**	**92.8**	**92.8**	**–**	**(16.5)**	**(16.5)**	**17.8**
Total	**2,129**	**77.7**	**97.1**	**174.8**	**(4.0)**	**(16.8)**	**(20.8)**	**11.9**

		Gross amount of forborne loans			Loss allowance on forborne loans			
As at 31 December 2021	Number (Restated)[1]	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m	Coverage %
Real Estate								
Stage 2	208	11.8	8.5	20.3	–	(0.1)	(0.1)	0.5
Stage 3	549	–	41.5	41.5	–	(4.0)	(4.0)	9.6
Total	757	11.8	50.0	61.8	–	(4.1)	(4.1)	6.6
SME								
Stage 2	276	43.6	1.8	45.4	(2.4)	–	(2.4)	5.3
Stage 3	652	–	61.8	61.8	–	(12.3)	(12.3)	19.9
Total	928	43.6	63.6	107.2	(2.4)	(12.3)	(14.7)	13.7
Consumer Lending								
Stage 2	271	0.8	0.5	1.3	–	(0.1)	(0.1)	7.7
Stage 3	962	–	3.2	3.2	–	(2.4)	(2.4)	75.0
Total	1,233	0.8	3.7	4.5	–	(2.5)	(2.5)	55.6
Total								
Stage 2	755	56.2	10.8	67.0	(2.4)	(0.2)	(2.6)	3.9
Stage 3	2,163	–	106.5	106.5	–	(18.7)	(18.7)	17.6
Total	2,918	56.2	117.3	173.5	(2.4)	(18.9)	(21.3)	12.3

1 The comparative forborne loan count for Consumer Lending has been restated to exclude fully charged off accounts that have a £nil balance for both gross carrying amount and loss allowance. This ensures consistency with the method of compilation applied in the current year and reduced the overall forborne loan count by 2,204 loans.

Principal risks: Liquidity risk

***Partially audited:** in the liquidity risk section, information under headings marked as 'audited' is covered by the Independent Auditor's Report. All other information is unaudited.*

This section provides information about:

- Managing liquidity risk
- Maturity analysis for financial assets and liabilities
- Metrics used in assessing and monitoring liquidity
- Asset encumbrance

Managing liquidity risk

The Group has developed comprehensive funding and liquidity policies to ensure that it maintains sufficient liquid assets to be able to meet all of 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, which are reviewed at least annually. Compliance with these limits is monitored on a daily basis by finance and risk personnel that are independent of the treasury function.

Stress testing is a major component of liquidity risk management and the Group has developed a diverse selection of scenarios covering a range of market-wide and firm-specific factors. The Group performs liquidity stress tests to ensure that the Group maintains adequate liquidity for business purposes even under stressed conditions. The Group's core liquidity stress test is performed on a daily basis by the finance function, with a further series of liquidity stress tests performed on a monthly basis that are formally reported to the Asset and Liability Committee and the Board.

A comprehensive review of the Group's Liquidity Framework, including stress testing, is conducted at least annually through the ILAAP. The Asset and Liability Committee, Risk Committee and the Board are heavily involved in the full ILAAP life cycle, with all challenges clearly documented. The ILAAP is used to demonstrate the Group's compliance with the PRA's Overall Liquidity Adequacy Rule and assess funding and liquidity risk across the actual and budgeted statement of financial position.

Maturity analysis for financial assets and liabilities *(audited)*

The following tables segment the carrying amount of the Group's financial assets and liabilities based on the final contractual maturity date. In practice, the Group's assets and liabilities may be repaid, or otherwise mature, earlier or later than implied by their contractual tenor. Accordingly, this information is not relied upon by the Group in managing liquidity risk.

In the following tables, the 'less than 1 month' maturity group includes amounts repayable on demand. For loans and advances to customers and customer deposits, the 'more than 5 years' maturity group also includes the fair value adjustment for hedged risk. Accrued interest is assigned to the maturity group based on when it is scheduled to be paid. Assets held for sale are assigned to the maturity band in accordance with the expected month of sale.

As at 31 December 2022	Less than 1 month £m	1-3 months £m	3 months - 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial assets							
Cash and balances at central banks	2,007.5	–	–	–	–	29.6	2,037.1
Loans and advances to banks	263.5	–	–	–	–	–	263.5
Loans and advances to customers	265.3	302.8	1,164.6	827.6	1,725.1	6,171.7	10,457.1
Investment securities	30.0	59.9	127.6	104.8	217.8	150.9	691.0
Derivative financial assets	0.1	0.8	17.7	3.6	272.3	36.2	330.7
Total financial assets	2,566.4	363.5	1,309.9	936.0	2,215.2	6,388.4	13,779.4
Financial liabilities							
Amounts due to banks	(298.7)	–	–	–	(1,200.0)	–	(1,498.7)
Customer deposits	(3,747.3)	(715.0)	(4,563.7)	(1,310.6)	(517.9)	(60.0)	(10,914.5)
Derivative financial liabilities	(3.0)	(0.8)	(21.3)	(5.6)	(54.9)	(4.9)	(90.5)
Debt securities in issue	(6.1)	(5.6)	(12.7)	(13.3)	(36.6)	(42.1)	(116.4)
Lease liabilities	(0.2)	(0.3)	(1.4)	(1.8)	(3.0)	(0.7)	(7.4)
Subordinated debt liability	–	(0.3)	(1.2)	–	–	(95.9)	(97.4)
Total financial liabilities	(4,055.3)	(722.0)	(4,600.3)	(1,331.3)	(1,812.4)	(203.6)	(12,724.9)
Cumulative gap	(1,488.9)	(1,847.4)	(5,137.8)	(5,533.1)	(5,130.3)	1,054.5	1,054.5

Principal risks: Liquidity risk

As at 31 December 2021	Less than 1 month £m	1-3 months £m	3 months - 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial assets							
Cash and balances at central banks	1,672.7	–	–	–	–	21.1	1,693.8
Loans and advances to banks	66.9	–	–	–	–	–	66.9
Loans and advances to customers	257.2	216.5	918.8	776.8	1,471.6	4,631.2	8,272.1
Investment securities	–	5.8	28.0	193.0	284.5	10.1	521.4
Derivative financial assets	–	–	0.7	1.3	16.3	3.2	21.5
Assets held for sale	299.7	–	–	–	–	–	299.7
Total financial assets	2,296.5	222.3	947.5	971.1	1,772.4	4,665.6	10,875.4
Financial liabilities							
Amounts due to banks	(0.7)	–	–	–	(1,200.0)	–	(1,200.7)
Customer deposits	(2,873.3)	(707.7)	(2,780.1)	(1,028.6)	(843.1)	(125.8)	(8,358.6)
Derivative financial liabilities	(0.1)	(0.4)	(3.0)	(2.7)	(1.5)	(0.4)	(8.1)
Debt securities in issue	(10.0)	(5.3)	(18.6)	(27.7)	(46.0)	(211.2)	(318.8)
Lease liabilities	(0.2)	(0.4)	(1.6)	(2.0)	(4.1)	(1.5)	(9.8)
Subordinated debt liability	–	(0.3)	(1.3)	–	–	(95.9)	(97.5)
Total financial liabilities	(2,884.3)	(714.1)	(2,804.6)	(1,061.0)	(2,094.7)	(434.8)	(9,993.5)
Cumulative gap	(587.8)	(1,079.6)	(2,936.7)	(3,026.6)	(3,348.9)	881.9	881.9

The following tables segment the gross contractual cash flows of the Group's financial liabilities into relevant maturity groupings. Totals in the following table differ to the preceding tables, and do not agree directly to the statement of financial position, as the table incorporates all cash flows, on an undiscounted basis, related to both principal and future coupon payments. Estimated future interest payments are derived using interest rates and contractual maturities at the reporting date.

As at 31 December 2022	**Less than 1 month £m**	**1-3 months £m**	**3 months - 1 year £m**	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total £m**
Amounts due to banks	**298.7**	**12.0**	**36.0**	**48.0**	**1,240.0**	**–**	**1,634.7**
Customer deposits	**3,759.7**	**719.1**	**4,662.1**	**1,345.9**	**567.3**	**67.9**	**11,122.0**
Derivative financial liabilities	**3.0**	**0.8**	**21.3**	**5.6**	**54.9**	**4.9**	**90.5**
Debt securities in issue	**6.6**	**6.4**	**16.5**	**17.7**	**45.8**	**48.1**	**141.1**
Lease liabilities	**0.2**	**0.3**	**1.5**	**1.9**	**3.1**	**0.7**	**7.7**
Subordinated debt liability	**–**	**0.7**	**7.5**	**8.1**	**24.1**	**116.1**	**156.5**
Total financial liabilities	**4,068.2**	**739.3**	**4,744.9**	**1,427.2**	**1,935.2**	**237.7**	**13,152.5**

As at 31 December 2021	Less than 1 month £m	1-3 months £m	3 months - 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Amounts due to banks	1.2	1.0	4.5	6.0	1,211.0	–	1,223.7
Customer deposits	2,875.4	709.0	2,799.6	1,049.5	917.3	140.5	8,491.3
Derivative financial liabilities	0.1	0.4	3.0	2.7	1.5	0.4	8.1
Debt securities in issue	9.8	6.5	21.1	31.2	56.6	227.4	352.6
Lease liabilities	0.2	0.4	1.6	2.1	4.3	1.7	10.3
Subordinated debt liability	–	0.7	7.5	8.1	24.1	122.2	162.6
Total financial liabilities	2,886.7	718.0	2,837.3	1,099.6	2,214.8	492.2	10,248.6

Principal risks: Liquidity risk

Metrics used in assessing and monitoring liquidity
Certain metrics that are used by the Group in assessing and monitoring liquidity are summarised below.

Liquidity buffer
The Group maintains a liquidity buffer of high quality liquid assets, as defined by the EBA's mandates and adopted by the PRA. These assets can be monetised to meet stress requirements in line with internal stress testing and the requirements of the Delegated Regulation on the Liquidity Coverage Ratio (LCR).

The Group's average liquidity buffer, calculated as the simple average of the month end observations for the preceding 12 months, is £2,162.5 million (2021: £1,485.6 million).

The composition of the Group's liquidity buffer as at 31 December is as follows:

	2022 £m	2021 £m
Cash and withdrawable central bank reserves (LCR level 1 assets)	**2,004.3**	1,672.5
Central government assets (LCR level 1 assets)	**–**	17.1
Extremely high quality covered bonds (LCR level 1 assets)	**453.6**	–
High quality covered bonds (LCR level 2A assets)	**9.0**	–
Asset backed securities (LCR level 2B assets)	**13.5**	–
Total liquidity buffer	**2,480.4**	1,689.6

Liquidity coverage ratio
The LCR is a regulatory metric that measures a set of standardised liquidity inflows and outflows over a period of 30 days. The Group calculates the LCR in accordance with the EBA's LCR standards, as adopted by the PRA.

	2022	2021
Liquidity buffer (£m)	**2,480.4**	1,689.6
Total net cash outflows (£m)	**772.2**	681.9
Liquidity coverage ratio (%)	**321.2**	247.8

Net stable funding ratio
The net stable funding ratio (NSFR) is a regulatory metric that measures the amount of stable funding available compared to the amount of stable funding required. From 1 January 2022, as part of the revised Capital Requirements Regulation (CRR II), it became a binding requirement that the NSFR must remain above the minimum level of 100%. The Group's NSFR remains above this required level, with a ratio of 145.9% as at 31 December 2022 (2021: 136.7%).

Asset encumbrance *(audited)*
A proportion of the Group's assets have the potential to be used as collateral to support central bank or other wholesale funding activity. Assets that have been committed for such purposes are classified as encumbered assets and cannot be used for other purposes. The Group has Board imposed limits setting out the percentage of assets that can be encumbered.

All other assets are defined as unencumbered assets. These comprise assets that are potentially available to be used as collateral ('available as collateral') and assets that, due to their nature, are not suitable to be used as collateral ('other').

The following tables and additional narrative set out the carrying amount of the Group's encumbered and unencumbered assets. The disclosure is designed to illustrate the availability of the Group's assets to support future funding and is not intended to identify assets that would be available in the event of a resolution or bankruptcy.

Principal risks: Liquidity risk

As at 31 December 2022	Encumbered assets		Unencumbered assets		
	Pledged as collateral £m	**Other £m**	**Available as collateral £m**	**Other £m**	**Total £m**
Cash and balances at central banks	**–**	**29.6**	**–**	**2,007.5**	**2,037.1**
Loans and advances to banks	**155.5**	**59.5**	**48.5**	**–**	**263.5**
Loans and advances to customers	**2,964.6**	**–**	**7,492.5**	**–**	**10,457.1**
Investment securities	**79.3**	**–**	**610.0**	**1.7**	**691.0**
Derivative financial assets	**–**	**–**	**–**	**330.7**	**330.7**
Non-financial assets	**–**	**–**	**38.1**	**119.9**	**158.0**
Total assets	**3,199.4**	**89.1**	**8,189.1**	**2,459.8**	**13,937.4**

As at 31 December 2021	Encumbered assets		Unencumbered assets		
	Pledged as collateral £m	Other £m	Available as collateral £m	Other £m	Total £m
Cash and balances at central banks	–	21.1	–	1,672.7	1,693.8
Loans and advances to banks	10.8	15.7	40.4	–	66.9
Loans and advances to customers	1,684.1	–	6,588.0	–	8,272.1
Investment securities	520.3	–	–	1.1	521.4
Derivative financial assets	–	–	–	21.5	21.5
Assets held for sale	–	–	–	299.7	299.7
Non-financial assets	–	–	36.1	111.6	147.7
Total assets	2,215.2	36.8	6,664.5	2,106.6	11,023.1

Encumbered assets 'pledged as collateral' comprise:

Loans and advances to banks totalling £155.5 million (2021: £10.8 million), of which:

- £155.5 million (2021: £10.8 million) is pledged as collateral against derivative contracts.

Loans and advances to customers totalling £2,964.6 million (2021: £1,684.1 million), of which:

- £1,602.3 million (2021: £1,282.2 million) is positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £1,362.3 million (2021: £401.9 million) is pledged to securitisation programmes.

Investment securities totalling £79.3 million (2021: £520.3 million), of which:

- £79.3 million (2021: £391.0 million) is positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £nil (2021: £129.3 million) is pledged as collateral for repurchase agreements.

'Other' encumbered assets (assets that cannot be used for secured funding for legal or other reasons) comprise:

- £29.6 million (2021: £21.1 million) of mandatory deposits with central banks.
- £59.5 million (2021: £15.7 million) of securitisation cash, which represents restricted cash balances of consolidated structured entities.

The above tables do not include collateral received by the Group (i.e. from reverse repos) that are not recognised on the statement of financial position, the vast majority of which the Group is permitted to repledge.

The Company also has mortgage-backed debt securities totalling £304.5 million (2021: £44.6 million) that were purchased from consolidated structured entities as part of securitisation transactions (see Note 22 of the Financial Statements), which are positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs. These securities are eliminated on consolidation and thus are not included in the Group figures presented in the above table.

Principal risks: Market risk

Partially audited: *in the market risk section, information under headings marked as 'audited' is covered by the Independent Auditor's Report. All other information is unaudited.*

This section provides information about:
- Managing market risk
- Exposures to market risk: foreign exchange risk, basis risk and interest rate risk
- Interest rate benchmark reform

Managing market risk

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, with the overall objective of managing market risk in line with the Group's risk appetite. The Asset and Liability Committee approves the Group's treasury policies and receives regular reports on all aspects of market risk exposure.

Additional details about managing the specific forms of market risk that the Group is exposed to are provided in the following section.

Exposure to market risk *(audited)*

The forms of market risk that the Group is exposed to can be further divided into foreign exchange risk, basis risk and interest rate risk. Additional details regarding each of these is provided in the following section.

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 that is managed by appropriate financial instruments including derivatives.

The tables below set out the Group's exposure to foreign exchange risk:

As at 31 December 2022	**Euros £m**	**US Dollars £m**	**Australian Dollars £m**
Loans and advances to banks	**4.7**	**4.6**	**0.4**
Loans and advances to customers	**3.2**	**9.6**	**–**
Total exposure	**7.9**	**14.2**	**0.4**

As at 31 December 2021	Euros £m	US Dollars £m	Australian Dollars £m
Loans and advances to banks	2.9	2.1	0.4
Loans and advances to customers	9.4	6.6	–
Total exposure	12.3	8.7	0.4

As illustrated by the preceding table, there are no currencies to which the Group has a significant exposure. Accordingly, foreign exchange sensitivity analysis is not provided, as the impact of foreign exchange movements, particularly after taking into account the impact of derivative financial instruments used to manage such risk, is not material.

Basis risk

Basis risk is the risk of loss arising from changes in the relationship between interest rates that have similar but not identical characteristics (for example, SONIA and the Bank of England base rate). This is monitored closely and regularly reported to the Asset and Liability Committee. This risk is managed within established risk limits by matching and, where appropriate and necessary, through the use of derivatives and via other control procedures.

The Group's forecasts and plans take in to account the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.

Information regarding the Group's transition from London Inter-bank Offered Rate (LIBOR) to alternative rates is provided on page 76.

Principal risks: Market 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 the Group offers. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures. During the year ended 31 December 2022, the Group implemented cash flow hedge accounting to manage profit and loss volatility in line with the Group's interest rate risk management strategy for pipeline loans.

The following tables provide a summary of the Group's interest rate gap position. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date. A behavioural assumption is applied to loans and advances to customers where this is considered material. During the year ended 31 December 2022, the Group changed its equity investment strategy to support greater stability of earnings. The equity of the Group is matched against originated long-term fixed loans and the equity is spread across the time bands to match the profile of these assets.

As at 31 December 2022	Within 3 months £m	3 months but <6 months £m	6 months but <1 year £m	1 year but <5 years £m	>5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash and balances at central banks	2,007.5	–	–	–	–	29.6	2,037.1
Loans and advances to banks	263.5	–	–	–	–	–	263.5
Loans and advances to customers	3,405.4	259.3	1,049.7	5,417.6	654.1	(329.0)	10,457.1
Investment securities	688.2	–	–	–	–	2.8	691.0
Derivative financial assets	–	–	–	–	–	330.7	330.7
Non-financial assets	2.5	2.1	4.1	15.7	1.9	131.7	158.0
Total assets	**6,367.1**	**261.4**	**1,053.8**	**5,433.3**	**656.0**	**165.8**	**13,937.4**
Equity and liabilities							
Amounts due to banks	(1,490.0)	–	–	–	–	(8.7)	(1,498.7)
Customer deposits	(4,365.8)	(1,752.3)	(2,880.2)	(1,815.1)	(60.8)	(40.3)	(10,914.5)
Derivative financial liabilities	–	–	–	–	–	(90.5)	(90.5)
Debt securities in issue	(116.6)	–	–	–	–	0.2	(116.4)
Lease liabilities	–	–	–	–	–	(7.4)	(7.4)
Subordinated debt liability	–	–	–	(95.0)	–	(2.4)	(97.4)
Non-financial liabilities	–	–	–	–	–	(72.8)	(72.8)
Equity	(2.0)	(10.0)	(24.0)	(642.0)	(155.0)	(306.7)	(1,139.7)
Total equity and liabilities	**(5,974.4)**	**(1,762.3)**	**(2,904.2)**	**(2,552.1)**	**(215.8)**	**(528.6)**	**(13,937.4)**
Notional values of derivatives	**294.5**	**990.4**	**1,886.8**	**(2,790.1)**	**(381.6)**	**–**	**–**
Interest rate sensitivity gap	**687.2**	**(510.5)**	**36.4**	**91.1**	**58.6**	**(362.8)**	**–**
Cumulative gap	**687.2**	**176.7**	**213.1**	**304.2**	**362.8**	**–**	**–**

Principal risks: Market risk

As at 31 December 2021	Within 3 months £m	3 months but <6 months £m	6 months but <1 year £m	1 year but <5 years £m	>5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash and balances at central banks	1,672.7	–	–	–	–	21.1	1,693.8
Loans and advances to banks	66.9	–	–	–	–	–	66.9
Loans and advances to customers	3,597.8	328.3	696.7	3,533.4	206.1	(90.2)	8,272.1
Investment securities	521.4	–	–	–	–	–	521.4
Derivative financial assets	–	–	–	–	–	21.5	21.5
Assets held for sale	–	–	–	–	–	299.7	299.7
Non-financial assets	3.0	2.0	3.8	15.6	1.0	122.3	147.7
Total assets	5,861.8	330.3	700.5	3,549.0	207.1	374.4	11,023.1
Equity and liabilities							
Amounts due to banks	(1,200.7)	–	–	–	–	–	(1,200.7)
Customer deposits	(3,558.5)	(1,612.0)	(1,176.4)	(1,858.7)	(125.1)	(27.9)	(8,358.6)
Derivative financial liabilities	–	–	–	–	–	(8.1)	(8.1)
Debt securities in issue	(319.8)	–	–	–	–	1.0	(318.8)
Lease liabilities	–	–	–	–	–	(9.8)	(9.8)
Subordinated debt liability	(0.3)	(1.3)	–	(95.0)	–	(0.9)	(97.5)
Non-financial liabilities	–	–	–	–	–	(76.6)	(76.6)
Equity	–	–	(125.0)	–	–	(828.0)	(953.0)
Total equity and liabilities	(5,079.3)	(1,613.3)	(1,301.4)	(1,953.7)	(125.1)	(950.3)	(11,023.1)
Notional values of derivatives	89.0	914.4	517.3	(1,413.6)	(107.1)	–	–
Interest rate sensitivity gap	871.5	(368.6)	(83.6)	181.7	(25.1)	(575.9)	–
Cumulative gap	871.5	502.9	419.3	601.0	575.9	–	–

The Group considers a parallel 250 basis points (bps) movement in interest rates to be appropriate for scenario testing given the current economic outlook and industry expectations.

The Group estimates that a +/- 250 bps movement in interest rates paid/received would impact the Group’s economic value as follows:

- **+ 250 bps:** £9.2 million negative (2021: £13.9 million positive)
- **- 250 bps:** £22.2 million negative (2021: £51.1 million positive)

In addition, the effect of the same two interest rate shocks is applied to the Group’s statement of financial position at year end, to determine how net interest income may change on an annualised basis for one year (earnings at risk), as follows:

- **+ 250 bps:** £36.6 million positive (2021: £59.1 million positive)
- **- 250 bps:** £9.6 million negative (2021: £7.3 million negative)

In preparing the above, the Group makes certain assumptions consistent with expected and contractual repricing behaviour as well as behavioural repayment profiles of the underlying statement of financial position items in relation to the specific scenarios. In addition, equity is allocated to the specific reprice buckets consistent with the Group’s reserves investment strategy. The results also include the impact of hedge transactions.

Principal risks: Market risk

Interest rate benchmark reform *(audited)*

In 2017, it was determined that the interest rate benchmark LIBOR should be replaced and LIBOR panel banks agreed to continue submitting to LIBOR until the end of 2021 to enable time for the market to transition away from LIBOR.

In response to the announcements, the Group established a LIBOR transition programme under the governance of the Chief Financial Officer and reporting to the Board. The aim of the programme was to identify LIBOR exposures within the business and prepare and deliver on a 'LIBOR transition plan' to enable a smooth transition to alternative rates.

The LIBOR transition plan was designed, which set out the steps required to actively transition the Group's LIBOR exposures to alternative rates by the end of 2021, with minimum reliance on a tough legacy legislative solution.

This plan was successfully executed and, by 31 December 2021, all derivative financial instruments and the majority of non-derivative financial instruments with LIBOR dependency had either matured or had been migrated to an alternative rate.

As at 31 December 2021, the remaining non-derivative financial instruments that continued to be linked to sterling LIBOR comprised 1,110 customer loans with a gross carrying amount of £983.5 million.

As at 31 December 2022, the remaining exposure has reduced to 48 customer loans with a gross carrying amount of £4.8 million. These remaining loans fall within the tough legacy bracket and were moved to synthetic LIBOR[1] on 1 January 2022.

Principal risks: Operational risk

Managing operational risk

The Risk Committee receives regular reports across the spectrum of operational risks. These reports present the operational risk profile, including incidents that have arisen and the movement of key indicators. This allows the Risk Committee to assess the Group's risk response and proposed remedial actions, including oversight of change projects.

The Group manages operational risk across nine level 2 risk categories, with the Risk Committee receiving regular reports across the spectrum of these operational risks. These reports present the operational risk profile, including incidents that have arisen and the movement of key indicators. This allows the Risk Committee to assess the Group's risk response and proposed remedial actions, including oversight of change projects.

The risk and control self-assessment process is utilised by the Group as a key operational risk management tool. This is owned and completed by each business area and takes into consideration control effectiveness and residual risk score for each of the level 2 operational risks. The risk and control self-assessments are maintained in conjunction with the Group's operational risk team who provide challenge and oversight. Risk and control self-assessments are aligned to top risk profile reporting. To enable effective risk management, the Group focuses on identifying, monitoring and managing operational risk events in each business area, driving appropriate actions, frequently re-engineering processes to minimise recurrence.

All operational locations have business continuity and resilience plans in place, supported by business impact assessments focused on important business services. The Group has an incident management framework in place, which was further enhanced in 2022 following a review of the Group's important business services and development of impact tolerances. In addition, the Group uses external disaster recovery sites as back-up locations for IT servers and employees.

Developments during the year

During 2022, the Group continued to embed, enhance and mature the design and operational effectiveness of its controls. In addition, the Group has continued to manage its overall risk profile by identifying, assessing and treating its key risks and controls by exploiting its established internal risk and controls libraries and self-assessment processes.

Throughout 2022, the Group has improved its operational resilience (meeting regulatory requirements) by updating important business services inventories and impact tolerance metrics, supported by service mapping and scenario testing. These actions support achievement of the Financial Conduct Authority's (FCA) operational resilience deadline, which requires firms to operate within their impact tolerances by 31 March 2025.

To further improve resilience, the Group has invested in and upgraded its platforms, transitioning infrastructure to the Cloud. Process and decision automation advances made will also act to further mitigate manual error threats. In addition, the Group has onboarded new third parties to improve operational effectiveness and resilience and increased testing to address evolving cyber threats.

[1] The Financial Conduct Authority (FCA) used its powers, granted to it by the UK Government under the Benchmarks Regulation, to require continued publication on a 'synthetic' basis for the 1-month, 3-month and 6-month sterling LIBOR settings. These synthetic LIBOR rates are not intended for use in new contracts, but are available for holders of 'legacy' LIBOR-referencing contracts. The Group's remaining exposures are linked to synthetic 3-month LIBOR, which will continue to be published until March 2024.

Principal risks: Compliance, conduct and financial crime risk

Managing compliance, conduct and financial crime risk

The Group continually reviews its risk management approach to reflect the regulatory and legal environment in which it operates. The Group has no appetite for behaving inappropriately resulting in unfair outcomes for its customers.

Developments during the year

During 2022, work has continued towards completing identified enhancements to the financial crime framework through the Group's established programme. The focus of the programme in H2 2022 has been upon embedding the controls and delivering assurance on their effectiveness.

The period has also seen the commencement of various initiatives and pilot activities in advance of the FCA's 'Consumer Duty' proposals, which are expected to be implemented from 31 July 2023. Such activities have been overseen by the Group's newly formed Consumer Duty Steering Committee.

The Group is aware of the potential impacts that increased cost of living pressures may have upon its customers. In response, the Group has reviewed the management of various associated conduct risks, with changes being made to the Group's affordability models, forbearance capabilities and approach to vulnerable customers.

Principal risks: Strategic risk

Managing strategic risk

Strategic risk focuses 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 Group's Senior Management team. 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 Committee and the Board.

One component of strategic risk is capital risk. Specific information on capital risk and its management is provided in a separate section starting on page 78.

Developments during the year

During 2022, the Group established further early warning indicators to monitor the opportunities and risks that have developed in the macroeconomic environment, including a review of its operational readiness in key areas such as arrears and forbearance. The Group is working towards its net zero commitments and has completed its first standalone TCFD Report. The Group also launched its 'Energy Efficiency Discount', which offers new buy-to-let customers a discount, or partial refund, on their arrangement fee according to their property's energy performance certificate status.

During the year, the Board received and approved a number of reports, including the strategy update. It has also actively engaged in the formation of the Group's risk appetite, ICAAP, ILAAP, Recovery Plan and Resolution Pack, which are critical tools to managing strategic risk.

Principal risks: Systems and change risk

Managing systems and change risk

Customer expectations for service availability continue to rise 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. The Group has continued to invest in its digital capability to improve customer experience and has invested in cloud technologies to increase the scale, stability and resilience of its systems.

Developments during the year

During 2022, the Group continued to invest in technology change, with the appointment of a Chief Product Officer responsible for continuing to evolve and deliver the Group's digital product strategy to make it simpler and faster for customers to do business. Key enhancements include the extension of the MyShawbrook portal to the bridging and commercial investment product ranges and progress in the development of the Group's digital savings proposition.

Technology and data remain a core competency for the Group, with strong capabilities and foundations already in place. The Group continues to invest in this area, and during the period has further invested in cloud migration of its core lending, savings and internal systems in order to improve operational resilience.

Capital risk and management

Capital risk is the risk that the Group has insufficient quantity and quality of capital to cover regulatory requirements and/or to support its own growth plans. Capital risk is a component of strategic risk, which is one of the Group's principal risks (see page 77). Exposure to capital risk could arise due to a depletion of the Group's capital resources as a result of the crystallisation of any of the risks to which it is exposed or an increase in minimum capital requirements.

Managing capital risk

The Group's objective in managing capital is to maintain appropriate levels of capital to support the Group's business strategy and meet regulatory requirements. Capital risk is overseen by the Asset and Liability Committee, who monitor the capital position against the Capital Contingency Plan and Recovery Plan triggers and limits on a monthly basis. The Asset and Liability Committee also regularly review the forward-looking capital surplus in the context of its business plans and ensure that the Group has advance warning of any potential capital challenges. The Group's risk function regularly reviews emerging regulatory changes that may impact on the capital surplus and undertakes impact assessments.

The Group's approach to capital management is driven by strategic and organisational requirements, whilst also taking into account the regulatory and commercial environments in which it operates.

The principal objectives when managing capital are to:

- address the expectation of the Shareholder and optimise business activities to ensure return on capital targets are achieved though efficient capital management;
- ensure that sufficient risk capital is held. Risk capital caters for unexpected losses that may arise, protects the Shareholder and depositors and thereby supports the sustainability of the Group through the business cycle; and
- comply with capital supervisory requirements and related regulations.

The Group recognises the importance of allocating the correct risk-weighting to its assets. Documentation and testing of risk-weighted assets is overseen by the Regulatory Reporting Committee.

The Company is regulated by the PRA and FCA. The Company has a solo-consolidation waiver, which allows it to incorporate its regulated subsidiary, The Mortgage Lender Limited, along with its regulated structured entities (which are subsidiaries by virtue of control) when calculating its requirements under Article 6(1) of the CRR. Consequently, the Company is supervised and reports to its regulators on a 'partially' consolidated basis only (i.e. including The Mortgage Lender Limited and consolidated structured entities, but excluding the dormant unregulated subsidiaries listed in Note 43 of the Financial Statements). The disclosures provided in this section are on the 'partially' consolidated basis described above, thus aligning to how the Company reports to its regulators.

The Group, as a whole (i.e. including all subsidiary companies), is also included within the regulatory submissions of its parent company, Shawbrook Group plc, which reports to the PRA on a fully consolidated basis.

Regulatory requirements

The Group applies the regulatory framework defined by the revised Capital Requirements Regulation (CRR II), which came into effect on 1 January 2022, and the Capital Requirements Directive (CRD V). Directive requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook.

The aim of the regulatory framework is to promote safety and soundness in the financial system. The regulatory framework categorises the capital and prudential requirements under three pillars:

- **Pillar 1:** defines the minimum capital requirements that firms are required to hold for credit, market and operational risks.
- **Pillar 2:** builds on Pillar 1 and incorporates the Group's own assessment of additional capital required to cover specific risks that are not covered by the minimum regulatory capital requirement set out under Pillar 1. Under Pillar 2, the Group completes an annual self-assessment of these risks as part of its ICAAP. The ICAAP is reviewed by the PRA every two years (or earlier if required), which culminates in the PRA setting a firm-specific requirement of the level of capital that is required to be held, known as the Total Capital Requirement.
- **Pillar 3:** requires the Group to publish a set of disclosures that allow market participants to assess information on the Group's capital, risk exposures and risk assessment process. The Pillar 3 Disclosures can be found on the Group's website *www.shawbrook.co.uk/investors/*

As at 31 December 2022, the minimum capital and leverage requirements set out by the regulatory framework are summarised below. Except where otherwise noted, these are unchanged from 31 December 2021.

The regulatory minimum for the Common Equity Tier 1 capital ratio, total Tier 1 capital ratio and total capital ratio are set at 4.5%, 6% and 8% of risk-weighted assets, respectively.

In addition to these minimum requirements, the Group is required to maintain additional Common Equity Tier 1 capital for:

- the capital conservation buffer of 2.5% of risk-weighted assets; and
- the UK countercyclical capital buffer, which increased from 0% to 1% of risk-weighted assets with effect from 13 December 2022.

Additional systemic buffers provided for by CRD V do not apply to the Group.

The Total Capital Requirement of the Group set by the PRA has remained at 9.07% of risk-weighted assets in both reported years, which includes a Pillar 2A requirement of 1.07%.

Capital risk and management

The following table provides a summary of the minimum capital requirements applicable to the Group:

	2022		2021	
Minimum capital requirements	**Common Equity Tier 1**	**Total capital**	Common Equity Tier 1	Total capital
Pillar 1	**4.50%**	**8.00%**	4.50%	8.00%
Pillar 2A	**0.60%**	**1.07%**	0.60%	1.07%
Total Capital Requirement	**5.10%**	**9.07%**	5.10%	9.07%
Regulatory capital buffers				
Capital conservation buffer	**2.50%**	**2.50%**	2.50%	2.50%
Countercyclical capital buffer	**1.00%**	**1.00%**	–	–
Overall Capital Requirement (excluding PRA buffer[1])	**8.60%**	**12.57%**	7.60%	11.57%

From 1 January 2022, the regulatory minimum for the UK leverage ratio increased from 3% to 3.25%. Alongside the change to the minimum ratio, the calculation guidelines were also altered to exclude central bank claims as long as they are matched by liabilities of the same currency and equal or longer maturity. The Group is not required to comply with the PRA's UK Leverage Ratio Framework until its retail deposits exceed the £50 billion threshold. However, in October 2021, the PRA stated its expectation that all other UK firms should manage their leverage risk so that the ratio does not ordinarily fall below 3.25%.

The Group maintains an adequate capital base and has complied with all externally imposed capital requirements. The Total Capital Requirement set by the PRA has been met at all times and capital adequacy and leverage ratios are well in excess of the minimum regulatory requirements.

IFRS 9 transitional arrangements

The Group has elected to use a transitional approach when recognising the impact of adopting IFRS 9 'Financial Instruments'. The transitional approach involves phasing in the full impact using transitional factors published in Regulation (EU) 2017/2395. This permits the Group to add back to their capital base a proportion of the impact that IFRS 9 has upon their loss allowances for non-credit impaired loans during the first five years of implementation. This add-back is referred to throughout the capital risk disclosures as the 'transitional adjustment for IFRS 9'.

Per the transitional factors set out in Regulation (EU) 2017/2395, the proportion that the Group may add back in 2022 is 25% (2021: 50%). However, in response to the COVID-19 pandemic, the EU reviewed the transitional arrangements and reached agreement to reset the proportions for relevant ECLs raised from 1 January 2020, as set out in the CRR 'Quick Fix', a change that was accepted by the PRA. As a result, for non-credit impaired ECLs raised from 1 January 2020, the revised add-back percentage for 2022 is 75% (2021: 100%). Provisions raised prior to 2020 continue to follow the original transitional factors set out in Regulation (EU) 2017/2395.

Regulatory developments

During the year ended 31 December 2022, the following regulatory changes came into effect:

- From 1 January 2022, CRR II came into effect, as set out PS22/21 'Implementation of Basel standards: Final rules'. The CRR II changes have required the Group to implement new rules associated with the NSFR, counterparty credit risk and large exposures during the period. These changes have not had any material impacts.
- Following the PRA's publication of PS21/21 'The UK leverage ratio framework', from 1 January 2022, the Group began calculating its leverage ratio based on the guidelines contained within the policy statement by recalibrating from a 3% to a 3.25% minimum ratio and excluding central bank claims as long as they are matched by liabilities of the same currency and equal or longer maturity.
- In December 2021, the Financial Policy Committee announced an increase in the UK countercyclical capital buffer from 0% to 1% with effect from 13 December 2022.
- In June 2022, the PRA announced that, with effect from the end of December 2022, it would be removing the temporary firm-specific PRA buffer adjustments that had been applied in response to the COVID-19 outbreak as part of PS15/20 'Pillar 2A: Reconciling capital requirements and macroprudential buffers'. This was confirmed to the Group in September 2022.

Future regulatory changes that are relevant to the Group are as follows:

- In March 2022, the PRA confirmed that revisions to the Standardised Approach (Basel 3.1) will come into effect from 1 January 2025. An additional consultation paper was published in November 2022, CP16/22 'Implementation of the Basel 3.1 standards', which covers the parts of the Basel III standards that remain to be implemented in the UK. Responses on this paper are due by 31 March 2023.
- In July 2022, the Financial Policy Committee announced that the UK countercyclical capital buffer will increase from 1% to 2% with effect from 5 July 2023.

[1] The Group may also be subject to a PRA buffer, as set by the PRA, but is not permitted to disclose the level of such buffer. A PRA buffer can consist of two components: a risk management and governance buffer, which is set as a scalar of the Pillar 1 and Pillar 2A requirements; and a buffer relating to the results of the Bank of England stress tests.

Capital risk and management

Capital risk disclosures

The following section provides certain disclosures relating to the capital position of the Company on the aforementioned 'partially' consolidated basis detailed on page 78 (i.e. including The Mortgage Lender Limited and consolidated structured entities, but excluding the dormant unregulated subsidiaries). This aligns to how the Company reports to the PRA. The Group, as a whole, is also included within the capital disclosures of its parent company, Shawbrook Group plc, which reports to the PRA on a fully consolidated basis. These disclosures can be found in Shawbrook Group plc's Annual Report and Accounts, which is available on the website at: *www.shawbrook.co.uk/investors/*

Disclosures are presented on a CRD V basis after applying IFRS 9 transitional arrangements. A comparison of the reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis) is provided on page 82.

Certain disclosures in this section are audited. Disclosures in this section that are specifically marked as *'audited'* are covered by the Independent Auditor's Report starting on page 86. All other disclosures in this section are unaudited.

Regulatory capital *(audited)*
Composition of regulatory capital as at 31 December is as follows:

	2022 £m	2021 £m
Share capital	**175.5**	175.5
Share premium account	**81.0**	81.0
Capital contribution reserve	**24.0**	23.9
Merger reserve	**1.6**	1.6
Retained earnings	**702.5**	531.6
Intangible assets	**(56.3)**	(55.2)
Transitional adjustment for IFRS 9	**24.5**	17.3
Prudent valuation adjustment	**(1.3)**	–
Common Equity Tier 1 capital	**951.5**	775.7
Capital securities	**125.0**	125.0
Additional Tier 1 capital	**125.0**	125.0
Total Tier 1 capital	**1,076.5**	900.7
Subordinated debt liability	**95.0**	95.0
Tier 2 capital	**95.0**	95.0
Total regulatory capital	**1,171.5**	995.7

Total regulatory capital reconciles to total equity per the statement of financial position as follows:

	2022 £m	2021 £m
Total regulatory capital	**1,171.5**	995.7
Subordinated debt liability	**(95.0)**	(95.0)
Intangible assets	**56.3**	55.2
Transitional adjustment for IFRS 9	**(24.5)**	(17.3)
Prudent valuation adjustment	**1.3**	–
Cash flow hedging reserve	**26.4**	–
Fair value through other comprehensive income reserve	**(10.7)**	–
Total equity	**1,125.3**	938.6
Of which: Shawbrook Bank Limited equity (per consolidated statement of financial position)	**1,139.7**	953.0
Of which: Unregulated dormant subsidiaries excluded via solo-consolidation waiver	**(14.4)**	(14.4)

Capital risk and management

Movement in total regulatory capital during the year is as follows:

	2022 £m	2021 £m
Total regulatory capital as at 1 January	**995.7**	883.7
Movement in Common Equity Tier 1 capital		
Increase in capital contribution reserve	**0.1**	6.2
Increase in retained earnings:		
Profit for the year	**179.7**	149.4
Coupon paid on capital securities	**(8.8)**	(9.8)
Increase in intangible assets	**(1.1)**	(10.1)
Increase/(decrease) in transitional adjustment for IFRS 9	**7.2**	(23.7)
Increase in prudent valuation adjustment	**(1.3)**	–
Total movement in Common Equity Tier 1 capital	**175.8**	112.0
Total regulatory capital as at 31 December	**1,171.5**	995.7

Risk-weighted assets

The following table sets out risk-weighted assets. The Group applies the standardised approach to measure credit risk, counterparty credit risk and securitisation exposures and the basic indicator approach to measure operational risk.

	2022 £m	2021 £m
Credit risk		
Real Estate	**2,953.3**	2,531.1
SME	**2,646.4**	2,369.9
Consumer Lending	**376.9**	322.5
TML Mortgages	**554.1**	207.1
Other	**216.0**	151.7
Total credit risk	**6,746.7**	5,582.3
Counterparty credit risk: credit valuation adjustment	**5.7**	1.0
Securitisation exposures in the banking book	**31.8**	20.9
Operational risk	**601.5**	529.8
Total risk-weighted assets	**7,385.7**	6,134.0

Capital ratios

	2022	2021
Common Equity Tier 1 capital ratio (%)	**12.9**	12.6
Total Tier 1 capital ratio (%)	**14.6**	14.7
Total capital ratio (%)	**15.9**	16.2

Capital risk and management

Leverage ratio

The leverage ratio as at 31 December 2022 is calculated based on the guidelines contained within PS21/21 'The UK leverage ratio framework', which became effective on 1 January 2022. The revised calculation now excludes central bank claims as long as they are matched by liabilities of the same currency and equal or longer maturity. Comparative information as at 31 December 2021 has not been restated and is reported based on the disclosure rules in force at that time (i.e. including claims on central banks). Information is therefore not directly comparable year-on-year.

	2022 £m	2021 £m
Total Tier 1 capital	**1,076.5**	900.7
Exposure measure		
Total statutory assets (per consolidated statement of financial position)	**13,937.4**	11,023.1
Adjustment to exclude assets of unregulated dormant subsidiaries excluded via solo-consolidation waiver	**(14.4)**	(14.4)
Regulatory adjustments to statutory assets	**(118.3)**	(21.5)
Central bank claims (*only applicable for 2022 calculation*)	**(2,037.1)**	–
Off-balance sheet items	**372.1**	278.6
Exposure value for derivatives	**146.9**	35.5
Transitional adjustment for IFRS 9	**24.5**	17.3
Regulatory deductions	**(84.0)**	(55.2)
Total exposures	**12,227.1**	11,263.4
UK Leverage ratio (%)	**8.8%**	8.0%

IFRS 9 transitional arrangements impact analysis

As detailed on page 79, the Group has elected to use a transitional approach when recognising the impact of adopting IFRS 9. To illustrate the impact of using this transitional approach, the following table provides a comparison of the reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis).

	2022		2021	
	Including transitional adjustments	**Transitional adjustments not applied**	Including transitional adjustments	Transitional adjustments not applied
Capital resources				
Common Equity Tier 1 capital (£m)	**951.5**	**927.0**	775.7	758.4
Total Tier 1 capital (£m)	**1,076.5**	**1,052.0**	900.7	883.4
Total regulatory capital (£m)	**1,171.5**	**1,147.0**	995.7	978.4
Risk-weighted assets				
Total risk-weighted assets (£m)	**7,385.7**	**7,365.3**	6,134.0	6,126.7
Capital ratios				
Common Equity Tier 1 capital ratio (%)	**12.9**	**12.6**	12.6	12.4
Total Tier 1 Capital Ratio (%)	**14.6**	**14.3**	14.7	14.4
Total capital ratio (%)	**15.9**	**15.6**	16.2	16.0
Leverage				
UK Leverage ratio (%)	**8.8**	**8.6**	8.0	7.9

ICAAP, ILAAP and stress testing

The ICAAP, ILAAP and associated stress testing exercises represent important elements of the Group's ongoing risk management processes. The results of the risk assessment contained in these documents are embedded in the strategic planning process and risk appetite to ensure 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 the Group's business, its 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, Group Risk Management Committee and the Asset and Liability Committee have engaged in a number of exercises that have considered and developed stress test scenarios. The analysis enables the Group to evaluate its capital and funding resilience in the face of severe but plausible risk shocks. In addition to the Annual Cyclical Scenario prescribed by the PRA, the stress tests have included a range of market-wide and idiosyncratic stress tests, 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 assess the full continuum of adverse impacts and, therefore, the level of stress at which the Group would breach its individual capital and liquidity guidance requirements as set by the PRA under the ICAAP and ILAAP processes.

Recovery Plan and Resolution Pack

The Group has prepared a Recovery Plan and Resolution Pack in accordance with PRA Supervisory Statements SS9/17 'Recovery planning' and SS19/13 'Resolution planning'. These documents represent the Group's 'Living Will' and examine in detail:

- the consequences of severe levels of stress (i.e. beyond those in the ICAAP) impacting the Group 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 the Group to withstand and recover from such an environment.

The Recovery Plan is updated every three years, or more frequently in the event of a material change in the Group's status, capital or liquidity position. The Recovery Plan triggers are updated annually as part of the risk appetite update. The Board is fully engaged in considering the scenarios and options available for remedial actions to be undertaken.

The Board considers that the Group's business model, its supportive owners and the diversified nature of its business markets, provide it with the flexibility to consider selective business or portfolio disposals, credit appetite tightening, loan book run-off, equity raising, or a combination of these actions. The Group would invoke the Recovery Plan in the event that it is required.

Group viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Directors have assessed the outlook for the Group over a longer period than the 12 months required by the going concern statement.

The Board considers a three year period to be an appropriate length of time for the viability assessment. A period of three years is applied because it mirrors the period covered by the Group's strategic planning cycle, which is used to generate the Group's strategic plan that the Board reviews, approves and monitors. Given the inherent uncertainty involved in forward planning assumptions, the Board considers three years appropriate for the assessment. The three year period is further supported by the annual ICAAP process, which models capital requirements over this period.

In assessing viability the Board considered the following:

- updates to the business plans at various times during the year to assess current business performance and the impact of any emerging risks as identified through the Group's established RMF;
- the Group's current and forecast liquidity and funding plans supporting the strategic objectives;
- the top and emerging risks, including the overall control environment, for the Group as part of the regular and ongoing reporting to the Board. This included a review of the cyber intelligence threat and the annual information risk assessment, together with the technology roadmap for improvements in the technology control environment in 2022;
- the strategy and updated five-year plan, which were approved in December 2022. This included the business plans and financial projections from 31 December 2022 to 31 December 2027. The plan included various scenarios stressing the business performance, which demonstrated that the Group continued to operate within regulatory requirements for both capital and liquidity over the period;
- the quantity and quality of capital resources available to support the delivery of the Group's objectives. This included consideration of the effects of a changing regulatory landscape on the Total Capital Requirement, Pillar 2B and the CRD V combined buffer requirements, together with the effect of the Group's Recovery Plan to restore the capital position in scenarios of capital headwinds;
- the implications of implementing the minimum requirement for own funds and eligible liabilities in the event that the Group triggers the threshold and the impact on capital from implementing Basel 3.1; and
- the annual ICAAP and ILAAP, which were approved in March 2022 and January 2023, respectively.

In addition, the Board considered the outcomes of stress testing performed by the Group. As part of the ICAAP, the Group performed a variety of stress tests and reverse stress tests, which were derived after considering the Group's top and emerging risks, and were presented to the Group Risk Management Committee and the Board. The Group also considered its funding and liquidity adequacy in the context of the stress testing and reverse stress tests. The stress tests performed enable the Board 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.

As part of such stress testing, key ongoing risks were considered including:

- economic uncertainty arising from the ongoing increases to cost of living impacting interest rates, inflation and the wider UK economy;
- legal and regulatory changes as a result of the ongoing implementation of existing EU legislation into UK law and the economic impacts from any changes to the UK's trading relationship with the EU; and
- financial risks arising from the transitional impacts of climate change on the Group's business.

The Board believes these risks were captured within the stress testing scenarios used.

Following due consideration of the areas outlined above, the Board has 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.

Financial Statements

KPMG

Independent auditor's report

to the members of Shawbrook Bank Limited

1. Our opinion is unmodified

We have audited the financial statements of Shawbrook Bank Limited (the 'Company') and its subsidiaries (together referred to as the 'Group') for the year ended 31 December 2022 which comprise the Consolidated statement of profit and loss, Consolidated statement of comprehensive income, Consolidated and Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated and Company statement of cashflows and the related notes, including the accounting policies in Note 7.

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 2022 and of the Group's profit for the year then ended;

— the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

— the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the Directors in June 2011. The period of total uninterrupted engagement is for the twelve financial years ended 31 December 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£10.0 million (2021: £6.9 million) 4.2% of Group profit before tax (2021: 3.5% of Group profit before tax)	
Coverage	100% (2021: 100%) of Group profit before tax	
Key audit matters		**vs 2021**
Recurring risks	Expected credit losses on loans and advances to customers	◄►
	NEW: Measurement of loans at Fair Value through Other Comprehensive Income	▲
	IT user access management	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key Audit Matter	The risk	Our response
Expected credit losses on loans and advances to customers Risk vs 2021: ◄► £111.8 million, 2021: £76.0 million Refer to pages 43-68 (Risk Report), pages 110 (accounting policies), page 120 and 122 (financial disclosure)	**Subjective estimate** The estimation of expected credit losses ('ECL') for loans to customers involves significant judgement and estimates with a high degree of uncertainty. The key areas where we have identified greater levels of management judgement and therefore increased levels of audit focus in the estimation of ECL are: ▪ **Model estimations:** Inherently judgemental modelling is used to estimate ECL, particularly in determining the probability of default ('PD') in certain portfolios. These models utilise both the Group's historical data and external data inputs. ▪ **Economic scenarios:** IFRS 9 requires the Group to measure ECL on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them. In the current year, market reaction towards a high interest rate environment and cost of living pressures heightens the level of subjectivity in this judgement. ▪ **Post-model adjustments:** Adjustments to the model-driven ECL results are made by management to address known impairment model limitations or emerging trends. Such adjustments are inherently subjective and significant judgement is involved in estimating these amounts. ▪ **Significant increase in credit risk ('SICR'):** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12 month or a lifetime provision is recorded. We have specifically identified an increased risk associated with the judgement relating to the effectiveness of SICR criteria where customers or portfolios are impacted by the current macroeconomic pressures. The effect of these matters is that, as part of our risk assessment, we determined that ECL provisioning has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. **Disclosure quality** The disclosures regarding the Group's application of IFRS 9 are important in explaining the key judgements and material inputs to the IFRS 9 ECL results, as well as the sensitivity of the ECL results to changes in these judgements or management's assumptions, in light of the estimation uncertainty arising.	Our procedures to address the risk included: **Our credit risk modelling expertise:** We involved our own credit risk modelling specialists, which assisted us in the following for all significant risk models: • for those which were changed or updated during the year, evaluated whether the changes were appropriate by assessing the updated model methodology; • independently evaluated the model output by inspecting the corresponding model functionality and independently implementing the model by rebuilding the model code and comparing our independent output with management's output; • independently assessed and reperformed the updated model calibrations and model redevelopments; and • independently applied management's staging methodology and inspected model code for the calculation of the ECL model to assess its consistency with the Group's approved staging criteria and the output of the model. **Our economics expertise:** We involved our own economic specialists, who assisted us in: assessing the reasonableness of the Group's methodology and models for determining the economic scenarios used and the probability weightings applied to them; • assessing key economic variables by comparing samples of economic variables to external sources; • assessing the overall reasonableness of the economic forecasts by comparing the Group's forecasts to our own modelled forecasts; and • assessing the reasonableness of the Group's qualitative adjustments by challenging key economic assumptions applied in their calculation based on external sources. **Test of details:** Other key areas of our testing, in addition to those set out above, included: • critically evaluated management's assumptions which are applied to determine the basis of post-model adjustments; • reperforming the calculation of the ECL measured on each of the Group's loan portfolios; • reperforming the calculation of the qualitative adjustments to assess consistency with the qualitative adjustment methodologies; and • evaluated the completeness of SICR criteria in capturing new risks due to changes in the economic environment. **Assessing transparency:** We assessed whether the disclosures are transparent and appropriately reflect and describe the uncertainty which exists when determining the ECLs. As a part of this, we assessed the consistency of disclosures made together with sensitivity analysis disclosed. In addition, we assessed whether the disclosure of the key judgements and assumptions made is sufficiently clear. **Our results:** We found the resulting estimate of the ECL recognised and the associated disclosures made to be acceptable (2021: acceptable).

KPMG

Key Audit Matter	The risk	Our response
Measurement of loans to customers at fair value through other comprehensive income Risk vs 2021: ▲ (£1,268.8 million, 2021: n/a). Refer to pages 108-110, 113 (accounting policies) and page 143-147 (financial disclosure).	During the year the Group introduced a new business model "held to collect and sell". The loans originated under this business model are classified in accordance with IFRS 9 as measured at fair value through other comprehensive income. **Subjective estimate** • The fair value model uses unobservable inputs and as such the loans are classified as level 3 in the fair value hierarchy under IFRS 13. • There is subjectivity in pricing the significant unobservable inputs. Where significant pricing inputs are unobservable, management has limited reliable, relevant market data available in determining the fair value, and hence estimation uncertainty can also be high, which leads to a significant risk of error. • As part of our risk assessment, we determined that the discount factor has a high degree of estimation uncertainty, with a potential range of reasonable outcomes on the fair valuation of loans and advances to customers greater than our materiality. As a result, a significant audit risk was identified in respect of the risk-adjusted discount rate. **Disclosure quality** • The disclosures regarding the Group's application of IFRS 13 are key to explaining the key judgements and material inputs to the fair value estimate, including model sensitivities estimated by the Group.	Our procedures to address the risk included: • **Methodology choice:** We assessed the appropriateness of the methodology used to value the loans, including suitability of the model and assumptions used, specifically the risk-adjusted discount rate. • **Our valuation expertise:** We involved our internal valuation specialists to independently rebuild the discounted cash flow model using an independent risk-adjusted discount factor developed based on the risk characteristics of each product and data on similar instruments in the market. • **Sensitivity analysis:** Our valuation specialists also performed sensitivity analysis over the key assumption, being the risk-adjusted discount factor. • **Independent reperformance:** We assessed the accuracy of projected cash flow forecasts by recalculating the capital cash flows and interest cash flows. • **Test of details:** We performed tests of details over the completeness and accuracy of the data that feeds into the model primarily by tracing the relevant data elements to the original source documentation. • **Assessing transparency:** We critically assessed the adequacy of the disclosures regarding the degree of estimation uncertainty involved in arriving at the valuation, including sensitivity analysis. **Our results** We found the resulting estimate of the loans and advances to customers at fair value through other comprehensive income, including unobservable inputs and the associated disclosures made to be acceptable (2021: not applicable).

Key Audit Matter	The risk	Our response
IT user access management Risk vs 2021 : ◄► Refer to page 37 (Risk Report)	**Control performance** • The Group's accounting and reporting processes are dependent on automated controls enabled by IT systems. User access management controls are an important component of the general IT control environment assuring that unauthorised access to systems does not impact the effective operation of the automated controls in the financial reporting processes. • Key user access management controls include privileged access management and timely removal of user access. • There is a risk that user access management controls may not be consistently implemented and effectively operated across the Group, including controls operated by third party service providers. • If these user access management controls for user access management are deficient and not remediated or adequately mitigated, the pervasive nature of these controls may undermine our ability to place reliance on automated controls in our audit.	Our procedures included: **Control testing:** Using our own IT audit specialists, we tested the design and operating effectiveness of the relevant controls over user access management including: • authorising access rights for new joiners; • authorising modified access; • timely removal of user access rights; • segregation of duties; • privileged user and developer access to production systems, the procedures to assess granting, potential use and the removal of these access rights. **Test of details:** For certain account balances we responded to the deficient general IT controls by performing additional substantive testing, such as extended sample testing over certain account balances and comparing selected data to the external sources (such as third party contracts and/ or bank statements) to test the integrity of the transactional level data that is flowing into, and contained within, the Group's financial statements. **Our results:** Based on our testing and the additional procedures performed in response to the IT deficiencies identified, we concluded that none of the IT deficiencies impacted the effective operation of automated controls that we placed reliance on in our audit (2021: None identified).

We continue to perform procedures over provision for conduct matters, in particular customer complaints relating to the Group's financing of solar lending products where the original supplier is no longer solvent. However, following a reduction in the volume of complaints in 2022, the impact of the statute of limitation and the resulting lower degree of judgement involved, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

KPMG

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £10.0 million (2021: £6.9 million), determined with reference to a benchmark of Group's profit before tax of £238.4 million (2021: £197.4 million).

Materiality for the parent Company financial statements as a whole was set at £10.0 million (2021: £6.9 million), determined with reference to a benchmark of profit before tax, of which it represents 4.2% (2021: 3.5%).

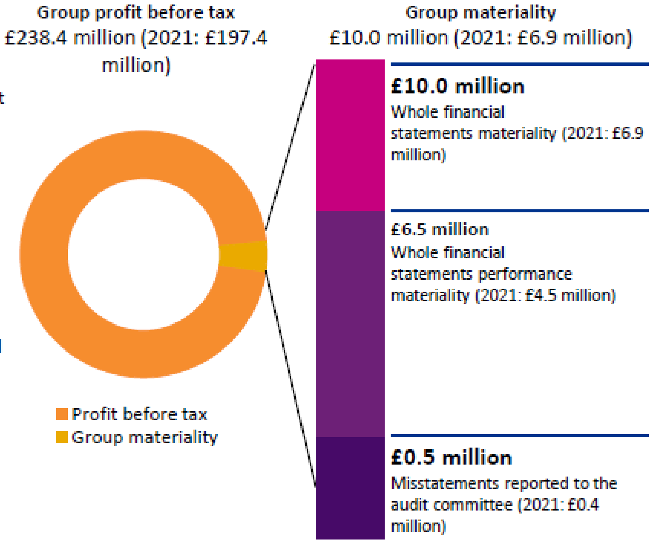
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equates to £6.5 million (2021: £4.5 million) for the Group and £6.5 million (2021: £4.5 million) for the parent Company. We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5 million (2021: £0.4 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

The Group 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 and performance materiality levels set out above .



4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period'). We used our knowledge of the Group and Company, its industry and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period.

The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- the availability of funding and liquidity in the event of a market-wide stress scenario; and
- insufficient regulatory capital to meet minimum regulatory capital levels.

We considered whether these risks could plausibly affect regulatory capital and liquidity in the going concern period by comparing severe, but plausible, downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's and Company's financial forecasts.

We considered whether the going concern disclosure in the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in Note 3 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of Directors, the Audit Committee, Internal Audit, Executive Management and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board, Audit Committee and Risk Committee meeting minutes;
- considering remuneration incentive schemes and performance targets for management and the Directors; and
- using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as expected credit losses on loans and advances to customers and measurement of loans at fair value through other comprehensive income. On this audit we do not believe there is a fraud risk related to revenue recognition, because there is limited complexity in the calculation and recognition of revenue.

We also identified fraud risks related to expected credit losses on loans and advances to customers and measurement of loans at fair value through other comprehensive income due to the fact these involve significant estimation and subjective judgements that are difficult to corroborate. Further detail in respect of expected credit losses on loans and advances to customers and measurement of loans at fair value through other comprehensive income is set out in the key audit matter disclosures in Section 2 of this report.

We performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included journal entries containing key words, journal entries by persons who do not post journals on a regular basis, one off journal entries made to key banking accounts, journal entries processed outside the normal course of business and material post-close journal entries out of journals that are manually posted; and
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

We discussed with the Audit Committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence, and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment, including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering and financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

KPMG

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

— we have not identified material misstatements in the Strategic Report and the Directors' Report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

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 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.

We have nothing to report in these respects.

8. *Respective responsibilities*

Directors' responsibilities

As explained more fully in their statement set out on page 24, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
29 March 2023

KPMG

Consolidated statement of profit and loss
for the year ended 31 December 2022

	Note	2022 £m	2021 (Restated)[1] £m
Interest income calculated using the effective interest rate method[1]	10	**588.1**	427.8
Other interest and similar income[1]	10	**36.2**	15.9
Interest expense and similar charges	11	**(164.4)**	(88.9)
Net interest income		**459.9**	354.8
Operating lease rental income		**10.1**	10.4
Depreciation on operating leases	26	**(8.7)**	(8.6)
Net other operating lease income		**0.3**	–
Net operating lease income		**1.7**	1.8
Fee and commission income	12	**14.1**	11.5
Fee and commission expense	12	**(8.8)**	(7.3)
Net fee and commission income	12	**5.3**	4.2
Net gains on derecognition of financial assets measured at amortised cost	13	**7.7**	21.7
Net (losses)/gains on derivative financial instruments and hedge accounting	24	**(0.8)**	3.1
Net other operating income		**2.4**	0.4
Net operating income		**476.2**	386.0
Administrative expenses	14	**(189.3)**	(164.2)
Impairment losses on financial assets	18	**(47.7)**	(31.4)
Provisions	33	**(0.8)**	7.0
Total operating expenses		**(237.8)**	(188.6)
Profit before tax		**238.4**	197.4
Tax	19	**(58.7)**	(47.9)
Profit after tax, attributable to owners		**179.7**	149.5

The notes on pages 99 to 154 are an integral part of these financial statements.

[1] As detailed in Note 10, in the year ended 31 December 2022, a reclassification has been implemented to separate interest income relating to the different components of loans and advances to customers to reflect the method of calculation more accurately. As a result, interest on finance lease and instalment credit receivables is now presented in other interest and similar income, rather than interest income calculated using the effective interest method. Prior year comparatives have been restated accordingly to reflect this change, resulting in £28.5 million being reclassified from interest income calculated using the effective interest method to other interest and similar income.

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Note	**2022 £m**	2021 £m
Profit after tax		**179.7**	149.5
Items that may be reclassified subsequently to the statement of profit and loss:			
Cash flow hedging reserve			
Net gains from effective portion of changes in fair value	24	**38.4**	–
Reclassifications to statement of profit and loss	24	**(2.2)**	–
Related tax		**(9.8)**	–
Movement in cash flow hedging reserve		**26.4**	–
Fair value through other comprehensive income reserve			
Net losses from changes in fair value		**(17.1)**	–
Change in loss allowance	18	**2.4**	–
Related tax		**4.0**	–
Movement in fair value through other comprehensive income reserve		**(10.7)**	–
Total items that may be reclassified subsequently to the statement of profit and loss		**15.7**	–
Other comprehensive income, net of tax		**15.7**	–
Total comprehensive income, attributable to owners		**195.4**	149.5

The notes on pages 99 to 154 are an integral part of these financial statements.

Consolidated and Company statement of financial position
as at 31 December 2022

		Group		Company	
	Note	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Assets					
Cash and balances at central banks	20	**2,037.1**	1,693.8	**2,037.1**	1,693.8
Loans and advances to banks	20	**263.5**	66.9	**199.9**	49.0
Loans and advances to customers	21	**10,457.1**	8,272.1	**10,472.8**	8,278.9
Investment securities	23	**691.0**	521.4	**716.8**	614.8
Derivative financial assets	24	**330.7**	21.5	**271.6**	21.5
Current tax receivable		**–**	4.2	**–**	4.2
Assets held for sale	25	**–**	299.7	**–**	299.7
Property, plant and equipment	26	**48.3**	48.3	**47.8**	47.8
Intangible assets	27	**70.7**	69.5	**45.6**	44.3
Deferred tax assets	28	**19.4**	14.2	**11.3**	9.2
Other assets	29	**19.6**	11.5	**35.5**	17.5
Deemed loan due from structured entities	22	**–**	–	**93.4**	–
Investment in subsidiaries	30	**–**	–	**13.9**	13.9
Total assets		**13,937.4**	11,023.1	**13,945.7**	11,094.6
Liabilities					
Amounts due to banks	31	**1,498.7**	1,200.7	**1,498.7**	1,200.7
Customer deposits	32	**10,914.5**	8,358.6	**10,914.5**	8,358.6
Provisions	33	**6.0**	14.2	**6.0**	14.2
Derivative financial liabilities	24	**90.5**	8.1	**90.5**	7.9
Debt securities in issue	34	**116.4**	318.8	**–**	–
Current tax liabilities		**3.6**	–	**3.6**	–
Lease liabilities	35	**7.4**	9.8	**7.1**	9.4
Other liabilities	36	**63.2**	62.4	**58.5**	60.7
Subordinated debt liability	37	**97.4**	97.5	**97.4**	97.5
Deemed loan due to structured entities	22	**–**	–	**133.0**	402.8
Total liabilities		**12,797.7**	10,070.1	**12,809.3**	10,151.8
Equity					
Share capital	39	**175.5**	175.5	**175.5**	175.5
Share premium account		**81.0**	81.0	**81.0**	81.0
Capital securities	40	**125.0**	125.0	**125.0**	125.0
Merger reserve		**1.6**	1.6	**1.6**	1.6
Capital contribution reserve		**24.0**	23.9	**24.0**	23.9
Cash flow hedging reserve		**26.4**	–	**–**	–
Fair value through other comprehensive income reserve		**(10.7)**	–	**(10.7)**	–
Retained earnings		**716.9**	546.0	**740.0**	535.8
Total equity		**1,139.7**	953.0	**1,136.4**	942.8
Total equity and liabilities		**13,937.4**	11,023.1	**13,945.7**	11,094.6

The notes on pages 99 to 154 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 March 2023 and were signed on its behalf by:

Marcelino Castrillo
Chief Executive Officer
Registered number 00388466

Dylan Minto
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Share capital £m	Share premium account £m	Capital securities £m	Merger reserve £m	Capital contribution reserve £m	Cash flow hedging reserve £m	FVOCI reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2022	**175.5**	**81.0**	**125.0**	**1.6**	**23.9**	**–**	**–**	**546.0**	**953.0**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**179.7**	**179.7**
Movement in cash flow hedging reserve	**–**	**–**	**–**	**–**	**–**	**26.4**	**–**	**–**	**26.4**
Movement in fair value through other comprehensive income reserve	**–**	**–**	**–**	**–**	**–**	**–**	**(10.7)**	**–**	**(10.7)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**26.4**	**(10.7)**	**179.7**	**195.4**
Equity-settled share-based payments	**–**	**–**	**–**	**–**	**0.1**	**–**	**–**	**–**	**0.1**
Issue of capital securities	**–**	**–**	**124.0**	**–**	**–**	**–**	**–**	**–**	**124.0**
Settlement of capital securities	**–**	**–**	**(124.0)**	**–**	**–**	**–**	**–**	**–**	**(124.0)**
Coupon paid on capital securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8.8)**	**(8.8)**
As at 31 December 2022	**175.5**	**81.0**	**125.0**	**1.6**	**24.0**	**26.4**	**(10.7)**	**716.9**	**1,139.7**

	Share capital £m	Share premium account £m	Capital securities £m	Merger reserve £m	Capital contribution reserve £m	Cash flow hedging reserve £m	FVOCI reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2021	175.5	81.0	125.0	1.6	17.7	–	–	406.3	807.1
Profit for the year	–	–	–	–	–	–	–	149.5	149.5
Total comprehensive income	–	–	–	–	–	–	–	149.5	149.5
Equity-settled share-based payments	–	–	–	–	0.6	–	–	–	0.6
Coupon paid on capital securities	–	–	–	–	–	–	–	(9.8)	(9.8)
Capital contribution	–	–	–	–	5.6	–	–	–	5.6
As at 31 December 2021	175.5	81.0	125.0	1.6	23.9	–	–	546.0	953.0

The notes on pages 99 to 154 are an integral part of these financial statements.

Company statement of changes in equity
for the year ended 31 December 2022

	Share capital £m	Share premium account £m	Capital securities £m	Merger reserve £m	Capital contribution reserve £m	FVOCI reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2022	**175.5**	**81.0**	**125.0**	**1.6**	**23.9**	**–**	**535.8**	**942.8**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**213.0**	**213.0**
Movement in fair value through other comprehensive income reserve	**–**	**–**	**–**	**–**	**–**	**(10.7)**	**–**	**(10.7)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(10.7)**	**213.0**	**202.3**
Equity-settled share-based payments	**–**	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**
Issue of capital securities	**–**	**–**	**124.0**	**–**	**–**	**–**	**–**	**124.0**
Settlement of capital securities	**–**	**–**	**(124.0)**	**–**	**–**	**–**	**–**	**(124.0)**
Coupon paid on capital securities	**–**	**–**	**–**	**–**	**–**	**–**	**(8.8)**	**(8.8)**
As at 31 December 2022	**175.5**	**81.0**	**125.0**	**1.6**	**24.0**	**(10.7)**	**740.0**	**1,136.4**

	Share capital £m	Share premium account £m	Capital securities £m	Merger reserve £m	Capital contribution reserve £m	FVOCI reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2021	175.5	81.0	125.0	1.6	17.7	–	392.1	792.9
Profit for the year	–	–	–	–	–	–	153.5	153.5
Total comprehensive income	–	–	–	–	–	–	153.5	153.5
Equity-settled share-based payments	–	–	–	–	0.6	–	–	0.6
Coupon paid on capital securities	–	–	–	–	–	–	(9.8)	(9.8)
Capital contribution	–	–	–	–	5.6	–	–	5.6
As at 31 December 2021	175.5	81.0	125.0	1.6	23.9	–	535.8	942.8

The notes on pages 99 to 154 are an integral part of these financial statements.

Consolidated and Company statement of cash flows

for the year ended 31 December 2022

		Group		Company	
	Note	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Cash flows from operating activities					
Profit before tax		**238.4**	197.4	**284.6**	203.8
Adjustments for non-cash items and other adjustments included in the statement of profit and loss	41	**61.0**	1.1	**67.4**	2.6
Increase in operating assets	41	**(2,238.5)**	(1,519.3)	**(2,234.4)**	(1,526.5)
Increase in operating liabilities	41	**2,630.3**	1,448.8	**2,627.5**	1,449.6
Tax paid		**(61.9)**	(48.4)	**(61.9)**	(48.4)
Net cash generated from operating activities		**629.3**	79.6	**683.2**	81.1
Cash flows from investing activities					
Purchase of investment securities		**(204.8)**	(199.8)	**(204.8)**	(231.9)
Disposals and maturities of investment securities		**33.5**	37.7	**92.9**	37.7
Purchase of property, plant and equipment		**(0.5)**	(0.7)	**(0.4)**	(0.7)
Purchase and development of intangible assets		**(9.4)**	(7.1)	**(9.1)**	(7.1)
Purchase of subsidiary, net of cash acquired		**–**	(3.4)	**–**	(5.5)
Net cash used by investing activities		**(181.2)**	(173.3)	**(121.4)**	(207.5)
Cash flows from financing activities					
Increase in amounts due to banks		**298.0**	385.2	**298.0**	385.2
Issue of debt securities		**–**	158.6	**–**	–
Repurchase and redemption of debt securities		**(203.4)**	(44.2)	**–**	–
Costs arising on issue of debt securities		**(0.3)**	(0.8)	**–**	–
Payment of principal portion of lease liabilities		**(2.2)**	(1.9)	**(2.1)**	(1.8)
Increase in deemed loan due from structured entities		**–**	–	**(93.4)**	–
(Decrease)/increase in deemed loan due to structured entities		**–**	–	**(269.8)**	134.6
Coupon paid to holders of capital securities		**(8.8)**	(9.8)	**(8.8)**	(9.8)
Net cash generated from/(used by) financing activities		**83.3**	487.1	**(76.1)**	508.2
Net increase in cash and cash equivalents		**531.4**	393.4	**485.7**	381.8
Cash and cash equivalents as at 1 January		**1,739.6**	1,346.2	**1,721.7**	1,339.9
Cash and cash equivalents as at 31 December	20	**2,271.0**	1,739.6	**2,207.4**	1,721.7

The notes on pages 99 to 154 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2022

Notes to the financial statements

1. Reporting entity

Shawbrook Bank Limited (the 'Company') is domiciled in the UK. The Company is registered in England and Wales (company number 00388466) and the registered office is Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE.

The consolidated financial statements comprise the results of the Company and its subsidiaries (together, the 'Group'). Details of subsidiary companies included in the Group are provided in Note 43.

Details of the parent company are provided in Note 42.

The principal activities of the Group are lending and savings. Further details regarding the nature of the Group's operations are provided in the Strategic Report.

2. Basis of accounting and measurement

Both the consolidated and company financial statements are prepared in accordance with UK-adopted international accounting standards, as defined by the UK Endorsement Board. New and revised standards and interpretations adopted by the Group during the year are detailed in Note 6. Significant accounting policies applied by the Group are detailed in Note 7.

The reporting period for the consolidated and company financial statements is the 12 months ended 31 December 2022.

No individual statement of profit and loss or related notes are presented for the Company, as permitted by Section 408 of the Companies Act 2006.

The financial statements are prepared on a going concern basis (see Note 3) and on a historical cost basis, except for the following material items that are carried at fair value: derivative financial instruments and certain loan receivables measured at fair value through other comprehensive income (FVOCI).

3. Going concern

The financial statements are prepared on a going concern basis. To assess the appropriateness of this basis, the Directors considered a wide range of information relating to present and future conditions, including the Group's current financial position and future projections of profitability, cash flows and capital resources. The Directors also considered the Group's risk assessment framework and potential impacts that the top risks identified (see page 32 of the Risk Report) may have on the Group's financial position and longer-term strategy.

The Group continues to have a proven business model, as demonstrated by its continued levels of profitability, and remains well positioned in each of its core markets. The Directors believe the Group is well capitalised and efficiently funded, with high levels of liquidity.

The Directors have reviewed the Group's capital and liquidity plans, which have been stress tested under a range of severe but plausible scenarios as part of the annual planning process and the annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). In this reporting period, stress testing incorporated two Prudential Regulation Authority (PRA) prescribed scenarios, the 2022 PRA Annual Cyclical Scenario and the 'Late Action' scenario published within the 2021 Climate Biennial Scenario, which incorporates a disorderly transition to net zero. The stressed forecasts indicate that under these stressed scenarios the Group continues to operate with sufficient levels of liquidity and capital for the next 12 months, with the Group's capital ratios and liquidity remaining in excess of regulatory requirements.

Based on the above, the Directors believe the Group has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of these financial statements, and the Group has sufficient capital and liquidity to enable it to continue to meet its regulatory requirements as set out by the PRA. Accordingly, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing these financial statements.

4. Functional and presentation currency

Both the consolidated and company financial statements are presented in pounds sterling, which is the functional currency of the Company and all of its subsidiaries. All amounts are rounded to the nearest million (to one decimal place), except where otherwise indicated.

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot exchange rate at the reporting date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the statement of profit and loss.

Non-monetary assets and liabilities measured on a historical cost basis and denominated in foreign currencies are translated into the functional currency using the spot exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value and denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the date of valuation. Where these assets and liabilities are held at fair value through profit or loss (FVTPL), exchange differences are reported as part of the fair value gain or loss.

5. Presentation of risk and capital management disclosures

Disclosures required under IFRS 7 'Financial Instruments: Disclosures' concerning the nature and extent of risks relating to financial instruments are included within the principal risks section of the Risk Report. Specifically, this includes information about credit risk, liquidity risk and market risk (starting on page 43, 69 and 73, respectively). Disclosures required under IAS 1 'Presentation of Financial Statements' concerning the management of capital are included within the capital risk and management section of the Risk Report (starting on page 78).

Notes to the financial statements

6. New and revised standards and interpretations

Adoption of new and revised standards and interpretations during the current reporting period
During the year ended 31 December 2022, no new accounting standards came into effect.

Several amendments to existing accounting standards came into effect on 1 January 2022 and were adopted by the Group during the year ended 31 December 2022, upon endorsement by the UK Endorsement Board. None of these amendments had a significant impact on the Group.

Future developments
A number of new and revised standards and interpretations issued by the International Accounting Standards Board have not yet come into effect. The Group has not early adopted any of these new or revised standards or interpretations.

Based on initial assessments, the Group does not expect any of these future accounting standard developments to have a material impact.

7. Significant accounting policies

Except where otherwise indicated, the Group has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Basis of consolidation

Subsidiaries
See disclosures at Note 43

Subsidiaries are entities, including structured entities, that are controlled by the Group. Control is achieved when the Group has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and can use its power over the entity to affect its returns. The Group reassesses whether it controls the entity if facts and circumstances indicate that there are changes to one or more of these three elements of control.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Accounting policies are applied consistently across the Group and intragroup transactions and balances are eliminated in full on consolidation.

Business combinations
Business combinations are accounted for using the acquisition method. Consideration transferred and the identifiable assets acquired and liabilities assumed as part of the business combination are generally, with some limited exceptions, recognised at their acquisition date fair values.

The cost of acquisition is the aggregate of the fair value of consideration transferred, amount recognised for non-controlling interests and fair value of any previous interest held. If the cost of acquisition exceeds the fair value of identifiable net assets acquired, goodwill is recognised and is treated in accordance with the policies set out in Note 7(o). If the fair value of identifiable net assets acquired exceeds the cost of acquisition (a 'bargain purchase'), a gain is recognised in the statement of profit and loss.

Acquisition-related costs are expensed as incurred and are included in administrative expenses in the statement of profit and loss, except if related to the issue of debt or equity securities, whereby any incremental direct transaction costs are recognised as a deduction from the instrument.

(b) Operating segments

See disclosures at Note 9

Operating segments are identified based on internal reports and components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. For this purpose, the chief operating decision maker for the Group is the Executive Committee. Operating segments may be included as a reportable operating segment even when quantitative thresholds stipulated in IFRS 8 'Operating segments' are not met, if the Group deems that such information is useful to users of the financial statements in understanding the performance of the different markets it operates within.

The Group determines operating segments according to similar economic characteristics and the nature of its products and services. No operating segments are aggregated to form the Group's reportable operating segments.

(c) Interest income and expense

See disclosures at Note 10 and Note 11

Interest on financial instruments measured at amortised cost and fair value through other comprehensive income
For interest-bearing financial instruments measured at amortised cost or FVOCI, interest income and expense is recognised using the effective interest rate (EIR) method, which allocates interest over the expected life of the financial instrument.

The EIR is the rate that exactly discounts the estimated future cash flows over the expected life of the financial instrument to the gross carrying amount of a financial asset, or the amortised cost of a financial liability.

When calculating the EIR, future cash flows are estimated by considering all contractual terms of the financial instrument, excluding the loss allowance recognised on financial assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial instrument.

For non-credit impaired financial assets (i.e. a 'Stage 1' or 'Stage 2' asset per page 43 of the Risk Report), interest income is calculated by applying the calculated EIR to the gross carrying amount of the financial asset.

For financial assets that become credit-impaired after initial recognition (i.e. a 'Stage 3' asset per page 43 of the Risk Report), interest income is calculated by applying the calculated EIR to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

Notes to the financial statements

7. Significant accounting policies (continued)

For financial assets that were credit-impaired on initial recognition (I.e. a 'POCI' asset per page 44 of the Risk Report), interest income is calculated by applying a credit-adjusted EIR to the amortised cost of the financial asset. The calculation of interest income does not revert to the gross basis, even if the credit risk of the asset improves.

For financial liabilities, interest expense is calculated by applying the calculated EIR to the amortised cost of the financial liability.

Interest on derivative financial instruments
For derivative financial instruments forming part of a qualifying hedging relationship, net interest income or expense is recognised based on the underlying hedged items. For derivative financial instruments hedging assets, the net interest income or expense is recognised in interest income. For derivative financial instruments hedging liabilities, the net interest income or expense is recognised in interest expense.

For derivative financial instruments not in a qualifying hedging relationship, interest is presented in accordance with whether it represents interest income or interest expense.

Interest on leases
Interest relating to lease and instalment credit agreements is recognised in a manner that achieves a constant rate of interest on the remaining balance of the receivable/liability.

(d) Fee and commission income and expense

See disclosures at Note 12

Fee and commission income includes amounts from contracts with customers that are not included in the EIR calculation. These amounts are recognised when performance obligations attached to the fee or commission have been satisfied. The income streams included in fee and commission income all have a single performance obligation attached to them. Where income is earned from the provision of a service, such as an account maintenance fee or a non-utilisation fee, the performance obligation is deemed to have been satisfied when the service is delivered. In general, services are provided each month, thus the performance obligation is satisfied and the income recognised on a monthly basis. Where income is earned upon the execution of a significant act, such as fees for executing a payment, the performance obligation is deemed to have been satisfied and the income recognised when the act is completed.

Incremental costs incurred to generate fee and commission income are charged to fee and commission expense as they are incurred.

(e) Administrative expenses

See disclosures at Note 14

Administrative expenses are recognised on an accruals basis. Accounting policies for expenses relating to property, plant and equipment and intangible assets are set out in Note 7(n) and Note 7(o), respectively. Accounting policies for payroll related costs, are set out below:

Salaries and social security costs are recognised over the period the employees provide the services to which the payments relate.

Cash bonus awards are recognised to the extent that there is a present obligation to employees that can be reliably measured and are recognised over the period the employees are required to provide services.

For long-term incentive plans, benefits are recognised at the present value of the obligation at the reporting date, reflecting the best estimate of the effect of the associated performance conditions. Costs are recognised over the period until which all vesting conditions are considered to have been reasonably achieved, which takes into account the period the employees are required to provide services.

For defined contribution pension arrangements, the Group pays fixed contributions into employees' personal pension plans, with no further payment obligations once the contributions have been paid. The Group's contributions to such arrangements are recognised as an expense when they fall due.

For equity-settled share-based payments, the grant date fair value of the share-based payment transaction is recognised as an expense, with a corresponding increase in equity, on a straight-line basis over the period the employees become unconditionally entitled to the awards (the 'vesting period').

The grant date fair value is estimated using a generally accepted valuation method. Where there are market conditions or non-vesting conditions, the grant date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the vesting period is dependent on achieving a non-market performance condition, the length of the expected vesting period at grant date is estimated based on the most likely outcome. Subsequently, the estimated vesting period is revised until the actual outcome is known.

The amount recognised as an expense is adjusted to reflect the number of awards for which the non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that will eventually vest.

For cash-settled share-based payments, the fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in other liabilities, over the vesting period. The fair value of the liability is remeasured at each reporting date and at the date of settlement, with any changes recognised as an expense.

(f) Tax

See disclosures at Note 19 and Note 28

Tax comprises current tax and deferred tax. Tax is generally recognised in the statement of profit and loss, except where it relates to items recognised directly in equity, in which case the tax is also recognised in equity. An exception to this is distributions to holders of capital securities, whereby the distribution is recognised directly in equity, but the tax relief is recognised in the statement of profit and loss, to align with where the transactions and events that generated the distributable profits are recognised.

Notes to the financial statements

7. Significant accounting policies (continued)

Current tax
Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The measurement of deferred tax reflects the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised in the statement of financial position for unused tax losses, unused 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.

(g) Cash and cash equivalents
See disclosures at Note 20

Cash and cash equivalents is the aggregate of cash and balances at central banks (less mandatory deposits with central banks), loans and advances to banks and short-term highly liquid debt securities with less than three months to maturity from the date of acquisition.

All components of cash and cash equivalents are classified as financial assets measured at amortised cost (see Note 7(v)).

Loans and advances to banks include cash collateral paid under terms that are usual and customary for such activities.

(h) Loans and advances to customers
See disclosures at Note 21

Loans and advances to customers include loan receivables, finance lease receivables and instalment credit receivables.

Loan receivables are financial assets measured at either amortised cost or FVOCI (see Note 7(v)).

Finance lease receivables and instalment credit receivables are accounted for as detailed in Note 7(t). For presentational purposes, they are included within loans and advances to customers at amortised cost.

Certain assets included in loans and advances to customers are pledged as collateral under terms that are usual and customary for such activities, whilst others have been transferred to structured entities as part of securitisation transactions. These assets do not meet the derecognition criteria outlined in Note 7(v) and therefore continue to be recognised in their entirety in the statement of financial position.

Certain loans are designated as the hedged item in hedge relationships. The total carrying amount of loans and advances to customers includes the cumulative fair value adjustment to the carrying amount of the hedged item in relation to fair value hedges (see Note 7(l)).

(i) Securitisation transactions
See disclosures at Note 22 and Note 34

Certain loans included within loans and advances to customers are securitised, by transferring the beneficial interest in the loans to a bankruptcy remote structured entity. A structured entity is an entity designed so that its activities are not governed by way of voting rights.

An assessment is performed to determine whether the Group controls such structured entities, in accordance with the criteria set out in Note 7(a). In performing this assessment, factors considered include: the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity. Where the Group is assessed to control the structured entity, it is treated as a subsidiary and is fully consolidated.

A further assessment is performed to determine whether the securitised loans meet the derecognition criteria outlined in Note 7(v). If the derecognition criteria are met, the transferred loans are treated as sales, referred to as ‘structured asset sales’ and a gain or loss on derecognition is recognised in the statement of profit and loss. If the derecognition criteria are not met, the transfer of loans is not treated as a sale and the loans continue to be recognised in their entirety in the statement of financial position. When the transferred loans are not derecognised, a deemed loan liability is recognised in the statement of financial position of the company that transferred the loans to reflect the consideration received from the structured entity upon transfer of the loans. This deemed loan liability is eliminated in full on consolidation.

Securitisations involve the simultaneous issue of debt securities by the associated structured entity to investors. In securitisation transactions where the structured entity is consolidated, the issued debt securities are classified on initial recognition as financial liabilities, as the substance of the contractual arrangements are such that there is an obligation to deliver the cash flows generated from the underlying securitised loans to the debt security holder. These financial liabilities are measured at amortised cost (see Note 7(v)) and are presented in debt securities in issue in the statement of financial position.

Certain debt securities issued by structured entities are purchased by the Company. In the Company statement of financial position, these retained debt securities are included in investment securities. In the consolidated statement of financial position, when the retained debt securities are issued by consolidated structured entities, they are eliminated in full on consolidation. When the retained debt securities are issued by unconsolidated structured entities, they are recognised in investment securities.

Where the Company transfers loans to a consolidated structured entity and retains all of the debt securities issued by that consolidated structured entity, i.e. ‘a fully retained securitisation’, the deemed loan liability and investment securities are not recognised separately.

Notes to the financial statements

7. Significant accounting policies (continued)

(j) Investment securities

See disclosures at Note 23

Investment securities include covered bonds and debt securities. They are classified as financial assets measured at amortised cost (see Note 7(v)).

Certain assets included in investment securities are pledged as collateral under terms that are usual and customary for such activities. These assets do not meet the derecognition criteria outlined in Note 7(v) and therefore continue to be recognised in their entirety in the statement of financial position.

Investment securities may be sold subject to a commitment to repurchase them at a predetermined price (a 'repurchase agreement'). The terms of these transactions are such that the derecognition criteria outlined in Note 7(v) are not met and, accordingly, the sold assets continue to be recognised in their entirety in the statement of financial position.

Consideration received as part of repurchase agreements is recognised as a liability in amounts due to banks in the statement of financial position, reflecting that there is an obligation to repurchase the assets for a fixed price at a future date. The difference between the sale and repurchase price is treated as interest and is accrued over the life of the agreement using the EIR method.

Investment securities may also be swapped via linked repurchase and reverse repurchase agreements with the same counterparty (a 'security swap'). In such transactions, no cash consideration is exchanged, the transferred assets are not derecognised and there is no associated liability as the non-cash collateral received is not recognised in the statement of financial position (i.e. the transaction is off-balance sheet). Net fees are treated as interest and are accrued over the life of the agreement using the EIR method.

(k) Derivative financial instruments

See disclosures at Note 24

Derivative financial instruments are classified as FVTPL (see Note 7(v)). Derivatives are classified as financial assets where their fair value is positive and financial liabilities where their fair value is negative. Where there is the legal right and intention to settle net, the derivative is classified as a net asset or net liability, as appropriate.

To calculate fair values, discounted cash flow models using yield curves that are based on observable market data are typically used. For collateralised positions, discount curves based on overnight indexed swap rates are used. For non-collateralised positions, discount curves based on Sterling Overnight Index Average rate (SONIA) are used.

For measuring derivatives that might change the classification from being an asset to a liability or vice versa, fair values do not take into consideration the credit valuation adjustment, debit valuation adjustment or the funding valuation adjustment because the impact on any uncollateralised position is deemed to be immaterial.

Where derivatives are not designated as part of an accounting hedge relationship, gains and losses arising from changes in the clean fair value are recognised in net gains/(losses) on derivative financial instruments and hedge accounting in the statement of profit and loss. Where derivatives are designated within an accounting hedge relationship, the treatment of the changes in fair value are as described in Note 7(l).

The Group enters into master netting and margining agreements with derivative counterparties.

In general, under such 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 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 payable by one party to the other and the agreements terminated.

Under margining agreements, where there is a net asset position valued at current market values in respect of derivatives with a counterparty, then that counterparty will place collateral, usually cash, with the Group to cover the position. Similarly, where there is a net liability position, the Group will place collateral, usually cash, with the counterparty.

(l) Hedge accounting

See disclosures at Note 24

The Group has elected, as an accounting policy choice permitted under IFRS 9 'Financial Instruments', to continue to apply the hedge accounting rules set out in IAS 39 'Financial Instruments – Recognition and measurement'. However, additional hedge accounting disclosures introduced by IFRS 9's consequential amendments to IFRS 7 are provided.

Hedge accounting is permitted when documentation, eligibility and testing criteria are met. Accordingly, at the inception of a hedge relationship, the Group formally designates and documents the hedge relationship (the link between the hedging instrument and the hedged item) that it wishes to apply hedge accounting to and the risk management objective and strategy for undertaking the hedge. The method to be used to assess the effectiveness of the hedge relationship is also documented.

At inception, and on a monthly basis thereafter, an assessment is performed to determine whether the hedging instrument is highly effective in offsetting changes in the fair value or cash flows of the hedged item. For this assessment, the dollar-offset method is used, except for trades designated in dynamic hedge accounting relationships, whereby the regression method is used. The hedge is deemed to be highly effective where the actual results of the hedge are within a range of 80-125%. If it is concluded that the hedge is no longer highly effective, hedge accounting is discontinued.

The Group's hedging strategy incorporates the use of both fair value hedges and cash flow hedges, as detailed on the following page.

Notes to the financial statements

7. Significant accounting policies (continued)

Fair value hedges
Certain derivatives are designated as hedging instruments to hedge interest rate risk. The hedged items are portfolios of loans and advances to customers or customer deposits that are identified as part of the risk management process. The portfolios comprise either fixed rate loans, or fixed rate deposits, in respect of the designated benchmark interest rate (e.g. SONIA). Each portfolio is grouped into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. The hedging instruments are designated to those repricing time periods.

Changes in the fair value of the derivatives designated as hedging instruments, together with changes in the fair value of the hedged item attributable to the hedged risk, are recognised in net gains/(losses) on derivative financial instruments and hedge accounting in the statement of profit and loss. Movement in the fair value of the hedged item is recognised as an adjustment to the carrying amount of the hedged asset or liability.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. The cumulative fair value adjustment to the carrying amount of the hedged item is amortised to the statement of profit and loss over the remaining period to maturity.

If the hedged item is derecognised, the cumulative fair value adjustment to the carrying amount of the hedged item is recognised immediately in the statement of profit and loss.

Cash flow hedges
Certain derivatives are designated as hedging instruments to hedge variability in cash flows attributable to interest rate risk. The hedged cash flows may be highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives designated as hedging instruments is recognised in other comprehensive income and is presented in the cash flow hedging reserve in the statement of financial position. The ineffective portion is recognised immediately in the statement of profit and loss in net gains/(losses) on derivative financial instruments and hedge accounting. The carrying amount of the hedged item is not adjusted.

Amounts accumulated in the cash flow hedging reserve are reclassified to the statement of profit and loss in the periods in which the hedged cash flows affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss remains in the cash flow hedging reserve and is subsequently reclassified to the statement of profit and loss when the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, any cumulative gain or loss included in the cash flow hedging reserve is immediately reclassified to the statement of profit and loss. When reclassifying amounts to the statement of profit and loss they are recognised in net gains/(losses) on derivative financial instruments and hedge accounting.

Interest rate benchmark reform
The Group applied certain reliefs set out in 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7'. Accordingly, for prospective hedge effectiveness testing, it was assumed the benchmark interest rate was not altered as a result of interest rate benchmark reform. For retrospective hedge effectiveness testing, if the hedging relationship was subject to interest rate benchmark reform, hedge accounting was not discontinued solely because the actual effectiveness fell outside of the 80-125% range.

The Group also applied certain reliefs set out in 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. This meant changes to the referenced interest rate benchmark and hedge documentation due to interest rate benchmark reform did not constitute the discontinuation of the hedge relationship, nor the designation of a new hedging relationship.

During 2021, all hedge relationships with a London Inter-bank Offered Rate (LIBOR) dependency were either discontinued or transitioned to alternative benchmark rates and, at this point in time, the Group ceased to apply these amendments.

(m) Assets and disposal groups held for sale
See disclosures at Note 25

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the plan to sell the asset or disposal group and the sale expected to be completed within one year from the date of the classification.

Non-current assets and disposal groups classified as held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell, with any adjustments recognised in the statement of profit and loss. Depreciation and amortisation cease once classified as held for sale. An exception to this is financial assets within the scope of IFRS 9, which continue to be measured in accordance with this standard, following the accounting policies set out in Note 7(v).

Assets classified as held for sale are presented on a separate line in the statement of financial position. Prior period presentation is not restated.

(n) Property, plant and equipment and depreciation
See disclosures at Note 26

Assets on operating leases represent assets that are leased to customers under operating lease agreements. Right-of-use leasehold property represent assets that are leased by the Group. Details of these asset categories are set out in Note 7(t).

For all other asset categories, accounting policies are as follows:

Notes to the financial statements

7. Significant accounting policies (continued)

Assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset and any directly attributable costs of bringing the asset to the location and condition necessary for its intended use. Subsequent expenditure is only capitalised when it improves the expected future economic benefits of the asset. All other costs, including ongoing repairs and maintenance, are expensed to administrative expenses in the statement of profit and loss as incurred.

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over its estimated useful life and is charged to administrative expenses in the statement of profit and loss. For leasehold property, the estimated useful life is the life of the lease. For fixtures and fittings, the estimated useful life is ten years, or is aligned to the length of the lease of the property it resides in. For office equipment, the estimated useful life is three to five years. The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

On the disposal of an asset, the net disposal proceeds are compared with the carrying amount of the asset and any gain or loss is included in administrative expenses in the statement of profit and loss.

(o) Intangible assets and amortisation

See disclosures at Note 27

Goodwill

Goodwill may arise on the acquisition of subsidiaries and represents the excess of the cost of acquisition over the fair value of identifiable net assets acquired. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is not amortised but is tested for impairment annually and whenever there is an indication that impairment may exist. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the carrying amount of a CGU exceeds the recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. For externally acquired intangible assets, cost includes the original purchase price of the asset and any directly attributable costs of preparing the asset for its intended use. For internally developed intangible assets, cost includes all costs directly attributable in preparing the asset so that it is capable of operating in its intended manner.

For internally developed intangible assets costs may only be capitalised when it can be demonstrated that: the expenditure can be reliably measured; the product or process is technically and commercially feasible; future economic benefits are probable; and there is the intention and ability to complete development and subsequently use or sell the asset. Until the point that all conditions are regarded as met, costs are recognised in administrative expenses in the statement of profit and loss as incurred.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset it relates to. All other expenditure is recognised in administrative expenses in the statement of profit and loss as incurred.

Amortisation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over its estimated useful life and is charged to administrative expenses in the statement of profit and loss. The estimated useful life is three to seven years. The amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

On the disposal of an asset, the net disposal proceeds are compared with the carrying amount of the asset and any gain or loss included in administrative expenses in the statement of profit and loss.

(p) Investment in subsidiaries

See disclosures at Note 30

The Company's investments in controlled entities are valued at cost less any accumulated impairment losses.

Investments are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in the statement of profit and loss.

(q) Amounts due to banks

See disclosures at Note 31

Amounts due to banks are classified as financial liabilities measured at amortised cost (see Note 7(v)).

Amounts due to banks may include liabilities recognised as part of repurchase agreements (see Note 7(j)) and cash collateral received under terms that are usual and customary for such activities.

(r) Customer deposits

See disclosures at Note 32

Customer deposits are classified as financial liabilities measured at amortised cost (see Note 7(v)).

Certain deposits are designated as the hedged item in hedge relationships. The total carrying amount of customer deposits includes the cumulative fair value adjustment to the carrying amount of the hedged item in relation to fair value hedges (see Note 7(l)).

Notes to the financial statements

7. Significant accounting policies (continued)

(s) Provisions

See disclosures at Note 33

Provisions are recognised when there is a present obligation arising as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Provisions for levies are recognised when the conditions that trigger the payment of the levy are met.

When it is expected that some or all of a provision will be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit and loss net of any reimbursement.

Provisions also include the loss allowance recognised on loan commitments (see Note 7(y)).

(t) Leases

See disclosures at Note 35

Group as a lessor: finance leases
Lease and instalment credit agreements in which the Group transfers substantially all the risks and rewards of ownership of the underlying asset to the lessee are treated as finance leases.

A receivable equal to the net investment in the lease is recognised in loans and advances to customers in the statement of financial position. This amount represents the future lease payments less profit and costs allocated to future periods. The receivable is subject to impairment, as detailed in Note 7(w).

Lease payments are apportioned between interest income in the statement of profit and loss and a reduction of the receivable in order to achieve a constant rate of interest on the remaining balance of the receivable.

Group as a lessor: operating leases
Lease agreements in which the Group does not transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are treated as operating leases.

The leased asset is recognised in property, plant and equipment in the statement of financial position 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.

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over the life of the lease and is charged to depreciation on operating leases in the statement of profit and loss.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in net other operating lease income/(expense) in the statement of profit and loss.

Operating lease rental income is recognised in the statement of profit and loss on a straight-line basis over the lease term.

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.

Group as a lessee
At the lease commencement date a right-of-use asset and a lease liability is recognised.

The right-of-use asset is recognised in property, plant and equipment in the statement of financial position. The asset is measured at cost less accumulated depreciation and any accumulated impairment losses and is adjusted for any remeasurement of the lease liability. The cost of the asset includes the initial amount of the lease liability recognised, initial direct costs incurred and any lease payments made at or before the commencement date, less any lease incentives received.

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over the lease term and is charged to administrative expenses in the statement of profit and loss.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

The lease liability recognised is initially measured at the present value of lease payments to be made over the lease term. In calculating the present value, the incremental borrowing rate at the lease commencement date is used, unless the interest rate implicit in the lease is readily determinable.

After the commencement date, the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. Interest is recognised in a manner which produces a constant periodic rate of interest on the remaining balance of the lease liability.

The lease liability is remeasured if there is a modification; such as a change in the lease term, a change in the in-substance fixed lease payments, or a change in the assessment of whether an extension or termination option will be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The lease term includes the non-cancellable period of the lease together with both periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

For short-term leases (i.e. those with a lease term of twelve months or less from the commencement date that do not contain a purchase option) and for leases considered to be low value, the recognition exemption is applied. For these leases, no right-of-use asset is recognised and lease payments are charged to administrative expenses in the statement of profit and loss on a straight-line basis over the lease term.

Notes to the financial statements

7. Significant accounting policies (continued)

(u) Subordinated debt liability

See disclosures at Note 37

Subordinated debt liabilities are classified as financial liabilities measured at amortised cost (see Note 7(v)).

(v) Financial assets and financial liabilities

See disclosures at Note 38

Recognition of financial assets and financial liabilities
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date.

Classification and measurement of financial assets
To classify financial assets, two assessments are performed:

- **The 'business model assessment':** this assessment determines whether the Group's objective is to generate cash flows from collecting contractual cash flows ('hold-to-collect'), by both collecting contractual cash flows and selling financial assets ('hold-to-collect-and-sell') or neither. The assessment is performed at a portfolio level and is based on expected scenarios. In making this assessment, information considered includes: sales in prior periods, expected sales in future periods and the reasons for such sales. If cash flows are realised in a manner that is different from the original expectation, the classification of the remaining financial assets in that portfolio is not changed, but such information is used when assessing new financial assets going forward.
- **The 'SPPI test':** this assessment determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) (i.e. whether the contractual cash flows are consistent with a basic lending arrangement). For the purposes of this test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin. The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition. In performing the SPPI test, terms that could change the contractual cash flows so that they are not SPPI are considered, such as: contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

Based on the two assessments, financial assets are classified as amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), as follows:

- **Amortised cost:** when the financial asset is held in a hold-to-collect business model and its contractual terms give rise on specified dates to cash flows that are SPPI.
- **FVOCI:** when the financial asset is held in a hold-to-collect-and-sell business model and its contractual terms give rise on specified dates to cash flows that are SPPI.
- **FVTPL:** when the financial asset does not meet the criteria to be classified as amortised cost or FVOCI.

Derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

For financial assets that meet the requirements to be classified as amortised cost or FVOCI, on initial recognition, the Group may irrevocably designate the financial asset as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investments in equity instruments are normally classified as FVTPL. However, on initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect, on an investment-by-investment basis, to present subsequent changes in fair value in the statement of other comprehensive income.

After initial recognition, financial assets are reclassified only under the rare circumstances that the Group changes its business model for managing financial assets.

Financial assets classified as amortised cost are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is at amortised cost using the EIR method (see Note 7(c)). Amortised cost is reduced by impairment losses (see Note 7(w)). Interest income, foreign exchange gains and losses and impairment losses are recognised in the statement of profit and loss.

Financial assets classified as FVOCI are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is at fair value, with changes in fair value recognised in other comprehensive income and presented in the FVOCI reserve in the statement of financial position. Interest income, foreign exchange gains and losses and impairment losses are recognised in the statement of profit and loss.

Financial assets classified as FVTPL are initially measured at fair value and are subsequently remeasured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the statement of profit and loss.

Classification and measurement of financial liabilities
Financial instruments are classified as a financial liability when the substance of the contractual arrangements result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments.

Financial liabilities are classified at initial recognition as FVTPL or amortised cost as follows:

- **FVTPL:** when the financial liability meets the definition of held for trading, or when the financial liability is designated as such to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
- **Amortised cost:** when the financial liability is not classified as FVTPL.

Financial liabilities classified as FVTPL are initially measured at fair value and are subsequently remeasured at fair value. Net gains and losses, including any interest, are recognised in the statement of profit and loss.

Financial liabilities classified as amortised cost are initially measured at fair value minus incremental direct transaction costs. Subsequent measurement is at amortised cost using the EIR method (see Note 7(c)). Interest expense is recognised in the statement of profit and loss.

Notes to the financial statements

7. Significant accounting policies (continued)

Derecognition of financial assets and financial liabilities
Derecognition is the point at which the Group ceases to recognise a financial asset or a financial liability on its statement of financial position.

A financial asset (or a part of a financial asset) is derecognised when:
- the contractual rights to the cash flows from the financial asset have expired;
- the financial asset is transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred; or
- the financial asset is transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained and control of the asset is not retained. If control of the asset is retained, the transferred asset continues to be recognised only to the extent of the Group's continuing involvement, with the remainder being derecognised.

A financial liability (or a part of a financial liability) is derecognised when the contractual obligations are extinguished (i.e. discharged, cancelled, or expired).

On derecognition, the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration received/paid (including any new asset obtained less any new liability assumed) is recognised in the statement of profit and loss. For financial assets classified as FVOCI, any gains/losses accumulated in the FVOCI reserve are reclassified to the statement of profit and loss.

Modification of financial assets and financial liabilities
When a financial asset or financial liability is modified, a quantitative and qualitative evaluation is performed to assess whether or not the new terms are substantially different to the original terms.

For financial assets, the Group considers the specific circumstances including:
- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that substantially affects the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate; and
- insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

For financial liabilities, the Group specifically, but not exclusively, considers the outcome of the '10% test'. This involves a comparison of the cash flows before and after the modification, discounted at the original EIR, whereby a difference of more than 10% indicates the modification is substantial.

If the terms and cash flows of the modified financial instrument are deemed to be substantially different, the derecognition criteria are met and the original financial instrument is derecognised and a 'new' financial instrument is recognised at fair value. The difference between the carrying amount of the derecognised financial instrument and the new financial instrument with modified terms is recognised in the statement of profit and loss.

If the terms and cash flows of the modified financial instrument are not deemed to be substantially different, the financial instrument is not derecognised and the Group recalculates the 'new' gross carrying amount of the financial instrument based on the revised cash flows of the modified financial instrument discounted at the original EIR and recognises any associated gain or loss in the statement of profit and loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the financial instrument and are amortised over the remaining term of the modified financial instrument by recalculating the EIR on the financial instrument.

In relation to financial assets, where a modification is granted due to the financial difficulty of the borrower, the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. Under such circumstances, it is first considered whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and usually means the derecognition criteria are not met.

Since 1 January 2021, the Group has applied 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. The amendments provide a practical expedient that allows a change in the basis of determining the contractual cash flows of a financial instrument required by the reform to be accounted for by updating the EIR, rather than applying the modification policy outlined above. This practical expedient is only applied where the change to the contractual cash flows is necessary as a direct consequence of the reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. In the event changes are in addition to those required by the reform, the practical expedient is applied first, after which the usual accounting policy for modifications outlined above is applied.

Notes to the financial statements

7. Significant accounting policies (continued)

Fair value of financial assets and financial liabilities
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Where possible, fair value is determined with reference to quoted prices in an active market or dealer price quotations. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where quoted prices are not available, generally accepted valuation techniques are used to estimate fair value, including discounted cash flow models and Black-Scholes option pricing. Where possible these valuation techniques use independently sourced market parameters, such as interest rate yield curves, option volatilities and currency rates.

On initial recognition, the best evidence of the fair value of a financial instrument is normally transaction price (i.e. the fair value of the consideration given or received). If it is determined that the fair value on initial recognition differs from the transaction price, such differences are accounted for as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability, or based on a valuation technique that uses only data from observable markets, the difference is recognised in the statement of profit and loss on initial recognition (i.e. day one profit or loss);

in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day one profit or loss will be deferred by including it in the initial carrying amount of the asset or liability). Subsequently, the deferred gain or loss will be released to the statement of profit and loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, assets are measured at bid price and liabilities are measured at ask price.

A fair value hierarchy is used that categorises financial assets and financial liabilities into three different levels, as detailed in Note 38(b). Levels are reviewed at each reporting date to determine whether transfers between levels are required.

Further details of the fair value calculation of derivative financial instruments are set out in Note 7(k).

Offsetting financial assets and financial liabilities
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions.

(w) Impairment of financial assets
See disclosures at Note 18

Impairment of financial assets is calculated using a forward-looking expected credit loss (ECL) model. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes. A summary of ECL measurement is as follows:

- **Financial assets that are not credit-impaired at the reporting date:** as the present value of all cash shortfalls. Cash shortfalls are the difference between the contractual cash flows due and the cash flows that are expected to be received.
- **Financial assets that are credit-impaired at the reporting date:** as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR.
- **Loan commitments:** as the present value of the difference between the contractual cash flows due if the commitment is drawn down and the cash flows that are expected to be received.

ECLs are measured in a manner that reflects the time value of money and uses reasonable and supportable information that is available at the reporting date, without undue cost or effort, about past events, current conditions and forecasts of future economic conditions.

ECLs are calculated and a loss allowance recorded for all financial assets not held at FVTPL (i.e. those at amortised cost and FVOCI) and for loan commitments. Assets held at FVTPL and equity instruments are not subject to impairment.

Loss allowances are presented in the statement of financial position as follows:

- **Financial assets measured at amortised cost:** as a deduction from the gross carrying amount of the financial asset.
- **Financial assets measured at FVOCI:** in other comprehensive income in the FVOCI reserve. It does not reduce the carrying amount of the financial asset, which remains at fair value.
- **Loan commitments:** generally, as a provision.

Where a financial instrument includes both a drawn and an undrawn component, and the loss allowance on the undrawn component cannot be separately identified from the drawn component, a combined loss allowance is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross carrying amount of the drawn component is presented as a provision.

Notes to the financial statements

7. Significant accounting policies (continued)

The calculation of ECLs is dependent upon the 'stage' the asset is assigned to (Stage 1, 2 or 3). The stage is determined based on changes in credit risk when comparing credit risk at initial recognition to credit risk at the reporting date, or whether the asset was purchased or originated credit-impaired (POCI).

Details of the 'staging' of assets and POCI assets, the calculation of ECLs and the key judgements and estimates associated with this, are provided in the credit risk section of the Risk Report starting on page 43.

It is possible to elect, as an accounting policy choice, to use the 'simplified approach' for trade receivables, contract assets and lease receivables. The Group has elected not to use this simplified approach.

Modifications
If a financial asset is modified, an assessment is made to determine whether it meets the derecognition criteria outlined in Note 7(v).

If the modification does not result in derecognition of the existing asset, the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the modification does result in derecognition of the existing asset, 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 included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original EIR of the existing financial asset. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including in determining whether a significant increase in credit risk has occurred and whether the new financial asset is deemed to be a POCI asset.

Write-offs
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when it is determined that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Write-offs constitute a derecognition event, as detailed in Note 7(v).

Financial assets that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Amounts subsequently recovered on assets written off are recognised in impairment losses on financial assets in the statement of profit and loss.

(x) Capital securities
See disclosures at Note 40

Capital securities are classified as equity instruments, as the substance of the contractual arrangements are such that there is no present obligation to deliver cash, another financial asset or a variable number of equity instruments. The capital securities are measured at the fair value of the proceeds from the issuance less any costs that are incremental and directly attributable to the issuance (net of applicable tax).

Distributions to holders of the capital securities are recognised when they become irrevocable and are deducted from retained earnings in equity.

(y) Loan commitments
See disclosures at Note 46

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Certain uncommitted facilities are included within reported loan commitments where the terms are such that there is an obligation to the customer should the customer get into financial distress.

A loss allowance is recognised on loan commitments in accordance with the policies set out in Note 7(w). The loss allowance is included within provisions in the statement of financial position.

(z) Contingent liabilities
See disclosures at Note 47

Contingent liabilities 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 the Group. Alternatively, they are present obligations that have arisen from past events where the outflow of resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the financial statements, but they are disclosed unless the probability of settlement is remote.

Notes to the financial statements

8. Critical accounting judgements and estimates

The preparation of financial statements requires the Group to make judgements and estimates that affect the application of accounting policies and the reported results and financial position.

Estimates, and the underlying assumptions driving these estimates, are reviewed by the Group on an ongoing basis. Due to the inherent uncertainty in making estimates, actual results reported in the future may differ from the amounts estimated. Revisions to estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the reported period, the areas involving the most complex and subjective judgements, and areas where estimates are considered to have the most significant effect on the financial statements, are set out in the following sections.

In the prior year, the acquisition of The Mortgage Lender Limited, which completed in February 2021, was identified as an area involving critical accounting judgement. As there have been no additional judgements related to this transaction in the current year, this is not identified as an area involving critical accounting judgement in the current year.

(a) Impairment losses on financial assets

See accounting policies at Note 7(w) and disclosures at Note 18

Impairment of financial assets is calculated using a forward-looking ECL model. The calculation and measurement of ECLs requires the use of complex judgements and represents a key source of estimation uncertainty.

Judgements

Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining the stage the financial asset is allocated to and therefore whether a 12-month or lifetime ECL is recognised in the financial statements. This involves judgements over whether the financial asset has had a significant increase in credit risk since initial recognition, whether the financial asset is in default or whether the financial asset is 'cured'; and
- application of 'post-model adjustments' when the Group judges that the modelled ECL amount does not adequately reflect the expected outcome.

Estimates

Underlying assumptions used in estimating ECLs that, depending on a range of factors, could result in a material adjustment in the next financial year are:

- the forward-looking economic scenarios used;
- probability weightings applied to these scenarios; and
- model assumptions used, such as the probability of default and loss given default.

Additional details, of the critical judgements and estimates, including sensitivity analysis, are included in the credit risk section of the Risk Report starting on page 54 and 56, respectively.

(b) Provisions for customer remediation and conduct issues

See accounting policies at Note 7(s) and disclosures at Note 33

Provisions have been recognised in respect of potential claims for instances of misrepresentation, or breaches of contract by suppliers, where the suppliers have become insolvent and therefore the Group has limited recourse to those suppliers. Calculating the amount of the provision requires judgement and represents a source of estimation uncertainty.

Judgements

Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining whether an event has occurred in the past that would result in a claim, and whether it is probable that such a claim would result in an outflow of resources for the Group; and
- assessing the statutory limitation period.

Estimates

The following table sets out the underlying assumptions used in estimating the provision that, depending on a range of factors, could result in a material adjustment in the next financial year. Sensitivity analysis to illustrate the impact of, what the Group considers to be, reasonable changes to these underlying assumptions, is also provided.

Assumption	Sensitivity analysis
Number of complaints In deriving this figure the Group takes into account: • the status of current claims and projected potential future claims based on existing complaint data; • the origin of the claim (i.e. if the claim relates to a solvent or insolvent supplier, or if the claim is via a claims management company); and • the statutory limitation period.	The impact of a +/-2 percentage point change in the absolute number of complaints would result in a £1.6 million increase or decrease in the provisions, respectively.
Number of upheld claims Once the number of complaints has been estimated, it is necessary to estimate how many of these claims will be upheld. This is based on existing complaint data.	The impact of a +/-2 percentage point change in the average uphold rate per complaint would result in a £0.9 million increase or decrease in the provisions, respectively.
Redress costs on upheld claims This reflects the expected average customer compensation on the estimated number of upheld claims, based on agreed redress strategies (inclusive of loan balance adjustments and cash payments). This is based on actual claim data.	The impact of a £500 increase or decrease in the average redress per complaint would result in a £1.5 million increase or decrease in the provisions, respectively.

Notes to the financial statements

8. Critical accounting judgements and estimates (continued)

(c) Classification of financial assets

See accounting policies at Note 7(v) and disclosures at Note 38(a)

Determining the classification of financial assets involves complex assessments that necessitate the application of judgement.

Judgements
Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining the business model within which portfolios of assets are managed; and
- determining whether the contractual terms of a financial asset give rise on specified dates to cash flows that are SPPI.

These two judgements dictate whether assets are held at amortised cost, FVOCI or FVTPL and thus has a significant impact on the resulting accounting treatment and amounts recognised in the financial statements.

This area of judgement was particularly pertinent in the current year as the Group implemented its 'originate-to-distribute' strategy, in which certain mortgage loans were originated or purchased with the intention to securitise them in the future. The structure of these intended securitisation transactions are highly dependent upon market conditions and may result in loans being derecognised (a 'structured asset sale') or retained on balance sheet. Accordingly significant judgement was applied, in particular when performing the business model assessment, in ultimately concluding that such loans should be measured at FVOCI.

(d) Fair value of debt instruments measured at fair value through other comprehensive income

See accounting policies at Note 7(v) and disclosures at Note 38(b)

In the year ended 31 December 2022, the Group began to originate some customer loans that are measured at FVOCI. In valuing these loans, the Group makes use of unobservable inputs (i.e. Level 3 in the fair value hierarchy) and the calculation represents a source of estimation uncertainty.

Estimates
To calculate the fair value of the loans measured at FVOCI, the Group uses the discounted cash flow method, in which the significant unobservable input is the risk-adjusted discount rate. Additional details, including sensitivity analysis to show the impact of reasonable changes in the discount rate, are provided on page 147.

(e) Securitisations

See accounting policies at Note 7(i) and disclosures at Note 22

Securitisations involve the transfer of customer loans to structured entities. In determining the accounting treatment to be applied for each securitisation transaction, complex assessments must be performed, which necessitates the application of judgement.

Judgements
Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining whether the Group controls the structured entity and whether it should therefore be treated as a subsidiary by virtue of control and consolidated; and
- determining whether the securitised loans should be derecognised.

These assessments necessitate the application of judgement and significantly impact the resulting accounting treatment and amounts recognised in the financial statements.

During the year three securitisation transactions were completed. For each transaction, the structure and terms of the contractual arrangements were scrutinised, with particular consideration given to matters such as: who will service and manage the securitised loans and ownership of any 'X' notes and residual certificates (which represent the 'equity' investment in the securitised loans, giving the rights to any excess spread and the risk of losses associated with any defaults). Judgement was applied in ultimately concluding for all three of the securitisations completed during the year that the structured entity should be consolidated and the loans retained on balance sheet.

9. Segmental analysis

See accounting policies in Note 7(b)

The following section provides information regarding the operating segments of the Group. Substantially all of the Group's activities are in the UK and, as such, segmental analysis on geographical lines is not presented. The Group is not reliant on any single customer and therefore information about major customers is also not provided.

Operating segments
The Group presents five reportable operating segments; four lending segments and a central segment. These are summarised below:

- **Real Estate[1]:** provides specialist commercial and residential mortgage products to professional landlords, investors and homeowners.
- **SME[1]:** provides debt-based financing solutions to support UK SMEs.
- **Consumer Lending:** provides unsecured personal loans and unsecured loans through strategic partnerships.
- **TML Mortgages:** provides flexible residential mortgages for those with complex circumstances, including the self-employed, entrepreneurs and first-time buyers, and buy-to-let mortgages.
- **Savings and Central:** comprises the Savings business, which offers personal savings products and business savings products for SMEs and charities, along with central functions and shared central costs.

[1] During the year, the naming convention of certain lending segments have been changed to better reflect their operations. The previously named 'Property Finance' lending segment is now referred to as 'Real Estate' and 'Business Finance' is now referred to as 'SME'.

Notes to the financial statements

9. Segmental analysis (continued)

The following tables provide summarised information regarding the results of each reportable operating segment. In preparing these segment results, the following points of significance should be noted:

Shared central costs and central treasury activities are allocated to the Savings and Central segment.

Dedicated funding and administrative costs of the lending segments are allocated to the relevant lending segment, with the remainder allocated to the Savings and Central segment. In relation to administrative expenses, during the year ended 31 December 2022, certain employees, and their associated costs, in operations and support teams attached to specific lending segments began to be recognised within the relevant lending segment, rather than being included within Savings and Central as it was in the year ended 31 December 2021. This is estimated to have reduced administrative expenses in the Savings and Central segment by c.£7 million in the year ended 31 December 2022, the majority of which is now recognised in the Real Estate segment.

The results for each segment are presented on a consolidated basis, as reviewed by the chief operating decision maker.Intra-group transactions between segments are minimal and are not separately disclosed. Intra-group transactions are conducted under terms that are usual and customary for such activities.

	Enterprise					
Year ended 31 December 2022	**Real Estate £m**	**SME £m**	**Consumer Lending £m**	**TML Mortgages £m**	**Savings and Central £m**	**Total £m**
Interest and similar income	291.7	196.7	47.7	37.4	50.8	624.3
Interest expense and similar charges	(78.1)	(30.8)	(5.1)	(12.0)	(38.4)	(164.4)
Net interest income	213.6	165.9	42.6	25.4	12.4	459.9
Net operating lease income	–	1.7	–	–	–	1.7
Net fee and commission income/(expense)	(2.9)	9.2	(1.9)	2.3	(1.4)	5.3
Net gains on derecognition of financial assets measured at amortised cost	7.7	–	–	–	–	7.7
Net losses on derivative financial instruments and hedge accounting	–	–	–	–	(0.8)	(0.8)
Net other operating income	–	–	–	–	2.4	2.4
Net operating income	218.4	176.8	40.7	27.7	12.6	476.2
Administrative expenses	(26.7)	(29.4)	(13.3)	(21.6)	(98.3)	(189.3)
Impairment losses on financial assets	(9.1)	(15.3)	(20.3)	(3.0)	–	(47.7)
Provisions	–	–	(0.8)	–	–	(0.8)
Total operating expenses	(35.8)	(44.7)	(34.4)	(24.6)	(98.3)	(237.8)
Profit/(loss) before tax	182.6	132.1	6.3	3.1	(85.7)	238.4

Notes to the financial statements

9. Segmental analysis (continued)

Year ended 31 December 2021	Enterprise Real Estate £m	 SME £m	Consumer Lending £m	TML Mortgages £m	Savings and Central £m	Total £m
Interest and similar income	250.3	143.7	41.2	16.6	(8.1)	443.7
Interest expense and similar charges	(57.2)	(14.7)	(4.9)	(3.6)	(8.5)	(88.9)
Net interest income/(expense)	193.1	129.0	36.3	13.0	(16.6)	354.8
Net operating lease income	–	1.8	–	–	–	1.8
Net fee and commission income/(expense)	(3.4)	8.5	(1.4)	1.5	(1.0)	4.2
Net gains/(losses) on derecognition of financial assets measured at amortised cost	–	(0.1)	–	21.8	–	21.7
Net gains on derivative financial instruments and hedge accounting	–	–	–	–	3.1	3.1
Net other operating income	–	–	–	–	0.4	0.4
Net operating income/(expense)	189.7	139.2	34.9	36.3	(14.1)	386.0
Administrative expenses	(20.7)	(26.5)	(11.3)	(11.9)	(93.8)	(164.2)
Impairment losses on financial assets	7.8	(38.5)	0.1	(0.8)	–	(31.4)
Provisions	–	–	7.0	–	–	7.0
Total operating expenses	(12.9)	(65.0)	(4.2)	(12.7)	(93.8)	(188.6)
Profit/(loss) before tax	176.8	74.2	30.7	23.6	(107.9)	197.4

The following tables present summarised information about the Group's assets and liabilities based on the reportable operating segments. Loans and advances to customers and operating lease assets (i.e. the Group's 'loan book') are allocated to the relevant lending segment. All other assets and liabilities are allocated to the Savings and Central segment, as they are managed on a Group basis.

As at 31 December 2022	**Enterprise** **Real Estate** **£m**	 **SME** **£m**	**Consumer Lending** **£m**	**TML Mortgages** **£m**	**Savings and Central** **£m**	**Total** **£m**
Assets	**5,947.9**	**2,591.4**	**499.6**	**1,456.3**	**3,442.2**	**13,937.4**
Liabilities	**–**	**–**	**–**	**–**	**(12,797.7)**	**(12,797.7)**
Net assets/(liabilities)	**5,947.9**	**2,591.4**	**499.6**	**1,456.3**	**(9,355.5)**	**1,139.7**

As at 31 December 2021	Enterprise Real Estate £m	 SME £m	Consumer Lending £m	TML Mortgages £m	Savings and Central £m	Total £m
Assets	5,443.2	2,217.6	434.3	512.8	2,415.2	11,023.1
Liabilities	–	–	–	–	(10,070.1)	(10,070.1)
Net assets/(liabilities)	5,443.2	2,217.6	434.3	512.8	(7,654.9)	953.0

Notes to the financial statements

10. Interest and similar income

See accounting policies in Note 7(c)

In the year ended 31 December 2022, a reclassification has been implemented to separate interest income relating to the different components of loans and advances to customers to reflect the method of calculation more accurately. As a result, interest on finance lease and instalment credit receivables is now presented in other interest and similar income, rather than interest income calculated using the effective interest method. The overall total for interest and similar income is unchanged. Prior year comparatives have been restated accordingly to reflect this change, resulting in £28.5 million being reclassified from interest income calculated using the effective interest method to other interest and similar income.

	2022 £m	2021 (Restated) £m
Interest income calculated using the effective interest rate method		
On cash and balances at central banks	**31.0**	1.5
On loans and advances to customers: loan receivables measured at amortised cost	**522.6**	423.4
On loans and advances to customers: loan receivables measured at FVOCI	**23.0**	–
On investment securities	**11.5**	2.9
Total interest income calculated using the effective interest rate method	**588.1**	427.8
Other interest and similar income		
On loans and advances to customers: finance lease and instalment credit receivables	**28.0**	28.5
On derivative financial instruments	**8.2**	(12.6)
Total other interest and similar income	**36.2**	15.9
Total interest and similar income	**624.3**	443.7

With the exception of interest on loans and advances to customers measured at FVOCI, interest income calculated using the EIR method is attributable to financial assets measured at amortised cost.

Interest on derivative financial instruments comprises £8.2 million of interest income and £nil of interest expense (2021: £nil interest income; £12.6 million interest expense). Of this amount, interest attributable to derivative financial instruments in qualifying hedging relationships hedging assets is £5.0 million of interest income (2021: £12.6 million of interest expense).

11. Interest expense and similar charges

See accounting policies in Note 7(c)

	2022 £m	2021 £m
On amounts due to banks	**18.3**	1.6
On customer deposits	**132.4**	76.2
On derivative financial instruments	**(0.9)**	(0.7)
On debt securities in issue	**6.5**	3.7
On lease liabilities	**0.2**	0.2
On subordinated debt liability	**7.9**	7.9
Total interest expense and similar charges	**164.4**	88.9

Except for interest on derivative financial instruments and lease liabilities, amounts in the above table are calculated using the EIR method and are attributable to financial liabilities measured at amortised cost.

Interest on derivative financial instruments comprises £4.3 million of interest expense and £5.2 million of interest income (2021: £nil interest expense; £0.7 million interest income). Of this amount, interest attributable to derivative financial instruments in qualifying hedging relationships hedging liabilities is £5.2 million of interest income (2021: £0.7 million of interest income).

Notes to the financial statements

12. Net fee and commission income

See accounting policies in Note 7(d)

	2022 £m	2021 £m
Fee income on loans and advances to customers	**10.5**	7.6
Credit facility related fees	**3.6**	3.9
Fee and commission income	**14.1**	11.5
Fee and commission expense	**(8.8)**	(7.3)
Net fee and commission income	**5.3**	4.2

13. Derecognition of financial assets measured at amortised cost

See accounting policies in Note 7(v)

	2022 £m	2021 £m
Net gains/(losses) on sale of customer loan portfolios	**7.7**	(0.1)
Net gains on structured asset sales	**–**	21.8
Net gains on derecognition of financial assets measured at amortised cost	**7.7**	21.7

Sale of customer loan portfolios

In the year ended 31 December 2022, the net gain is attributable to the sale of a portfolio of loans from Real Estate[1], which completed in January 2022. The portfolio was classified as assets held for sale in the statement of financial position as at 31 December 2021 (see Note 25). At the point of derecognition, the loan portfolio had a gross carrying amount (before loss allowance deducted) of £298.8 million and a carrying amount (after loss allowance deducted) of £298.3 million.

In the comparative year ended 31 December 2021, the net loss was attributable to the sale of a portfolio of loans from SME[1], which completed in February 2021. At the point of derecognition, the loan portfolio had a gross carrying amount (and carrying amount) of £2.3 million.

Structured asset sales

The net gain on structured asset sales in the comparative year ended 31 December 2021 was attributable to securitised loan portfolios. The securitised loans were transferred to unconsolidated structured entities and met the criteria to be derecognised from the statement of financial position (see Note 22).

14. Administrative expenses

See accounting policies in Note 7(e)

	Note	**2022 £m**	2021 £m
Payroll costs	15	**107.3**	93.2
Depreciation of property, plant and equipment[2]	26	**3.1**	3.1
Other movements on property, plant and equipment depreciation	26	**–**	(0.4)
Amortisation of intangible assets	27	**8.2**	8.2
Other administrative expenses		**70.7**	60.1
Total administrative expenses		**189.3**	164.2

[1] During the year, the naming convention of certain lending segments have been changed to better reflect their operations. The previously named 'Property Finance' lending segment is now referred to as 'Real Estate' and 'Business Finance' is now referred to as 'SME'.

[2] Depreciation included within administrative expenses includes depreciation of all asset categories except for assets on operating leases. Depreciation of assets on operating leases is presented as a separate line item in the statement of profit and loss, forming part of the net operating lease income total.

Notes to the financial statements

14. Administrative expenses (continued)

Other administrative expenses include fees paid to the Group's auditor, KPMG LLP, as follows. Amounts represent both current year costs and prior year overruns.

	2022 £000	2021 £000
Audit of these annual accounts	**2,740**	2,470
Audit of the annual accounts of subsidiary companies	**175**	130
Audit related assurance services	**145**	–
Other assurance services	**15**	–
Total auditor's remuneration	**3,075**	2,600

15. Employees

See accounting policies in Note 7(e)

Aggregate payroll costs included in administrative expenses (see Note 14) are as follows:

	2022 £m	2021 £m
Wages and salaries	**92.6**	81.2
Social security costs	**9.1**	7.4
Pension costs	**5.6**	4.6
Payroll costs	**107.3**	93.2

Wages and salaries include share-based payment charges. Further details regarding share-based payment transactions are provided in Note 16.

Pension costs represent contributions to defined contribution pension schemes. The Group does not operate any defined benefit pension schemes.

Details of Directors' remuneration are provided in Note 17.

The average number of persons employed by the Group on a full-time equivalent basis by reportable operating segment is set out in the following table.

	2022	2021
Real Estate[1]	**211**	96
SME[1]	**241**	235
Consumer Lending	**79**	43
TML Mortgages	**189**	121
Savings and Central	**409**	469
Average employees (on a full-time equivalent basis)	**1,129**	964

Figures in the above tables include contracted employees of the Group only and do not include contractors.

As detailed in Note 9, during the year ended 31 December 2022, certain employees working within operations and support teams attached to specific lending segments began to be recognised within the relevant lending segment, rather than being included within Savings and Central as it was in the year ended 31 December 2021. This is estimated to have reduced average employees included in Savings and Central by 138 in the year ended 31 December 2022, the majority of which are now recognised in the Real Estate segment.

[1] During the year, the naming convention of certain lending segments have been changed to better reflect their operations. The previously named 'Property Finance' lending segment is now referred to as 'Real Estate' and 'Business Finance' is now referred to as 'SME'.

Notes to the financial statements

16. Employee share-based payment transactions

See accounting policies in Note 7(e)

The Group operates one equity-settled share-based payment scheme and one cash-settled share-based payment scheme, as detailed below. The total expense recognised within payroll costs (Note 15) for share-based payment schemes is £0.1 million (2021: £0.6 million).

Management Incentive Plan (equity-settled)
The equity-settled Management Incentive Plan (MIP) was originally introduced for a set of individuals in April 2019. Individuals selected for inclusion in the equity-settled MIP were entitled to acquire non-voting 'B' Class ordinary shares in Marlin Bidco Limited. Marlin Bidco Limited is the ultimate parent company of Shawbrook Group plc (the Company's parent company). Awards are subject to performance conditions relating to the equity valuation of Shawbrook Group plc in the event of a prescribed exit event. The outcome of the performance conditions determines the vesting outcome of the awards.

During the year ended 31 December 2022, the charge recognised in payroll costs for the equity settled MIP is £0.1 million (2021: £0.6 million). The reduced charge in the current year is attributable to an extension to the estimated vesting period.

Movements in the number of share-based awards during the year are as follows:

	2022	2021
As at 1 January	**8,750**	8,175
Granted	**1,350**	1,675
Forfeited	**(700)**	(1,100)
As at 31 December	**9,400**	8,750

None of the share-based awards have a contractual maturity date and none were exercisable as at 31 December in either of the reported years.

The grant date fair value of the share-based awards was determined using a Monte Carlo modelling technique. Key assumptions used in the valuation of awards granted during the reported years and the resultant grant date fair value are set out in the following table:

	2022 awards	2021 awards
Weighted average expected volatility	**36.0%**	35.7%
Weighted average dividend yield	**0%**	0%
Weighted average risk-free rate of return (based on government bonds)	**0%**	0%
Weighted average expected life at grant date	**2.9 years**	1.4 years
Weighted average grant date fair value (per share)	**£540**	£503

Expected volatility was calculated based on the historical volatility of banks closely aligned to the Group.

Management Incentive Plan (cash-settled)
The cash-settled MIP was introduced in May 2022. Individuals selected for inclusion in the cash-settled MIP are entitled to a cash payment subject to performance conditions relating to the equity valuation of Shawbrook Group plc in the event of a prescribed exit event. The outcome of the performance conditions determines the vesting outcome of the awards.

During the year ended 31 December 2022, the charge recognised in payroll costs for the cash-settled MIP, and the resultant liability recognised within other liabilities in the statement of financial position, is immaterial, totalling less than £0.1 million.

Movements in the number of awards during the year are as follows:

	2022	2021
As at 1 January	**–**	–
Granted	**200**	–
As at 31 December	**200**	–

The fair value of liability at both grant date and reporting date was calculated using the Monte Carlo modelling technique using the same assumptions as applied for the equity-settled MIP.

Notes to the financial statements

17. Directors' remuneration

	2022 £000	2021 £000
Directors' emoluments	**3,278**	3,692
Total Directors' remuneration	**3,278**	3,692

The above table includes both Executive and Non-Executive Directors. Additional information is provided in the Directors' Remuneration Report of Shawbrook Group plc's 2022 Annual Report and Accounts, available on the website: *www.shawbrook.co.uk/investors/*

18. Impairment losses on financial assets

See accounting policies in Note 7(w)

Impairment losses on financial assets are attributable to the Group's loans and advances to customers and loan commitments. Impairment losses relating to the Group's other financial asset categories that are in scope of IFRS 9 impairments (cash and balances at central banks, loans and advances to banks and investment securities) are immaterial, totalling less than £0.1 million in both reported years.

The following table analyses impairment losses on financial assets by financial asset category.

	2022 £m	2021 £m
Impairment losses on loans and advances to customers at amortised cost		
Net ECL charge/(credit) for the year	**35.8**	(15.4)
Loan balances written off in the year	**14.4**	53.8
Amounts recovered in the year in respect of loan balances previously written off	**(4.7)**	(4.5)
Total impairment losses on loans and advances to customers at amortised cost	**45.5**	33.9
Impairment losses on loans and advances to customers at FVOCI		
Net ECL charge for the year	**2.4**	–
Total impairment losses on loans and advances to customers at FVOCI	**2.4**	–
Impairment losses on loan commitments		
Net ECL credit for the year	**(0.2)**	(2.5)
Total impairment losses on loan commitments	**(0.2)**	(2.5)
Total impairment losses on financial assets	**47.7**	31.4

In the comparative year ended 31 December 2021, loan balances written off included £35.2 million relating to a customer that became insolvent in November 2021.

Further analysis of the net ECL charge/(credit) for the year in respect of loans and advances to customers at amortised cost, loans and advances to customers at FVOCI and loan commitments is provided in the credit risk section of the Risk Report on page 48, 52 and 53, respectively.

Critical accounting judgements and estimates
The impairment of financial assets is an area identified as involving critical accounting judgements and estimates. Additional details are provided in Note 8(a) and in the credit risk section of the Risk Report starting on pages 54 and 56, respectively.

Notes to the financial statements

19. Tax

See accounting policies in Note 7(f)

A summary of the tax charge recognised in the statement of profit and loss is as follows:

	2022 £m	2021 £m
Current tax		
Current year	**71.5**	50.1
Adjustment in respect of prior years	**(1.8)**	(2.9)
Total current tax	**69.7**	47.2
Deferred tax		
Origination and reversal of temporary differences	**(11.9)**	(0.8)
Adjustment in respect of prior years	**0.9**	2.6
Tax rate changes	**–**	(1.1)
Total deferred tax	**(11.0)**	0.7
Total tax charge	**58.7**	47.9

Additional information about the Group's deferred tax assets is provided in Note 28.

A reconciliation of profit before tax to the total tax charge is shown in the following table. The effective tax rate is 24.6% (2021: 24.3%). This is higher than the UK corporation tax rate due to the combined impact of the banking surcharge and the other adjustments outlined in the table.

	2022 £m	2021 £m
Profit before tax	**238.4**	197.4
Implied tax charge thereon at 19.00% (2021: 19.00%)	**45.3**	37.5
Adjustments		
Banking surcharge	**17.0**	13.5
Tax relief on coupon paid on capital securities	**(2.3)**	(2.5)
Adjustment in respect of prior years	**(0.9)**	(0.3)
Disallowable expenses and other permanent differences	**(0.4)**	0.8
Tax rate changes	**–**	(1.1)
Total tax charge	**58.7**	47.9

Future tax rate changes
As part of the Finance Act 2021, which was substantively enacted on 24 May 2021, the UK corporation tax rate will increase from 19% to 25% from 1 April 2023.

As part of the Finance Act 2022, which was substantively enacted on 2 February 2022, the banking surcharge will decrease from 8% to 3% and the banking surcharge exempt amount will increase from £25 million to £100 million from 1 April 2023.

These changes have been reflected in the deferred tax assets recognised (see Note 28) and the resultant deferred tax charge.

Notes to the financial statements

20. Cash and cash equivalents

See accounting policies in Note 7(g).

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Cash and balances at central banks	**2,037.1**	1,693.8	**2,037.1**	1,693.8
Less: mandatory deposits with central banks	**(29.6)**	(21.1)	**(29.6)**	(21.1)
Loans and advances to banks	**263.5**	66.9	**199.9**	49.0
Total cash and cash equivalents	**2,271.0**	1,739.6	**2,207.4**	1,721.7

Mandatory deposits with central banks represent amounts held with the Bank of England in accordance with statutory requirements. These deposits are not included in cash and cash equivalents as they are not available for use in the Group's day-to-day operations.

Cash and cash equivalents include £155.5 million (2021: £10.8 million) of cash collateral paid against derivative contracts.

Cash and cash equivalents in the Group also includes £59.5 million (2021: £15.7 million) of securitisation cash, which represents the restricted cash balances of consolidated structured entities.

The loss allowance for both cash and balances at central banks and loans and advances to banks is immaterial in both reported years, totalling less than £0.1 million.

21. Loans and advances to customers

See accounting policies in Note 7(h).

The following tables analyse the carrying amount of loans and advances to customers by loan classification and agreement type. Finance lease and instalment credit receivables are presented within loans and advances to customers at amortised cost.

	Loans and advances to customers at amortised cost				
Group **As at 31 December 2022**	**Gross carrying amount £m**	**Loss allowance £m**	**Carrying amount £m**	**Loans and advances to customers at FVOCI £m**	**Total £m**
Loan receivables	**9,043.7**	**(99.6)**	**8,944.1**	**1,316.4**	**10,260.5**
Finance lease receivables	**39.7**	**(2.0)**	**37.7**	**–**	**37.7**
Instalment credit receivables	**381.3**	**(10.2)**	**371.1**	**–**	**371.1**
	9,464.7	**(111.8)**	**9,352.9**	**1,316.4**	**10,669.3**
Fair value adjustments for hedged risk (see Note 24)			**(164.6)**	**(47.6)**	**(212.2)**
Total loans and advances to customers			**9,188.3**	**1,268.8**	**10,457.1**

	Loans and advances to customers at amortised cost				
Group As at 31 December 2021	Gross carrying amount £m	Loss allowance £m	Carrying amount £m	Loans and advances to customers at FVOCI £m	Total £m
Loan receivables	7,938.4	(61.8)	7,876.6	–	7,876.6
Finance lease receivables	54.0	(2.8)	51.2	–	51.2
Instalment credit receivables	376.1	(11.4)	364.7	–	364.7
	8,368.5	(76.0)	8,292.5	–	8,292.5
Fair value adjustments for hedged risk (see Note 24)			(20.4)	–	(20.4)
Total loans and advances to customers			8,272.1	–	8,272.1

Notes to the financial statements

21. Loans and advances to customers (continued)

Company
Total loans and advances to customers: £10,472.8 million (2021: £8,278.9 million).
Difference to Group total: +£15.7 million (2021: +£6.8 million).

The difference between the Group and Company in both reported years is due to a difference in the gross carrying amount of loan receivables held at amortised cost. The difference arises due to loan fees that are recognised directly in the statement of profit and loss of a subsidiary company. These fees are capitalised upon consolidation, in line with the Group's accounting policy, which reduces the gross carrying amount of loan receivables in the Group compared to the Company. This represents the only difference between the Group and Company, with the gross carrying amount of finance lease receivables and instalment credit receivables, the total loss allowance recognised, the loan receivables held at FVOCI and the fair value adjustments for hedged risk all being the same in both the Group and Company. Separate tables are not provided for the Company and the additional disclosures below are the same for both the Group and Company.

Additional analysis of the Group's loans and advances to customers at amortised cost and loans and advances to customers at FVOCI and the associated loss allowance is provided in the credit risk section of the Risk Report starting on page 48 and 52, respectively.

Loans and advances to customers include the following pledged and transferred assets. Amounts represent the carrying amount (after loss allowance deducted).

- £1,602.3 million (2021: £1,282.2 million) positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £1,362.3 million (2021: £401.9 million) transferred to consolidated structured entities as part of securitisation programmes, which are pledged as collateral against debt securities in issue.

Loans and advances to customers also include loans offered under COVID-19 related business support schemes (Coronavirus Business Interruption Loan Scheme and Recovery Loan Scheme). Such loans have a carrying amount (after loss allowance deducted) of £31.6 million (2021: £43.6 million). The UK Government provides a guarantee to protect 80% of any post-recovery loss in the event of default on these loans. In the year ended 31 December 2022, five claims have been made against this guarantee for £3.8 million (2021: no claims made against guarantee). As at 31 December 2022, £0.4 million of the claimed amount has been received and £3.4 million is pending.

Finance lease and instalment credit receivables
Finance lease and instalment credit receivables relate to agreements issued to customers for a variety of assets, predominantly plant and machinery. The following table sets out a maturity analysis, showing the undiscounted payments to be received after the reporting date and a reconciliation to the gross carrying amount of the receivable.

	2022		2021	
Group and Company	**Finance lease receivables £m**	**Instalment credit receivables £m**	Finance lease receivables £m	Instalment credit receivables £m
Undiscounted payments receivable				
Within one year	**19.4**	**231.5**	26.2	197.2
Between one and two years	**10.5**	**65.3**	15.7	81.5
Between two and three years	**6.3**	**33.7**	8.1	40.3
Between three and four years	**4.1**	**58.8**	4.4	28.0
Between four and five years	**2.8**	**8.4**	2.7	45.7
After five years	**0.7**	**2.1**	2.5	6.4
Total undiscounted payments receivable	**43.8**	**399.8**	59.6	399.1
Unearned finance income	**(4.1)**	**(18.5)**	(5.6)	(23.0)
Gross carrying amount	**39.7**	**381.3**	54.0	376.1

Instalment credit receivables include block discounting facilities of £239.7 million (2021: £196.3 million).

Notes to the financial statements

21. Loans and advances to customers (continued)

The cost of assets acquired during the year for the purpose of letting to customers under finance lease and instalment credit agreements is as follows:

Group and Company	2022 £m	2021 £m
Finance lease agreements	**11.8**	15.1
Instalment credit agreements	**37.8**	121.5
Total cost of assets acquired during the year	**49.6**	136.6

Modifications
The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans with a view to maximising recovery. Modifications occurring due to the customer encountering financial difficulties are referred to as forbearance activities. Details of forborne loans are provided in the credit risk section of the Risk Report starting on page 67.

No modification gains or losses were recognised in the statement of profit and loss in either reported year.

Write-offs still under enforcement activity
Loans that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The contractual amount outstanding on loans and advances to customers that were written off during the reporting period, and are still subject to enforcement activity, is £38.6 million (2021: £28.3 million).

LIBOR transition
During the comparative year ended 31 December 2021, the Group largely completed its LIBOR transition programme, with the majority of loans transitioning to alternative rates. As at 31 December 2021, 1,110 customer loans with a gross carrying amount of £983.5 million continued to be linked to sterling LIBOR. As at 31 December 2022, this has reduced to 48 customer loans with a gross carrying amount of £4.8 million. These remaining loans fall within the tough legacy bracket and were moved to synthetic LIBOR[1] on 1 January 2022. When transitioning customer loans from LIBOR to alternative rates, the Group has applied the practical expedient extended in 'Interest Rate Benchmark Reform - Phase 2 amendments', allowing the change to be accounted for by updating the EIR, rather than applying the Group's normal modification policy.

22. Securitisations and structured entities

See accounting policies in Note 7(i)

Consolidated structured entities
The Group includes consolidated structured entities relating to securitisation programmes. These securitisations involve the Company transferring certain mortgage loans included within loans and advances to customers to bankruptcy remote structured entities. The Group continues to service the transferred loans in return for an administration fee and is entitled to any residual income from the structured entity after the debt obligations and senior expenses of the securitisation programme have been met.

Based on the structure of these securitisations, it is assessed that, for accounting purposes, the Group controls the structured entities and they are therefore treated as subsidiaries and are fully consolidated (see Note 43). The transfer of loans does not meet the derecognition criteria and they therefore continue to be recognised in their entirety in loans and advances to customers in the statement of financial position.

The securitisations involve the simultaneous issue of debt securities by the structured entities to investors. The debt securities may be issued to external investors, which provides a form of long-term funding to the Group. Alternatively, some or all of the debt securities may be purchased by the Company, typically for funding and liquidity purposes. For example, they may be exchanged for UK gilts, referred to as a 'security swap', or they may be positioned with the Bank of England for use as collateral against amounts drawn under its funding schemes.

[1] The Financial Conduct Authority used its powers, granted to it by the UK Government under the Benchmarks Regulation, to require continued publication on a 'synthetic' basis for the 1-month, 3-month and 6-month sterling LIBOR settings. These synthetic LIBOR rates are not intended for use in new contracts, but are available for holders of 'legacy' LIBOR-referencing contracts. The Group's remaining exposures are linked to synthetic 3-month LIBOR, which will continue to be published until March 2024.

Notes to the financial statements

22. Securitisations and structured entities (continued)

During the year ended 31 December 2022, the following transactions with consolidated structured entities took place:

- In June 2022, loans with a gross carrying amount (before loss allowance deducted) of £351.9 million and a carrying amount (after loss allowance deducted) of £351.3 million were transferred to Ealbrook Mortgage Funding 2022-1 plc. The structured entity simultaneously issued mortgage-backed debt securities of £351.9 million and £12.3 million of uncollateralised 'X' notes, all of which were purchased by the Company and are eliminated on consolidation.
- In September 2022, the loan portfolio transferred to Shawbrook Mortgage Funding 2019-1 plc in June 2019 was repurchased and the outstanding debt securities were redeemed and the deemed loan liability settled. A liquidator has been appointed to liquidate Shawbrook Mortgage Funding 2019-1 plc and this process is expected to conclude in the first half of 2023.
- In October 2022, loans with a gross carrying amount (before loss allowance deducted) of £342.8 million and a carrying amount (after loss allowance deducted) of £342.2 million were transferred to Lanebrook Mortgage Transaction 2022-1 plc. The structured entity simultaneously issued mortgage-backed debt securities of £342.8 million and £3.4 million of uncollateralised 'X' notes, all of which were purchased by the Company and are eliminated on consolidation.
- In December 2022, loans with a gross carrying amount (before loss allowance deducted) of £574.0 million and a carrying amount (after loss allowance deducted) of £573.2 million were transferred to Shawbrook Mortgage Funding 2022-1 plc. The structured entity simultaneously issued mortgage-backed debt securities of £574.0 million and £0.2 million of uncollateralised 'X' notes, all of which were purchased by the Company and are eliminated on consolidation.

In the comparative year ended 31 December 2021, the following transaction with consolidated structured entities took place:

- In August 2021, loans with a gross carrying amount (before loss allowance deducted) of £191.1 million and a carrying amount (after loss allowance deducted) of £190.8 million were transferred to Wandle Mortgage Funding Limited. The structured entity simultaneously privately issued mortgage-backed debt securities of £158.6 million to an external investor, with additional notes purchased by the Company.

The following table summarises the carrying amount of securitised loans that continue to be recognised in the statement of financial position (of both the Group and the Company) and the associated debt securities issued by consolidated structured entities, which are recognised in the Group's statement of financial position.

	2022		2021	
	Loans and advances securitised £m (Note 21)	**Debt securities in issue £m** (Note 34)	Loans and advances securitised £m (Note 21)	Debt securities in issue £m (Note 34)
Shawbrook Mortgage Funding 2019-1 plc	**–**	**–**	232.1	233.3
Wandle Mortgage Funding Limited	**133.0**	**142.2**	170.7	178.9
Ealbrook Mortgage Funding 2022-1 plc	**321.8**	**354.6**	–	–
Lanebrook Mortgage Transaction 2022-1 plc	**340.2**	**349.6**	–	–
Shawbrook Mortgage Funding 2022-1 plc	**570.6**	**575.6**	–	–
	1,365.6	**1,422.0**	402.8	412.2
Less: loss allowance on securitised loans	**(3.3)**		(0.9)	
Less: held by the Company (and eliminated on consolidation)		**(1,305.6)**		(93.4)
Total recognised in statement of financial position	**1,362.3**	**116.4**	401.9	318.8

Company
In the Company statement of financial position, a deemed loan liability is recognised reflecting consideration received from the structured entities upon transfer of loans. Debt securities issued by the structured entities that are purchased by the Company are recognised in investment securities. The exception to this is where there is a 'fully retained securitisation', in which the Company purchases all of the notes issued by the structured entity. In these circumstances, the deemed loan liability and investment securities are not recognised separately and, in some instances, a deemed loan asset may be recognised (for example if there was a discount on sale).

As at 31 December 2022, a deemed loan liability is recognised in the Company statement of financial position totalling £133.0 million (2021: £402.8 million). A deemed loan asset is also recognised in the Company statement of financial position totalling £93.4 million (2021: £nil).

Investment securities recognised in the Company statement of financial position in relation to debt securities issued by consolidated structured entities that were purchased by the Company total £25.8 million (2021: £93.4 million) (See Note 23).

Notes to the financial statements

22. Securitisations and structured entities (continued)

Unconsolidated structured entities
The Group has interests in two unconsolidated structured entities associated with securitisation programmes. These securitisations involve the Company transferring certain mortgage loans included within loans and advances to customers to bankruptcy remote structured entities. The residual certificates, representing the rights to receive residual income from the structured entity, are sold as part of these transactions.

Based on the structure of these securitisations, it is assessed that, for accounting purposes, the Group does not control the structured entities and they are therefore not consolidated. The transfer of loans meet the criteria for derecognition and they are therefore derecognised in their entirety from the statement of financial position, referred to as 'structured asset sales'.

During the year ended 31 December 2022, there were no securitisation transactions with unconsolidated structured entities.

During the year ended 31 December 2021, the following transaction with an unconsolidated structured entity took place:
- In September 2021, loans with a gross carrying amount (before loss allowance deducted) of £343.0 million and a carrying amount (after loss allowance deducted) of £342.6 million were transferred to an unconsolidated structured entity. Upon transfer, a net gain on derecognition of £21.8 million was recognised in the statement of profit and loss (see Note 13). The Group paid up-front expenses incurred in forming the unconsolidated structured entity of £1.7 million, including amounts to capitalise the entity and all bank and legal expenses. The Group has no intention to provide any further financial or other support following these initial set-up costs.

A portion of the debt securities issued by unconsolidated structured entities as part of the securitisation transactions were purchased by the Company. The Group therefore has a direct interest in these unconsolidated structured entities. As at 31 December 2022, the carrying amount of the Company's investment in debt securities issued by unconsolidated structured entities is £126.4 million (2021: £128.9 million) (see Note 23). This amount represents the Group's maximum exposure to loss from its interests in unconsolidated structured entities.

As at 31 December 2022, the total asset value[1] of the unconsolidated structured entities that the Group has a direct interest in, including the portion in which the Group has no interest, is £672.0 million (2021: £707.6 million).

The Group does not provide any ongoing financial support to any of the unconsolidated structured entities that it has a direct interest in.

Critical accounting judgements
The assessments involved in determining whether the Group controls the structured entity and whether the loans meet the criteria to be derecognised are identified as involving critical accounting judgements. Additional details are provided in Note 8(e).

[1] Based on unaudited management information provided by the unconsolidated structured entities.

Notes to the financial statements

23. Investment securities

See accounting policies in Note 7(j).

Group	2022 Covered bonds £m	2022 Debt securities £m	2022 Total £m	2021 Covered bonds £m	2021 Debt securities £m	2021 Total £m
As at 1 January	**392.5**	**128.9**	**521.4**	278.8	79.4	358.2
Additions	**139.5**	**65.3**	**204.8**	149.8	50.0	199.8
Maturities	**(33.5)**	**–**	**(33.5)**	(37.7)	–	(37.7)
Other movements	**1.2**	**(2.9)**	**(1.7)**	1.6	(0.5)	1.1
As at 31 December	**499.7**	**191.3**	**691.0**	392.5	128.9	521.4

Debt securities represent mortgage-backed debt securities, of which £126.4 million (2021: £128.9 million) were issued by unconsolidated structured entities as part of securitisation transactions that were purchased by the Company.

Investment securities include pledged assets as follows:

- £79.3 million (2021: £391.0 million) positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £nil (2021: £129.3 million) pledged as collateral for repurchase agreements.

The loss allowance for investment securities is immaterial, totalling less than £0.1 million in both reported years.

Company
Total investment securities: £716.8 million (2021: £614.8 million).
Difference to Group total: +£25.8 million (2021: +£93.4 million).

The difference between the Group and the Company in both reported years is due to additional debt securities recognised in the Company. Debt securities in the Company total £217.1 million (2021: £222.3 million). The additional debt securities in the Company are debt securities issued by consolidated structured entities as part of securitisation transactions that were purchased by the Company, which are eliminated on consolidation (see Note 22). Covered bonds are the same in both the Group and the Company. A separate table for the Company is not provided.

Notes to the financial statements

24. Derivative financial instruments and hedge accounting

See accounting policies in Note 7(k) and Note 7(l).

Derivative financial instruments

Derivative financial instruments are used by the Group for risk management purposes to minimise or eliminate the impact of movements in interest rates and foreign exchange rates. Derivatives are not used for trading or speculative purposes. The Group uses the International Swaps and Derivatives Association Master Agreement to document these transactions in conjunction with a Credit Support Annex.

The following tables analyse the Group and Company's derivative financial instruments, respectively, by instrument type and whether the instrument is designated as a hedging instrument in a qualifying hedging relationship.

	Assets		**Liabilities**	
Group **As at 31 December 2022**	**Nominal amount £m**	**Carrying amount £m**	**Nominal amount £m**	**Carrying amount £m**
Instruments not in hedging relationships				
Interest rate swaps	**1,327.5**	**63.1**	**9,081.8**	**60.9**
Spot and forward foreign exchange swaps	**–**	**–**	**18.6**	**0.1**
Total instruments not in hedging relationships	**1,327.5**	**63.1**	**9,100.4**	**61.0**
Instruments in fair value hedging relationships				
Interest rate swaps	**5,664.0**	**264.0**	**1,825.0**	**26.0**
Total instruments in fair value hedging relationships	**5,664.0**	**264.0**	**1,825.0**	**26.0**
Instruments in cash flow hedging relationships				
Interest rate swaps	**295.0**	**3.6**	**162.0**	**3.5**
Total instruments in cash flow hedging relationships	**295.0**	**3.6**	**162.0**	**3.5**
Total derivative financial instruments	**7,286.5**	**330.7**	**11,087.4**	**90.5**

	Assets		Liabilities	
Group As at 31 December 2021	Nominal amount £m	Carrying amount £m	Nominal amount £m	Carrying amount £m
Instruments not in hedging relationships				
Interest rate swaps	27.7	1.0	–	–
Spot and forward foreign exchange swaps	12.1	–	14.0	–
Balance guaranteed swaps	175.3	0.2	175.3	0.2
Total instruments not in hedging relationships	215.1	1.2	189.3	0.2
Instruments in fair value hedging relationships				
Interest rate swaps	1,797.8	20.3	2,296.5	5.8
Interest rate options	–	–	1,000.0	2.1
Total instruments in fair value hedging relationships	1,797.8	20.3	3,296.5	7.9
Total derivative financial instruments	2,012.9	21.5	3,485.8	8.1

Notes to the financial statements

24. Derivative financial instruments and hedge accounting (continued)

Company **As at 31 December 2022**	**Assets** **Nominal amount £m**	**Assets** **Carrying amount £m**	**Liabilities** **Nominal amount £m**	**Liabilities** **Carrying amount £m**
Instruments not in hedging relationships				
Interest rate swaps	**447.7**	**7.6**	**9,243.8**	**64.4**
Spot and forward foreign exchange swaps	**–**	**–**	**18.6**	**0.1**
Total instruments not in hedging relationships	**447.7**	**7.6**	**9,262.4**	**64.5**
Instruments in fair value hedging relationships				
Interest rate swaps	**5,664.0**	**264.0**	**1,825.0**	**26.0**
Total instruments in fair value hedging relationships	**5,664.0**	**264.0**	**1,825.0**	**26.0**
Total derivative financial instruments	**6,111.7**	**271.6**	**11,087.4**	**90.5**

Company As at 31 December 2021	Assets Nominal amount £m	Assets Carrying amount £m	Liabilities Nominal amount £m	Liabilities Carrying amount £m
Instruments not in hedging relationships				
Interest rate swaps	27.7	1.0	–	–
Spot and forward foreign exchange swaps	12.1	–	14.0	–
Balance guaranteed swaps	175.3	0.2	–	–
Total instruments not in hedging relationships	215.1	1.2	14.0	–
Instruments in fair value hedging relationships				
Interest rate swaps	1,797.8	20.3	2,296.5	5.8
Interest rate options	–	–	1,000.0	2.1
Total instruments in fair value hedging relationships	1,797.8	20.3	3,296.5	7.9
Total derivative financial instruments	2,012.9	21.5	3,310.5	7.9

Interest rate swaps are used to manage interest rate risk associated with the Group's loans and advances to customers (including pipeline loans) and customer deposits.

Interest rate options were used to manage interest rate risk associated with certain mortgage loans. In March 2022, these options were terminated and the fair value hedging relationship was de-designated.

Spot and forward foreign exchange swaps are used to manage foreign exchange risk associated with the Group's loans and advances to customers and loans and advances to banks.

Balance guaranteed swaps were used to allow the original hedge accounting relationships relating to certain securitised fixed rate mortgage loans to be maintained. This involved back-to-back balance guaranteed swaps being entered into with an external counterparty. In September 2022, these swaps matured.

The increased notional amount of derivatives as at 31 December 2022 compared to the comparative year end is largely attributable to the consolidated securitisation transactions completed during the year (see Note 22), along with the increases in customer loan and deposit balances.

Additional information about market risk, and the use of derivatives in managing such risk, is included in the Risk Report starting on page 73.

Notes to the financial statements

24. Derivative financial instruments and hedge accounting (continued)

Hedge accounting
The Group holds certain derivative financial instruments as hedging instruments in fair value hedges and cash flow hedges in order to hedge exposures to changes in interest rates. Additional details of these hedges are provided in the following sections.

During the year ended 31 December 2022, one fair value hedge failed the effectiveness testing criteria and was de-designated. All other hedge accounting relationships have remained highly effective throughout both reported years.

During the comparative year ended 31 December 2021, the Group completed its LIBOR transition programme with respect to hedge relationships and, by 31 December 2021, there were no remaining hedge relationships with LIBOR dependency.

Fair value hedges
Fair value hedging relationships relate to hedging instruments and hedged items in the Company. Accordingly, the following disclosures are the same for both the Group and the Company.

						Maturity
Group and Company As at 31 December 2022	**Less than 1 month**	**1 - 3 months**	**3 months – 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
Interest rate swaps						
Nominal amount (£m)	**237.0**	**168.2**	**3,324.8**	**3,669.3**	**89.7**	**7,489.0**
Average fixed interest rate	**1.29%**	**0.63%**	**3.10%**	**1.84%**	**0.61%**	**2.34%**

						Maturity
Group and Company As at 31 December 2021	Less than 1 month	1 - 3 months	3 months – 1 year	1 - 5 years	More than 5 years	Total
Interest rate swaps						
Nominal amount (£m)	9.0	60.0	1,748.3	2,178.4	98.6	4,094.3
Average fixed interest rate	1.16%	0.99%	0.29%	0.70%	0.64%	0.53%
Interest rate options						
Nominal amount (£m)	–	–	350.0	650.0	–	1,000.0
Average fixed interest rate	–	–	0.75%	0.75%	–	0.75%

Amounts relating to items designated as hedging instruments and hedge ineffectiveness are set out in the following tables. The carrying amount of assets and liabilities included in these tables are presented in the statement of financial position on the lines derivative financial assets and derivative financial liabilities, respectively. Ineffectiveness is recognised in the statement of profit and loss on the line net gains/(losses) on derivative financial instruments and hedge accounting. The main sources of ineffectiveness in these hedge relationships relate to the modelled prepayment/repayment behaviour and the assumptions that are used in modelling this behaviour.

		Carrying amount			
Group and Company As at 31 December 2022	**Nominal amount £m**	**Assets £m**	**Liabilities £m**	**Change in fair value used for calculating ineffectiveness £m**	**Ineffectiveness recognised in statement of profit and loss £m**
Interest rate swaps	**7,489.0**	**264.0**	**26.0**	**174.6**	**(1.5)**

		Carrying amount			
Group and Company As at 31 December 2021	Nominal amount £m	Assets £m	Liabilities £m	Change in fair value used for calculating ineffectiveness £m	Ineffectiveness recognised in statement of profit and loss £m
Interest rate swaps	4,094.3	20.3	5.8	44.7	1.0
Interest rate options	1,000.0	–	2.1	9.1	0.1

Notes to the financial statements

24. Derivative financial instruments and hedge accounting (continued)

Amounts relating to items designated as hedged items are as follows:

Group and Company As at 31 December 2022	**Carrying amount £m**	**Accumulated fair value hedge adjustments included in the carrying amount of the hedged item[1] £m**	**Change in fair value used for calculating ineffectiveness £m**
Assets			
Fixed rate mortgage loans included in loans and advances to customers	**3,971.7**	**(212.2)**	**(191.7)**
Liabilities			
Fixed rate customer deposits included in customer deposits	**2,763.1**	**19.4**	**15.6**

Group and Company As at 31 December 2021	Carrying amount £m	Accumulated fair value hedge adjustments included in the carrying amount of the hedged item[1] £m	Change in fair value used for calculating ineffectiveness £m
Assets			
Fixed rate mortgage loans included in loans and advances to customers	3,112.3	(20.4)	(56.5)
Liabilities			
Fixed rate customer deposits included in customer deposits	1,982.0	3.7	3.8

Cash flow hedges
During the year ended 31 December 2022, the Group began designating certain derivative financial instruments in cash flow hedging relationships. Cash flow hedging takes place at the Group level and accordingly, the following disclosures are applicable to the Group only.

Details of the Group's cash flow hedges are presented in the following tables. As there were no cash flow hedges in the comparative year, tables present information for the current year only.

						Maturity
Group As at 31 December 2022	**Less than 1 month**	**1 - 3 months**	**3 months – 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
Interest rate swaps						
Nominal amount (£m)	**–**	**–**	**–**	**165.0**	**292.0**	**457.0**
Average fixed interest rate	**–**	**–**	**–**	**4.04%**	**4.10%**	**4.08%**

Amounts relating to items designated as hedging instruments and hedge ineffectiveness are set out in the following tables. The carrying amount of assets and liabilities included in these tables are presented in the statement of financial position on the lines derivative financial assets and derivative financial liabilities, respectively. Ineffectiveness recognised in the statement of profit and loss and amounts reclassified from the cash flow hedging reserve to the statement of profit and loss are both presented on the line net gains/(losses) on derivative financial instruments and hedge accounting. The main source of ineffectiveness in these hedge relationships relate to differences in the timing of cash flows between the hedged item and hedging instrument.

		Carrying amount					
Group As at 31 December 2022	**Nominal amount £m**	**Assets £m**	**Liabilities £m**	**Change in fair value used for calculating ineffectiveness £m**	**Change in value of hedging instrument recognised in other comprehensive income £m**	**Ineffectiveness recognised in statement of profit and loss £m**	**Amount reclassified from cash flow hedging reserve to statement of profit and loss £m**
Interest rate swaps	**457.0**	**3.6**	**3.5**	**38.4**	**38.4**	**–**	**2.2**

[1] The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have been de-designated, for which the fair value hedged item adjustment is being amortised into the statement of profit and loss is £1.3 million (2021: £2.7 million).

Notes to the financial statements

24. Derivative financial instruments and hedge accounting (continued)

Amounts relating to items designated as hedged items are as follows:

Group As at 31 December 2022	Change in value used for calculating hedge ineffectiveness £m	Cash flow hedging reserve Continuing hedges £m	Cash flow hedging reserve Discontinued hedges £m
Liabilities			
Floating rate debt securities included in debt securities in issue and floating rate borrowings included in amounts due to banks	**38.4**	**0.1**	**38.3**

Net gains and losses on derivative financial instruments and hedge accounting
Gains and losses on derivative financial instruments and hedge accounting recognised in the consolidated statement of profit and loss are summarised as follows:

	2022 **£m**	2021 £m
Net fair value gains on derivative financial instruments	**211.5**	55.8
Net fair value losses on hedged risk	**(212.3)**	(52.7)
Net (losses)/gains on derivative financial instruments and hedge accounting	**(0.8)**	3.1

Net fair value gains on derivative financial instruments includes foreign exchange gains and losses.

During the year ended 31 December 2022, fair value gains on derivative financial instruments have increased in line with the current market expectations of the forward rate environment. Hedging activities have continued to reduce the volatility to the financial statements with a minimal overall net loss recognised in the statement of profit and loss.

Notes to the financial statements

25. Assets held for sale

See accounting policies in Note 7(m).

	2022			2021		
Group and Company	**Gross carrying amount £m**	**Loss allowance £m**	**Carrying amount £m**	Gross carrying amount £m	Loss allowance £m	Carrying amount £m
Customer loans held for sale	–	–	–	300.2	(0.5)	299.7
Total assets held for sale	–	–	–	300.2	(0.5)	299.7

As at 31 December 2022, no assets met the criteria to be classified as held for sale.

In the comparative year, as at 31 December 2021, assets held for sale comprised a portfolio of loans from Real Estate[1]. The sale of these loans completed in January 2022. A net gain of £7.7 million arising from the derecognition of these loans is recognised in the statement of profit and loss (see Note 13).

26. Property, plant and equipment

See accounting policies in Note 7(n)

Group Year ended 31 December 2022	**Right-of-use leasehold property £m**	**Leasehold property £m**	**Fixtures, fittings and equipment £m**	**Assets on operating leases £m**	**Total £m**
Cost					
As at 1 January 2022	**12.3**	**1.7**	**15.1**	**56.9**	**86.0**
Additions	**–**	**0.8**	**0.5**	**11.9**	**13.2**
Disposals	**(0.4)**	**(0.2)**	**(0.1)**	**(6.0)**	**(6.7)**
Transfer to finance leases	**–**	**–**	**–**	**(2.2)**	**(2.2)**
As at 31 December 2022	**11.9**	**2.3**	**15.5**	**60.6**	**90.3**
Accumulated depreciation					
As at 1 January 2022	**4.1**	**1.0**	**11.8**	**20.8**	**37.7**
Charge for the year	**1.8**	**0.3**	**1.0**	**8.7**	**11.8**
Disposals	**(0.2)**	**(0.2)**	**(0.1)**	**(5.2)**	**(5.7)**
Transfer to finance leases	**–**	**–**	**–**	**(1.8)**	**(1.8)**
As at 31 December 2022	**5.7**	**1.1**	**12.7**	**22.5**	**42.0**
Carrying amount					
As at 1 January 2022	**8.2**	**0.7**	**3.3**	**36.1**	**48.3**
As at 31 December 2022	**6.2**	**1.2**	**2.8**	**38.1**	**48.3**

[1] During the year, the naming convention of certain lending segments have been changed to better reflect their operations. The previously named 'Property Finance' lending segment is now referred to as 'Real Estate'.

Notes to the financial statements

26. Property, plant and equipment (continued)

Group Year ended 31 December 2021	Right-of-use leasehold property £m	Leasehold property £m	Fixtures, fittings and equipment £m	Assets on operating leases £m	Total £m
Cost					
As at 1 January 2021	11.7	2.9	15.5	60.4	90.5
Additions	0.1	–	0.7	7.1	7.9
Acquisitions through business combinations	0.5	–	0.1	–	0.6
Disposals	–	(0.3)	(1.2)	(6.8)	(8.3)
Other movements[1]	–	(0.9)	–	–	(0.9)
Transfer to finance leases	–	–	–	(3.8)	(3.8)
As at 31 December 2021	12.3	1.7	15.1	56.9	86.0
Accumulated depreciation					
As at 1 January 2021	2.3	1.5	11.9	21.2	36.9
Charge for the year	1.8	0.2	1.1	8.6	11.7
Disposals	–	(0.3)	(1.2)	(6.1)	(7.6)
Other movements[1]	–	(0.4)	–	–	(0.4)
Transfer to finance leases	–	–	–	(2.9)	(2.9)
As at 31 December 2021	4.1	1.0	11.8	20.8	37.7
Carrying amount					
As at 1 January 2021	9.4	1.4	3.6	39.2	53.6
As at 31 December 2021	8.2	0.7	3.3	36.1	48.3

Further details relating to right-of-use leasehold property and assets on operating leases are provided in Note 35.

Company
Total property, plant and equipment: £47.8 million (2021: £47.8 million).
Difference to Group total: -£0.5 million (2021: -£0.5 million).

The immaterial difference between the Group and Company is attributable to assets held by subsidiary companies comprising: right-of use leasehold assets with a carrying amount of £0.3 million (2021: £0.4 million) and fixtures and fittings with a carrying amount of £0.2 million (2021: £0.1 million). Separate tables for the Company are not provided.

[1] Other movements represents an adjustment to the dilapidation accrual and reversal of the associated depreciation recognised.

Notes to the financial statements

27. Intangible assets

See accounting policies in Note 7(o)

Group	Goodwill £m (2022)	Other intangible assets £m (2022)	Total £m (2022)	Goodwill £m (2021)	Other intangible assets £m (2021)	Total £m (2021)
Cost						
As at 1 January	**48.5**	**58.1**	**106.6**	38.5	49.8	88.3
Additions	**–**	**9.4**	**9.4**	–	7.1	7.1
Acquisitions through business combinations	**–**	**–**	**–**	10.0	1.2	11.2
As at 31 December	**48.5**	**67.5**	**116.0**	48.5	58.1	106.6
Accumulated amortisation and impairment						
As at 1 January	**0.5**	**36.6**	**37.1**	0.5	28.4	28.9
Amortisation charge for the year	**–**	**8.2**	**8.2**	–	8.2	8.2
As at 31 December	**0.5**	**44.8**	**45.3**	0.5	36.6	37.1
Carrying amount						
As at 1 January	**48.0**	**21.5**	**69.5**	38.0	21.4	59.4
As at 31 December	**48.0**	**22.7**	**70.7**	48.0	21.5	69.5

Company
Total intangible assets: £45.6 million (2021: £44.3 million).
Difference to Group total: -£25.1 million (2021: -£25.2 million).

The difference between the Group and Company in both reported years is mainly attributable to goodwill recognised on business acquisitions. In the Company, goodwill throughout both reported years totals £23.7 million, all of which represents cost, with no accumulated impairment losses recognised. This accounts for £24.3 million of the difference between Group and Company in both reported years. The remaining difference of £0.8 million (2021: £0.9 million) represents the carrying amount of other intangible assets recognised by the Group on the acquisition of businesses. Separate tables for the Company are not provided and the additional disclosures below are the same for both the Group and Company unless otherwise stated.

Other intangible assets predominantly comprises computer software. In the Group, other intangible assets also includes assets recognised on the acquisition of businesses, representing brands and the benefit of business networks.

Other intangible asset additions include £9.3 million of internally generated assets (2021: £7.0 million).

Goodwill impairment testing
The Group performed its annual assessment to identify any impairment to goodwill. For the purposes of impairment testing, goodwill is allocated to the Group's CGUs. The Group's CGUs are the same as the Group's lending segments per the operating segments note (see Note 9).

Goodwill is impaired if the carrying amount of a CGU exceeds the recoverable amount. Determining the recoverable amount involves the calculation of the CGU's value in use, which is derived by discounting the forecast cash flows (post-tax profits) to be generated from its continuing use, as described below.

Forecast cash flows are based on the Board approved budget and assumptions regarding the long-term pattern of sustainable cash flows thereafter. Five years of forecast cash flows (post-tax profits) are included in the discounted cash flow model (2021: five years). A terminal value growth rate of 1.0% is then applied into perpetuity to extrapolate cash flows beyond the cash flow period (2021: 2.0%). The terminal value growth rate is estimated by the Group taking into account rates disclosed by comparable institutions.

Notes to the financial statements

27. Intangible assets (continued)

To discount the forecast cash flows, the Group derives a CGU specific discount rate. These discount rates are an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amount, timing and risk profile equivalent to those that the entity expects to derive from the CGU. The Group calculates the discount rates using the price-to-book ratio method, which incorporates target return on equity, growth rate and the price-to-book ratio. The discount rate for each CGU is adjusted to reflect the risks inherent to the individual CGU.

Discount rates used for each CGU are as follows:

	2022		2021	
	Post-tax	**Pre-tax[1]**	Post-tax	Pre-tax[1]
Real Estate	**13.5%**	**17.7%**	12.5%	16.2%
SME	**14.5%**	**18.8%**	13.5%	17.3%
TML Mortgages	**16.0%**	**21.1%**	15.0%	20.7%

In both reported years, impairment testing indicated the recoverable amount of each CGU was in excess of its carrying amount and, as such, no impairment losses have been recognised. Reasonably possible changes in forecast cash flows and the applied post-tax discount rate would not result in the recoverable amount of any CGU reducing below the carrying amount, as verified by sensitivity analysis.

A summary of the carrying amount of the Group's goodwill by CGU is as follows:

	2022				2021			
Group	**Real Estate £m**	**SME £m**	**TML Mortgages £m**	**Total £m**	Real Estate £m	SME £m	TML Mortgages £m	Total £m
As at 1 January	**5.4**	**32.6**	**10.0**	**48.0**	5.4	32.6	–	38.0
Acquisitions through business combinations	–	–	–	–	–	–	10.0	10.0
As at 31 December	**5.4**	**32.6**	**10.0**	**48.0**	5.4	32.6	10.0	48.0

Company
In the Company, all goodwill is attributable to the SME CGU and is unchanged in both reported years, remaining at a carrying amount of £23.7 million.

28. Deferred tax assets

See accounting policies in Note 7(f)

Deferred tax assets are attributable to the following items:

Group	**2022 £m**	2021 £m
Decelerated tax depreciation	**6.1**	6.9
IFRS 9 adjustment	**1.9**	2.3
Tax losses in subsidiary companies	**3.3**	2.7
Fair value through other comprehensive income reserve	**4.0**	–
Other	**4.1**	2.3
Total deferred tax assets	**19.4**	14.2

[1] The Group applies post-tax discount rates to post-tax cash flows when testing CGUs for impairment. The pre-tax discount rate is disclosed in accordance with IAS 36 'Impairment of Assets'.

Notes to the financial statements

28. Deferred tax assets (continued)

Movements in deferred tax assets are as follows:

Group	2022 £m	2021 £m
As at 1 January	**14.2**	12.3
Amounts recognised in statement of profit and loss (see Note 19):		
Current year movement	**11.9**	0.8
Adjustment in respect of prior years	**(0.9)**	(2.6)
Tax rate changes	**–**	1.1
Amounts recognised in other comprehensive income:		
Current year movement in cash flow hedging reserve	**(9.8)**	–
Current year movement in fair value through other comprehensive income reserve	**4.0**	–
Other:		
Acquisitions through business combinations	**–**	2.4
Other	**–**	0.2
As at 31 December	**19.4**	14.2

The Group's business plans project future profits that are sufficient to fully recognise the deferred tax assets. The deferred tax assets will unwind over the remaining life of the underlying assets with which they are associated.

Deferred tax assets in the Group have been calculated based on an aggregation rate of 26.6% (2021: 26.3%), which is the estimated rate of recovery that will unwind over the remaining life of the underlying assets with which they are associated. Deferred tax assets reflect the substantively enacted tax rate changes detailed in Note 19.

Company
Total deferred tax: £11.3 million (2021: £9.2 million).
Difference to Group total: -£8.1 million (2021: -£5.0 million).

The difference between the Group and Company is attributable to deferred tax assets recognised in relation to tax losses in subsidiary companies and other consolidation adjustments. Separate tables for the Company are not provided.

Deferred tax assets in the Company have been calculated based on an aggregation rate of 27.0% (2021: 27.0%).

29. Other assets

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Other debtors	**3.5**	3.3	**3.6**	7.5
Prepayments	**11.6**	8.2	**12.9**	8.9
Amounts due from Group companies	**4.5**	–	**19.0**	1.1
Total other assets	**19.6**	11.5	**35.5**	17.5

Notes to the financial statements

30. Investment in subsidiaries

See accounting policies in Note 7(p)

The investment in subsidiaries in the Company statement of financial position relates to those subsidiary companies detailed in Note 43. Prior to the acquisition of TML during 2021, the investment in subsidiaries amounted to <£0.1 million and was therefore reflected in the statement of financial position, and in the table below, as a £nil balance.

Movements in the Company's investment in subsidiaries are as follows:

Company	2022 £m	2021 £m
As at 1 January	**13.9**	–
Additional 80.01% of TML shares acquired	**–**	11.1
Pre-existing 19.99% investment in TML (previously recognised as investment in associate)	**–**	2.8
As at 31 December	**13.9**	13.9

31. Amounts due to banks

See accounting policies in Note 7(q).

Group and Company	2022 £m	2021 £m
Central bank facilities	**1,208.5**	1,200.3
Derivative collateral received	**290.0**	0.3
Other	**0.2**	0.1
Total amounts due to banks	**1,498.7**	1,200.7

Amounts due to banks include:

- £1,200.0 million (2021: £1,200.0 million) drawn under the Bank of England's Term Funding Scheme with additional incentives for SMEs, which fall due for repayment in 2025. These amounts are collateralised by customer loan assets and investment securities.
- £290.0 million (2021: £0.3 million) of cash collateral received against derivative contracts.

32. Customer deposits

See accounting policies in Note 7(r).

Group and Company	2022 £m	2021 £m
Instant access	**3,334.0**	2,527.9
Term deposits and notice accounts	**7,599.9**	5,834.4
Fair value adjustments for hedged risk	**(19.4)**	(3.7)
Total customer deposits	**10,914.5**	8,358.6

Notes to the financial statements

33. Provisions

See accounting policies in Note 7(s)

Group and Company	2022 Loss provision £m	2022 Other provisions £m	2022 Total £m	2021 Loss provision £m	2021 Other provisions £m	2021 Total £m
As at 1 January	**0.7**	**13.5**	**14.2**	3.2	14.8	18.0
Provisions utilised	**–**	**(8.8)**	**(8.8)**	–	(8.4)	(8.4)
Provisions made/(released)	**(0.2)**	**0.8**	**0.6**	(2.5)	7.1	4.6
As at 31 December	**0.5**	**5.5**	**6.0**	0.7	13.5	14.2

Loss provision
The loss provision represents the loss allowance on loan commitments (see Note 46). Provisions released represent the net ECL credit for the year on loan commitments and is recognised in impairment losses on financial assets in the statement of profit and loss (see Note 18).

Other provisions
Other provisions represent provisions made in relation to customer remediation and conduct issues and provisions for legal costs to defend cases brought against the Group. Provisions made are recognised in provisions in the statement of profit and loss.

A reconciliation of the net amount recognised in provisions in the consolidated statement of profit and loss is as follows:

	2022 £m	2021 £m
Other provisions made	**0.8**	7.1
Insurance recoveries	**–**	(14.1)
Net charge/(credit) for provisions	**0.8**	(7.0)

Insurance recoveries in the comparative year ended 31 December 2021 relate to amounts recovered against solar panel cases.

Critical accounting judgements and estimates
The calculation of other provisions relating to customer remediation and conduct issues is an area identified as involving critical accounting judgements and estimates. Additional details are provided in Note 8(b).

34. Debt securities in issue

See accounting policies in Note 7(i).

Debt securities in issue in the Group's statement of financial position comprise asset-backed notes issued to external investors by consolidated structured entities as part of securitisation transactions (see Note 22). The notes are secured on the underlying portfolio of securitised loans and recourse under the notes is limited to the structured entity only.

A summary of notes in issue is provided in the following table. Amounts included in the table include accrued interest and unamortised capitalised costs.

Group	Issued	Issuer	Listing	Optional redemption date	Maturity date	**2022 £m**	2021 £m
Class A mortgage-backed floating rate notes	Jun 2019	Shawbrook Mortgage Funding 2019-1 plc	Euronext Dublin	Sep 2022	Dec 2050	**–**	171.9
Senior notes	Aug 2021	Wandle Mortgage Funding Limited	Unlisted	Aug 2024	Oct 2038	**116.4**	146.9
Total debt securities in issue						**116.4**	318.8

Notes to the financial statements

34. Debt securities in issue (continued)

Movements in the year are summarised in the following table:

Group	2022 £m	2021 £m
As at 1 January	**318.8**	205.0
Issuances	**–**	158.6
Repurchases and redemptions	**(203.4)**	(44.2)
Costs capitalised	**(0.3)**	(0.8)
Other movements	**1.3**	0.2
As at 31 December	**116.4**	318.8

In September 2022, all remaining debt securities issued by Shawbrook Mortgage Funding 2019-1 plc were redeemed.

Issuances in the comparative year ended 31 December 2021 comprised £158.6 million senior notes due 2038 that were privately issued to external investors in August 2021 by a consolidated structured entity, Wandle Mortgage Funding Limited.

35. Leases

See accounting policies in Note 7(t)

Group as a lessor: finance leases
Assets leased to customers under finance lease and instalment credit agreements are predominantly plant and machinery. The underlying asset provides security against the gross receivable and the Group provides no residual value guarantees in order to mitigate risk.

Details of finance lease and instalment credit receivables are set out in Note 21. This includes a maturity analysis showing the gross investment in the lease (the undiscounted lease payments receivable) and a reconciliation to the net investment in the lease (the gross carrying amount of the receivable).

Finance income recognised during the year on finance lease and instalment credit receivables is included in other interest and similar income (see Note 10).

Group as a lessor: operating leases
Assets leased to customers under operating leases are predominantly plant and machinery. The carrying amount of assets on operating leases and the movements during the year are set out in Note 26.

Net income from operating leases is presented on the face of the statement of profit and loss.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

Group and Company	2022 £m	2021 £m
Within one year	**8.7**	8.8
Between one and two years	**6.1**	6.6
Between two and three years	**4.3**	4.6
Between three and four years	**3.3**	2.7
Between four and five years	**2.0**	1.7
After five years	**1.9**	1.0
Total future minimum rentals receivable	**26.3**	25.4

Notes to the financial statements

35. Leases (continued)

Group as a lessee
The Group has lease contracts for several buildings. These leases typically have lease terms of between 5 and 10 years. The Group does not sublease any of these leased assets.

Details of right-of-use assets recognised in relation to these leases, including the carrying amount and movements during the year, are set out in Note 26.

The carrying amount of associated lease liabilities and movements during the year are as follows:

Group	2022 £m	2021 £m
As at 1 January	**9.8**	11.1
Additions	**–**	0.1
Acquisitions through business combinations	**–**	0.5
Disposals	**(0.2)**	–
Interest expense	**0.2**	0.2
Payments	**(2.4)**	(2.1)
As at 31 December	**7.4**	9.8

Company
Total lease liabilities: £7.1 million (2021: £9.4 million).
Difference to Group total: -£0.3 million (2021: -£0.4 million).

The immaterial difference between the Group and Company is attributable to lease liabilities in a subsidiary company. Separate tables for the Company are not provided and the additional disclosures below are the same for both the Group and Company unless otherwise stated.

A maturity analysis of lease liabilities is presented in the liquidity risk section of the Risk Report starting on page 69.

The Group also has a number of low value lease contracts for office equipment, for which the Group applies the recognition exemption for leases of low value assets. For such leases, no right-of-use asset is recognised and lease payments are charged to administrative expenses in the statement of profit and loss.

The following table provides a summary of the amounts recognised in the consolidated statement of profit and loss:

	2022			2021		
	Administrative expenses £m	**Interest expense £m**	**Total £m**	Administrative expenses £m	Interest expense £m	Total £m
Depreciation expense on right-of-use assets	**1.8**	**–**	**1.8**	1.8	–	1.8
Interest expense on lease liabilities	**–**	**0.2**	**0.2**	–	0.2	0.2
Rental expense on low value assets	**0.3**	**–**	**0.3**	0.2	–	0.2
Total	**2.1**	**0.2**	**2.3**	2.0	0.2	2.2

Cash outflows from leases in the statement of cash flows are as follows:

Group	2022 £m	2021 £m
Payment of the interest portion of the lease liability (cash flows from operating activities)	**0.2**	0.2
Payment of the principal portion of the lease liability (cash flows from financing activities)	**2.2**	1.9
Total cash outflows from leases	**2.4**	2.1

Company
Cash outflows on leases are materially the same in the Group and Company, with a difference of -£0.1 million in the payment of the principal portion of the lease liability in both reported years attributable to leases in subsidiary companies.

As at 31 December 2022, the Group is not committed to any lease contracts that have not yet commenced (2021: £nil).

Notes to the financial statements

36. Other liabilities

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Other creditors (including sundry creditors and other taxes)	**17.6**	25.9	**15.7**	24.3
Accruals	**45.6**	36.0	**42.6**	35.9
Amounts owed to Group companies	**–**	0.5	**0.2**	0.5
Total other liabilities	**63.2**	62.4	**58.5**	60.7

37. Subordinated debt liability

See accounting policies in Note 7(u).

Subordinated debt liabilities comprise notes issued by the Company to its parent, Shawbrook Group plc, as summarised in the following table. Amounts included in the table include accrued interest.

Group and Company	Issued	Call date[1]	Maturity date	**2022 £m**	2021 £m
6.5% fixed rate reset callable subordinated notes	Sep 2019	Sep 2024	Sep 2029	**20.3**	20.3
9.0% fixed rate reset callable subordinated notes	Jul 2020	Jul 2025	Oct 2030	**77.1**	77.2
Total subordinated liabilities				**97.4**	97.5

Movements in subordinated debt liabilities during the year are as follows:

Group and Company	**2022 £m**	2021 £m
As at 1 January	**97.5**	97.7
Other movements	**(0.1)**	(0.2)
As at 31 December	**97.4**	97.5

[1] The call date may be a fixed date or a defined period of time. Where it relates to a period of time, the date listed reflects the start of the period, thus reflecting the earliest date the call option may be exercised.

Notes to the financial statements

38. Financial assets and financial liabilities

See accounting policies in Note 7(v)

(a) Classification of financial assets and financial liabilities

The following tables analyse the carrying amount of the Group and Company's financial assets and financial liabilities, respectively, by measurement classification. There were no reclassifications between classification categories during either of the reported years.

				2022			2021
Group	**Amortised cost £m**	**FVOCI £m**	**Mandatorily at FVTPL £m**	**Carrying amount £m**	Amortised cost £m	Mandatorily at FVTPL £m	Carrying amount £m
Financial assets							
Cash and balances at central banks	**2,037.1**	**–**	**–**	**2,037.1**	1,693.8	–	1,693.8
Loans and advances to banks	**263.5**	**–**	**–**	**263.5**	66.9	–	66.9
Loans and advances to customers[1]	**9,188.3**	**1,268.8**	**–**	**10,457.1**	8,272.1	–	8,272.1
Investment securities	**691.0**	**–**	**–**	**691.0**	521.4	–	521.4
Derivative financial assets	**–**	**–**	**330.7**	**330.7**	–	21.5	21.5
Assets held for sale	**–**	**–**	**–**	**–**	299.7	–	299.7
Total financial assets	**12,179.9**	**1,268.8**	**330.7**	**13,779.4**	10,853.9	21.5	10,875.4
Financial liabilities							
Amounts due to banks	**1,498.7**	**–**	**–**	**1,498.7**	1,200.7	–	1,200.7
Customer deposits	**10,914.5**	**–**	**–**	**10,914.5**	8,358.6	–	8,358.6
Derivative financial liabilities	**–**	**–**	**90.5**	**90.5**	–	8.1	8.1
Debt securities in issue	**116.4**	**–**	**–**	**116.4**	318.8	–	318.8
Lease liabilities[2]	**7.4**	**–**	**–**	**7.4**	9.8	–	9.8
Subordinated debt liability	**97.4**	**–**	**–**	**97.4**	97.5	–	97.5
Total financial liabilities	**12,634.4**	**–**	**90.5**	**12,724.9**	9,985.4	8.1	9,993.5

[1] The loans and advances to customers balance includes finance lease and instalment credit receivables, which are measured in accordance with IFRS 16 'Leases'. These are included in the amortised cost column.

[2] Lease liabilities, which are measured in accordance with IFRS 16 'Leases', are included in the amortised cost column.

Notes to the financial statements

38. Financial assets and financial liabilities (continued)

Company	Amortised cost £m (2022)	FVOCI £m (2022)	Mandatorily at FVTPL £m (2022)	Carrying amount £m (2022)	Amortised cost £m (2021)	Mandatorily at FVTPL £m (2021)	Carrying amount £m (2021)
Financial assets							
Cash and balances at central banks	**2,037.1**	**–**	**–**	**2,037.1**	1,693.8	–	1,693.8
Loans and advances to banks	**199.9**	**–**	**–**	**199.9**	49.0	–	49.0
Loans and advances to customers[1]	**9,204.0**	**1,268.8**	**–**	**10,472.8**	8,278.9	–	8,278.9
Investment securities	**716.8**	**–**	**–**	**716.8**	614.8	–	614.8
Derivative financial assets	**–**	**–**	**271.6**	**271.6**	–	21.5	21.5
Assets held for sale	**–**	**–**	**–**	**–**	299.7	–	299.7
Deemed loan due from structured entities	**93.4**	**–**	**–**	**93.4**	–	–	–
Total financial assets	**12,251.2**	**1,268.8**	**271.6**	**13,791.6**	10,936.2	21.5	10,957.7
Financial liabilities							
Amounts due to banks	**1,498.7**	**–**	**–**	**1,498.7**	1,200.7	–	1,200.7
Customer deposits	**10,914.5**	**–**	**–**	**10,914.5**	8,358.6	–	8,358.6
Derivative financial liabilities	**–**	**–**	**90.5**	**90.5**	–	7.9	7.9
Lease liabilities[2]	**7.1**	**–**	**–**	**7.1**	9.4	–	9.4
Subordinated debt liability	**97.4**	**–**	**–**	**97.4**	97.5	–	97.5
Deemed loan due to structured entities	**133.0**	**–**	**–**	**133.0**	402.8	–	402.8
Total financial liabilities	**12,650.7**	**–**	**90.5**	**12,741.2**	10,069.0	7.9	10,076.9

Critical accounting judgements
The classification of financial assets, in particular loans and advances to customers, is an area identified as involving critical accounting judgements. Additional details are provided in Note 8(c).

(b) Fair value of financial assets and financial liabilities

A summary of the valuation methods used to calculate the fair value of its financial assets and financial liabilities is as follows:

- **Cash and balances at central banks and loans and advances to banks:** fair value approximates the carrying amount as balances have minimal credit losses and are either short-term in nature or re-price frequently.
- **Loans and advances to customers:** 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 reporting date, and adjusted for future credit losses if considered material.
- **Investment securities, debt securities in issue and subordinated debt liability:** fair value is based on quoted prices where available or by discounting cash flows using market rates.
- **Derivative financial instruments:** fair value is obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.
- **Amounts due to banks, customer deposits and deemed loan due from/due to structured entities:** fair value is estimated using discounted cash flows applying either market rates where practicable, or rates offered with similar characteristics by other financial institutions. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is considered to approximate the carrying amount.
- **Assets held for sale:** fair value is calculated using expected or known sales price. Where such data is not available, fair value is calculated in accordance with the type of asset held for sale using the valuation methods detailed above.

In accordance with IFRS 7, fair value disclosures are not required for lease liabilities. As such, the Group does not calculate a fair value for lease liabilities and they are not included in the following fair value disclosures.

1 The loans and advances to customers balance includes finance lease and instalment credit receivables, which are measured in accordance with IFRS 16 'Leases'. These are included in the amortised cost column.

2 Lease liabilities, which are measured in accordance with IFRS 16 'Leases', are included in the amortised cost column.

Notes to the financial statements

38. Financial assets and financial liabilities (continued)

The Group uses a fair value hierarchy which reflects the significance of the inputs used in making fair value measurements. There are three levels to the hierarchy as follows:

- **Level 1:** quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **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). A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market; and
- **Level 3:** inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

In assessing whether a market is active, factors such as the scale and frequency of trading activity, the availability of prices and the size of bid/offer spreads are considered. If, in the opinion of the Group, a significant proportion of an instrument's carrying amount is driven by unobservable inputs, the instrument, in its entirety, is classified as 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 (for example, consensus pricing data may be used).

Financial assets and financial liabilities measured at amortised cost
The following table analyses the Group's financial assets and financial liabilities measured at amortised cost into the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during either of the reported years.

			2022			2021
Group	**Level 3 £m**	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets at amortised cost						
Cash and balances at central banks	**–**	**–**	**2,037.1**	–	–	1,693.8
Loans and advances to banks	**–**	**263.5**	**–**	–	66.9	–
Loans and advances to customers	**9,188.3**	**–**	**–**	8,272.1	–	–
Investment securities	**–**	**126.4**	**564.6**	–	128.9	392.5
Assets held for sale	**–**	**–**	**–**	299.7	–	–
Financial liabilities at amortised cost						
Amounts due to banks	**–**	**1,498.7**	**–**	–	1,200.7	–
Customer deposits	**–**	**10,914.5**	**–**	–	8,358.6	–
Debt securities in issue	**–**	**116.4**	**–**	–	318.8	–
Subordinated debt liability	**–**	**97.4**	**–**	–	97.5	–

Company
The additional investment securities recognised in the Company statement of financial position, along with the deemed loan due from/due to structured entities are allocated to Level 2 of the fair value hierarchy. In all other respects, financial assets and financial liabilities in the Company are allocated to the same level of the fair value hierarchy, as illustrated in the table above. A separate table for the Company is not provided.

Notes to the financial statements

38. Financial assets and financial liabilities (continued)

The following table provides a comparison of the carrying amount per the statement of financial position and the calculated fair value for the Group's financial assets and financial liabilities measured at amortised cost.

For cash and balances at central banks, loans and advances to banks and assets held for sale, the carrying amount is considered to be a reasonable approximation of fair value and, as such, these are not included in the following table.

	2022		2021	
Group	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets at amortised cost				
Loans and advances to customers	**9,188.3**	**9,336.0**	8,272.1	8,779.4
Investment securities	**691.0**	**687.7**	521.4	523.8
Financial liabilities at amortised cost				
Amounts due to banks	**1,498.7**	**1,500.2**	1,200.7	1,200.7
Customer deposits	**10,914.5**	**10,871.8**	8,358.6	8,354.9
Debt securities in issue	**116.4**	**117.1**	318.8	320.3
Subordinated debt liability	**97.4**	**95.4**	97.5	100.0

Company
The carrying amount of investment securities in the Company is £716.8 million (2021: £614.8 million) and the calculated fair value is £713.5 million (2021: £617.5 million). For the deemed loan due from/due to structured entities, the carrying amount is deemed to be a reasonable approximation of its fair value. In all other respects, the fair values of the Company's financial assets and liabilities are as detailed above and a separate table for the Company is not provided.

Financial assets and financial liabilities measured at fair value
The following table analyses the Group's financial assets and financial liabilities measured at fair value into the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during either of the reported years. All financial assets and financial liabilities measured at fair value are recurring fair value measurements.

	2022			2021		
Group	**Level 3 £m**	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets at fair value						
Loans and advances to customers	**1,268.8**	**–**	**–**	–	–	–
Derivative financial assets	–	**330.7**	–	0.2	21.3	–
Financial liabilities at fair value						
Derivative financial liabilities	–	**90.5**	–	0.2	7.9	–

As at 31 December 2022, all derivative financial instruments are categorised as Level 2. In the comparative year, as at 31 December 2021, the derivative financial instruments categorised as Level 3 were the Group's balance guaranteed swaps, which matured in September 2022.

Company
The Level 3 derivative financial liabilities seen in the Group in the comparative year are the balance guaranteed swaps in a subsidiary company and therefore do not apply to the Company. In all other respects, financial assets and financial liabilities in the Company are allocated to the same level of the fair value hierarchy, as illustrated in the table above. A separate table for the Company is not provided.

Notes to the financial statements

38. Financial assets and financial liabilities (continued)

Financial assets and financial liabilities measured at fair value: Level 3 analysis
The following section provides additional analysis of the Group's financial assets and financial liabilities measured at fair value that are categorised as Level 3.

Movements in the fair value of Level 3 financial assets and financial liabilities are as follows:

	2022			2021	
Group	Loans and advances to customers at FVOCI £m	Derivative financial assets £m	Derivative financial liabilities £m	Derivative financial assets £m	Derivative financial liabilities £m
As at 1 January	**–**	**0.2**	**(0.2)**	3.5	(3.5)
Additions[1]	**1,352.7**	**–**	**–**	–	–
Net fair value gains/(losses) recognised in the statement of profit and loss	**(47.6)**	**(0.2)**	**0.2**	(3.3)	3.3
Net fair value losses recognised in other comprehensive income	**(17.1)**	**–**	**–**	–	–
Settlements/repayments	**(19.2)**	**–**	**–**	–	–
As at 31 December	**1,268.8**	**–**	**–**	0.2	(0.2)

Net fair value gains/(losses) recognised in the statement of profit and loss are included in net gains/(losses) on derivative financial instruments and hedge accounting. In the year ended 31 December 2022, the £47.6 million loss attributable to loans and advances to customers at FVOCI represents unrealised losses on hedged items, which is largely offset by unrealised gains on derivative financial instruments in the hedge accounting relationship. The remaining £0.2 million loss/gain attributable to derivative financial assets/liabilities, respectively, are realised amounts relating to the balance guaranteed swaps, which matured in September 2022. The loss/gain recognised in the comparative year ended 31 December 2021 on derivative financial assets/liabilities was unrealised.

Net fair value losses recognised in other comprehensive income are included in net losses from changes in fair value in relation to the FVOCI reserve. All losses recognised are unrealised.

For the Level 3 loans and advances to customers at FVOCI, the Group uses the discounted cash flow method to calculate the fair value. The significant unobservable input used in this calculation is the risk-adjusted discount rate, which is derived from cost of replacement assets based on period end closing swap rates. The Group believes that the calculated fair values are appropriate, however, the following table provides sensitivity analysis to illustrate the impact that reasonably possible changes in the discount rate could have on the asset value and total equity recognised as at 31 December 2022. There would be no impact to the statement of profit and loss as a result of these changes.

Change in significant unobservable input	Increase/(decrease) to asset value and FVOCI reserve £m
Favourable change: discount rate adjusted by -50 bps	**18.4**
Unfavourable change: discount rate adjusted by +50 bps	**(17.9)**

Critical accounting estimates
The valuation of loans and advances to customers at FVOCI is an area identified as involving critical accounting estimates. Additional details are provided in Note 8(d).

[1] Additions include new financial assets originated or purchased, additional drawdowns and accrued interest.

Notes to the financial statements

38. Financial assets and financial liabilities (continued)

(c) Offsetting financial assets and financial liabilities

The disclosures set out in the following tables include financial assets and financial liabilities in the Group that are either offset in the statement of financial position, or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position.

Financial collateral amounts disclosed in the tables are limited to the net balance sheet exposure for the instrument in order to exclude any over collateralisation. Financial collateral amounts disclosed exclude initial margin cash collateral with central clearing houses. All collateral amounts disclosed are cash collateral.

				Related amounts not offset		
Group As at 31 December 2022	**Gross amount £m**	**Amount offset £m**	**Net amount presented on statement of financial position £m**	**Subject to master netting arrangements £m**	**Financial collateral received/ pledged £m**	**Net amount £m**
Financial assets						
Derivative financial assets	**330.7**	**–**	**330.7**	**–**	**(271.5)**	**59.2**
Total financial assets	**330.7**	**–**	**330.7**	**–**	**(271.5)**	**59.2**
Financial liabilities						
Derivative financial liabilities	**90.5**	**–**	**90.5**	**–**	**(90.4)**	**0.1**
Total financial liabilities	**90.5**	**–**	**90.5**	**–**	**(90.4)**	**0.1**

				Related amounts not offset		
Group As at 31 December 2021	Gross amount £m	Amount offset £m	Net amount presented on statement of financial position £m	Subject to master netting arrangements £m	Financial collateral received/ pledged £m	Net amount £m
Financial assets						
Derivative financial assets	21.5	–	21.5	(1.6)	(19.5)	0.4
Total financial assets	21.5	–	21.5	(1.6)	(19.5)	0.4
Financial liabilities						
Derivative financial liabilities[1]	7.9	–	7.9	(1.6)	(6.2)	0.1
Total financial liabilities	7.9	–	7.9	(1.6)	(6.2)	0.1

Company
As at 31 December 2022, the gross amount and the net amount presented on the statement of financial position for derivative financial assets in the Company is £271.6 million, against which there is financial collateral of £271.5 million, thus resulting in a net amount of £0.1 million. Derivative financial liabilities for the Company are the same as the Group, as presented in the above table. In the comparative year, the offsetting disclosure for the Company is as presented above for the Group. Separate tables for the Company are not provided.

39. Share capital

Share capital comprises 175,487,207 issued and fully paid ordinary shares of £1.00 each, totalling share capital of £175,487,207. Holders of the shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. There are no restrictions on the rights implicit to the shares. There were no movements in share capital during either of the reported years.

[1] As at 31 December 2021, derivative financial liabilities of £0.2 million, which are included in the Group's consolidated statement of financial position only, are not in the scope of the offsetting disclosures as they are not subject to master netting arrangements.

Notes to the financial statements

40. Capital securities

See accounting policies in Note 7(x)

Capital securities comprise securities issued by the Company to its parent, Shawbrook Group plc, as summarised in the following table.

Group and Company	Issued	Next call date[1]	**2022 £m**	2021 £m
12.103% fixed rate reset perpetual Additional Tier 1 write down capital securities	Oct 2022	Dec 2027	**124.0**	–
10.298% fixed rate reset perpetual Additional Tier 1 write down capital securities (interest rate reset from 7.875% on 8 December 2022)	Dec 2017	Dec 2027	**1.0**	125.0
Total capital securities			**125.0**	125.0

Movements in the year are summarised in the following table:

Group and Company	**2022 £m**	2021 £m
As at 1 January	**125.0**	125.0
Issuances	**124.0**	–
Settlements (via exchange)	**(124.0)**	–
As at 31 December	**125.0**	125.0

In October 2022, £124.0 million of the capital securities issued in 2017 were exchanged for new capital securities. The remaining £1.0 million of the capital securities issued in 2017 was reset to a new rate of interest on the 8 December 2022.

During the year ended 31 December 2022, the Company paid all interest when scheduled, totalling £8.8 million (2021: £9.8 million). This is recognised directly in equity.

[1] The call date may be a fixed date or a defined period of time. Where it relates to a period of time, the date listed reflects the start of the period, thus reflecting the earliest date the call option may be exercised.

Notes to the financial statements

41. Notes to the cash flow statement

Adjustments for non-cash items and other adjustments included in the statement of profit and loss

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
ECL charge/(credit) on loans and advances to customers at amortised cost	**35.8**	(15.4)	**35.8**	(15.4)
ECL charge on loans and advances to customers at FVOCI	**2.4**	–	**2.4**	–
ECL credit on loan commitments	**(0.2)**	(2.5)	**(0.2)**	(2.5)
Other movements on investment securities	**1.7**	(1.1)	**9.9**	1.0
Depreciation of property, plant and equipment	**11.8**	11.7	**11.7**	11.6
Other movements on property, plant and equipment depreciation	**–**	(0.4)	–	(0.4)
Amortisation of intangible assets	**8.2**	8.2	**7.8**	7.9
Other movements on debt securities in issue	**1.3**	0.2	–	–
Other movements on subordinated debt liability	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Equity-settled share-based payments	**0.1**	0.6	**0.1**	0.6
Total non-cash items and other adjustments	**61.0**	1.1	**67.4**	2.6

Net change in operating assets

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Increase in mandatory deposits with central banks	**(8.5)**	(3.1)	**(8.5)**	(3.1)
Increase in loans and advances to customers	**(2,237.9)**	(1,195.4)	**(2,246.8)**	(1,202.2)
Increase in derivative financial assets	**(273.0)**	(17.4)	**(250.1)**	(20.9)
Increase in operating lease assets	**(10.7)**	(5.5)	**(10.7)**	(5.5)
(Increase)/decrease in other assets	**(8.1)**	(0.5)	**(18.0)**	2.6
Decrease/(increase) in assets held for sale	**299.7**	(297.4)	**299.7**	(297.4)
Increase in operating assets	**(2,238.5)**	(1,519.3)	**(2,234.4)**	(1,526.5)

Net change in operating liabilities

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Increase in customer deposits	**2,555.9**	1,464.5	**2,555.9**	1,464.5
Decrease in other provisions	**(8.0)**	(1.3)	**(8.0)**	(1.3)
Increase/(decrease) in derivative financial liabilities	**82.4**	(33.9)	**82.6**	(34.1)
Increase in other liabilities	**–**	19.5	**(3.0)**	20.5
Increase in operating liabilities	**2,630.3**	1,448.8	**2,627.5**	1,449.6

Notes to the financial statements

42. Parent company

The Company is a subsidiary undertaking of its parent company, Shawbrook Group plc. Shawbrook Group plc is incorporated in England and Wales and is the largest company in which the results of the Company and its subsidiaries are consolidated. The consolidated financial statements of the Group are available on request from Lutea House, Warley Hill Business Park, Brentwood, Essex CM13 3BE.

43. Subsidiary companies

See accounting policies in Note 7(a)

Wholly owned subsidiary companies

As at 31 December 2022, the Group includes the following subsidiary companies whose results are included in the consolidated financial statements. The Company's investment in subsidiaries is detailed in Note 30.

Name	Country of incorporation	Class of shares	Ownership %	Principal activity	Registered address[1]
The Mortgage Lender Limited	England and Wales	Ordinary	100	Mortgage finance	a
Singers Corporate Asset Finance Limited	England and Wales	Ordinary	100	Dormant	a
Singers Healthcare Finance Limited	England and Wales	Ordinary	100	Dormant	a
Coachlease Limited	England and Wales	Ordinary	100	Dormant	a
Hermes Group Limited	England and Wales	Ordinary	100	Dormant	a
Singer & Friedlander Commercial Finance Limited	Scotland	Ordinary	100	Dormant	b
Link Loans Limited	England and Wales	Ordinary	100	Dormant	a
Centric SPV 1 Limited	England and Wales	Ordinary	100	Dormant	a
Resource Partners SPV Limited	England and Wales	Ordinary	100	Dormant	a

During the year ended 31 December 2022, Shawbrook Buildings and Protection Limited, a dormant subsidiary, was dissolved in October 2022.

During the comparative year ended 31 December 2021, The Mortgage Lender Limited became a subsidiary of the Company in February 2021.

Subsidiaries by virtue of control

As at 31 December 2022, the Group includes the following structured entities relating to securitisation programmes (see Note 22). Shares of these entities are ultimately beneficially owned through an independent trust. However, for accounting purposes, the entities are controlled by the Group and, as such, they are treated as subsidiaries and are fully consolidated.

Name	Country of incorporation	Principal activity	Registered address[1]
Shawbrook Mortgage Funding 2019-1 plc	England and Wales	Mortgage finance	c
Shawbrook Mortgage Funding Holdings Limited	England and Wales	Holding company	d
Wandle Mortgage Funding Limited	England and Wales	Mortgage finance	e
Ealbrook Mortgage Funding 2022-1 plc	England and Wales	Mortgage finance	d
Ealbrook Mortgage Funding 2022-1 Holdings Limited	England and Wales	Holding company	d
Lanebrook Mortgage Transaction 2022-1 plc	England and Wales	Mortgage finance	d
Shawbrook Mortgage Funding 2022-1 plc	England and Wales	Mortgage finance	d

[1] Registered addresses of subsidiary companies are as follows:
a: Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, England, CM13 3BE.
b: 8 Nelson Mandela Place, Glasgow, Scotland, G2 1BT.
c: On 17 March 2023, the registered address was changed from 1 Bartholomew Lane, London, England, EC2N 2AX to 40a Station Road, Upminster, Essex, England, RM14 2TR.
d: 1 Bartholomew Lane, London, England, EC2N 2AX.
e: On 20 March 2023, the registered address was changed from Bastion House 6th Floor, 140 London Wall, London, England, EC2Y 5DN to 6th Floor, 125 London Wall, London, England EC2Y 5AS.

Notes to the financial statements

43. Subsidiary companies (continued)

The following changes took place during the year ended 31 December 2022:

- Ealbrook Mortgage Funding 2022-1 plc and its holding company, Ealbrook Mortgage Funding 2022-1 Holdings Limited, became subsidiaries in June 2022.
- Lanebrook Mortgage Transaction 2022-1 plc became a subsidiary in October 2022.
- A liquidator has been appointed to liquidate Shawbrook Mortgage Funding 2019-1 plc. This process is expected to conclude in the first half of 2023, at which point the company will cease to be a subsidiary of the Group.
- Shawbrook Mortgage Funding Holdings Limited was renamed from Shawbrook Mortgage Funding 2019-1 Holdings Limited by resolution in October 2022.
- Shawbrook Mortgage Funding 2022-1 plc became a subsidiary in December 2022.

During the comparative year ended 31 December 2021, Wandle Mortgage Funding Limited became a subsidiary of the Group in August 2021.

44. Related party transactions

Transactions with key management personnel
Key management personnel refer to the Executive Management team and the Directors of the Group.

Total compensation for the year for key management personnel that are employed by the Group is as follows:

Group and Company	2022 £m	2021 £m
Short-term employee benefits	**6.3**	6.1
Other long-term benefits	**1.0**	1.6
Termination benefits	**–**	1.0
Total compensation for employed key management personnel	**7.3**	8.7

The Company provides employee loans to certain key management personnel. These loans are subject to interest in accordance with the beneficial loan arrangements rate set by HMRC. The loans do not involve more than the normal risk of collectability or present other unfavourable features. As at 31 December 2022, the amount outstanding in respect of these loans is £0.5 million (2021: £0.5 million). Interest income recognised in respect of these loans is less than £0.1 million in both reported years. No provisions have been recognised in respect of these loans and no balances have been written off or forgiven during either of the reported years.

The Company also holds savings deposits from certain key management personnel and their close family members. Such deposits are held in the ordinary course of business on normal commercial terms. As at 31 December 2022, the amount held in respect of these deposits is £0.6 million (2021: £0.3 million). Interest expense recognised in respect of these deposits is less than £0.1 million in both reported years.

Transactions between the Company and its parent company
Details of the parent company, Shawbrook Group plc, are provided in Note 42.

Amounts owed by the Company to its parent company are as follows:

	Note	2022 £m	2021 £m
Other amounts (receivable)/payable	29/36	**(4.5)**	0.5
Subordinated debt liability[1]	37	**96.8**	96.8
Total amounts owed to parent		**92.3**	97.3

[1] The total subordinated debt liability per Note 37 is £97.4 million (2021: £97.5 million). The difference compared to the amount presented in this table of £0.6 million (2021: £0.7 million) relates to capitalised amounts (capitalised costs and a modification loss), which do not constitute amounts owing between the parties.

Notes to the financial statements

44. Related party transactions (continued)

Transactions during the year between the Company and its parent company are as follows:

	2022 £m	2021 £m
Coupon on capital securities	**8.8**	9.8
Interest on subordinated debt	**7.9**	7.9
Management fee	**0.3**	0.3
Total expense incurred	**17.0**	18.0

Transactions between the Company and its subsidiary companies
Subsidiary companies of the Group are detailed in Note 43.

The Company has the following amounts recognised on its statement of financial position that relate to subsidiary entities (including consolidated structured entities, which are treated as subsidiaries by virtue of control):

	Note	2022 £m	2021 £m
Deemed loan due from structured entities	22	**93.4**	–
Deemed loan due to structured entities	22	**(133.0)**	(402.8)
Debt securities purchased from structured entities	23	**25.8**	93.4
Other amounts receivable	29	**14.5**	1.1
Other amounts payable	36	**(0.2)**	–
Net assets/(liabilities) relating to subsidiaries		**0.5**	(308.3)

Transactions during the year between the Company and its subsidiaries recognised in the Company statement of profit and loss, are as follows:

	2022 £m	2021 £m
Interest income	**12.6**	1.3
Fee and commission expense	**(20.7)**	(8.6)
Net other income	**11.6**	2.8
Net income/(expense) incurred	**3.5**	(4.5)

Other related party transactions
The following transactions are related via the ultimate parent company of Shawbrook Group plc (the Company's parent company), Marlin Bidco Limited.

As at 31 December 2022, the balance owed to Marlin Bidco Limited is £0.8 million (2021: £0.8 million).

In both reported years, certain employees, including key management personnel, have acquired non-voting 'B' Class ordinary shares in Marlin Bidco Limited as part of an employee share-based payment scheme (see Note 16).

Notes to the financial statements

45. Capital commitments

As at 31 December 2022, the Group has no capital commitments (2021: £nil).

46. Loan commitments

See accounting policies in Note 7(y)

As at 31 December 2022, loan commitments, which are not recognised in the statement of financial position total £1,628.7 million (2021: £1,231.6 million). A loss allowance of £0.5 million (2021: £0.7 million) is held against these loan commitments, which is recognised in provisions in the statement of financial position (see Note 33).

Additional analysis of the Group's loan commitments and the associated loss allowance is provided in the credit risk section of the Risk Report starting on page 53.

47. Contingent liabilities

See accounting policies in Note 7(z)

Part of the Group's business is regulated by the Consumer Credit Act (CCA), a piece of UK legislation designed to protect the rights of consumers. The Group's Consumer franchise is exposed to risk under Section 75 and Section 140A of the CCA, in relation to any misrepresentations, breaches of contract or other failures by suppliers of goods and services to customers, where the purchase of those goods and services is financed by the Group. While the Group would have recourse to the supplier in the event of such liability, if the supplier became insolvent that recourse would have limited value.

The Group continues to undertake reviews of its compliance with the CCA and other consumer regulations. The Group has identified some areas of potential non-compliance, which, based on current information, are not considered to be material. However, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of a particular matter will not result in a material liability.

Additional information regarding one specific matter of note is provided below to the extent possible, however it is highlighted that certain information usually required in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' may not be disclosed on the grounds that it may prejudice the position of the Group in any relating dispute with other parties.

Timeshare complaints

The Group has received a number of complaints from customers about holiday ownership (timeshare) products, where the Group provided finance to customers to fund the purchase of those products. While the Financial Ombudsman Service had previously not upheld the majority of such complaints that were referred to it, in November 2021 they subsequently issued a final decision on one such complaint, which was found in the customer's favour. The Group has commenced a legal challenge of this decision by way of judicial review, which will be heard in 2023.

In total, the Group advanced loans of c. £200 million to customers in relation to timeshare financing. However, the issues referred to above affect a smaller group of customers totalling loans of c. £113 million. In the event that the Group is unsuccessful in its judicial review challenge, the Group has undertaken a high-level estimate of possible redress using an assumed claim and redress rate and applied it to the loan book. This would suggest a potential remediation cost in the region of £25 million, but ultimately redress would depend on claim rates and agreement on potential redress remedies, the cost of which would be dependent on a number of factors, taking into account the nature of the timeshare asset and the benefits received whilst owned. The Group considers it unlikely that a material liability will arise in relation to this product.

48. Events after the reporting period

With the exception of the transaction outlined below, there have been no other significant events between 31 December 2022 and the date of approval of the 2022 Annual Report and Accounts that require a change or additional disclosure in the financial statements.

Acquisition of subsidiary

On 20 March 2023, Shawbrook Bank Limited, the Group's principal subsidiary, announced that it has signed an agreement to acquire 100% of the shares in Bluestone Mortgages Limited. This transaction remains subject to regulatory approval and represents a non-adjusting event after the reporting period. As such, the financial effects of this transaction have not been recognised as at 31 December 2022. Bluestone Mortgages Limited will commence being consolidated as a subsidiary on the date that control transfers, which cannot occur before regulatory approval is granted.

Bluestone Mortgages Limited's principal activity is residential mortgage finance. Taking control of Bluestone Mortgages Limited will strengthen the Group's presence in the residential market, providing the Group with growth opportunities.

Other information

Other information

Other information

Abbreviations

Throughout this document:

'Company' refers to:	Shawbrook Bank Limited
'Group' refers to:	the 'Company' and its subsidiaries
'Shawbrook' refers to:	the 'Group'

The following abbreviations are used within this document:

BML	Bluestone Mortgages Limited	**IFRS**	International Financial Reporting Standards
bps	Basis point	**ILAAP**	Internal Liquidity Adequacy Assessment Process
CAIS	Credit Account Information Sharing	**LCR**	Liquidity coverage ratio
CCA	Consumer Credit Act	**LGD**	Loss given default
CET1	Common Equity Tier 1	**LIBOR**	London Inter-bank Offered Rate
CGU	Cash generating unit	**MIP**	Management Incentive Plan
the 'Code'	UK Corporate Governance Code 2018	**NSFR**	Net stable funding ratio
COVID-19	Coronavirus disease	**PD**	Probability of default
CRD V	Capital Requirements Directive	**PMA**	Post-model adjustment
CRR/CRR II	Capital Requirements Regulation	**POCI**	Purchased or originated credit-impaired
EAD	Exposure at default	**PRA**	Prudential Regulation Authority
EBA	European Banking Authority	**RMF**	Risk Management Framework
ECL	Expected credit loss	**SICR**	Significant increase in credit risk from initial recognition
EDI	Equality, diversity and inclusion	**SMEs**	Small and medium-sized enterprises
EIR	Effective interest rate	**SMF**	Senior Management Function
ESG	Environmental, social and governance	**SONIA**	Sterling Overnight Index Average rate
EU	European Union	**SPPI**	Solely payments of principal and interest on the principal amount outstanding
FCA	Financial Conduct Authority	**TCFD**	Task Force on Climate-related Financial Disclosures
FVOCI	Fair value through other comprehensive income	**TFSME**	Term Funding Scheme with additional incentives for SMEs
FVTPL	Fair value through profit or loss	**TML**	The Mortgage Lender Limited
HMRC	HM Revenue and Customs	**UK**	United Kingdom
IAS	International Accounting Standards	**USA**	United States of America
ICAAP	Internal Capital Adequacy Assessment Process		

Time periods referred to within this document are defined as follows:

FY	Full year: 12 months from 1 January to 31 December
H1	First half: six month period from 1 January to 30 June
H2	Second half: six month period from 1 July to 31 December
Q1	First quarter: three month period from 1 January to 31 March
Q2	Second quarter: three month period from 1 April to 30 June
Q3	Third quarter: three month period from 1 July to 30 September
Q4	Fourth quarter: three month period from 1 October to 31 December

Other information

Performance indicators

Certain financial measures disclosed in the Annual Report and Accounts do not have a standardised meaning prescribed by international accounting standards and may not therefore be comparable to similar measures presented by other issuers. These measures are considered 'alternative performance measures' (non-GAAP financial measures) and are not a substitute for measures prescribed by international accounting standards. Definitions of financial performance indicators referred to in the Strategic Report (in alphabetical order) are set out below:

Average principal employed	The average of monthly closing loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and assets on operating leases included in property, plant and equipment.
Common Equity Tier 1 (CET1) capital ratio	Common Equity Tier 1 capital, divided by, risk-weighted assets.
Cost of risk	Impairment losses on financial assets, divided by, average principal employed.
Cost to income ratio	The sum of administrative expenses and the provisions charge/credit recognised in the statement of profit and loss, divided by, net operating income.
Gross asset yield	Net operating income less interest expense and similar charges, divided by, average principal employed.
Leverage ratio	Total Tier 1 capital, divided by, total leverage ratio exposure measure.
Liability yield	Interest expense and similar charges, divided by, average principal employed.
Liquidity coverage ratio	Liquidity buffer, divided by, total 30-day net cash outflows in a standardised stress scenario.
Loan book	The sum of loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and the carrying amount of assets on operating leases included in property, plant and equipment.
Management expenses ratio	The sum of administrative expenses and the provisions charge/credit recognised in the statement of profit and loss, divided by, average principal employed.
Net interest margin	Net operating income, divided by, average principal employed.
Return on lending assets before tax	Profit before tax, divided by, average principal employed.
Return on tangible equity	Profit after tax (adjusted to deduct distributions made to holders of capital securities), divided by, average tangible equity. *'Average tangible equity'* is calculated as, total equity less capital securities and intangible assets at the beginning of the period, plus total equity less capital securities and intangible assets at the end of the period, divided by two.
Risk-weighted assets	A measure of assets adjusted for their associated risks. Risk weightings are established in accordance with Prudential Regulation Authority rules and are used to assess capital requirements and adequacy under Pillar 1.
Total capital ratio	Total regulatory capital, divided by, risk-weighted assets.
Total Tier 1 capital ratio	Total Tier 1 capital, divided by, risk-weighted assets.
Wholesale funding	The sum of amounts due to banks and debt securities in issue.

[1] For the purpose of this calculation, loans and advances to customers includes both loans measured at amortised cost and loans at FVOCI, along with loans transferred to assets held for sale, which are still considered to be part of the Group's overall loan book until derecognised.

Other information

Country-by-country reporting

The following disclosures are provided solely to comply with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. These disclosures may not be relied on for any other purpose.

The country-by-country reporting requirements originate from Article 89 of the Capital Requirements Directive (CRD IV). The purpose is to provide increased transparency regarding the source of the Group's income and the locations of its operations.

In both reported years, Shawbrook Bank Limited and its subsidiaries (the 'Group') are all UK registered entities.

The activities of the Group are detailed in Note 1 of the Financial Statements and in the Strategic Report. Details of subsidiary companies included in the Group are provided in Note 43 of the Financial Statements.

Required disclosures for the year ended 31 December are summarised below:

	2022 UK	2021 UK
Net operating income (£m)	**476.2**	386.0
Profit before tax (£m)	**238.4**	197.4
Tax charge (£m)	**58.7**	47.9
Tax paid (£m)	**61.9**	48.4
Average number of employees on a full-time equivalent basis	**1,129**	964

The Group received no public subsidies during either of the reported years.

Shawbrook Bank Limited

Registered office: Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE.
Registered in England and Wales – Company Number 00388466. Shawbrook Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register number: 204574).