

Results for the year ended 31 December 2015

3 March 2016

Shawbrook Group plc

Shawbrook Group plc ("Shawbrook" or "the Group"), the specialist lending and savings bank, today announces continued strong performance in excess of market expectations and reiterates confidence in its near and medium term outlook.

Commenting on the results, CEO Steve Pateman said:

"2015 was a significant year for Shawbrook. We achieved a successful IPO and continued to grow our core businesses, underpinned by a strong well-capitalised balance sheet which will support our ambitions for the near and medium term. Our focus remains on serving customers who value a bank that takes the time to understand their requirements and provide the right answer. This approach also enables us to optimise our risk adjusted return profile. We have invested for the future and, notwithstanding a softer economic outlook, remain confident that we will continue to generate strong through the cycle returns consistent with our stated strategy."

Highlights¹

- Another strong performance with underlying PBT beating consensus, up 63% to £80.1m (2014: £49.1m) and EPS² up 77% to 26.9p (2014: 15.2p).
Ø Statutory PBT increased by 55% to £70.1m (2014: £45.3m) and statutory EPS was 24.1p (2014: 17.7p).
- Increased profitability driven by a 44% increase in the loan book³ to £3,361m (31 December 2014: £2,331m) underpinned by a 23% increase in gross organic originations to £1,685m⁴ (2014: £1,366m), as 2014 momentum continued into 2015.
- NIM increased to 6.2% (2014: 6.1%), benefitting from continued reduction in cost of funds. ISA product launch in H1 2015 and full market Easy Access product launch in H2 2015 expected to further reduce cost of funds.
- Cost to income ratio reduced to 48.3% (2014: 50.5%) as the Group continues to proactively manage its cost base whilst investing in people, technology and infrastructure to build solid foundations to support future growth. We remain confident the investment made will deliver further scale efficiencies and has well positioned us for the next phase of growth.
- Strong risk-adjusted margin supported by low cost of risk at 24bps (2014: 36bps), reflecting asset quality as well as the benign economic environment. Group focus remains on originating quality business and maintaining high-quality underwriting standards.
- Track record of strong returns maintained with RoTE of 27.9% (2014: 26.9%) and pre-tax ROLA of 3.0% (2014: 2.6%), underpinned by increased customer activity. RoTE benefited by c.1.3% from revaluation of deferred tax assets following the introduction of the Bank corporation tax surcharge.

IPO and Board

- Successful IPO with admission to the LSE in April and to the FTSE 250 index in June.
- Iain Cornish appointed Chairman and Steve Pateman as Chief Executive Officer. Stephen Johnson was appointed to Board as Deputy Chief Executive. Further strengthened the Board with the appointment of Paul Lawrence, Sally-Ann Hibberd and David Gage as non-executive directors.
- The Executive team further strengthened with the appointments of Hugh Fitzpatrick as CR0, Simon Featherstone as MD of Business Finance and Evelyn Hamilton as MD of Consumer.

Capital and funding position

- Capital ratios strengthened by IPO, with £82m of new capital (net of costs) resulting in CET1 ratio of 14.4% (31 December 2014: 11.6%). Total capital further strengthened by £75m Tier 2 issuance in October, resulting in total capital ratio of 18.0% (31 December 2014: 13.9%).
- Strong capital base enabled Shawbrook to accelerate growth in 2015, as the Group continued to expand its support to UK customers through its SME and Consumer businesses, and made selective acquisitions to complement the Group's strategy.
- Loan book predominantly retail deposit funded, with a loan to deposit ratio of 104% at 31 December 2015 (31 December 2014: 94%).

Investing in our people, technology and infrastructure

- Significant investment made in the Group's on-going development to ensure it continues to meet customer expectations, increasing regulatory requirements and the demands of being a listed company, including increasing headcount to an average of 514 in 2015 (2014: 414).
- Group investment has resulted in progress across all areas of the business including the positive launch of ISA and Easy Access products in the Savings business. Further investment has also been made in IT and infrastructure, with the re-platforming of Asset Finance completing in Q4 2015.
- Successful launch of new lending products such as Regulated Short Term Bridging loans.
- 2016 will see further investment in people, systems and processes to ensure the operating platform remains robust, sustainable and supports the Group's growth plans.

Outlook

- We expect our strategy to continue to deliver material growth in combination with strong risk adjusted returns. We maintain our focus on the high quality of the lending portfolios, supported by prudent levels of capital, funding and liquidity. The Group continues to explore a number of attractive product and market adjacencies where attractive returns can be generated by deploying our expert approach and proven relationship-based lending model.
- The execution of our proven strategy in combination with a diverse balance sheet allows us to continue to:
 - Ø increase balance sheet scale through high quality origination;
 - Ø maintain risk discipline to generate strong through the cycle returns;
 - Ø enhance operating leverage with scale; and
 - Ø through this approach, deliver strong return on tangible equity and shareholder value.
- Management expects the increasing profitability and capital generation to enable the declaration of a modest 2016 final dividend arising from 2016 profits, building progressively in 2017 and beyond.

¹ All references are to underlying results, unless otherwise stated as being statutory.

² EPS has been calculated using underlying profit after tax and assumes a constant share issuance of 250.5m.

³ Including operating leases.

⁴ In addition, the Group acquired a second (£11m) and third (£34m) tranche of loans from the Commercial First Group Limited in February 2015 and November 2015 respectively, with the first tranche being purchased in November 2014. Separately, in December 2015, the Group acquired a performing portfolio of assets which form part of the Commercial Mortgages division. As this was acquired at the end of the year it has been excluded from our calculation of average principal employed as no underlying income or expenses have been recognised in 2015. In total, the Group acquired £0.3bn of assets in 2015.

ENQUIRIES

Instinctif Partners

Mike Davies / Giles Stewart

020 7457 2051 / 020 7457 7938

mike.davies@instinctif.com / giles.stewart@instinctif.com

An analyst presentation will be held at 11:00am on 3 March 2016 at Goldman Sachs International, Peterborough Court, 133 Fleet Street, London, EC4A 2BB. The analyst presentation will also be available by webcast and teleconference at 11:00am. The access details are as follows:

Webcast

To access the webcast please click on the following link <http://webcast.institutiv.tv/795-1286-16922>

Teleconference

The dial-in details for the conference call are:
Standard International Access: +44 (0) 20 3003 2666
UK Toll Free: 0808 109 0700
Password: Shawbrook
Please dial-in approximately 5 minutes before the start of the call quoting the password "Shawbrook"

Group Key Performance Indicators

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

The KPIs presented below are derived from the Group's statutory accounts and its financial reporting and management information systems. In addition, some of the KPIs are calculated using underlying results.

	FY 2015	FY 2014
Assets		
Average principal employed (£m) ⁽¹⁾	2,712.8	1,855.5
Loans and advances to customers (£m) ⁽²⁾	3,361.0	2,331.0
Originations (£m).....	1,684.9	1,366.4
Profitability		
Gross asset yield (%) ⁽³⁾	8.5	9.0
Liability yield (%) ⁽⁴⁾	(2.3)	(2.9)
Net interest margin (%) ⁽⁵⁾	6.2	6.1
Management expenses ratio (%) ⁽⁶⁾	(3.0)	(3.1)
Cost of risk (%) ⁽⁷⁾	(0.24)	(0.36)
Return on lending assets before tax (%) ⁽⁸⁾	3.0	2.6
Return on lending assets after tax (%) ⁽⁹⁾	2.5	2.0
Return on tangible equity (%) ⁽¹⁰⁾	27.9	26.9
Cost/income ratio (%) ⁽¹¹⁾	48.3	50.5
Asset quality		
Ratio of impaired loans (%) ⁽¹²⁾	0.5	0.6
Ratio of past due over 90 days and impaired loans (%) ⁽¹³⁾	0.8	0.8
Forbearance cases ⁽¹⁴⁾	559	531
Forbearance principal employed (£m) ⁽¹⁵⁾	19.0	8.7
Balance sheet		
Loan-to-deposit ratio (%) ⁽¹⁶⁾	104.2	94.4
Liquidity		
Liquidity ratio (%) ⁽¹⁷⁾	25.8	21.1
Ratio of liquidity buffer eligible assets to liquidity balances (%) ⁽¹⁸⁾	96.2	92.8
Capital and leverage		
CET1 ratio (%) ⁽¹⁹⁾	14.4	11.6
Total capital ratio (%) ⁽²⁰⁾	18.0	13.9
Leverage ratio (%) ⁽²¹⁾	7.9	6.3
Other		
Employees - Full time equivalents (period average).....	514	414

Underlying income statements

	FY 2015			
	Statutory accounts basis	Adjustments		Underlying results
		IPO transaction costs ⁽²³⁾	Corporate activity costs ⁽²⁴⁾	
	(£m)			
Interest income and similar income.....	216.9	-	-	216.9
Interest expense and similar charges.....	(63.8)	-	0.5	(63.3)
Net interest income	153.1	-	0.5	153.6
Net income from operating leases.....	3.8	-	-	3.8
Net fee and commission income.....	10.3	-	-	10.3
Fair value losses on financial instruments.....	(0.3)	-	-	(0.3)
Net operating income	166.9	-	0.5	167.4
Administrative expenses.....	(88.7)	8.9	0.6	(79.2)
Impairment losses on financial assets.....	(6.5)	-	-	(6.5)
Provisions for liabilities and charges.....	(1.6)	-	-	(1.6)
Profit before taxation	70.1	8.9	1.1	80.1
Income tax charge ⁽²⁵⁾	(11.6)	(1.0)	(0.2)	(12.8)
Profit for the period, attributable to owners	58.5	7.9	0.9	67.3

	FY 2014			Underlying results
	Adjustments			
	Statutory accounts basis	IPO transaction costs ⁽²³⁾	Corporate activity costs ⁽²⁴⁾	
	(£m)			
Interest income and similar income.....	156.7	–	–	156.7
Interest expense and similar charges.....	(54.0)	–	0.6	(53.4)
Net interest income.....	102.7	--	0.6	103.3
Net income from operating leases.....	3.7	–	–	3.7
Net fee and commission income.....	5.9	–	–	5.9
Fair value losses on financial instruments.....	(0.1)	–	–	(0.1)
Net operating income.....	112.2	--	0.6	112.8
Administrative expenses.....	(59.1)	0.6	2.6	(55.9)
Impairment losses on financial assets.....	(6.7)	–	–	(6.7)
Provisions for liabilities and charges.....	(1.1)	–	–	(1.1)
Profit before taxation.....	–	–	–	–
Income tax charge ⁽²⁵⁾	(10.8)	(0.1)	(0.2)	(11.1)
Profit for the period, attributable to owners	34.5	0.5	3.0	38.0

About Shawbrook

Shawbrook is an independent specialist lending and savings bank serving UK SMEs and consumers with tailored products designed to address a selection of high growth sub-sectors of the overall lending industry. The Group's lending activities are primarily funded by a stable retail deposit book consisting of easy access and ISA accounts, variable rate long-dated notice accounts (mostly 95 - 120 days' notice) and fixed rate fixed term accounts (mostly one - five years). Shawbrook Bank Limited is an operating entity of Shawbrook Group plc. In April 2015, Shawbrook Group plc's shares (SHAW.L) listed on the Main Market of the London Stock Exchange. Shawbrook Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the Financial Services Compensation Scheme.

Important disclaimer

Certain information contained in this announcement, 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 announcement 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.

General note to the financial information

The preliminary announcement has been prepared in accordance with the Listing Rules of the FCA and is based on the 2015 financial statements which have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information set out in this announcement does not constitute the Group's statutory financial statements for the years ended 31 December 2014 or 31 December 2015. This announcement is derived from those statutory financial statements, which have been reported on by the Group's auditor. The audit reports for both the year ended 31 December 2015 and 31 December 2014 were unqualified. The statutory financial statements for the year ended 31 December 2014 have been filed with the Registrar of Companies. The statutory financial statements for the year ended 31 December 2015 will be filed with the Registrar of Companies following the Annual General Meeting.

KPI definitions and underlying income statement adjustments:

Percentages and certain amounts included in this Press Release have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them.

1. Average principal employed is calculated as the average of monthly closing loans and advances to customers, net of impairment provision, from the Group's financial reporting and management information systems, including operating leases, which are classified as property, plant and equipment in the Group's statutory accounts. For Business Credit 2014, we have taken a full year average, which includes nil assets for the pre-acquisition period. Three inorganic acquisitions were made during 2015, the last of which completed in December 2015. The average principal employed for 2015 does not include this acquisition as no underlying income or expenditure in the 2015 period related to this.
2. Loans and advances to customers is presented net of impairment provision and includes operating leases, which are classified as property, plant and equipment in the Group's statutory accounts.
3. Asset yield is calculated as the sum of underlying interest receivable and similar income, net income from operating leases, net fee and commission income and fair value losses on financial instruments, divided by average principal employed.
4. Liability yield is calculated as underlying interest expense and similar charges divided by average principal employed.
5. Net interest margin is calculated as underlying net operating income divided by average principal employed.
6. Management expenses ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by average principal employed.
7. Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.
8. Return on lending assets before tax is calculated as underlying profit before taxation divided by average principal employed.
9. Return on lending assets after tax is calculated as underlying profit for the year attributable to owners divided by average principal employed.
10. Return on tangible equity is calculated as underlying profit for the year attributable to owners divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period, divided by two.
11. The cost/income ratio is calculated as underlying administrative expenses plus provisions for liabilities and charges, divided by underlying net operating income.
12. The ratio of impaired loans is calculated by dividing impaired loans and advances to customers by total gross loans and advances to customers.
13. The ratio of past due over 90 days and impaired loans is calculated by adding past due over 90 days loans and advances to customers and impaired loans and advances to customers and dividing the sum by total gross loans and advances to customers.
14. Forbearance cases are the number of cases for which the Group has granted concession to the borrower due to reasons relating to actual or apparent financial stress.
15. Forbearance principal employed is the sum of the principal employed in each of the forbearance cases.
16. The loan-to-deposit ratio is calculated as loans and advances to customers divided by customer deposits.
17. The liquidity ratio is calculated as the liquidity reserve divided by customer deposits. The liquidity reserve comprises cash and balances at central banks (excluding mandatory balances held with central banks), loans and advances to banks, off balance sheet T-Bills but excludes additional available liquidity from pre-positioned assets.
18. The ratio of liquidity buffer eligible assets to liquidity balances is calculated as the proportion of liquidity balances that are eligible for use in the liquidity buffer to total liquidity balances.
19. The CET1 (i.e. Common Equity Tier 1) ratio is calculated as common equity tier 1 capital divided by risk-weighted assets at the Group level.
20. The total capital ratio is calculated as total regulatory capital divided by risk-weighted assets at the Group level.
21. The leverage ratio is calculated as common equity tier 1 capital divided by the sum of total assets less intangible assets. Due to other off balance sheet items, this calculation may differ to the regulatory calculation of leverage.
22. Sales volume is calculated as the sum of total client turnover in the Business Credit division. The Sales Volume presented for FY 2014 includes the pre-acquisition period.
23. IPO costs include expenses incurred in 2015 in relation to the successful listing of Shawbrook Group plc on the LSE main market and recognised in the Income Statement. A further £3.7m was recognised in equity. IPO transaction costs incurred in 2014 relate to a one-off cost in respect of a former employee that materialised upon IPO.
24. Corporate activity costs in 2015 include a final £0.6 million of deferred consideration incurred in connection with the acquisition of Money2Improve in November 2012. In addition, costs incurred in relation to the acquisition of three asset portfolios (including the incremental costs of raising additional deposits to fund inorganic growth) have been excluded from the underlying results. 2014 corporate activity costs include both external costs incurred in acquiring businesses and internal costs, such as surplus funding costs, incurred whilst building up the liquidity required to complete a deal. The majority (£2.5m) of costs related to the acquisition of Centric Commercial Finance in June 2014. In addition, corporate activity includes £0.6m of deferred

consideration incurred in connection with the acquisition of Money2Improve in November 2012. Within this adjustment, £2.1m is disallowable for tax purposes.

25. Income tax charge on underlying adjustments has been calculated at the implied corporation tax rate. Income tax charge on certain underlying adjustments has been assumed as Enil on the basis of being disallowable for tax purposes.

CEO & CFO STATEMENT

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

We made further significant progress in establishing Shawbrook as a leading Specialist Bank within the UK market and exceeded our guidance in respect of loan originations, net interest margin and cost-income performance. As a result we grew underlying profit by 63% to over £80m (2014: £49m), with Total Assets reaching £4bn for the first time. We also improved our already strong customer and staff advocacy and delivered a number of strategic initiatives.

Delivering a successful IPO in early April was a tremendous milestone in our development as a well-capitalised player in our chosen SME and consumer markets. Since the IPO, investors have understood our strategy and the benefits that our diversification and strong balance sheet bring to set us apart from peers.

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

Laying these strong foundations has enabled us to achieve a successful 2015 and reaffirm confidence in the medium term outlook. Our diverse business model brings about many benefits, allowing the whole Group to thrive and deliver strong returns for shareholders. At the same time we further increased our already high customer 'net promoter score', largely due to the high levels of colleague skill, engagement and commitment which are at the heart of Shawbrook's success, as well as the continuing investments we have made in technology and service improvement.

The improvement in performance is more impressive due to having been achieved in a more liquid market. The Group has managed this pressure well through reductions in the cost of funds that have offset yield pressure, where a significant proportion of the reduction in the yield has been mix driven.

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

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

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

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

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

Steve Pateman joined Shawbrook as CEO and we have further strengthened our team with Evelyn Hamilton joining to lead Consumer and Simon Featherstone joining to lead Business Finance. We believe that our leadership team will enable us to achieve our medium term objectives as we aspire to profitably grow the Group in the coming years with a strong focus on maintaining good cost discipline to generate optimal operational leverage. Our hunger and ambition remains to build the UK's leading specialist bank.

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

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

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

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

During the year we saw a number of changes to our Board. Sir George Mathewson, left the Board along with Sir Brian Ivory. We are grateful to them for their contribution since they joined in 2011. Richard Pyman, who had been Shawbrook's CEO since 2014 departed the Board for personal reasons. We owe Richard a debt of gratitude for his contribution to the success of the Group and our IPO. We also welcomed several new non-executive directors to the Board. Paul Lawrence, who was formerly Global Head of Group Internal Audit for HSBC, Sally-Ann Hibberd brings significant experience of operations, IT and change and David Gagie brings substantial financial services experience and was until recently a Senior Advisor to the Financial Conduct Authority. Graham Alcock has indicated that he will not be standing for re-election at the forthcoming AGM and we would like to thank him for his service to the Group.

Uncertainty, whether it be regulatory, economic or political, may be a given, but fundamentally, Shawbrook's business model is strong and diverse, the opportunities we have are large and show no signs of diminishing, and our business is built on a set of values and an approach to people and business partners which have allowed us to build a strong and sustainable market position. We expect our strategy to continue to deliver on our ambitious objectives through continued pursuit of our strategy and as we progress through 2016, we have every confidence that our management team will execute our strategic vision and deliver the plans set out at the IPO.

OUR STRATEGY

LONG-TERM OBJECTIVES	NEAR TERM INITIATIVES	PROGRESS & OUTLOOK
PROGRESSIVELY INCREASE ORIGINATIONS ACROSS ALL LENDING DIVISIONS	<p>Increase organic originations whilst identifying and carefully entering adjacent specialist markets. Diversification is at the heart of this initiative and we will not be reliant on single markets that can be subject to influences outside our control.</p> <p>The originations target of £2bn in 2017 will maintain focus on good quality assets generating strong risk adjusted returns.</p>	<p>Our operating divisions have delivered strong organic originations of £1.7bn in 2015. To achieve our end 2019 objective of doubling customer balances from £3.4bn we will:</p> <p>In Property, focus on further diversification into new areas such as retirement lending solutions</p> <p>Bring together our Asset Finance and Business Credit divisions as one Business Finance working capital solutions provider</p> <p>In Consumer, focus on building relationships with strategic partners in a market worth £200bn and leverage our technology platform</p> <p>Our Savings franchise and central functions will evolve to underpin this profitable growth</p>
ACHIEVE STRONG RISK ADJUSTED RETURNS	<p>Continue to identify specialist lending sectors to ensure we can maintain strong risk-adjusted returns whilst maintaining our high quality underwriting standards.</p>	<p>We see opportunities arising from our core and adjacent markets. We use our knowledge and capabilities to identify opportunities which meet our risk appetite profile, offering strong risk adjusted returns. In addition to organic originations of £1.7bn in 2015, we successfully acquired £0.3bn of assets from</p>

		<p>loan portfolios that match our high risk adjusted returns thresholds in late 2015.</p> <p>The Group's underlying profit before tax has improved significantly from £49.1m in 2014 to £80.1m in 2015 due to both the growth in the Group's lending portfolios and increased efficiencies of scale.</p> <p>We have improved our net interest margin to 6.2% and remain focused on managing the returns profile against the backdrop of a prudent approach to risk.</p>
MAINTAINING THE CREDIT QUALITY OF THE LENDING BOOK	Ensure that the Group's lending in the current benign environment is sustainable over the long term.	<p>We have maintained robust asset quality with low levels of arrears and impairment and a high level of collateralisation.</p> <p>Our 2015 cost of risk of 0.2% is benefitting from the current benign environment and remains below our view of through the cycle loss rates. As we observe the external environment today we do not see changes in lead indicators that would suggest an imminent reversion to a more normalised position.</p>
GENERATE OUR STRONG RETURNS WHILST MAINTAINING A CONSERVATIVE FOUNDATION	Our conservative approach to risk management ensures we are able to position our risk appetite appropriately against our lending assets. We will ensure the Group's balance sheet remains prudently positioned in terms of capital, funding and liquidity.	<p>Our maiden public Tier 2 issuance of £75m enhanced and optimised the Group's regulatory capital position, however we will always consider how to manage the balance sheet appropriately. With a total capital ratio of 18.0%, we are well-capitalised and in 2015 demonstrated strong returns on our lending portfolio.</p> <p>We continue to be funded through a stable base of retail deposits and access to the FLS, which maintains a prudent term structure, thereby reducing maturity transformation risk.</p>
MAINTAINING AND ENHANCING OUR CUSTOMER FOCUS	<p>Shawbrook was established to be the SME Champion and we meet the needs of underserved markets, particularly in the SME sector. We also serve specialist consumer sectors where our products and high degree of choice can differentiate our offer.</p> <p>We exploit leading edge technology to drive efficiencies and market penetration in all our markets.</p>	<p>Our 2015 customer insight survey reported a net promoter score of 34, up from an already high score in 2014 and underlined the value of the customer-focused approach that has always been the hallmark of Shawbrook.</p> <p>It is important that we maintain our key differentiators including the ability to attract and retain talented, customer-focused people. In addition, we will focus on digital technology to build on our online and in-store offering.</p>

BUSINESS REVIEW

Group performance

	2015 £m	2014 £m	2013 £m
Net interest, fee and operating lease income	230.7	166.2	98.5
Interest expense and similar charges	(63.8)	(54.0)	(38.4)
Net operating income	166.9	112.2	60.1
Impairment losses on financial assets	(6.5)	(6.7)	(3.5)
Costs and provisions	(90.3)	(60.2)	(40.5)
Statutory profit before taxation	70.1	45.3	16.1
Corporate activity	1.1	3.2	0.8
IPO costs	8.9	0.6	-
Underlying profit before taxation	80.1	49.1	16.9

The Group's underlying profit before tax has improved significantly from £49.1m in 2014 to £80.1m in 2015 due to both the growth in the Group's asset base, lower cost of funds and the benefits that increased efficiencies of scale in the Group's infrastructure create. This improvement is against the background of more liquid market.

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

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

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

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

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

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

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

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

Divisional performance

The Group has six reportable operating segments as described below which are based on the Group's five lending divisions plus a Central segment which represents the Retail Savings business, central functions and shared central costs.

2015	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Retail Savings/ Central	Total business
	£m	£m	£m	£m	£m	£m	£m
Interest income, and net fee	73.7	64.4	18.7	41.2	28.6	4.1	230.7

and operating lease income							
Interest expense and similar charges	(24.6)	(14.6)	(4.3)	(13.3)	(6.9)	(0.1)	(63.8)
Net operating income	49.1	49.8	14.4	27.9	21.7	4.0	166.9
Impairment losses on financial assets	(0.3)	(1.5)	(2.3)	(0.6)	(1.8)	-	(6.5)
Costs and provisions	(8.5)	(7.4)	(6.4)	(5.6)	(8.7)	(53.7)	(90.3)
Statutory profit/(loss) before taxation	40.3	40.9	5.7	21.7	11.2	(49.7)	70.1
Corporate activity	-	-	-	-	0.6	0.5	1.1
IPO costs	-	-	-	-	-	8.9	8.9
Underlying profit	40.3	40.9	5.7	21.7	11.8	(40.3)	80.1

2014	Commercial Mortgages	Asset Finance	Business Credit ⁽¹⁾	Secured Lending	Consumer Lending	Retail Savings/Central	Total business
	£m	£m	£m	£m	£m	£m	£m
Interest income, and net fee and operating lease income	47.2	51.2	10.7	34.3	20.1	2.7	166.2
Interest expense and similar charges	(16.6)	(12.6)	(2.6)	(11.2)	(5.1)	(5.9)	(54.0)
Net operating income	30.6	38.6	8.1	23.1	15.0	(3.2)	112.2
Impairment losses on financial assets	(1.0)	(1.5)	(0.3)	0.1	(4.0)	-	(6.7)
Costs and provisions	(6.3)	(7.3)	(3.3)	(4.2)	(5.5)	(33.6)	(60.2)
Statutory profit/(loss) before taxation	23.3	29.8	4.5	19.0	5.5	(36.8)	45.3
Corporate activity	-	-	-	-	-	3.2	3.2
IPO costs	-	-	-	-	-	0.6	0.6
Underlying profit	23.3	29.8	4.5	19.0	5.5	(33.0)	49.1

(1) Since acquisition on 9th June 2014.

Commercial Mortgages

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

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

Key performance indicators

	FY 2015	FY 2014
Assets		
Average principal employed (£m) ⁽¹⁾	1,140.6	725.7
Loans and advances to customers (£m) ⁽²⁾	1,595.9	968.9
Originations (£m)	627.2	550.9
Profitability		
Gross asset yield (%) ⁽³⁾	6.5	6.5
Liability yield (%) ⁽⁴⁾	(2.2)	(2.3)
Net interest margin (%) ⁽⁵⁾	4.3	4.2
Management expenses ratio (%) ⁽⁶⁾	(0.7)	(0.9)
Cost of risk (%) ⁽⁷⁾	(0.03)	(0.14)
Return on lending assets before tax (%) ⁽⁸⁾	3.5	3.2
Asset quality		
Ratio of impaired loans (%) ⁽¹²⁾	0.1	0.2
Ratio of past due over 90 days and impaired loans (%) ⁽¹³⁾	0.2	0.2
Forbearance cases ⁽¹⁴⁾	14	-
Forbearance principal employed (£m) ⁽¹⁵⁾	2.6	-

Activity

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

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

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

Differentiation

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

Sector Trends

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

Asset Finance

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

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

	FY 2015	FY 2014
Assets		
Average principal employed (£m) ⁽¹⁾	652.6	495.4
Loans and advances to customers (£m) ⁽²⁾	761.2	564.1
Originations (£m).....	510.6	386.1
Profitability		
Gross asset yield (%) ⁽³⁾	9.9	10.3
Liability yield (%) ⁽⁴⁾	(2.2)	(2.5)
Net interest margin (%) ⁽⁵⁾	7.6	7.8
Management expenses ratio (%) ⁽⁶⁾	(1.1)	(1.5)
Cost of risk (%) ⁽⁷⁾	(0.23)	(0.30)
Return on lending assets before tax (%) ⁽⁸⁾	6.3	6.0
Asset quality		
Ratio of impaired loans (%) ⁽¹²⁾	0.6	0.4
Ratio of past due over 90 days and impaired loans (%) ⁽¹³⁾	0.9	0.8
Forbearance cases ⁽¹⁴⁾	123	19
Forbearance principal employed (£m) ⁽¹⁵⁾	3.8	2.2

Activity

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

Asset Finance operates against four main product categories:

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

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

Differentiation

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

Sector Trends and opportunities

Increasing levels of liquidity in the market increased competition; however, our lending approach based on experience and judgement to make decisions that balance risk, return and customer needs, combined with our customer service and expertise ensured that the business continues to see sustained growth. The business will continue to identify opportunities arising from our core and adjunct markets, offering strong risk adjusted returns that meet our risk appetite profile. Wholesale, Marine and Professional Practices funding are successful examples of this strategic approach to business growth.

Business Credit

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

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

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

	FY 2015	FY 2014
Assets		
Average principal employed (£m) ⁽¹⁾	199.1	105.3
Loans and advances to customers (£m) ⁽²⁾	183.3	169.8
Originations (£m).....	115.7	47.9
Sales volume (£m) ⁽²²⁾	2,740	2,800
Profitability		
Gross asset yield (%) ⁽³⁾	9.4	10.2
Liability yield (%) ⁽⁴⁾	(2.2)	(2.5)
Net interest margin (%) ⁽⁵⁾	7.2	7.7
Management expenses ratio (%) ⁽⁶⁾	(3.2)	(3.1)
Cost of risk (%) ⁽⁷⁾	(1.16)	(0.28)
Return on lending assets before tax (%) ⁽⁸⁾	2.9	4.3
Asset quality		
Ratio of impaired loans (%) ⁽¹²⁾	1.0	0.2
Ratio of past due over 90 days and impaired loans (%) ⁽¹³⁾	1.0	0.2
Forbearance cases ⁽¹⁴⁾	3	-
Forbearance principal employed (£m) ⁽¹⁵⁾	5.8	-

Activity

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

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

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

Differentiation

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

Trends and opportunities

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

Secured Lending

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

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

	<u>FY 2015</u>	<u>FY 2014</u>
Assets		
Average principal employed (£m) ⁽¹⁾	451.4	354.1
Loans and advances to customers (£m) ⁽²⁾	487.2	401.3
Originations (£m).....	204.6	191.3
Profitability		
Gross asset yield (%) ⁽³⁾	9.1	9.7
Liability yield (%) ⁽⁴⁾	(2.9)	(3.2)
Net interest margin (%) ⁽⁵⁾	6.2	6.5
Management expenses ratio (%) ⁽⁶⁾	(1.2)	(1.2)
Cost of risk (%) ⁽⁷⁾	(0.13)	0.03
Return on lending assets before tax (%) ⁽⁸⁾	4.8	5.4
Asset quality		
Ratio of impaired loans (%) ⁽¹²⁾	0.6	0.6
Ratio of past due over 90 days and impaired loans (%) ⁽¹³⁾	1.5	1.4
Forbearance cases ⁽¹⁴⁾	170	122
Forbearance principal employed (£m) ⁽¹⁵⁾	5.1	3.7

Activity

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

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

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

Differentiation

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

Trends

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

Consumer Lending

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

	<u>FY 2015</u>	<u>FY 2014</u>
Assets		
Average principal employed (£m) ⁽¹⁾	269.1	175.0
Loans and advances to customers (£m) ⁽²⁾	333.4	226.9
Originations (£m).....	226.8	190.2
Profitability		
Gross asset yield (%) ⁽³⁾	10.6	11.5
Liability yield (%) ⁽⁴⁾	(2.6)	(2.9)
Net interest margin (%) ⁽⁵⁾	8.1	8.6
Management expenses ratio (%) ⁽⁶⁾	(3.0)	(3.1)
Cost of risk (%) ⁽⁷⁾	(0.67)	(2.29)
Return on lending assets before tax (%) ⁽⁸⁾	4.4	3.1
Asset quality		
Ratio of impaired loans (%) ⁽¹²⁾	1.7	2.8
Ratio of past due over 90 days and impaired loans (%) ⁽¹³⁾	1.7	2.8
Forbearance cases ⁽¹⁴⁾	249	390
Forbearance principal employed (£m) ⁽¹⁵⁾	1.7	2.8

Activity

Consumer Lending provides unsecured loans for:

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

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

Differentiation

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

Trends and opportunities

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

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

Retail savings

Activity

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

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

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

Differentiation

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

Trends

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

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

PRINCIPAL RISK CATEGORIES

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

Risk Category	Definition
Credit Risk (including concentration and single name risk)	<ul style="list-style-type: none"> The risk that a borrowing client or treasury counterparty fails to repay some or all of the capital or interest advanced to them. This category also includes Credit Concentration risk.
Liquidity and Market Risk	<ul style="list-style-type: none"> Liquidity risk is the risk that the group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost. Market Risk is the risk of financial loss through un-hedged or mismatched asset and liability positions that are sensitive to changes in interest rates or currencies.
Operational Risk	<ul style="list-style-type: none"> Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system failures, or from external events including strategy and reputational risks.
Conduct, Legal and Compliance Risk	<ul style="list-style-type: none"> Conduct Risk is the risk that the group's behaviour will result in poor customer outcomes and that our people fail to behave with integrity. Legal and Compliance Risk is the risk of regulatory enforcement and sanction, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice.
Strategic Risk	<ul style="list-style-type: none"> 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 inside risk appetite.
Systems and Change Risk	<ul style="list-style-type: none"> Systems and change risk is the risk that transition changes in the business will be improperly implemented.

Credit Risk

This risk has two main components:

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

The Group's Treasury Credit Risk exposure is limited to short term deposits placed with leading UK banks.

Credit Risk Approval Process

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

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

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

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

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

Liquidity and Market Risk

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

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

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

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

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

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

Operational Risk

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

Conduct, Legal and Compliance Risk

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

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

Strategic Risk

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

Systems and Change Risk

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

Top And Emerging Risks

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

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

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

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

Risk Type	Risk	Mitigation
Economic Environment	<p>The Group's financial position continues to improve with increasing profitability and stronger capital ratios. However, changing economic conditions in the UK, particularly in England where the majority of the Group's operations are based, could affect the Group's performance in a number of ways including:</p> <ul style="list-style-type: none"> · Increased funding costs resulting from on-going political uncertainty accompanied by a loss of confidence; · A referendum on EU membership could fundamentally alter the UK financial services landscape; and · A reversal in the UK economy could drive higher impairments through increased defaults and/or reductions in collateral values. 	<p>The Group operates in specialist areas where management and staff have significant expertise and a deep understanding of customer needs that delivers superior service. As a result all loans are written only after thorough, bespoke underwriting to SMEs and consumers with a proven ability to repay and, in the main, sufficient security.</p> <p>The Group undertakes a comprehensive assessment of its Risk Appetite to ensure that it can meet its objectives in severe but plausible economic conditions.</p> <p>The Group completes a comprehensive stress-testing of its lending and deposit portfolios to test resilience to severe but plausible economic conditions.</p> <p>The Group also establishes a prudent balance sheet strategy with robust levels of capital, liquidity and a prudent funding structure.</p>
Pace of Regulatory Change	<p>The prudential and conduct regulatory regimes are subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.</p>	<p>The regulatory environment continues to evolve and change. The Group actively engages with regulators, industry bodies and advisors in consultation processes.</p>
Business Performance	<p>Rising competition could compress Group margins below sustainable levels.</p>	<p>The Group uses its expertise and deep understanding of its customer needs to drive customer service and a long term relationship with its customers through the cycle.</p> <p>The Group monitors its chosen markets on a regular basis and regularly reviews adjacent markets where it has expertise and reviews opportunities for inorganic growth.</p>
Intermediary and Outsourcing	<p>The Group is a specialist lending and savings bank for SMEs and consumers. The specialist nature of some of its lending through Intermediaries and Brokers may mean that some customers find themselves with an increased risk of an unfavourable outcome. For the Group this may also lead to increased conduct related redress, additional fraud or credit risk impairments.</p>	<p>The Group works with carefully selected Intermediary and Broker partners who take on the role of advising SME and consumers. The Group recognises the importance of taking ownership for the lending it originates and continually undertakes a review of their performance. In addition, experienced underwriters perform thorough checks on each application. The Group continually reviews its risk management approach to intermediaries, brokers and outsource partners to reflect the regulatory environment that the Group operates in.</p>

Pace, Scale of Change and Management Stretch	The scale and pace of change could create delivery challenges and may lead to a disruption of the Group's plans and the delivery of its objectives.	The Group understands the need to manage change without disrupting the Group's operating environment and impacting customer service. These operational risks are managed through a strong focus on change governance and programme management disciplines and led by a dedicated Executive member. The risks are further mitigated by the Group's significant strengthening of the senior management team. The Group has a formal Change Management Committee that is set-up to prioritise change and provide effective oversight of the change portfolio to ensure that requirements are delivered within budget and on time.
Information Security	The pace of technological development is changing the way in which SMEs and consumers want to engage with the Group leading to a number of risks: · Increasing customer demand may exceed the Group's ability to provide highly reliable and widely available systems and services; · The ever evolving nature and scale of criminal activity increases the likelihood and severity of attacks on the Group's systems; and · Franchise value and customer trust could be significantly eroded by a sustained hack of the Group's systems leading to a diversion of funds or the theft of customer data.	The Group continually reviews its control environment for Information Security to reflect the evolving nature of the threats that the Group is exposed to. The Group's strategy for mitigating Information Security risk is comprehensive including: a documented cyber-strategy, ongoing threat assessments, regular penetration testing, the wide deployment of detective controls and a programme of education and training.

Statement of Directors' Responsibilities in respect of the Annual Report and Accounts

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

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

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

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

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

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

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

Responsibility statement of the directors in respect of the annual financial report

The Directors as at the date of this statement confirm that to the best of their knowledge:

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

Daniel Rushbrook
Company Secretary
2 March 2016

Consolidated Statement of profit and loss and Other Comprehensive Income

	2015	2014
	£m	£m
Interest income and similar income	3 216.9	156.7
Interest expense and similar charges	4 (63.8)	(54.0)
Net interest income	153.1	102.7
Operating lease rentals	14.9	15.7
Other income	1.1	1.1
Depreciation on operating leases	16 (12.2)	(13.1)
Net income from operating leases	3.8	3.7

Fee and commission income	5	13.1	7.6
Fee and commission expense		(2.8)	(1.7)
Net fee and commission income		10.3	5.9
Fair value gains/(losses) on financial instruments	15	(0.3)	(0.1)
Net operating income		166.9	112.2
Administrative expenses	6	(88.7)	(59.1)
Impairment losses on loans and advances to customers	14	(6.5)	(6.7)
Provision for liabilities and charges	23	(1.6)	(1.1)
Total operating expenses		(96.8)	(66.9)
Profit before taxation		70.1	45.3
Income tax charge	12	(11.6)	(10.8)
Profit after taxation, being total comprehensive income, attributable to owners		58.5	34.5

Earnings per share	Note	2015 Pence	2014 Pence
Basic	35	24.1	17.7
Diluted	35	24.1	17.7

The notes on the following pages are an integral part of these financial statements.

Consolidated and Company Statements of Financial Position

	GROUP 2015	COMPANY 2015	GROUP 2014	COMPANY 2014
Note	£m	£m	£m	£m
Assets				
Cash and balances at central banks	521.9	-	313.1	-
Loans and advances to banks	30.9	-	36.6	0.2
Loans and advances to customers	13 3,319.1	-	2,284.8	-
Derivative financial instruments	15 2.8	-	3.7	-
Property, plant and equipment	16 48.6	-	49.7	-
Intangible assets	17 54.7	-	49.5	-
Deferred tax assets	18 14.1	-	9.8	-
Other assets	19 7.9	4.2	6.8	-
Investment in subsidiaries	20 -	272.2	-	186.0
Subordinated loan receivable	26 -	75.0	-	-
Total assets	4,000.0	351.4	2,754.0	186.2
Liabilities				
Customer deposits	21 3,186.4	-	2,421.0	-
Due to banks	22 39.9	-	41.0	-
Provisions for liabilities and charges	23 0.9	-	0.6	-
Other liabilities	24 331.2	1.3	41.9	-
Subordinated debt	26 74.0	74.0	30.8	-
Total liabilities	3,632.4	75.3	2,535.3	-
Equity				
Share capital	27 2.5	2.5	185.3	185.3
Share premium account	87.3	87.3	1.3	1.3
Capital redemption reserve	183.1	183.1	-	-
Retained earnings	94.7	3.2	32.1	(0.4)
Total Equity	367.6	276.1	218.7	186.2
Total equity and liabilities	4,000.0	351.4	2,754.0	186.2

These financial statements were approved by the Board of Directors on 2 March 2016 and were signed on its behalf by:

Iain Cornish
Chairman
Registered number 07240248

Tom Wood
Chief Financial Officer

Consolidated Statement of Changes in Equity

	Share Capital £m	Share Premium £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Balance as at 1 January 2014	138.0	-	-	(2.5)	135.5
<i>Total comprehensive income for the year:</i>					
Profit for the year	-	-	-	34.5	34.5
Total comprehensive income for the year	-	-	-	34.5	34.5
Share based payments	-	-	-	0.1	0.1
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					
Issue of shares	47.3	1.3	-	-	48.6
Total contributions by and distributions to owners	47.3	1.3	-	-	48.6
Balance at 31 December 2014	185.3	1.3	-	32.1	218.7
Balance as at 1 January 2015	185.3	1.3	-	32.1	218.7
<i>Total comprehensive income for the year:</i>					
Profit for the year	-	-	-	58.5	58.5
Total comprehensive income for the year	-	-	-	58.5	58.5
Share based payments	-	-	-	4.1	4.1
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					
Cancellation of shares	(183.1)	-	183.1	-	-
Issue of shares	0.3	89.7	-	-	90.0
Cost of share issues	-	(3.7)	-	-	(3.7)
Total contributions by and distributions to owners	(182.8)	86.0	183.1	-	86.3
Balance as at 31 December 2015	2.5	87.3	183.1	94.7	367.6

Company Statement of Changes in Equity

	Share Capital £m	Share Premium £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Balance as at 1 January 2014	138.0	-	-	(0.6)	137.4
<i>Total comprehensive income for the year:</i>					
Profit for the year	-	-	-	0.1	0.1
Total comprehensive income for the year	-	-	-	0.1	0.1
Share based payments	-	-	-	0.1	0.1
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					
Issue of shares	47.3	1.3	-	-	48.6
Total contributions by and distributions to owners	47.3	1.3	-	-	48.6
Balance at 31 December 2014	185.3	1.3	-	(0.4)	186.2
Balance as at 1 January 2015	185.3	1.3	-	(0.4)	186.2
<i>Total comprehensive income for the year:</i>					
Loss for the year	-	-	-	(4.5)	(4.5)
Dividends received	-	-	-	4.0	4.0
Total comprehensive income for the year	-	-	-	(0.5)	(0.5)
Share based payments	-	-	-	4.1	4.1
<i>Transactions with owners recorded directly in equity</i>					
Contributions by and distributions to owners:					

Cancellation of shares	(183.1)	-	183.1	-	-
Issue of shares	0.3	89.7	-	-	90.0
Cost of share issues	-	(3.7)	-	-	(3.7)
Total contributions by and distributions to owners	(182.8)	86.0	183.1	-	86.3
Balance as at 31 December 2015	2.5	87.3	183.1	3.2	276.1

Consolidated Statement of Cash Flows

	Note	GROUP 2015 £m	COMPANY 2015 £m	GROUP 2014 £m	COMPANY 2014 £m
Cash flow from operating activities:					
Profit/(Loss) for the year before taxation		70.1	(4.6)	45.3	0.1
Adjustments for non-cash items	28	27.1	4.1	23.8	0.1
Cash flows from operating activities before changes in operating assets and liabilities		97.2	(0.5)	69.1	0.2
Increase/decrease in operating assets and liabilities:					
Increase in mandatory balances with central banks		(0.6)	-	(1.0)	-
Increase in loans and advances to customers		(1,040.3)	-	(749.0)	-
Decrease/(increase) in derivatives		0.9	-	(3.7)	-
(Increase)/decrease in other assets		(1.1)	(79.2)	0.7	-
Increase in customer deposits		765.4	-	958.1	-
Increase in provisions for liabilities and charges		0.3	-	0.2	-
Increase/(decrease) in other liabilities		287.2	1.4	12.0	(1.6)
Net change in operating assets and liabilities:		11.8	(77.8)	217.3	(1.6)
Tax paid		(13.8)	-	(4.6)	-
Net cash flow generated from/(used by) operating activities		95.2	(78.3)	281.8	(1.4)
Cash flows from investing activities					
Purchase of property, plant and equipment		(14.8)	-	(11.0)	-
Sale of property, plant and equipment		2.7	-	2.2	-
Purchase of intangible assets		(6.1)	-	(3.9)	-
Investment in subsidiaries net of cash and cash equivalents acquired		-	(86.2)	(76.3)	(47.2)
Dividend received from subsidiary		-	4.0	-	-
Net cash used by investing activities		(18.2)	(82.2)	(89.0)	(47.2)
Cash flows from financing activities					
Increase in amounts due to banks		(1.1)	-	16.4	-
Repayment of Centric Group third party funding		-	-	(138.2)	-
Repayment of subordinated debt	26	(33.7)	-	-	-
Issue of subordinated debt	26	74.0	74.0	-	-
Proceeds from the issue of ordinary share capital		86.3	86.3	47.3	48.6
Net cash from / (used by) financing activities		125.5	160.3	(74.5)	48.6
Net increase/(decrease) in cash and cash equivalents		202.5	(0.2)	118.3	-
Cash and cash equivalents at 1 January		348.0	0.2	229.7	0.2
Cash and cash equivalents at 31 December	28	550.5	-	348.0	0.2

Notes to the Financial Statements

1. Basis of preparation

1.1 Reporting entity

Shawbrook Group plc is domiciled in the UK. The Company's registered office is at Lutea House, Warley Hill Business Park, Brentwood, Essex, CM13 3BE. The Consolidated Financial Statements of Shawbrook Group plc, for the year ended 31 December 2015, comprise the results of the Company and its subsidiaries (together referred to as the Group and individually as group entities).

1.2 Basis of accounting

The Group's financial statements have been prepared on a historical cost basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements are drawn up in accordance with the Companies Act 2006. No individual profit or loss account or related notes are presented for the Company as permitted by section 408 (4) of the Companies Act 2006.

1.3 Functional and presentation currency

The consolidated financial statements are presented in Pounds Sterling, which is the Group's functional currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in profit or loss. Non-monetary items (which are assets and liabilities which do not attach to a right to receive or an obligation to pay a fixed or determinable number of units of currency) measured at amortised cost and denominated in foreign currencies are translated at the exchange rate at the date of the transaction.

1.4 IPO Costs

Qualifying costs directly attributable to the issue of share capital were charged directly to equity and other associated costs were charged to the Income Statement.

1.5 Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for at least twelve months following the year end. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for at least twelve months following the year end, including a range of stressed scenarios, the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for at least twelve months following the year end, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

1.6 Basis of consolidation

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Entities are regarded as subsidiaries where the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to affect those returns. Inter-company transactions and balances are eliminated upon consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that power over an investee, exposure or rights to variable returns and the ability to affect these returns ceases. A Special Purpose Entity (SPE) is an entity which is formed for a single, well-defined and narrow, lawful purpose. The Group did not have any SPEs in the year. Accounting policies are applied consistently across the Group.

These financial statements consolidate the results of the subsidiary companies set out in note 31.

1.7 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS adopted in the EU requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on Management's best knowledge of the amount, actual results may differ ultimately from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes to the financial statements which the estimate or judgement relates to as follows:

Area of significant judgement or estimate	Note reference
Effective interest rate	3
Fair value of share based payments	10
Impairment of loans and advances	14
Impairment assessment of goodwill	17

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

1.8 New Standards and interpretations not yet adopted

A number of International Accounting Standards Board (IASB) pronouncements have been issued but are not effective for this financial year. The standards considered most relevant to the Group are as follows:

- IFRS 9 'Financial Instruments'

Effective from 1 January 2018 and not yet endorsed by the EU. The standard largely replaces IAS 39, addressing recognition, bases of valuation, income recognition methods, impairment and hedging for financial instruments.

While areas such as the amortised cost basis of valuation and the effective interest rate method of recognition are largely unchanged in the new standard, the new basis of accounting for impairments is likely to have a significant impact on the Group due to the requirement of earlier recognition of losses. Changes to the hedging rules are not expected to have a significant impact on the Group as the Group currently uses limited hedge accounting.

Early adoption is permitted once endorsed by the EU. The Group has started to design systems to facilitate phase one of the process, and has plans in place to build and implement all required systems and processes before the effective date. The Group has commissioned external consultants to assist in monitoring the development of IFRS 9, considering the associated impact on the Group's financial statements and ensuring total compliance with the standard; the Group intends to adopt the standard on the date it becomes effective.

- IFRS 16 'Leases'

Effective from 1 January 2019 and not yet endorsed by the EU. The standard replaces IAS 17, IFRIC 4, SIC-15 and SIC 27. It applies to all leasing arrangements. The standard introduces a new recognition model that recognises all leases on a lessee's balance sheet (subject to certain exemptions), reducing off-balance sheet financing and increasing balance sheet value and operating profit. Lessor accounting is largely unchanged. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is considering the impact on the Group's financial statements, although the standard is not anticipated to have a material impact on the Group; the Group intends to adopt the standard on the date it becomes effective.

- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'

Effective from 1 February 2016 and not yet endorsed by the EU. The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. While this is not an outright ban, it creates a high hurdle for when these methods may be used for intangible assets. This is unlikely to have a material impact on the Group. The Group intends to adopt the standard on the date it becomes effective.

- IFRS 15 'Revenue from Contracts with Customers'

Effective from 1 January 2018 and not yet endorsed by the EU.

The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. It also does not apply if two companies under the same line of business exchange non-monetary assets to facilitate sales to other parties.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This is unlikely to have a material impact on the Group. The Group intends to adopt the standard on the date it becomes effective.

2. Operating segments

The Group has six reportable operating segments as described below which are based on the Group's five lending divisions plus a Central segment which represents the Deposit business, Central functions and shared central costs. The underlying basis is the basis on which financial information is presented to the chief operating decision maker which excludes certain items included in the statutory results.

The following summary describes the operations in each of the Group's reportable segments:

- Commercial Mortgages - provides the following key products, distributed primarily via a broker panel of c. 400 accredited brokers:
 - Residential: loans to experienced buy-to-let property investors;
 - Semi-Commercial: loans for mixed use residential and commercial property operated by either seasoned SMEs or investors;
 - Commercial: loans for properties operated by either seasoned SMEs or investors;

- o Short term loans: loans for property refurbishment for professional property investors; and
 - o HMO Investment: loans for multilet properties operated by property investors.
- Asset Finance - provides the following key products, predominately originated via a direct origination team who have long standing relationships with clients:
 - o Corporate Asset Finance: provides full pay-out finance leases and hire purchase agreements to UK SMEs secured on hard, mainly wheeled, assets;
 - o Block and Wholesale Finance: provides block lines and wholesale facilities to SMEs secured against loan receivables; and
 - o Healthcare Finance: provides operating and finance leases to the NHS Trusts and other private healthcare providers.
 - Business Credit - provides asset based working capital and loan facilities to SMEs with invoice discounting as the core product for all clients accounting for 77% of the book. It also complements the invoice discounting facility with loans secured against stock, plant and machinery and property. New business is originated through a national network of direct sales staff providing full UK coverage.
 - Secured Lending - second charge mortgage lender, loans typically used for home improvements, large consumer purchases and debt consolidation. The book is weighted towards London and the South East, distributed through a broker panel of c. 85 accredited brokers.
 - Consumer Lending - provides the following key products, predominantly to prime home owners:
 - o Home improvement loans sold by c. 100 established suppliers focussing on products such as windows, kitchens, bedrooms, bathrooms, conservatories and solar panels;
 - o Holiday ownership loans sold through proven specialist time share providers;
 - o Retail point of sale loans sold through c. 20 retailers; and
 - o Personal loans 'Test and Learn' process launched in January 2014.
 - Central - this represents the reconciling items between the total of the five lending segments and the consolidated income statement. As well as common costs, Central includes the Group's Treasury function and Retail Savings business which are responsible for raising finance on behalf of the lending segments.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group are included below. Performance is measured based on the product contribution as included in the internal Management reports. All revenue for each operating segment is earned from external customers.

Year ended 31 December 2015	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Central £m	Total Business £m
Interest income and similar income	74.3	56.3	10.9	42.1	28.9	4.4	216.9
Interest expense and similar charges	(24.6)	(14.6)	(4.3)	(13.3)	(6.9)	(0.1)	(63.8)
Net interest income	49.7	41.7	6.6	28.8	22.0	4.3	153.1
Operating lease rentals	-	14.9	-	-	-	-	14.9
Other income	-	1.1	-	-	-	-	1.1
Depreciation on operating leases	-	(12.2)	-	-	-	-	(12.2)
Net income from operating leases	-	3.8	-	-	-	-	3.8
Fee and commission income	0.1	4.3	8.3	0.2	0.2	-	13.1
Fee and commission expense	(0.7)	-	(0.5)	(1.1)	(0.5)	-	(2.8)
Net fee and commission income	(0.6)	4.3	7.8	(0.9)	(0.3)	-	10.3
Fair value gains/(losses) on financial instruments	-	-	-	-	-	(0.3)	(0.3)
Net operating income	49.1	49.8	14.4	27.9	21.7	4.0	166.9
Administrative expenses	(8.5)	(7.4)	(6.4)	(5.6)	(8.7)	(52.1)	(88.7)
Impairment losses on loans and advances to customers	(0.3)	(1.5)	(2.3)	(0.6)	(1.8)	-	(6.5)
Provision for liabilities and charges	-	-	-	-	-	(1.6)	(1.6)
Statutory profit before tax	40.3	40.9	5.7	21.7	11.2	(49.7)	70.1
Underlying adjustments	-	-	-	-	0.6	9.4	10.0
Profit before tax on an underlying basis	40.3	40.9	5.7	21.7	11.8	(40.3)	80.1
Income tax charge (Underlying basis)							(12.8)
Profit for the year on an underlying basis							67.3
Assets	1,595.9	761.2	183.3	487.2	333.4	639.0	4,000.0
Liabilities	-	-	-	-	-	(3,632.4)	(3,632.4)
Net Assets/(Liabilities)	1,595.9	761.2	183.3	487.2	333.4	(2,993.4)	367.6

Year ended 31 December 2014	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Central £m	Total Business £m
Interest income and similar income	47.4	45.3	5.9	35.0	20.3	2.8	156.7
Interest expense and similar charges	(16.6)	(12.6)	(2.6)	(11.2)	(5.1)	(5.9)	(54.0)

Net interest income	30.8	32.7	3.3	23.8	15.2	(3.1)	102.7
Operating lease rentals	-	15.7	-	-	-	-	15.7
Other income	-	1.1	-	-	-	-	1.1
Depreciation on operating leases	-	(13.1)	-	-	-	-	(13.1)
Net income from operating leases	-	3.7	-	-	-	-	3.7
Fee and commission income	-	2.2	5.0	0.2	0.2	-	7.6
Fee and commission expense	(0.2)	-	(0.2)	(0.9)	(0.4)	-	(1.7)
Net fee and commission income	(0.2)	2.2	4.8	(0.7)	(0.2)	-	5.9
Fair value gains/(losses) on financial instruments	-	-	-	-	-	(0.1)	(0.1)
Net operating income	30.6	38.6	8.1	23.1	15.0	(3.2)	112.2
Administrative expenses	(6.3)	(7.3)	(3.3)	(4.2)	(5.5)	(32.5)	(59.1)
Impairment losses on loans and advances to customers	(1.0)	(1.5)	(0.3)	0.1	(4.0)	-	(6.7)
Provision for liabilities and charges	-	-	-	-	-	(1.1)	(1.1)
Statutory profit before tax	23.3	29.8	4.5	19.0	5.5	(36.8)	45.3
Underlying adjustments	-	-	-	-	-	3.8	3.8
Profit before tax on an underlying basis	23.3	29.8	4.5	19.0	5.5	(33.0)	49.1
Income tax charge (Underlying basis)							(10.8)
Profit for the year on an underlying basis							38.3
Assets	968.9	564.1	169.8	401.3	226.9	423.0	2,754.0
Liabilities	-	-	-	-	-	(2,535.3)	(2,535.3)
Net Assets/(Liabilities)	968.9	564.1	169.8	401.3	226.9	(2,112.3)	218.7

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are managed on a group basis.

3. Interest receivable and similar income

Accounting policy

Revenue represents income derived from loans and advances to customers, operating lease rentals together with fees and commissions receivable.

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method ("EIRM").

The EIRM is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument, for example prepayment options, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Income from finance lease and instalment credit agreements is recognised over the period of the leases so as to give a constant rate of return on the net investment in the leases.

Fees and commissions which are not considered integral to the EIR are recognised on an accruals basis when the service has been provided or received.

Critical accounting estimates and judgements

Effective interest rate

IAS 39 requires interest earned from loans and advances to be measured under the EIRM. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. Management reviews the expected lives on a segmental basis, whereby products of a similar nature are grouped into cohorts that represent homogenous behavioural attributes.

The key assumptions applied by management in the EIR methodology are behavioural life of the assets and the quantum of future early settlement fee income. The expected life behaviours are subjected to changes in internal and external factors and may result in adjustments to the carrying value of loans which must be recognised in the Statement of Profit and Loss. Management has limited historical experience of customer behaviours due to the relative immaturity of the portfolios and therefore models expected behaviour based on market trends and experience. The actual behaviour of the portfolios are compared to the modelled behaviour on a quarterly basis and the modelled behaviours are adjusted if the modelled behaviour materially deviates from actual behaviour, with adjustments recognised in the Statement of Profit and Loss.

During 2015 management assessed that the level of early redemption fees exceeded the modelled levels due to higher redemptions driven by higher liquidity levels in the market. The modelled behavioural lives were adjusted, resulting in an adjustment to the Statement of Profit and Loss, increasing profit by £2.4m.

Management continues to perform sensitivity analyses on the EIR models applied. An increase/(decrease) in the behavioural life of a loan by 10% per calendar month would result in a net income statement increase/(decrease) of £0.6m (2014: £0.1m).

	2015	2014
	£m	£m
Interest paid by customers	212.7	153.8
Interest received from derivative financial instruments	2.9	1.0
Interest on loans and advances to banks	1.3	1.9
Interest receivable and similar income	216.9	156.7

The interest income recognised during the year on loans impaired was £1.0m (2014: £1.0m). The Group did not capitalise any interest during the year.

4. Interest expense and similar charges

	2015	2014
	£m	£m
Interest paid to depositors	59.9	50.2
Interest on amounts due to banks	1.0	0.5
Interest on subordinated debt	2.9	3.2
Other interest	-	0.1
Interest expense and similar charges	63.8	54.0

5. Fee and commission income

	2015	2014
	£m	£m
Fee income on loans and advances to customers	8.8	5.4
Credit facility related fees	4.3	2.2
Fee and commission income	13.1	7.6

6. Administrative expenses

Accounting policy

Operating lease rentals

Rentals received from operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

	Note	2015	2014
		£m	£m
Staff costs	8	46.6	31.2
Depreciation (excluding operating lease assets)	16	1.5	1.0
Amortisation of intangible assets	17	0.9	0.4
Operating lease rentals - land and buildings		1.1	0.7
Other administrative expenses		34.4	25.2
Administrative expenses		84.5	58.5
IPO related costs		4.2	0.6
Total administrative expenses		88.7	59.1

7. Auditor's remuneration

	2015	2014
	£000	£000
Audit of these financial statements	100	50
Amounts receivable by the Company's auditor and their associates in respect of other services		
Audit of the financial statements of subsidiaries of the Company	385	338
Tax compliance services	86	58
Other tax advisory services	72	-
Audit related assurance services	200	40
All other assurance services	30	92
Corporate finance services	400	335
All other services	124	162
	1,397	1,075

8. Employees

The average number of persons employed by the Group (including Directors) during the year was as follows:

	2015	2014
	No.	No.
Customer facing	319	269
Non-customer facing	195	145
	514	414

The aggregate payroll costs of these persons were as follows:

	2015	2014
	£m	£m
Wages and salaries	41.1	27.3
Social security costs	3.9	2.7
Pension costs	1.6	1.2
	46.6	31.2

9. Employee retirement obligations

Accounting policy

The Group does not operate a pension scheme. Pension contributions are paid to staff and Directors personal pension schemes. The costs of the Group's contributions to defined contribution pension arrangements are recognised as an employee benefit expense when they are due.

The Group made contributions of £1.6m (2014: £1.2m) during the year.

10. Employee share-based payment transactions

Accounting policy

Where the Group engages in share based payment transactions in respect of services received from certain of its employees, these are accounted for as equity settled share based payments in accordance with IFRS 2. The equity is in the Ordinary £0.01 Shares.

The grant date fair value of a share based payment transaction is recognised as an employee expense, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. In the absence of market prices, the fair value of the equity at the date of the grant is estimated using an appropriate valuation technique.

The amount recognised as an expense in the Statement of Profit and Loss is based on amortising the grant date fair value at a constant rate to the vesting date. Taxation on the amount recognised as an expense is charged to the Statement of Profit and Loss. Tax benefits of equity settled share-based payment transactions that exceed the tax effected cumulative remuneration expenses are considered to relate to an equity item and are recognised directly in equity.

Critical accounting estimates and judgements

The fair value of shares in the employee share scheme was determined using valuation models. The inputs to these models require management judgement to estimate the probability and timings of events taking place in the future. The significant inputs used in the models include the attrition rates, expected volatility, expected dividend yield and expected life. The share-based payment recognised can be materially affected by these assumptions and the key drivers of change in the value are timing, probability and attrition rates.

The combined charge to the Consolidated Income Statement was £4.1m (2014: £0.1m). The composition of this charge was PSP £3.4m, LTIP £0.6m and SAYE £0.1m.

Performance Share Plan

On 31 January 2011 the Performance Share Plan was introduced for directors and senior employees. All shares were issued at a price of £1 per share. Holders were entitled to receive a return on the shares acquired in the event of a prescribed exit event of the A shareholders. The Incentive Share scheme was governed by the Company's Articles of Association and is deemed by Management to be an equity settled scheme and has been accounted for as such in the financial statements of both the Company and its subsidiary, Shawbrook Bank Limited. Participants had to remain in employment or be deemed as a good leaver to continue to qualify for the scheme. This scheme ceased during 2015.

Details of shares issued are shown in the table below:

	2015	2014
	No. of shares	No. of shares
At 1 January	106,381	94,630
Granted	3,704	19,750
Forfeited	(2,696)	(7,999)
Converted to £0.01 Ordinary shares	(107,389)	-
At 31 December	-	106,381

The average fair value of shares issued was £5.15 (2014: £5.15). The fair values of the shares at the date of grant were valued using the Black-Scholes valuation model. The assumptions used are as follows:

	2015	2014
Expected volatility	20%	20%
Risk free rate	0.4%	0.4%
Dividend yield	0%	0%
Expected life	1-2 years	1-2 years

Although the Black-Scholes equation assumes predictable constant volatility, this is not observed in real markets. In order to estimate the annualised volatility we have assessed the past standard deviation of the stock price of comparable quoted banks over various time frames.

Long Term Incentive Plan (LTIP)

During 2015 a number of share awards were granted to a set of individuals excluding directors. The individuals are entitled to receive an award to acquire a specific number of ordinary shares in Shawbrook Group Plc, subject to performance conditions. The scheme is deemed to be an equity settled scheme and has been accounted for as such in the financial statements of both the Company and its subsidiary, Shawbrook Bank Limited. The share awards are subject to performance conditions, being the Group earning a defined underlying profit before tax in 2017, and subject to the Group maintaining its threshold capital and liquidity requirements.

Details of shares issued are shown in the table below:

	2015
	No. of shares
At 1 January	-
Granted	1,492,901
Forfeited	-
At 31 December	1,492,901

The fair value of the shares is based on the share price at the dates of the grant discounted for any expected dividends over the vesting period. The weighted average fair value of the shares issued £3.25.

Save-As-You-Earn Scheme (SAYE)

In October 2015 the Save-As-You-Earn (SAYE) scheme was introduced for all employees. The Scheme provides employees with the opportunity to take part in a tax efficient savings scheme and to acquire Shawbrook Group plc shares at a discount to market value. The shares subject to this option have no restrictions, save those restrictions applying as a matter of law, regulation and the Company's dealing code. The SAYE scheme is governed by the Company's Articles of Association and is deemed by Management to be an equity settled scheme and has been accounted for as such in the financial statements of both the Company and its subsidiary, Shawbrook Bank Limited.

Detail of shares issued are shown in the table below:

	2015
	No. of shares
Shares in existence at 1 January 2015	-
Granted	1,104,214
Forfeited	-

Outstanding at 31 December 2015

1,104,214

The fair value of the call options was calculated as £0.71. The awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. The awards vest over a period of three years.

The call options were valued using the Black-Scholes valuation model. The assumptions used were as follows:

	2015
Share price	£ 3.10
Expected volatility	25.90%
Risk free rate	0.74%
Dividend yield	2.08%
Weighted average remaining contractual life (years)	3.17

11. Directors' remuneration

	2015	2014
	£000	£000
Directors' emoluments	1,894.3	30.0
Contributions to money purchase scheme	55.5	-
Directors' remuneration	1,949.8	30.0

12. Taxation

Accounting policy

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

	2015	2014
Recognised in the Income Statement	£m	£m
Current tax:		
Current year	15.8	11.5
Adjustment in respect of prior years	0.1	0.5
Total current tax	15.9	12.0
Deferred tax:		
Origination and reversal of temporary difference	(3.9)	(0.8)
Adjustment in respect of prior years	(0.4)	(0.4)
Total deferred tax	(4.3)	(1.2)
Total tax charge	11.6	10.8
Tax reconciliation	2015	2014
	£m	£m
Profit before tax	70.1	45.3
Implied tax charge thereon at 20.25% (2014: 21.5%)	14.2	9.7
Adjustments:		
Prior year adjustment	(0.3)	0.1
Disallowable expenses and other permanent differences	0.9	1.0
Effect of tax rate changes	(3.2)	-
Total tax charge	11.6	10.8

Reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on an aggregation of the rate of 18% substantively enacted at the balance sheet date and the additional 8% of tax suffered in relation to the banking surcharge.

13. Loans and advances to customers

Accounting policy

Assets acquired in exchange for loans

Included within loans and advances to customers are assets acquired in exchange for loans, instalment credit and finance lease receivables as part of an orderly realisation. The asset acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the lease (net of impairment allowance) at the date of exchange. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Income Statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write down, is also recognised in the Income Statement, together with any realised gains or losses on disposal.

Loans and advances to customers include those classified as loans and advances, finance leases and instalment credit advances as summarised below:

	2015	2014
	£m	£m
Loan receivables	2,873.0	1,861.4
Finance lease receivables	114.3	114.0

Instalment credit receivables		331.8	309.4
Total loans and advances to customers		3,319.1	2,284.8

At 31 December 2015, loans and advances to customers of £612.3m (2014: £535.2m) were pre-positioned with the Bank of England and HM Treasury for use as collateral within the Funding for Lending Scheme.

Loan receivables	Note	2015 £m	2014 £m
Gross: loan receivables		2,883.5	1,870.4
Less: allowances for impairment losses	14	(10.5)	(9.0)
Net loan receivables		2,873.0	1,861.4

The Group provides finance lease and instalment credit agreements to customers for a variety of assets including plant and machinery, taxis and aviation and marine vessels. These assets provide security against the gross receivables. Included within instalment credit receivables are block discounting facilities of £105.6m (2014: £79.9m).

Finance lease receivables	Note	2015 £m	2014 £m
Gross amounts receivable			
within one year		55.3	54.7
in the second to fifth year inclusive		79.9	78.8
after five years		0.5	1.0
		135.7	134.5
Less: unearned finance income		(19.4)	(19.8)
Less: allowances for impairment losses	14	(2.0)	(0.7)
Net investment in finance lease receivables		114.3	114.0
Amounts falling due:			
within one year		44.7	41.2
in the second to fifth year inclusive		69.2	72.0
after five years		0.4	0.8
Net investment in finance lease receivables		114.3	114.0

Instalment credit receivables	Note	2015 £m	2014 £m
Gross amounts receivable			
within one year		176.3	149.3
in the second to fifth year inclusive		198.1	201.5
after five years		0.8	4.0
		375.2	354.8
Less: unearned finance income		(42.4)	(44.0)
Less: allowances for impairment losses	14	(1.0)	(1.4)
Net investment in instalment credit receivables		331.8	309.4
Amounts falling due:			
within one year		152.4	118.5
in the second to fifth year inclusive		178.9	186.9
after five years		0.5	4.0
Net investment in instalment credit receivables		331.8	309.4

Cost of equipment acquired during the year	2015 £m	2014 £m
Finance leases	68.2	66.4
Instalment credit	170.0	270.8
Total cost of equipment acquired during the year	238.2	337.2

14. Impairment provisions on loans and advances to customers

Accounting policy

On an on-going basis the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower; and
- Initiation of bankruptcy proceedings.

If there is objective evidence that an impairment loss on an individual financial asset has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Objective evidence of impairment of a portfolio of receivables exists if objective data indicates a decrease in expected future cash flows from a collection of receivables and the decrease can be measured reliably but cannot be identified with the individual receivables in the portfolio in which case a collective provision is applied.

The Group operates a forbearance policy in situations where it becomes aware that an individual customer is experiencing financial hardship. Repayment options are discussed with the customer that is appropriate to the customer's specific situation. The Group seeks to ensure that any forbearance results in a fair customer outcome and will not repossess an asset unless all other reasonable attempts to resolve the position have failed.

Critical accounting estimates and judgements

Individual impairment losses on loans and advances are calculated based on an assessment of the expected cash flows and the underlying collateral. For the purpose of collective impairment, financial assets are grouped on the basis of similar risk characteristics. Collective provisions are calculated using roll rates on different segments of the loan book not subject to an individual provision. Management also consider the need for a management overlay to take into account additional risk factors of the portfolio. The management overlay has led to an increase of £1.9m (2014: £1.8m) to the impairment allowances to reflect management's assessment of risk.

The key assumptions, being the emergence periods, cost of risk and roll rates, are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. For loans and advances to the extent that:

- There is a change of one month in the emergence period across all portfolios, this would have the effect of changing the collective provision by £0.5m (2014: £0.5m);
- There is a change in the loss rate by 10 basis points, this would have the effect of changing the collective provision by £1.5m (2014: £1.1m);
- There is an increase in the forced sale discount by 5%, this would have the effect of increasing the individual provisions by £0.4m (2014: £0.4m); and
- There is an increase in the propensity to default by 10%, this would have the effect of increasing the individual provisions by £1.0m (2014: £0.8m).

The movement in the allowances for losses in respect of loans, finance leases and instalment credit agreements during the year was as follows:

	2015	2014
	£m	£m
At 1 January	11.1	5.4
Charge for impairment losses	6.5	6.7
Provisions utilised	<u>(4.1)</u>	<u>(1.0)</u>
At 31 December	13.5	11.1
Analysis of impairment type:		
Loan receivables	10.5	9.0
Finance lease receivables	2.0	0.7
Instalment credit receivables	<u>1.0</u>	<u>1.4</u>
At 31 December	13.5	11.1

15. Derivative financial instruments

Accounting policy

Derivatives and hedge accounting

The Group's derivative activities are entered into for the purposes of matching or eliminating risk from potential movements in interest rates in the Group's assets and liabilities.

The Group uses interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are reviewed regularly for their effectiveness. Fair values are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flow models and option pricing models. Derivatives are measured as assets where their fair value is positive and liabilities where their fair value is negative.

The Group has adopted hedge accounting in accordance with IAS 39 which specifies that the hedge relationship must be clearly documented at inception and the derivative must be expected to be highly effective in offsetting the hedged risk. Effectiveness is tested throughout the life of the hedge relationship.

The Group does not apply a credit valuation adjustment (CVA) or debit valuation adjustment (DVA) as the Group's portfolio is fully collateralised. The Group does not apply funding fair value adjustment (FFVA) of its derivative exposures as it deems the adjustment to be immaterial.

Fair values of derivatives are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows at a benchmark interest rate, typically Libor or its equivalent.

Fair Value Hedge

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit and loss.

The Group uses derivatives to reduce exposure to market risks, and not for trading purposes. The Group uses the International Swaps and Derivatives Association ("ISDA") Master Agreement to document these transactions in conjunction with a Credit Support Annex ("CSA"). The fair value of derivatives is set out below:

	Notional Amount	Fair Value of assets
	£m	£m
Interest rate swaps		
Interest rate swaps:		
At 31 December 2015	535.0	2.8
Interest rate swaps:		
At 31 December 2014	195.0	3.7

Gains and losses from derivatives and hedge accounting are as follows:

	2015	2014
--	------	------

	£m	£m
(Loss)/Gain on derivative financial instrument	(0.9)	3.7
Fair value gain/(loss) on hedged risk	<u>0.6</u>	<u>(3.8)</u>
Fair value loss on financial instruments	<u>(0.3)</u>	<u>(0.1)</u>

It is the Group's policy to enter into master netting and margining agreements with all derivative counterparties. In general, under master netting agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are aggregated into a single net amount being payable by one party to the other and the agreements terminated.

Under the margining agreements where the Group has a net asset position valued at current market values, in respect of its derivatives with a counterparty, then that counterparty will place collateral, usually cash, with the Group in order to cover the position. Similarly, the Group will place collateral, usually cash, with the counterparty where it has a net liability position.

The table below illustrates the amounts that are covered by enforceable netting arrangements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. loans and advances).

Amounts subject to enforceable netting arrangements						
2015	Effect of offsetting on balance sheet			Related amounts not offset		Amounts not subject to enforceable netting arrangements
	Gross Amount	Amount offset	Net amount reported on balance sheet	Cash collateral	Net amount	
	£m	%	£m	£m	£m	£m
Assets						
Derivative financial instruments	2.8	-	2.8	2.8	-	-
Total assets	2.8	-	2.8	2.8	-	-

Amounts subject to enforceable netting arrangements						
2014	Effect of offsetting on balance sheet			Related amounts not offset		Amounts not subject to enforceable netting arrangements
	Gross Amount	Amount offset	Net amount reported on balance sheet	Cash collateral	Net amount	
	£m	%	£m	£m	£m	£m
Assets						
Derivative financial instruments	3.7	-	3.7	3.5	0.2	-
Total assets	3.7	-	3.7	3.5	0.2	-

Collateral amounts (cash and non-cash financial collateral) are reflected at their fair value; however this amount is limited to the net balance sheet exposure in order not to include any over-collateralisation.

16. Property, plant and equipment

Accounting Policies

Operating Leases

Included within property, plant and equipment are assets leased to customers under operating leases in respect of medical equipment. The net book value of operating leases represents the original cost of the equipment less cumulative depreciation. Rentals are recognised on a straight line basis over the lease term. Depreciation is recognised on a straight line basis to a residual value over the life of the associated agreement.

Depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment as follows:

- Office equipment 3 years / 5 years
- Fixtures and fittings 5 years
- Motor vehicles 4 years
- Freehold property 50 years
- Leasehold costs life of the lease
- Operating leases* life of the lease

*Operating leases are assets leased to customers

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Assets acquired in exchange for loans

Included within property, plant and equipment are assets acquired in exchange for operating leases as part of an orderly realisation. The asset acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the lease (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Income Statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write down, is also recognised in the Income Statement, together with any realised gains or losses on disposal.

Residual values

The residual values of assets under operating leases are reviewed by management for impairment, taking into account the nature and state of condition of the assets. Where the residual value of the assets exceeds the estimated recoverable amount, the assets are impaired and the impairment charged to the profit and loss account.

	Freehold property £m	Leasehold property £m	Fixtures, fittings & equipment £m	Assets on operating leases £m	Total £m
Cost					
At 1 January 2014	0.2	0.1	2.9	73.1	76.3
Acquired in business combinations	-	-	0.1	-	0.1
Additions	-	-	2.5	9.0	11.5
Disposals	-	-	-	(3.5)	(3.5)
Transfer to finance leases	-	-	-	(1.1)	(1.1)
At 31 December 2014	0.2	0.1	5.5	77.5	83.3
Additions	-	-	4.7	10.1	14.8
Disposals	-	-	-	(14.8)	(14.8)
Transfer to finance leases	-	-	-	(5.5)	(5.5)
Balance at 31 December 2015	0.2	0.1	10.2	67.3	77.8
Depreciation					
At 1 January 2014	-	0.1	1.2	21.2	22.5
Depreciation charge for the year	-	-	1.0	13.1	14.1
Disposals	-	-	-	(2.1)	(2.1)
Transfer to finance leases	-	-	-	(0.9)	(0.9)
At 31 December 2014	-	0.1	2.2	31.3	33.6
Depreciation charge for the year	-	-	1.5	12.2	13.7
Disposals	-	-	-	(13.1)	(13.1)
Transfer to finance leases	-	-	-	(5.0)	(5.0)
Balance at 31 December 2015	-	0.1	3.7	25.4	29.2
Net book value					
At 31 December 2014	0.2	-	3.3	46.2	49.7
At 31 December 2015	0.2	-	6.5	41.9	48.6

17. Intangible assets

Accounting policies

Goodwill

Goodwill has arisen on the acquisition of companies whose businesses have been integrated within the Group and reflects the difference between the consideration paid and the fair value of net assets acquired. Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment by reviewing detailed cash flow projections from the Group's latest approved forecast. Goodwill is stated at cost less any accumulated impairment losses.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed. Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units ("CGU"). An impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of pre-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the cash generating unit.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. An impairment loss is recognised if the carrying amount of an asset is greater than its recoverable amount. No impairment losses were recognised during 2015 (2014: £nil).

Computer software

Expenditure on software development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of direct labour and software licence costs. Other development expenditure is recognised in the income statement as an expense is incurred. Capitalised developments are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Intangible assets are amortised on a straight line basis through administrative expenses over the estimated useful life of the asset according to the following timescales:

- Computer software & licences 3 - 7 years

Critical accounting estimates and judgements

The review of goodwill for impairment reflects management's best estimate of future cash flows of the CGU's and the rates used to discount these cash flows, both which are subject to uncertain factors as follows:

- The future cash flows of the CGU's are sensitive to projected cash flows based on the forecasts and assumptions regarding the projected periods and the long-term pattern of sustainable cash flows thereafter.
- The rates used to discount future expected cash flows can have a significant effect on their valuations and are based on the Capital Asset Pricing Model, which incorporates inputs reflecting a number of variables. These variables are subject to fluctuations beyond management's control, are subject to uncertainty and require the exercise of significant judgement.

The factors and inputs are described in more detail in the note below.

	Goodwill £m	Computer software £m	Total £m
At 1 January 2015	44.8	4.7	49.5
Additions during the year	-	6.1	6.1
Amortised in the year	-	(0.9)	(0.9)
At 31 December 2015	44.8	9.9	54.7

	Goodwill £m	Computer software £m	Total £m
At 1 January 2014	21.1	1.1	22.2
Acquired in business combinations	23.7	0.1	23.8
Additions during the year	-	3.9	3.9
Amortised in the year	-	(0.4)	(0.4)
At 31 December 2014	44.8	4.7	49.5

Impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

	2015 £m	2014 £m
Secured Lending	6.4	6.4
Asset Finance	10.5	10.5
Consumer Lending	1.1	1.1
Business Credit	24.2	24.2
Commercial Mortgages	2.6	2.6
At 31 December	44.8	44.8

The recoverable amounts of the CGUs have been calculated based on their value in use ("VIU"), determined by discounting the cash flows expected to be generated from the continuing use of the CGU. No impairment losses were recognised in 2015 (2014: £nil) because the recoverable amounts of the CGUs were determined to be higher than their carrying values.

The key assumptions used in the calculation of value in use were as follows:

	31 December 2015
Pre-tax Discount rate	% 13.80
Terminal value growth rate	% 2.50
Cash flow period (Years)	5

Discount rate: The discount rate is an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset, which is derived using CAPM. The CAPM depends on inputs reflecting a number of financial and economic variables including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. For the 31 December 2015 test, the methodology used to determine the discount rate for the business was refined to more accurately reflect the risk profile of the Group. In addition, for the purposes of testing goodwill for impairment, management supplements this process by comparing the discount rate derived using the internally generated CAPM with costs of capital rates produced by external sources.

Terminal value growth rate: The terminal value growth rate is an estimate of the rate of growth of future cash flows beyond the cash flow period of 5 years. The rate is estimated by management, taking into account rates disclosed by comparable institutions.

Management's judgement in estimating the cash flows of a CGU: Five years of cash flows were included in the discounted cash flow model, which is based on a Board approved plan. A long-term growth rate into perpetuity has been determined as the long term compound annual profit before tax growth rate estimated by Management.

The Dividend Discount Model ("DDM") is used to calculate the recoverable amount of future cash flows. The DDM discounts future cash flows (post-tax profits) generated by the CGU, however the cash flows are reduced by any earnings retained to support the growth in the underlying CGU loan books through higher regulatory capital requirements. Forecasted post-tax profits were based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth.

The key assumptions described above may change as economic and market conditions change. The Group estimated that reasonably possible changes in these assumptions would not cause the recoverable amount of any CGU to decline below the carrying amount.

18. Deferred tax

Accounting policy

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets are attributable as follows:

	2015 £m	2014 £m
--	------------	------------

Accelerated tax depreciation	13.5	9.6
Deferred tax on acquisition adjustments	(0.1)	(0.2)
Other	0.7	0.4
Deferred tax asset	14.1	9.8
At 1 January	9.8	8.6
Current period movement - recognised in income	0.7	0.8
Prior year adjustment	0.4	0.4
Effect of tax rate changes	3.2	-
At 31 December	14.1	9.8

The Group had a deferred tax asset of £14.1m at 31 December 2015 (2014: £9.8m) resulting primarily from decelerated capital allowances. The business plan projects profits in future years sufficient to recognise the [£14.1m](#) deferred tax asset. The tax assets will unwind over the remaining life of the underlying leased assets with which they are associated.

Reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on an aggregation of the rate of 18% substantively enacted at the balance sheet date and the additional 8% of tax suffered in relation to the banking surcharge.

19. Other assets

	2015	2014
	£m	£m
Other debtors	1.9	4.1
Prepayments	6.0	2.7
Total other assets	7.9	6.8

20. Investment in subsidiaries

	Company	Company
	2015	2014
	£m	£m
At 1 January	186.0	138.8
Issue of share capital in Shawbrook Bank Limited	82.1	47.1
Share based payments	4.1	0.1
At 31 December	272.2	186.0

21. Customer deposits

	2015	2014
	£m	£m
Instant access	102.9	52.4
Term deposits and notice accounts	3,080.3	2,364.9
Fair value adjustment for hedged risk	3.2	3.7
Total customer deposits	3,186.4	2,421.0

22. Due to banks

Total amounts due to banks of £39.9m includes £36.3m of Treasury Bills (2014: [£37.5m](#)) which are monies arising from the sale and repurchase of Treasury Bills drawn under the Bank of England's Funding for Lending Scheme (FLS) and fall due for repayment in 2016 and 2017.

23. Provisions for liabilities and charges

	2015	2014
	£m	£m
At 1 January	0.6	0.4
Provisions utilised	(1.3)	(0.9)
Provisions made during the year	1.6	1.1
At 31 December	0.9	0.6

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Group pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with on-going management expenses, by way of annual management levies on members, including the Group, over this period.

The Group's FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme year 2015/16. This amount was calculated on the basis of the Group's current share of protected deposits taking into account the regulator's estimate of total management expense levies for the scheme year.

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012 and an instalment of this was paid during the year. No provision in respect of the capital compensation levy is included in the provision at 31 December 2015.

24. Other liabilities

	Group	Group
	2015	2014
	£m	£m
Other creditors	306.6	23.8

Corporation tax payable	7.4	5.3
Accruals	17.2	12.8
Total other liabilities	331.2	41.9

Other creditors has increased to £306.6m in 2015 (2014: £23.8m). This is due to amounts owing to a bank in relation to the purchase of a loan book.

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals on land and buildings are payable as follows:

	2015	2014
	£m	£m
Less than 1 year	1.0	0.8
Between 1 and 5 years	3.6	2.3
	4.6	3.1

Leases as lessor

Operating lease rentals receivable from agreements classified as property, plant and equipment, as disclosed in note 16, are receivable as follows:

	2015	2014
	£m	£m
Less than 1 year	12.4	14.4
Between 1 and 5 years	18.3	20.3
More than 5 years	1.1	0.5
	31.8	35.2

26. Subordinated debt

Accounting policy

The subordinated debt is a non-derivative financial liability with fixed or determinable payments. The subordinated debt is recognised initially at fair value and subsequently measured at amortised cost. Interest costs arising are capitalised in accordance with agreed terms and incorporated into the total debt payable and recognised on an effective interest rate basis.

Subordinated debt liability:

The Group issued £75m fixed rate reset callable subordinated notes due 2025 with an initial semi-annual coupon of 8.50%, which was listed for trading on the London Stock Exchange on 28 October 2015. Fees of £1m were incurred on the issuance. On the same date the subordinated debt dated 31 October 2013 was cancelled and repaid.

	2015	2014
	£m	£m
At 1 January	30.8	27.6
Issued in year	74.0	-
Repaid in year	(33.7)	-
Interest expense	2.9	3.2
Total subordinated debt at 31 December	74.0	30.8

Subordinated debt receivable:

Following the issue of subordinated debt to the market, subordinated debt was issued from the Bank to the Group on consistent terms with the listed loan notes.

The subordinated debt ranks behind any claims against the Group from all depositors and creditors.

27. Share capital

On 31 March 2015, the Company underwent a capital restructuring prior to its Admission to the London Stock Exchange. This resulted in the conversion of certain A, B and C Ordinary shares into deferred shares with the remaining shares being converted into Ordinary shares of £1 each. Each Ordinary share of £1 was then subdivided into 100 Ordinary shares. The deferred shares were repurchased by the Company and cancelled, generating a capital contribution reserve of £183,067,856, which is distributable.

On 8 April 2015, upon Admission to the London Stock Exchange, the Company issued 31,034,483 £0.01 shares for consideration of £90,000,000. This generated a share premium of £89,689,655. A further 500,000 £0.01 Ordinary shares were issued under a block listing in December 2015. The market value of shares issued on 8 April 2015 was £2.90 per share.

Ordinary shares of £0.01 each: issued and fully paid

	31 December 2015 No.	31 December 2014 No.
Ordinary £0.01 shares	250,500,000	-

	Total No.	Total £
On issue at 31 December 2014	-	-
Converted from £1 ordinary shares	218,965,517	2,189,655
Issued during the year	31,534,483	315,345
On issue at 31 December 2015	250,500,000	2,505,000

Each Ordinary share of £0.01 has full voting, dividend and capital distribution rights, including on a winding up, and does not have any rights of redemption. Par value is £0.01 per share.

Ordinary shares of £1 each: authorised and issued

	31 December	31 December

	2015 No.	2014 No.
Ordinary Class A	-	185,147,511
Ordinary Class B	-	100,000
Ordinary Class C	-	10,000
Total	-	185,257,511

	Class A No.	Class B No.	Class C No.	Total No.
On issue at 31 December 2013	137,851,021	100,000	10,000	137,961,021
Issued during the year	47,296,490	-	-	47,296,490
On issue at 31 December 2014	185,147,511	100,000	10,000	185,257,511
Converted to £0.01 Ordinary shares	(2,079,655)	(100,000)	(10,000)	(2,189,655)
Cancelled during the period	(183,067,856)	-	-	(183,067,856)
On issue at 31 December 2015	-	-	-	-

28. Notes to the cash flow statement

Accounting policy

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances at central banks, loans and advances to banks and building societies and short-term highly liquid debt securities with less than 3 months to maturity from the date of acquisition. Loans to banks and building societies comprise cash balances and call deposits.

Non-cash items in the cash flow statement	Note	Group	Company	Group	Company
		2015	2015	2014	2014
		£m	£m	£m	£m
Capitalisation of subordinated debt interest	26	2.9	-	3.2	-
Depreciation	16	13.7	-	14.1	-
Amortisation of intangible assets	17	0.9	-	0.4	-
Provisions against loans and advances to customers	14	6.5	-	6.7	-
Amortisation of share scheme fair value		4.1	4.1	0.1	0.1
Profit on sale of operating leased assets		(1.0)	-	(0.7)	-
Total non-cash items		27.1	4.1	23.8	0.1

Cash and cash equivalents	Group	Company	Group	Company
	2015	2015	2014	2014
	£m	£m	£m	£m
Cash and balances at central banks	521.9	-	313.1	-
Loans and advances to banks	30.9	-	36.6	0.2
	552.8	-	349.7	0.2
Less: mandatory deposits with central banks	(2.3)	-	(1.7)	-
Cash and cash equivalents	550.5	-	348.0	0.2

Mandatory deposits are not available for use in the Group or Bank's day to day business and are non-interest bearing.

29. Financial instruments

Accounting policies

Financial assets

The Group classifies its financial assets in the following categories:

- At fair value through profit or loss; and
- Loan receivables.

The Group's financial liabilities are designated as other financial liabilities at amortised cost and at fair value through profit or loss. A financial asset is measured initially at fair value plus the transaction costs that are directly attributable to its acquisition. A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue.

Derivative financial assets are classified at fair value through profit or loss.

The Group has not classified any assets or liabilities as held to maturity or as available for sale (AFS).

Loan receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to banks and building societies are classified as loans and receivables. Loans and advances to customers include finance leases and instalment credit advances.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The net investment in finance leases and instalment credit agreements represents the future lease rentals and instalments receivable less profit and costs allocated to future periods. Income is recognised throughout the life of the agreement to provide a constant rate of return on the net investment in each lease or instalment credit agreement.

Where an agreement is classified as an operating lease at inception, but is subsequently reclassified as a finance lease following a change to the agreement or an extension beyond the primary term, then the agreement is accounted for as a finance lease.

Financial liabilities

Customer deposits and amounts due to banks are non-derivative financial liabilities with fixed or determinable payments. Deposits and amounts due to banks are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

De-recognition of financial assets and liabilities

De-recognition is the point at which an asset or liability is removed from the balance sheet. The Group's policy is to derecognise financial assets when the contractual rights to the cash flows from the financial asset have expired or where all the risks and rewards of ownership have been transferred.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

If the terms of the financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the net present value of the cash flows from the original financial asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an unexpected restructuring is measured as follows:

• If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

The Group determines fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little Management judgement and estimation. Observable prices and model inputs are usually available in the market for simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for Management judgement and estimation and also reduces the uncertainty associated with the determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads assist in the judgement as to whether a market is active. If, in the opinion of Management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs, the instrument in its entirety is classified as valued at Level 3 of the fair value hierarchy. 'Level 3' in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

Cash and balances with central banks

Fair value approximates to carrying value because cash and balances at central banks have minimal credit losses and are either short-term in nature or repriced frequently.

Loans and advances to banks

Fair value was estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for loans with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is considered to approximate to their carrying amount.

Loans and advances to customers, customer deposits, derivatives, amounts due to banks and subordinated debt

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses if considered material. Fair values of derivatives are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.

Fair value hierarchy

The table below analyses the Group's financial instruments measured at amortised cost into a fair value hierarchy:

	2015 Level 3 £m	2015 Level 2 £m	2014 Level 3 £m	2014 Level 2 £m
Financial assets				
Cash and balances at central banks	521.9	-	313.1	-
Loans and advances to banks	30.9	-	36.6	-
Loans and advances to customers	3,319.1	-	2,284.8	-
Financial liabilities				
Customer deposits	-	(3,186.4)	-	(2,421.0)
Amounts due to banks	(39.9)	-	(41.0)	-
Subordinated debt	(74.0)	-	(30.8)	-

There were no transfers between levels of the fair value hierarchy during the year (2014:£nil).

The table below analyses the Group's financial instruments measured at fair value into a fair value hierarchy:

	2015 Level 3 £m	2015 Level 2 £m	2014 Level 3 £m	2014 Level 2 £m
Financial assets				
Derivative financial instruments	-	2.8	-	3.7

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are shown in the following table:

	Loans and receivables £m	Other liabilities at amortised cost £m	Total Carrying amount £m	Fair Value £m
At 31 December 2015				
Cash and balances at central banks	521.9	-	521.9	521.9
Loans and advances to banks	30.9	-	30.9	30.9
Loans and advances to customers	3,319.1	-	3,319.1	3,351.0
	3,871.9	-	3,871.9	3,903.8
Customer deposits	-	3,186.4	3,186.4	3,189.7
Due to banks	-	39.9	39.9	39.9
Subordinated debt	-	74.0	74.0	74.0
	-	3,300.3	3,300.3	3,303.6

At 31 December 2014

Cash and balances at central banks	313.1	-	313.1	313.1
Loans and advances to banks	36.6	-	36.6	36.6
Loans and advances to customers	2,284.8	-	2,284.8	2,340.6
	2,634.5	-	2,634.5	2,690.3
Customer deposits	-	2,421.0	2,421.0	2,447.8
Due to banks	-	41.0	41.0	41.0
Subordinated debt	-	30.8	30.8	30.8
	-	2,492.8	2,492.8	2,519.6

30. Risk management

The main areas of risk that the business is exposed to are:

- Credit risk;
- Liquidity risk;
- Market risk;
- Capital risk and management;
- Operational risk; and
- Conduct Risk.

Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. These risks are managed by the Board Risk Committee and Asset and Liability Committee. This risk has two main components:

- Customer risk (individual and business lending); and
- Treasury risk

The Group's maximum exposure to credit risk is the carrying value of its financial assets, without taking account of any underlying collateral, and contractual commitments, which represent agreements entered into but not advanced as at 31 December 2015.

	2015	2014
	£m	£m
Assets		
Cash and balances at central banks	521.9	313.1
Loans and advances to banks	30.9	36.6
Loans and advances to customers	3,319.1	2,284.8
Derivative financial assets	2.8	3.7
	3,874.7	2,638.2
Contractual commitments	378.6	469.3
Maximum exposure to credit risk	4,253.3	3,107.5

The amount of collateral held at 31 December 2015 is £2,994.9m (2014: [£2,063.4m](#)) of which £2,086.6m (2014: [£1,373.2m](#)) is in the form of residential and commercial property and £908.3m (2014: [£690.2m](#)) is secured on other assets and debt receivables. Collateral held in relation to secured loans is capped at the amount outstanding on an individual loan basis.

Credit quality of assets**Loans and receivables**

The Group defines three classifications of credit quality (low risk, medium risk and higher risk) for all credit exposures. These are based on the following criteria:

- Commercial mortgages: A risk rating scale is applied to the individual loans and weighs the propensity of non-performance and write-offs. The combined propensity scores are scaled into a scale of low risk, medium risk and higher risk.
- Asset finance: Loans are classified with reference to the arrears position and provisions against the loans. Low risk items are items that are in arrears but have sufficient collateral against the outstanding balance, medium risk loans are in arrears, have sufficient collateral but are classified as medium risk due to forbearance measures applied, and higher risk loans are loans that are provided for.
- Business Credit: Loans are classified as low risk, medium risk and higher risk on a case-by-case basis and decisions are based on management's review of the individual circumstances of every case.
- Secured Lending: All cases are deemed low risk due to the collateral held against the outstanding loan balances.
- Consumer Lending: The classification of loans as low risk, medium risk and higher risk is based on the maturity of the loans outstanding.

The credit quality of asset that are neither past due nor impaired are as follows:

	Commercial Mortgages		Asset Finance		Business Credit		Secured Lending		Consumer Lending		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
As at 31 December 2015												
Low Risk	1,577.7	99.5	684.6	99.3	168.6	91.6	470.9	100.0	331.6	99.9	3,233.4	99.1
Medium Risk	0.9	0.1	1.0	0.1	10.0	5.4	-	-	-	-	11.9	0.4
Higher Risk	5.7	0.4	3.9	0.6	5.6	3.0	-	-	0.2	0.1	15.4	0.5
Total neither past due nor impaired	1,584.3	100.0	689.5	100.0	184.2	100.0	470.9	100.0	331.8	100.0	3,260.7	100.0

Customer risk

The Group maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Group. A concession may be either of the following:

- A modification of the previous terms and conditions of an agreement, which the borrower is considered unable to comply with due to its financial difficulties, to allow for sufficient debt service ability, that would not have been granted had the borrower not been in financial difficulties; or
- A total or partial refinancing of an agreement that would not have been granted had the borrower not been in financial difficulties.

Forbearance in relation to an exposure can be temporary or permanent in nature depending on the circumstances, progress on financial rehabilitation and the detail of the concession(s) agreed. A forbearance classification can be discontinued when all of the following conditions have been met:

- The exposure is considered as performing, including, if it has been reclassified from the non-performing category, after an analysis of the financial condition of the borrower shows it no longer meets the conditions to be considered as non-performing;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- None of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

As at 31 December 2015, the number of forbearance arrangements in place was 559 (2014: [531](#)), the carrying value of which was £19.0m (2014: [£8.7m](#)) against which impairment provisions of £2.6m (2014: [£2.9m](#)) were held.

	Capital			Coverage 2015
	2015	2015	2015	
Forbearance as at 31 December 2015	Number	£m	£m	%
Consumer	249	1.7	1.1	64.7
Secured	170	5.1	0.3	5.9
Asset Finance	123	3.8	0.3	7.9
Commercial	14	2.6	0.3	11.5
Business Credit	3	5.8	0.6	10.3
Total	559	19.0	2.6	13.7

	Capital			Coverage 2014
	2014	2014	2014	
Forbearance as at 31 December 2014	Number	£m	£m	%
Consumer	390	2.8	2.3	82.1
Secured	122	3.7	0.4	10.8
Asset Finance	19	2.2	0.2	9.1
Total	531	8.7	2.9	33.3

There were 5 property repossessions during the year (2014: 10).

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment and assets are categorised as detailed in the tables below:

Type of impairment assessment	Description
Individual impairment	Where specific circumstances indicate that a loss is likely to be incurred.
Collective impairment	Impairment allowances are calculated for each portfolio on a collective basis, given the homogenous nature of the assets in the portfolio.

Risk categorisation	Description
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Past due but not impaired	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.
Impaired assets	Loans that are in arrears or where there is objective evidence of impairment and where the carrying amount of the loan exceeds the expected recoverable amount.

The Group enters into agreements with customers and where appropriate takes security. Loan receivables include amounts secured against property (commercial and residential), secured against other assets such as asset backed loans and invoice receivables. Finance lease and instalment credit is secured on a variety of assets including but not limited to plant and machinery.

The security profile of the loan receivable book is shown below:

	2015	2014
	£m	£m
Loan receivables	2,873.0	1,861.4
Finance lease receivables	114.3	114.0
Instalment credit receivables	331.8	309.4
Total loans and advances to customers	3,319.1	2,284.8

	2015	2014
	£m	£m
Loan receivables		
Neither past due nor impaired	2,842.0	1,841.4
Past due but not impaired:		
Up to 30 days	4.7	2.1
30-60 days	15.0	10.8
60-90 days	3.6	2.3
Over 90 days	5.7	2.8
	29.0	18.0
Impaired	12.5	11.0
	2,883.5	1,870.4
Less: allowances for impairment losses	(10.5)	(9.0)

Net loan receivables **2,873.0** **1,861.4**

The Group enters into agreements with customers and where appropriate takes security. The security for Loans to customers is in the form of a first or second charge over property and debt receivables. Finance leases and instalment credit are secured on the underlying assets which can be repossessed in the event of a default. The security profile of loans and advances to customers is shown below:

	2015	2014
	£m	£m
Secured on commercial and residential property	2,086.6	1,373.2
Secured on debt receivables	386.4	264.7
Secured by finance lease and instalment credit	449.1	425.5
Secured on other assets	72.8	-
Total secured receivables	2,994.9	2,063.4
Unsecured	337.7	232.5
Gross loan receivables	3,332.6	2,295.9

Collateral held in relation to secured loans is capped, after taking into account the first charge balance, at the amount outstanding on an individual loan basis.

	2015	2014
	£m	£m
Finance lease receivables		
Neither past due nor impaired	101.1	102.9
Past due but not impaired:		
Up to 30 days	5.6	6.9
30-60 days	3.3	1.5
60-90 days	1.1	0.9
Over 90 days	1.7	1.6
	11.7	10.9
Impaired	3.5	0.9
	116.3	114.7
Less: allowances for impairment losses	(2.0)	(0.7)
Net finance lease receivables	114.3	114.0

	2015	2014
	£m	£m
Instalment credit receivables		
Neither past due nor impaired	317.6	305.2
Past due but not impaired:		
Up to 30 days	11.3	3.6
30-60 days	1.9	0.4
60-90 days	0.4	0.2
Over 90 days	0.7	0.1
	14.3	4.3
Impaired	0.9	1.3
	332.8	310.8
Less: allowances for impairment losses	(1.0)	(1.4)
Net instalment credit receivables	331.8	309.4

	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Total
2015	£m	£m	£m	£m	£m	£m
Neither past due nor impaired	1,584.3	689.5	184.2	470.9	331.8	3,260.7
Past due but not impaired:						
Up to 30 days	1.2	19.0	-	1.4	-	21.6
30-60 days	7.7	5.5	-	7.0	-	20.2
60-90 days	1.0	1.5	-	2.6	-	5.1
Over 90 days	1.4	2.4	-	4.1	0.2	8.1
Total past due but not impaired	11.3	28.4	-	15.1	0.2	55.0
Impaired	1.9	4.4	1.8	3.1	5.7	16.9
	1,597.5	722.3	186.0	489.1	337.7	3,332.6
Less: allowances for impairment losses	(1.6)	(3.0)	(2.7)	(1.9)	(4.3)	(13.5)
Net loan receivables	1,595.9	719.3	183.3	487.2	333.4	3,319.1

	Commercial	Asset	Business	Secured	Consumer	
	Mortgages	Finance	Credit	Lending	Lending	Total
2014	£m	£m	£m	£m	£m	£m
Neither past due nor impaired	963.8	502.4	169.9	387.0	226.1	2,249.2
Past due but not impaired:						
Up to 30 days	0.4	10.5	-	1.7	-	12.6
30-60 days	4.4	1.9	-	6.4	-	12.7
60-90 days	-	1.1	-	2.3	-	3.4
Over 90 days	-	1.7	-	2.9	-	4.6
Total past due but not impaired	4.8	15.2	-	13.3	-	33.3
Impaired	1.7	2.4	0.3	2.6	6.4	13.4
	970.3	520.0	170.2	402.9	232.5	2,295.9
Less: allowances for impairment losses	(1.4)	(2.1)	(0.4)	(1.6)	(5.6)	(11.1)
Net loan receivables	968.9	517.9	169.8	401.3	226.9	2,284.8

The Group's lending portfolio is geographically diversified across the UK as shown below:

	Commercial	Asset	Business	Secured	Consumer	
	Mortgages	Finance	Credit	Lending	Lending	Total
2015	£m	£m	£m	£m	£m	£m
East Anglia	60.3	30.6	29.2	16.9	17.8	154.8
East Midlands	37.2	23.9	4.8	18.7	27.7	112.3
Greater London	643.2	140.8	26.1	137.2	30.2	977.5
Guernsey/Jersey/Isle of Man	4.5	0.6	-	-	-	5.1
North East	16.7	7.5	4.8	8.6	19.3	56.9
North West	149.4	85.6	31.9	31.1	36.2	334.2
Northern Ireland	2.5	2.1	-	-	0.5	5.1
Scotland	78.7	104.5	14.0	29.5	46.5	273.2
South East	315.9	153.0	21.9	144.4	55.5	690.7
South West	126.3	55.9	7.3	41.2	26.9	257.6
Wales	24.6	41.0	11.6	15.1	12.8	105.1
West Midlands	63.4	26.3	24.5	23.7	36.9	174.8
Yorkshire/Humberside	74.8	50.5	9.9	22.7	27.4	185.3
	1,597.5	722.3	186.0	489.1	337.7	3,332.6

	Commercial	Asset	Business	Secured	Consumer	
	Mortgages	Finance	Credit	Lending	Lending	Total
2014	£m	£m	£m	£m	£m	£m
East Anglia	34.8	26.1	36.2	14.1	13.3	124.5
East Midlands	29.6	21.2	6.7	16.7	19.7	93.9
Greater London	411.3	90.5	26.1	103.3	18.5	649.7
Guernsey/Jersey/Isle of Man	-	0.4	-	-	-	0.4
North East	15.5	5.1	2.1	8.2	14.5	45.4
North West	88.6	61.1	26.5	27.2	24.5	227.9
Northern Ireland	-	3.4	-	-	0.3	3.7
Scotland	43.4	85.7	3.7	27.9	34.8	195.5
South East	169.4	120.6	20.2	115.5	33.7	459.4
South West	82.1	45.9	6.6	35.8	19.0	189.4
Wales	17.8	20.8	8.8	13.5	8.5	69.4
West Midlands	31.9	22.3	21.1	21.2	27.5	124.0
Yorkshire/Humberside	45.9	16.9	12.2	19.5	18.2	112.7
	970.3	520.0	170.2	402.9	232.5	2,295.9

The Group's lending portfolio falls into the following concentrations by loan size:

	Commercial	Asset	Business	Secured	Consumer	
	Mortgages	Finance	Credit	Lending	Lending	Total
2015	£m	£m	£m	£m	£m	£m
0 - £50k	17.3	182.3	1.1	209.5	337.6	747.8
£50k - £100k	122.0	84.3	3.8	151.9	0.1	362.1
£100k - £250k	431.3	100.3	11.3	101.8	-	644.7
£250k - £500k	403.8	68.1	20.9	20.8	-	513.6
£500k - £1m	308.5	55.5	38.4	3.1	-	405.5
£1m - £2.5m	223.7	40.9	57.6	2.0	-	324.2
£2.5m - £5m	72.0	41.3	42.9	-	-	156.2
£5m - £10m	18.9	66.5	-	-	-	85.4
£10m - £25m	-	83.1	10.0	-	-	93.1
Total	1,597.5	722.3	186.0	489.1	337.7	3,332.6

2014	Commercial	Asset	Business	Secured	Consumer	Total
	Mortgages	Finance	Credit	Lending	Lending	
	£m	£m	£m	£m	£m	£m
0 - £50k	4.1	168.3	0.2	202.2	232.5	607.3
£50k - £100k	67.1	64.5	4.6	121.8	-	258.0
£100k - £250k	274.5	71.2	9.4	64.2	-	419.3
£250k - £500k	244.7	47.3	22.9	10.9	-	325.8
£500k - £1m	194.0	37.5	31.2	1.8	-	264.5
£1m - £2.5m	134.5	36.7	61.1	2.0	-	234.3
£2.5m - £5m	39.3	29.0	29.5	-	-	97.8
£5m - £10m	12.1	40.4	11.3	-	-	63.8
£10m - £25m	-	25.1	-	-	-	25.1
Total	970.3	520.0	170.2	402.9	232.5	2,295.9

Treasury credit risk

Treasury credit risk arises from the wholesale investments made by the Group's Treasury function, which is responsible for managing this aspect of credit risk in line with the Board approved risk appetite and wholesale credit policies. The credit quality of loans and advances to banks is assessed by rating agency designation as at 31 December 2015, based on Moody's long term ratings.

Loans and advances to banks	2015	2014
	£m	£m
A1	9.1	18.6
A2	1.1	1.1
A3	20.7	-
Baa1	-	16.9
Total credit risk	30.9	36.6

The Group only lends to UK high-street banks. Deposits are placed either overnight or for a short term with a duration of less than three months. No collateral or other credit enhancements are held against loans and advances to banks.

The Group's exposure to the Bank of England is set out below:

Loans and advances to central banks	2015	2014
	£m	£m
Aa1	521.9	313.1

Credit risk derived from derivative transactions is mitigated by collateralising the exposures. Such collateral is subject to the standard industry CSA and is paid or received on a regular basis. At 31 December 2015 cash collateral of £3.7m had been received by the Group (2014: [£3.5m](#)).

Liquidity risk

Accounting policy	
<i>Funding for Lending Scheme (FLS)</i>	
The Group is a participant in the FLS which enables it to borrow highly liquid UK Treasury Bills in exchange for eligible collateral. The Treasury Bills issued are for an original maturity of nine months and if delivered back prior to their maturity date can be exchanged for further nine month Bills. Costs of borrowing are charged directly to the Income Statement.	
The Treasury Bills are not recorded on the Group's balance sheet as ownership remains with the Bank of England. The risk and rewards of the collateral provided remains with the Group and continues to be recognised in the Group's Financial Statements.	

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

The table below analyses the Group's contractual undiscounted cash flows of its financial assets and liabilities:

	Gross nominal							More than 5 years
	Carrying amount	inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-2 years	2-5 years	
	£m	£m	£m	£m	£m	£m	£m	£m
At 31 December 2015								
Assets								
Cash and balances at central banks	521.9	521.9	519.6	-	-	-	-	2.3
Loans and advances to banks	30.9	30.9	30.9	-	-	-	-	-
Loans and advances to customers	3,319.1	3,453.1	86.3	98.5	431.4	440.5	1,087.6	1,308.8
	3,871.9	4,005.9	636.8	98.5	431.4	440.5	1,087.6	1,311.1
Liabilities								
Customer deposits	(3,186.4)	(3,289.1)	(364.3)	(198.5)	(1,409.2)	(912.4)	(404.7)	-
Due to banks	(39.9)	(40.3)	(15.5)	-	(0.2)	(24.6)	-	-
Subordinated debt	(74.0)	(138.8)	-	-	(6.4)	(25.5)	-	(106.9)
	(3,300.3)	(3,468.2)	(379.8)	(198.5)	(1,415.8)	(962.5)	(404.7)	(106.9)
At 31 December 2014								

Assets								
Cash and balances at central banks	313.1	313.1	311.4	-	-	-	-	1.7
Loans and advances to banks	36.6	36.6	36.6	-	-	-	-	-
Loans and advances to customers	2,284.8	2,337.2	40.8	60.2	333.7	1,121.2	-	781.3
	2,634.5	2,686.9	388.8	60.2	333.7	1,121.2	-	783.0
Liabilities								
Customer deposits	(2,421.0)	(2,535.3)	(172.9)	(188.9)	(1,023.5)	(1,150.0)	-	-
Due to banks	(41.0)	(41.7)	(16.6)	-	(0.2)	(24.9)	-	-
Subordinated debt	(30.8)	(79.6)	-	-	-	-	-	(79.6)
	(2,492.8)	(2,656.6)	(189.5)	(188.9)	(1,023.7)	(1,174.9)	-	(79.6)

The following table sets out the components of the Group's liquidity reserve:

	2015	2014
	Carrying amount	Carrying amount
	£m	£m
Balances with central banks	519.6	311.4
Loans and advances to banks	30.9	36.6
Debt securities	270.0	163.1
Total liquidity reserve	820.5	511.1

The total liquidity reserve includes £270.0m (2014: [£163.1m](#)) of securities issued by the Bank of England through FLS participation which are not recognised on the Consolidated Statement of Financial Position.

The average liquidity reserve throughout the year was £510.0m (2014: £426.0m).

Asset encumbrance

The Group's assets can be used to support collateral requirements for central bank operations or third party repurchase transactions. Assets that have been set aside for such purposes are classified as 'encumbered assets' and cannot be used for other purposes.

All other assets are defined as 'unencumbered assets'. These comprise assets that are readily available to secure funding or meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.

The table below sets out the availability of the Group's assets to support future funding:

	Encumbered	Unencumbered	Unencumbered	Total
	Pledged as collateral	Available as collateral	Other	
	2015	2015	2015	
Asset encumbrance 2015	£m	£m	£m	£m
Cash and balances at central banks	2.3	-	519.6	521.9
Loans and advances to banks	-	30.9	-	30.9
Loans and advances to customers	476.4	2,842.7	-	3,319.1
Property, plant and equipment	-	42.3	6.3	48.6
Derivative assets held for risk management	-	-	2.8	2.8
Non-financial assets	-	-	76.7	76.7
Total assets	478.7	2,915.9	605.4	4,000.0

	Encumbered	Unencumbered	Unencumbered	Total
	Pledged as collateral	Available as collateral	Other	
	2014	2014	2014	
Asset encumbrance 2014	£m	£m	£m	£m
Cash and balances at central banks	1.7	-	311.4	313.1
Loans and advances to banks	-	36.6	-	36.6
Loans and advances to customers	438.0	1,846.8	-	2,284.8
Property, plant and equipment	-	46.2	3.5	49.7
Derivative assets held for risk management	-	-	3.7	3.7
Non-financial assets	-	-	66.1	66.1
Total assets	439.7	1,929.6	384.7	2,754.0

Liquidity risk - stress testing

Stress testing is a major component of liquidity risk management and the Group has developed a range of scenarios covering a range of market-wide and firm-specific factors. A comprehensive stress testing exercise is conducted at least annually and the methodology is incorporated into the Group's balance sheet risk management model to ensure that stress tests are run on a regular basis. The output of stress testing is circulated to the Board and to the ALCO who will use the results to decide whether to amend the Group's risk appetite and liquidity limits.

Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities change as a result of changes in market prices, the principal element being interest rate risk.

The Group has minimal foreign currency exposure and does not engage in any treasury trading operations.

The Group's treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's treasury policies. The ALCO approves the Group's treasury policies and receives regular reports on all aspects of market risk exposure, including interest rate risk.

Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the loan and savings products that we offer. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures.

Basis risk

Basis risk is the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics (for example, LIBOR and Bank of England Base Rate). This is monitored closely and regularly reported to the ALCO. This risk is managed by matching and where appropriate and necessary, through the use of derivatives, with established risk limits and other control procedures.

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

Foreign exchange risk

Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Group has low levels of foreign exchange risk which is managed by natural hedging. The table below sets out the Group's exposure to foreign exchange risk:

Assets and liabilities in foreign currencies at sterling carrying values				
	Euros	US	Australian	Canadian
	£m	dollars	dollars	dollars
2015	£m	£m	£m	£m
Loans and advances to banks	3.7	(1.6)	(0.1)	-
Loans and advances to customers	8.1	6.8	-	-
Amounts due to banks	(8.1)	(3.4)	-	-
Net position	3.7	1.8	(0.1)	-

Assets and liabilities in foreign currencies at sterling carrying values				
	Euros	US	Australian	Canadian
	£m	dollars	dollars	dollars
2014	£m	£m	£m	£m
Loans and advances to banks	0.1	(0.9)	-	0.2
Loans and advances to customers	8.4	6.1	-	-
Amounts due to banks	(7.8)	(5.1)	-	-
Net position	0.7	0.1	-	0.2

Foreign Exchange Sensitivity

The Group estimates that a 5% movement in exchange rates would have no greater impact on the 2015 profit than an increase or decrease of £0.3m.

Interest rate sensitivity gap

The Group considers a parallel 200 basis points ("bps") movement to be appropriate for scenario testing given the current economic outlook and industry expectations. The Group estimates that a +/- 200 bps movement in interest rates paid / received would have impacted the economic value of equity as follows:

+200 bps - £8.0m positive (2014: £16.5m positive)

-200 bps - £24.5m positive (2014: £14.3m positive)

In addition, the effect of the same two interest rate shocks are applied to the balance sheet at year-end, to determine how the Net Interest Income may change on an annualised basis for one year, as follows:

+200 bps - £19.9m positive (2014: £19.3m positive)

-200 bps - £1.4m positive (2014: £1.8m positive)

In preparing the sensitivity analyses above, the Group makes certain assumptions consistent with expected and contractual re-pricing behaviour as well as behavioural repayment profiles, under the two interest scenarios, of the underlying balance sheet items. The results also include the impact of hedge transactions.

The following table summarises the re-pricing periods for the Group's assets and liabilities at 31 December 2015. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

	3 months	6 months	1 year but	More than	Non-	Total	
	Within 3	less than 6	but less	less than	5 years	interest	Total
	months	months	than 1 year	5 years	£m	bearing	£m
	£m	£m	£m	£m	£m	£m	£m

At 31 December 2015

Assets

Cash and balances at central banks	519.6	-	-	-	-	2.3	521.9
Loans and advances to banks	30.9	-	-	-	-	-	30.9
Loans and advances to customers	1,971.5	121.1	220.2	825.5	221.0	(40.2)	3,319.1
Other non-financial assets	2.7	3.2	5.9	26.9	3.6	85.8	128.1
	2,524.7	124.3	226.1	852.4	224.6	47.9	4,000.0

Liabilities

Customer deposits	659.8	670.3	624.4	1,231.9	-	-	3,186.4
Due to banks	15.5	-	-	24.4	-	-	39.9
Other non-financial liabilities	-	-	-	-	-	332.1	332.1
Subordinated debt	-	-	-	-	74.0	-	74.0
Total equity	-	-	-	-	-	367.6	367.6
	675.3	670.3	624.4	1,256.3	74.0	699.7	4,000.0

Notional values of derivatives

Interest rate sensitivity gap	535.0	-	(50.0)	(485.0)	-	-	-
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Interest rate sensitivity gap	2,384.4	(546.0)	(448.3)	(888.9)	150.6	(651.8)	-
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Cumulative gap	2,384.4	1,838.4	1,390.1	501.2	651.8	-	-
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The following table summarises the re-pricing periods for the Group's assets and liabilities at 31 December 2014. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

	Within 3 months £m	More than 3 months but less than 6 months £m	More than 6 months but less than 1 year £m	More than 1 year but less than 5 years £m	More than 5 years £m	Non- interest bearing £m	Total £m
At 31 December 2014							
Assets							
Cash and balances at central banks	311.4	-	-	-	-	1.7	313.1
Loans and advances to banks	36.6	-	-	-	-	-	36.6
Loans and advances to customers	1,247.1	95.5	161.9	609.5	170.8	-	2,284.8
Other non-financial assets	3.6	3.6	7.1	30.7	1.2	73.3	119.5
	1,598.7	99.1	169.0	640.2	172.0	75.0	2,754.0
Liabilities							
Customer deposits	445.3	766.7	161.7	1,047.3	-	-	2,421.0
Due to banks	16.6	-	-	24.4	-	-	41.0
Other non-financial liabilities	-	-	-	-	-	42.5	42.5
Subordinated debt	-	-	-	-	30.8	-	30.8
Total equity	-	-	-	-	-	218.7	218.7
	461.9	766.7	161.7	1,071.7	30.8	261.2	2,754.0
Notional values of derivatives	195.0	-	-	(195.0)	-	-	-
Interest rate sensitivity gap	1,331.8	(667.6)	7.3	(626.5)	141.2	(186.2)	-
Cumulative gap	1,331.8	664.2	671.5	45.0	186.2	-	-

Capital risk and management

The following shows the regulatory capital resources managed by the Group and Bank:

	Group 2015 £m	Bank 2015 £m	Group 2014 £m	Bank 2014 £m
Share capital	2.5	175.5	185.3	174.5
Retained earnings	94.7	79.6	32.1	20.4
Share premium account	87.3	81.0	1.3	-
Merger reserve	-	1.6	-	1.6
Capital contribution reserve	183.1	4.4	-	0.3
Intangible assets	(54.7)	(33.5)	(49.5)	(28.4)
Common equity tier 1 capital	312.9	308.6	169.2	168.4
Subordinated debt	74.0	75.0	30.8	30.8
Collective impairment allowance	4.6	4.6	3.0	3.0
Tier 2 capital	78.6	79.6	33.8	33.8
Total regulatory capital	391.5	388.2	203.0	202.2

The regulatory capital reconciles to the total capital in the Group's Consolidated Statement of Financial Position as follows:

	Group 2015 £m	Bank 2015 £m	Group 2014 £m	Bank 2014 £m
Regulatory capital	391.5	388.2	203.0	202.2
Subordinated debt	(74.0)	(75.0)	(30.8)	(30.8)
Collective impairment allowance	(4.6)	(4.6)	(3.0)	(3.0)

Intangible assets	54.7	33.5	49.5	28.4
Total equity	367.6	342.1	218.7	196.8

31. Subsidiary companies

<p>Accounting policy</p> <p><i>Subsidiaries</i></p> <p>Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.</p>
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The Company has the following subsidiary companies whose results are included in these consolidated financial statements:

	Country of Incorporation	Class of shares held	Ownership	Principal activity
Shawbrook Bank Limited and its subsidiaries:	England & Wales	Ordinary	100%	Banking
Shawbrook Buildings and Protection Limited	England & Wales	Ordinary	100%	FCA authorised introducer of insurance
Link Loans Limited	England & Wales	Ordinary	100%	Non-trading
Singers Corporate Asset Finance Limited	England & Wales	Ordinary	100%	Dormant
Singers Healthcare Finance Limited	England & Wales	Ordinary	100%	Dormant
Singer and Friedlander Commercial Finance Limited	Scotland	Ordinary	100%	Dormant
Hermes Group Limited	England & Wales	Ordinary	100%	Dormant
Coachlease Limited	England & Wales	Ordinary	100%	Dormant
Centric Group Holdings Limited and its subsidiaries:	England & Wales	Ordinary	100%	Dormant
Centric Group Finance 2 Limited	England & Wales	Ordinary	100%	Dormant
Centric Group Finance Limited and its subsidiaries:	England & Wales	Ordinary	100%	Dormant
Centric Commercial Finance Limited	England & Wales	Ordinary	100%	Dormant
Resource Partners SPV Limited	England & Wales	Ordinary	100%	Dormant
Centric SPV 1 Limited	England & Wales	Ordinary	100%	Dormant
Centric SPV 2 Limited	England & Wales	Ordinary	100%	Dormant
Singer and Friedlander Finance Limited	England & Wales	Ordinary	100%	In Liquidation

East Anglian Finance Limited was sold on 18 February 2015.

The following companies were dissolved at Companies House during 2015: Singers Asset Finance Holdings Limited, SAF Funding Limited, Ascot Funding Limited, Money2Improve Limited, Apple Holdco Limited and Apple Acquisition Limited.

Business combinations

<p>Accounting policies</p> <p><i>Business combinations</i></p> <p>Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.</p> <p>The Group measures goodwill at the acquisition date as:</p> <ul style="list-style-type: none"> · the fair value of the consideration transferred; plus · the fair value of the existing equity interest in the acquiree; less · the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. <p>Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred in the consolidated accounts and capitalised within cost of investment in the Company accounts.</p> <p><i>Acquisition accounting</i></p> <p>The Group recognises identifiable assets and liabilities at their acquisition date fair values. Fair values are determined from the estimated future cashflows generated by the assets. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.</p>
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	2014 Fair values £m
Note	
Loans and advances to customers	195.5
Property, plant and equipment	0.1
Borrowings	(138.2)
Other net liabilities	(3.4)
Net identifiable assets and liabilities	54.0
Consideration transferred:	
Cash	70.0
Ordinary shares in Shawbrook Bank Ltd	7.7
Total Consideration	77.7

Representing:
Goodwill on acquisition

17	23.7
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32. Related party transactions

Related parties of the Group include key Management personnel, close family members of key Management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key Management personnel or their close family members. Key Management personnel are defined as the Directors.

Company

Amounts owed to Group companies:

	2015	2014
	£m	£m
Balance at 1 January	-	0.9
Issue of share capital	90.0	-
Costs of issue of share capital	(3.7)	-
Investment in subsidiary	(82.0)	-
Repayment of subordinated debt	33.7	-
Issue of subordinated debt	(75.0)	-
Dividend received from Shawbrook Bank Limited	4.0	-
Professional fees and other costs	(0.3)	0.5
Transfer of funds	35.9	(1.4)
Balance at 31 December	2.6	-

During the year, Shawbrook Group plc entered into a £75m subordinated debt with its subsidiary, Shawbrook Bank Limited. The terms and conditions mirror the subordinated debt listed by the Company on the London Stock Exchange on 28 October 2015 (see Note 26).

Pollen Street Capital is a private equity firm whose shares are held by Special Opportunities Fund (Guernsey) LP acting through its general partner and manager, SOF General Partner (Guernsey) Limited which holds its shares in Shawbrook through its nominee, SOF Annex Nominees Limited.

Target Group Limited is an investment of Pollen Street Capital Limited. The Group has an amortising term loan, secured on mortgage assets, to Target Financial Systems Limited, a wholly owned subsidiary of Target Group Limited. Income earned during the year was £0.6m (2014: [£0.8m](#)) and the balance outstanding at 31 December 2015 was £10.1m (2014: [£7.3m](#)).

The Group has also entered into a contract with Target Servicing Limited, a wholly owned subsidiary of Target Group Limited, for administration services on various portfolios. Target Servicing Limited services various portfolios, under customary commercial arrangements, on behalf of the Group. The Group has been charged £6.6m during 2015 for these services (2014: [£4.6m](#)) and no amounts were due at 31 December 2015. In addition, the Group paid £1.3m for additional services. During 2015 Target paid the Group £0.7m to settle a contingent liability from 2014 in respect of customer redress.

The Group has paid £1.4m (2014: [£1.3m](#)) in broker fees to Freedom Finance Limited, an investment company of Pollen Street Capital Limited since August 2014.

On 18 February 2015, the Group sold its entire shareholding in East Anglian Finance Limited to the shareholders of Pollen Street Capital Limited for £15k.

Transactions with key management personnel

The aggregate value of the transactions and outstanding balances related to key management personnel (as defined by IAS 24 Related Party Disclosure, were as follows:

	Transaction values for the year ended	
	31 December 2015	31 December 2014
	£000	£000
Deposits	252	303

	Maximum balance for the year ended	
	31 December 2015	31 December 2014
	£000	£000
Deposits	347	314

	Balance outstanding at	
	31 December 2015	31 December 2014
	£000	£000
Deposits	62	314

The charge for share based payments provided to key Management personnel during 2015 was £4.1m (2014: [£0.1m](#)).

33. Capital commitments

The Group has capital commitments totalling £0.9m at 31 December 2015 (2014: £1.3m).

34. Contingent liabilities and guarantees

Accounting policies

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

Contingent Liabilities

Contingent liabilities, which includes contingent liabilities related to legal proceedings or regulatory matters, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of Shawbrook Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

The Group entered into a financial guarantee contract to the amount of £2.5m. This contract is a continuous obligation which may be terminated by the Group on giving three months' written notice. The contract is fully collateralised through a first fix charge over a blocked deposit account to the amount of £2.5m.

Contingent liabilities

Part of the Group's business is regulated by the Consumer Credit Act ("CCA"), which contains very detailed and highly technical requirements. The Group continues to commission external reviews of its compliance with the CCA and other consumer regulations. The Group has identified some areas of potential non-compliance, although these are not considered to be material. While the Group considers that no material present obligation in relation to non-compliance with the CCA and other consumer regulations is likely, there is a risk that the eventual outcome may differ.

35. Earnings per share

IAS 33 requires that if the number of ordinary shares increases as a result of a capitalisation, bonus issue or share split then the calculation of basic and diluted earnings per share shall be adjusted retrospectively. The tables below are based on the number of shares in issue after the capital restructure as set out in Note 27. On this basis, the 31 December 2014 EPS has been restated from 20.9p to 17.7p.

	2015	2014
	Pence	Pence
Earnings per share		
Basic	24.14	17.67
Diluted	24.14	17.67

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares held in employee benefit trusts.

Diluted EPS amounts are calculated by adjusting the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares outstanding for the effects of all the dilutive potential ordinary shares into ordinary shares, which comprise share options granted to employees.

There are no discontinued operations during the period (2014: £nil).

Basic and diluted EPS computations are based on profit attributable to ordinary equity holders of the parent of £58.5m (2014: £34.5m) and weighted number of ordinary shares of 242.3m (2014: 195.3m).

36. Ultimate parent company

No single entity or individual has a controlling interest in the Company. The largest company in which the results of the Group are consolidated is that headed by Shawbrook Group Plc (previously known as Laidlaw Acquisitions Limited), incorporated in England and Wales. No other financial statements include the results of the Group.

37. Country by Country Reporting ("CBCR")

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the EU Capital Requirements Directive IV (CRD IV).

The objective of the Country-by-Country Reporting requirements is to provide increased transparency regarding the source of the Financial Institution's income and locations of its operations.

Shawbrook Group Plc and its Subsidiaries are all UK registered entities, the activities of which are disclosed in Note 31 above.

The Group's net operating income, profit before taxation, income tax charge and the number of full time equivalent employees were:

	2015	2014
Net operating income (£m)	166.9	112.2
Profit before tax (£m)	70.1	45.3
Income tax charge (£m)	(11.6)	(10.8)
Average number of employees on a full time equivalent basis	514	414

The Group did not receive any public subsidies.

This information is provided by RNS
The company news service from the London Stock Exchange

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