RNS Number : 6840Y
Shawbrook Group PLC
07 March 2017

Results for the year ended 31 December 2016

7 March 2017

Shawbrook Group plc

Shawbrook Group plc ("Shawbrook" or "the Group"), the specialist lending and savings bank, today announces continued strong performance and reiterates confidence in its near and medium term outlook, supported by its disciplines on risk, returns and costs to create resilience, durability and sustainability.

Commenting on the results, CEO Steve Pateman said:

"2016 was a pivotal year for Shawbrook - we clearly articulated our 2020 vision at our inaugural Capital Markets Day in May 2016 and have continued to deliver against the strategic pillars we set out. We have achieved sustainable growth across all of our lending divisions and delivered strong risk adjusted returns. Notwithstanding the changes in the political environment and the subsequent uncertainty arising in the macroeconomic climate, we have continued to execute our plans through deep market knowledge, innovation and through close understanding and awareness of our customers' needs.

Shawbrook's journey since listing has been somewhat more challenging than anticipated due to the changes in the macroeconomic climate and outlook and the identification of the controls breach in the Business Finance Division announced on 28 June 2016[1]. However, Shawbrook today has a strengthened management team and sound foundations, making it well placed to take advantage of the opportunities that will continue to arise from the structural changes taking place in the UK banking market. Our disciplines on risk, returns, costs, liquidity and capital are clear and as we move forward, our guiding principles will be quality rather than quantity which, combined with practical banking and good sense, will create resilience, durability and sustainability."

Achieve strong risk adjusted returns[2]

- Robust financial performance aligned to our strategic pillars:
  - Net interest margin stability throughout 2016 at 5.6% (2015: 6.2%);
  - Further reductions in the cost to income ratio to 45.1% (excl. controls breach: 44.7%, 2015: 48.3%);
  - 14% increase in profit before tax to £91.4 million (29% increase excl. controls breach: £103.4 million, 2015: £80.1 million);
  - 26% increase in statutory profit before tax to £88.2 million (2015: £70.1 million); and
  - Statutory earnings per share of 25.9p and recommended dividend per share of 2.7p.
- Our specialist markets continue to offer strong risk-adjusted returns:
  - Return on tangible equity of 19.4% (excl. controls breach: 22.0%, 2015: 22.7%[3]); and
  - Statutory return on tangible equity of 18.8% (2015: 20.7%[3]).

Maintain excellent credit quality[2]

- Excluding the controls breach, cost of risk was 35bps (statutory: 64bps, 2015: 24bps).
- Continued investment in the development of the Risk Management Framework, our risk teams and the promotion of a strong risk culture throughout the Group, giving us confidence that we now have in place an effective platform to support the continued growth of the business.
- The non-performing loan (NPL) ratio[4] as at 31 December 2016 of 0.99% (1.17% including the controls breach, 31 December 2015: 0.65%) continues to reflect the benign economic environment with the increase largely attributable to slower transaction cycles in a number of prime property segments of the market, the time taken to optimise the recovery of assets in Business Finance and the maturity of the residential mortgage portfolio. Our credit appetite remains conservatively positioned with significant collateral against our watch list cases. Overall, our assessment of the impairment requirement against these cases results in a NPL provision coverage ratio of 51% at 31 December 2016.

Progressively increase originations

- Continuing demand in our carefully selected markets:
  - Organic originations growth of 14% to £1.9 billion (2015: £1.7 billion); and
  - Customer loans[5] grew 22% to £4.1 billion from £3.4 billion at 31 December 2015.
- Enhancement of product propositions across all divisions and delivery of a number of key initiatives including entry into the development finance market, the launch of Shawbrook International Limited, offering financing solutions in Jersey, and the agreement of strategic partnerships with a number of key affiliates.

Maintain conservative foundations

- We remain well capitalised with a period end Common Equity Tier 1 (CET1) ratio of 13.3%, total capital ratio of 16.4% and leverage ratio of 7.8% on an average risk weighting of 68%[6].
- We continue to fund our lending primarily with retail deposits and had a loan to deposit ratio of 102.7% as at 31 December 2016 (31 December 2015: 104.2%). At the end of the period, we utilised c.£120 million of the Term Funding Scheme (TFS) liquidity and we expect to further utilise the TFS going forward.
- The positive results in 2016 have enabled the Board to recommend a maiden final dividend of 2.7p per share, subject to shareholder approval at the Group's Annual General Meeting on 6 June 2017. This is equivalent to c.10% of post-tax profits for the year and in line with the guidance set out at the IPO. The Board continues to target an increase in the dividend payout ratio to 30% of 2017 post-tax profits subject to the continuing evolution of regulatory capital requirements, the rate at which the Group continues to grow, attractive investment opportunities that may arise and the optimal capital composition of the Group's balance sheet.

Enhance customer focus

- Once again, we have achieved exceptional levels of customer service, with a Charterhouse survey conducted in Q4 2016 revealing customer satisfaction of 88%. This is consistent with customer satisfaction levels in 2015 showing our continued focus on supporting and fulfilling the needs of our customers by providing speed and certainty of delivery, specialist and expert knowledge and fair and transparent offerings, all of which translate into exceptional customer service.
- Within our Property Finance division, we entered the development finance market to provide financing solutions to smaller housebuilders, thus helping to resolve the significant supply and demand imbalance in the UK property market.
- The introduction of the Regional Business Centres (RBCs) within our Business Finance Division has enabled us to reposition our offering to put the customer first. We can now offer a broad suite of SME financing solutions, along with our specialist and expert knowledge, from a number of locations around the UK. This has broadened our geographical footprint and increased our direct distribution channels. We expect to have seven fully operational RBCs by the end of 2017.
- In 2016, we successfully entered into partnerships with Saga and RAC, to exclusively offer Consumer products directly to their customers, offering fair and transparent rates and treating our customers individually through our Personal Loans proposition. Throughout 2017,

we will continue to build on our current strategic partnerships by developing our product offerings into adjacent markets.

Board and management

- Andrew Didham was appointed as an Independent Non-Executive Director on 1 February 2017, bringing a wealth of experience to the Board of Directors, particularly in the financial services sector.
- Dylan Minto was appointed Chief Financial Officer (CFO) and Executive Director on 6 February 2017 after a successful period as Interim CFO following the departure of Tom Wood in H1 2016.
- The leadership team has also been strengthened by the appointment of Angela Wakelin as Chief Operating Officer in November 2016.

Outlook

- We laid out our strategy and 2020 vision at our Capital Markets Day in May 2016 and, although there remains macroeconomic and regulatory uncertainty, the momentum we have seen in our results and the pipeline we continue to build for 2017 and beyond as we continue to invest in our platform gives confidence in our ability to continue to deliver strong and stable returns whilst we grow the business at a pace appropriate to market conditions as they unfold.

Possible Offer

On 3 March 2017, following share price movement, the Group announced that it was in discussions with Pollen Street Capital Limited (Pollen Street) and BC Partners LLP (BC Partners) (together the Consortium) regarding a possible offer to be made by a new company to be jointly owned by funds managed or advised by Pollen Street and BC Partners for the entire issued and to be issued share capital of Shawbrook Group plc (the Possible Offer). The announcement is available at http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/SHAW/13147364.html

As at the date of publication of the 2016 Annual Report & Accounts, the Board had issued a rejection of the Possible Offer.

ENQUIRIES

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An analyst presentation will be held at 09:00am on 7 March 2017 at Instinctif Partners, 65 Gresham Street, London EC2V 7NQ. The analyst presentation will also be available by webcast and teleconference at 09:00am. The access details are as follows:

To access the webcast please click on the following link http://webcast.instinctif.tv/795-1286-17321/en.

Annual Report & Accounts

Our full 2016 Annual Report & Accounts and Pillar III disclosure are available on our website at investors.shawbrook.co.uk.

References to page numbers relate to page numbers and notes to the financial statements in the Annual Report & Accounts 2016.

General note to the financial information

This announcement has been prepared in accordance with the Listing Rules of the FCA and is based on the 2016 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 2015 or 31 December 2016. 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 2016 and 31 December 2015 were unqualified. The statutory financial statements for the year ended 31 December 2015 have been filed with the Registrar of Companies. The statutory financial statements for the year ended 31 December 2016 will be filed with the Registrar of Companies following the Annual General Meeting.

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. Forward looking statements in this announcement speak only as of the date of this announcement and are expressly qualified in their entirety by the cautionary statements contained or referred to in this disclaimer. No member of the Group, nor any of their respective directors, officers, employees, advisers or associates, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements contained in this announcement will actually occur. Each member of the Group and their respective directors, officers, employees, advisers and associates, disclaims any intention or obligation to update or revise any forward looking or other statements contained herein, except as required by applicable law.
A number of factors could cause the Group's actual results, plans, strategy and business to differ materially from those expressed or implied by these forward looking statements, including factors beyond the Group's control, including, but not limited to, any of the following: general economic conditions and business conditions in the UK and internationally, inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in interest rates (including low or negative rates), exchange rates, stock markets and currencies, the ability to access sufficient sources of capital, liquidity and funding when required, changes to the Group's credit ratings, the ability to derive cost savings, changing demographic developments, including mortality, and changing customer behaviour, including consumer spending, saving and borrowing habits, changes in customer preferences, changes to borrower or counterparty credit quality, instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the European Union (including the UK following its referendum vote to leave the European Union) or the Eurozone, and the impact of any sovereign credit rating downgrade or other sovereign financial issues, technological changes and cyber security risks, natural and other disasters, adverse weather and similar contingencies outside the Group's control, inadequate or failed internal or external processes, people and systems, terrorist acts and other acts of war or hostility and responses to those acts, geopolitical, pandemic or other such events, changes in laws, regulations, taxation, accounting standards or practices, including as a result of the exit by the UK from the EU or a further possible referendum on Scottish independence, regulatory capital or liquidity requirements and similar contingencies outside the Group's control, the policies and actions of governmental or regulatory authorities in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation, the ability to attract and retain senior management and other employees, actions or omissions by the Group's directors, management or employees, the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets, market relating trends and developments, exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, changes in competition and pricing environments, the inability to hedge certain risks economically, the adequacy of loss reserves, the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies, and the success of the Group in managing the risks of the foregoing.

Specialists in good sense

Shawbrook is a growing UK specialist bank. We challenge the conventional approach of the mainstream banks by taking a thoughtful, good-sense approach to the way we do business.

What sets us apart is the deep relationships we develop with our customers and business partners. We take the time to get to know them; we learn more about their specific needs and this allows us to identify and tailor the products that will help them to maximise their opportunities.

Our chosen target markets are selected carefully and are ones that are poorly served by the mainstream banks. We are determined to support our customers and business partners by being highly engaged, straightforward, agile and easy to do business with.

Drawing on a deep understanding of our clients' businesses and our specialist knowledge, we offer a clear proposition and certainty in the markets in which we operate. It's a refreshingly exciting and good-sense way of building a specialist banking business.

Basis of preparation

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

Underlying results should be considered in addition to, and not as a substitute for, the Group's statutory results, and the Group's presentation of underlying results should not be construed as an indication that future results will be unaffected by exceptional items. Underlying results have limitations as analytical tools, and they should not be considered in isolation or as substitutes for analysis of the Group's results as reported on a statutory basis. Limitations may include, but are not limited to, the following:

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

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

The following items have been excluded from underlying results:

- IFRS 2 charges amounting to £2.2 million recognised in relation to share-based awards to Steve Pateman, Chief Executive Officer, in 2016 which were fully satisfied by Special Opportunities Fund (Guernsey) LP. This charge is a transfer from the income statement to retained earnings and is the result of a one-off award for compensation against forfeited long-term incentives at a previous employer.
- Corporate activity costs amounting to £1.0 million in 2016 relate to the cost of the incremental deposits raised to prefund the acquisition of the c.£300 million property portfolio at the end of 2015, which completed in H2 2016. During the period between acquisition and completion, the portfolio was funded by the vendor due to the length of the transition period, and reimbursed by Shawbrook, thus resulting in Shawbrook paying to fund the portfolio twice. Future transactions would be expected to be structured differently, resulting in lower funding costs. Corporate activity costs of £1.1 million in 2015 include a final £0.6 million of costs incurred in connection with the acquisition of Money2Improve in November 2012. In addition, costs incurred in relation to the acquisition of three asset portfolios (including the incremental costs of raising additional deposits to fund inorganic growth) have been excluded from the underlying results.
- IPO costs of £8.9 million recognised in the income statement in 2015 include expenses incurred in relation to the successful listing of Shawbrook Group plc on the LSE main market. A further £3.7 million was recognised in equity. In addition, the adjustment includes IFRS 2 charges in relation to share-based awards crystallising on listing.

International Organization of Securities Commissions (IOSCO) regulation does not permit adjustment for items that are reasonably likely to occur in the foreseeable future, or activities that affected the entity's recent past, when considering underlying results as in their experience there are rarely circumstances where an explanation is sufficiently robust to result in restructuring costs or impairment losses being described as non-recurring. In addition, European Securities and Markets Authority (ESMA) regulation states that items which affected past periods and will affect future periods - such as restructuring costs or impairment losses - will rarely be considered as non-recurring, infrequent or unusual.

However, in addition to the underlying adjustments outlined above, the Board believes there are additional expenses incurred in 2016 which, in line with IOSCO and ESMA guidelines, have not been adjusted for, but which the Board regards as unusual and highly unlikely to recur. These expenses relate to an £11.2 million impairment charge and £0.8 million of administrative expenses incurred in connection with the controls breach announced on 28 June 2016 in the Business Finance Division (increased from the c.£9 million announced following continued monitoring and assessment of collateral supporting the £14.7 million of impacted facilities - see page 49 in the Risk management report for further details). The Group believes that the steps taken to strengthen our risk controls, including the removal of certain delegated authorities and appropriate segregation of origination and operations, should minimise the risk of a further breach. If this adjustment was made, the underlying profit before tax for the Group would have been £103.4m.

Income Statement

	2016 (£m)	2015 (£m)
Interest income, net fee and operating lease income	292.7	230.7
Interest expense and similar charges	(83.1)	(63.8)
Net operating income	**209.6**	**166.9**
Costs and provisions for liabilities and charges	(97.1)	(90.3)
Impairment losses on financial assets	(24.3)	(6.5)
Statutory profit before taxation	**88.2**	**70.1**
Income tax charge	(23.4)	(11.6)
Profit for the period, attributable to owners	**64.8**	**58.5**
Underlying adjustments		
IFRS 2 charge	2.2	-
Corporate activity costs	1.0	1.1
IPO transaction costs	-	8.9
Underlying profit before tax	**91.4**	**80.1**
Income tax on an underlying basis	(24.3)	(16.0)
Underlying profit for the period, attributable to owners	**67.1**	**64.1**

Comparison of statutory KPIs[1] to underlying KPIs

	2016		2015	
	Statutory	**Underlying**	**Statutory**	**Underlying**
Gross asset yield (%)	7.8	7.8	8.5	8.5
Liability yield (%)	(2.2)	(2.2)	(2.4)	(2.3)
Net interest margin (%)	5.6	5.6	6.2	6.2
Management expenses ratio (%)	(2.6)	(2.5)	(3.3)	(3.0)
Cost of risk (%)	(0.64)	(0.64)	(0.24)	(0.24)
Return on lending assets before tax (%)	2.3	2.4	2.6	3.0

Return on lending assets after tax (%)	1.7	1.8	2.2	2.4
Return on tangible equity (%)	18.8	19.4	20.7	22.7
Cost to income ratio (%)	46.3	45.1	54.1	48.3
Earnings per share (Pence)	25.9	26.8	24.1	26.5

What we do

Shawbrook is a specialist UK lending and savings bank focused on Property Finance, Business Finance and Consumer lending and savings. We differentiate ourselves by concentrating on markets where our specialist knowledge and personalised approach to underwriting offers us a competitive advantage. This supports attractive, stable returns and sustainable growth, and also benefits businesses and consumers in parts of the market which continue to be poorly served by mainstream banks.

Our values

- *Personal*: We treat our customers and business partners as people. We take the time to understand them, and we listen to what they say.
- *Pragmatic*: We look at every situation on its merits, rather than following rigid guidelines or the accepted way of doing things.
- *Expert*: Our people are experienced and professional. We know that it's our people and their know-how that make things happen for our customers and business partners.
- *Progressive*: We are proactive and strive to provide solutions which are quicker, simpler and more efficient than the way we do things today.

Chairman's statement

I am pleased to introduce the Annual Report & Accounts for Shawbrook for a year which has seen us make significant progress against the 2020 strategy laid out by Steve Pateman, our Chief Executive Officer, and his senior management team at our Capital Markets Day in May 2016. In addition to delivering a strong financial performance, a major focus for the year has been on putting in place the sound foundations to deliver excellent service to customers, strong returns to investors and to grow the business at a sensible pace in an uncertain environment.

Results

Shawbrook specialises in property finance, business finance and consumer lending and savings. We use our specialist knowledge and traditional relationship-based approach to serve parts of the market which are poorly served by mainstream banks - a model which not only benefits our customers, but also allows us to deliver attractive and stable returns to our shareholders.

In 2016 we delivered a strong return on tangible equity. We did this without changing our risk appetite during the year, whilst growing the balance sheet and delivering a net interest margin which has remained stable throughout 2016. All of our divisions showed growth and we maintained both a strong capital position and a prudent liquidity position.

A Charterhouse survey conducted in Q4 2016 revealed a customer satisfaction rate of 88%, well above the norms for the banking sector.

Dividend

The positive results in 2016 have enabled the Board to recommend a maiden final dividend of 2.7p per share, subject to shareholder approval at the Group's Annual General Meeting on 6 June 2017. This is equivalent to c.10% of post-tax profits for the year and in line with the guidance set out at the IPO. The Board continues to target an increase in the dividend payout ratio to 30% of 2017 post-tax profits subject to the continuing evolution of regulatory capital requirements, the rate at which the Group continues to grow, attractive investment opportunities that may arise and the optimal capital composition of the Group's balance sheet.

Governance

Shawbrook is committed to the highest standards of corporate governance and we comply with all elements of the UK Corporate Governance Code. I am delighted to say that the Board has been further strengthened by the appointment in February 2017 of Andrew Didham. Andrew is an Executive Vice Chairman and was formerly the Group Finance Director of Rothschild. He takes over as Chairman of the Board Audit Committee from Roger Lovering, who I am very pleased remains on the Board.

The Board carried out an externally facilitated review of its effectiveness during the year. The review confirmed that the Board has provided effective oversight of the business, and has been highly engaged both in developing robust risk policies and frameworks and in guiding longer term plans and strategies. The review also identified areas where the Board can continue to improve its effectiveness, and its findings are covered more fully in the Corporate governance report.

Risk

We have continued to invest heavily in the development of our Risk Management Framework, our risk teams and the promotion of a strong risk culture throughout the Group and we are confident that we have in place an effective platform to support the continued growth of the business. As a result of this work, we identified the controls breach in the Business Finance Division (see page 49 in the Risk management report for further details). The Board played an active role in the oversight of the resolution of this matter. The current Risk Management Framework is described fully in the Risk management report.

People

Shawbrook is a relationship business serving customers in a way which requires experience, knowledge, judgement and integrity. We are very fortunate to have people throughout the business who possess these qualities in abundance, and who are passionate about what they do, and I am extremely grateful to all my colleagues for their efforts throughout the year. I am particularly grateful to Steve Pateman and his leadership team for their performance during the year.

I would also like to thank the outgoing Chief Financial Officer and Executive Director, Tom Wood, who left us during 2016, for his contribution to our successes. Following Tom's departure the Board embarked on a comprehensive market search for his successor and in February 2017 was delighted to appoint Dylan Minto as Chief Financial Officer and Executive Director. The leadership team has also been strengthened by the appointment of Angela Wakelin as Chief Operating Officer, who arrived in November 2016. I believe we now have in place a strong and experienced leadership team to deliver our vision and take the business forward.

Community

We seek to be a good corporate citizen and in 2016 we established a corporate social responsibility programme with elements covering the community, the environment, the workplace and the marketplace. More detail on this programme is set out in the Corporate social responsibility report on pages 57 to 62.

Outlook

As we look forward we are mindful of the uncertain political, economic and regulatory environment. However, we have built the bank on conservative foundations, established a strong franchise in our chosen markets and have a great team of people. All of these things position us strongly to take advantage of opportunities as they arise, and we are confident that we can continue to deliver strong and stable returns while we grow the business at a pace appropriate to conditions as they unfold.

I would like to finish by reiterating my thanks to my fellow Board members, the leadership team and all colleagues across Shawbrook for their contribution to everything we have achieved together in 2016.

Iain Cornish

Chairman

Chief Executive Officer's review

2016 has been a year of considerable progress for Shawbrook. We have articulated a clear ambition which reflects the opportunities that lie ahead in our three divisions, allowing us to diversify our risk and creating a sustainable momentum that underpins the vision we have set out for the period through to 2020.

2016 results

On an underlying basis, and excluding the impact of the controls breach in the Business Finance Division (see page 49 in the Risk management report for further details), we have achieved each of the financial objectives we set out for the year, notwithstanding some significant changes in our key markets.

Statutory profit before tax (PBT) amounted to £88.2 million (£91.4 million on an underlying basis). Our underlying PBT, excluding the costs of the controls breach in the Business Finance Division, rose by 29% to £103.4 million, supported by strong disciplines in costs, risk and yield management. Net interest margin (NIM) reduced to 5.6% reflecting the impact of the c.£300 million property portfolio acquisition we made in December 2015 and has stabilised at 5.6% throughout 2016. Credit risk impairment continued at low levels with cost of risk, adjusted for the controls breach, at 35bps (64bps on a statutory basis). The growth in revenues led to a reduction in our underlying cost to income ratio to 45.1% (statutory: 46.3%) notwithstanding continued investment in our distribution, risk and technology platforms and the absorption of £1.4 million of management exit costs relating to a number of Executive Committee members leaving the Group throughout 2016. As a result, we have delivered a return on tangible equity (RoTE) of 22.0%, within our stated target range, excluding the impact of the controls breach in the Business Finance Division (underlying: 19.4%, statutory 18.8%).

We are pleased to be recommending a maiden final dividend of 2.7p per share, equating to c.10% of our post-tax profits, in line with the guidance set out at the IPO.

These numbers reflect many aspects of our business but the common theme that underpins our success is our ability to deliver solutions to the financing needs of individuals and businesses that many of the mainstream banks no longer offer. We achieve this through the combination of data and practical banking experience which allows us to interpret the information we have on our customers and their markets, and thus deliver specialist financing solutions based around good sense.

Business progress

Our core focus remains on our lending businesses in Property Finance, Business Finance and Consumer, and we have continued to develop new products and distribution channels in each of these markets.

Within Property Finance, we have built on our core propositions in buy-to-let, commercial property, residential (second charge) and short-term lending by adding development finance, where we are seeking to support small to medium-sized housebuilders, together with the development of a suite of residential lending solutions including interest-only extensions into retirement - a market that has been neglected for some time.

Our asset finance and working capital solutions (invoice finance) businesses have been integrated and their product suite will be distributed primarily through a network of Regional Business Centres, which also provide a broader suite of lending solutions to small and medium-sized enterprises. We will continue to provide specialist asset finance solutions building on our expertise in the taxi, marine and aviation, professional services and healthcare sectors, alongside growing our newer specialisms in agriculture, vendor finance and technology, and establishing the Shawbrook business in Jersey.

Structured Finance, which includes our block finance proposition, grew its balance sheet to over £420 million and is now broadening its offering so that it can support the Regional Business Centres and bring structured finance solutions to small and medium-sized enterprises.

Whilst retaining its strong position in the home improvement market, Consumer lending has continued to diversify its product range allowing us to post year-on-year growth in balances of £132 million despite a significantly smaller market for solar panels. In 2016, we launched a range of personal and retail finance propositions across direct, broker and partnership channels with affinity partnerships agreed with Saga and RAC, initially in unsecured finance, but with the intention of broadening out into mortgages, holiday finance, motor finance and savings.

Operational achievements

In addition to the considerable progress made in each of the businesses, we have continued to strengthen our central functions and risk platforms. Each business is now supported by dedicated resources in risk, finance, HR and operations (which includes IT, change, collections and recoveries and data management) led by a strengthened executive team in each of these disciplines. We are well placed to complete our IFRS 9 transition for January 2018 and will use the data from this project to consider whether to progress with an application for Advanced Internal Risk Based (AIRB) permission for our balance sheet.

Our strengthened Risk Management Framework identified the controls breach in the Business Finance Division and, whilst it is disappointing to have taken a significant provision on the impaired balances, the steps we have taken to strengthen our risk controls, including the removal of certain delegated authorities and appropriate segregation of origination and operations, should minimise the risk of a further breach. In addition, we are confident that we have fully identified the impaired portfolio of £14.7 million.

Maintaining effective governance and controls strengthens our ability to innovate, provide solutions and be entrepreneurial, thus meeting the needs of the growing markets that are open to us as the mainstream banks consolidate their core activities and risk appetite.

Our approach focuses above all on quality and returns, consistent with our risk profile, building our balance sheet with care and consideration for the broader economic environment so that we can continue to maintain a RoTE within our target range. We will rein back on markets where risk appetite and pricing levels are not consistent with our long-term return objectives and continue to look for adjacent new opportunities.

We do, however, believe that old-fashioned practical banking has a place in the 21st century. Commoditising risk, which arguably is a function of regulation tailored to correct the mistakes of large high-street banks, creates marginalisation which in turn can impact individual and business ambition. Our role is to help our customers realise their ambitions in a way that also makes sense for us and is attractive for all our stakeholders.

Divisional performance

Each of our divisions posted year-on-year growth as loans and advances grew to £4.1 billion whilst maintaining our NIM of 5.6% despite some adverse mix impacts from the greater flows in Buy to Let, particularly in Q1 2016, and a slower performance in our asset finance business.

<u>Property Finance</u>

Property Finance remained our largest division and a real engine of growth. Full-year originations totalled £1.0 billion which represented a 20% increase on the prior year; buy-to-let flows were strong, particularly in Q1, whilst residential (second charge) originations were broadly flat reflecting the impact on the market of the transition from the Consumer Credit regime to the Mortgage Credit Directive. Short-term property finance improved, although this can be a price-sensitive market and may be constrained by any adverse economic conditions flowing from the UK's decision to leave the EU. Our development finance proposition came on line in Q3 and our 'lending into retirement' proposition will launch in early 2017, with a complex mortgages product set to follow. This diversification will underpin flows in what we expect to be a softer buy-to-let market going forward as tax changes and revised underwriting standards take effect. However, the need for manual underwriting of larger portfolios will benefit specialist providers like Shawbrook.

The portfolio acquisition in December 2015 completed in July 2016 and is now starting to yield direct opportunities.

NIM benefited from lower funding costs and a policy of holding pricing for much of the year, despite significant pricing pressures, and with cost of risk of 0.09% the divisional contribution rose by 33% to £82.5 million.

<u>Business Finance</u>

Within Business Finance, the working capital solutions offering had a much improved year growing balances by 38% to £253 million on new flows of £124 million and strong retention. The Structured Finance sub-division grew its customer balances to £425 million and continues to produce strong returns through a low cost base and prudent risk management.

In contrast, the asset finance offering had a more challenging year — there was a slowdown in flows as businesses deferred investment plans and the impact of the changes we made following the identification of the controls breach in this business (see page 49 in the Risk management report for further details).

Originations across Business Finance grew despite a 28% reversal in asset finance (direct and broker); gross yield saw a modest dilution to 8.6% but with lower funding costs, NIM emerged at 6.6% supporting a 10% increase in divisional contribution (excluding the controls breach) to £51.5 million (£39.5 million on a statutory basis).

<u>Consumer</u>

Consumer lending had a buoyant year, growing balances to £0.5 billion despite a softer home improvement market reflecting changes in the solar market; there was significant growth in the Retail Finance and Personal Loans sub-divisions. Affinity partnerships were agreed with Saga and RAC, which will underpin further growth.

We have also made significant progress in working with other strategic partners, such as ClearScore - a customer credit-scoring business which helps consumers understand the best possible loan for their individual circumstances.

Divisional contribution rose by 24% to £14.6 million, benefitting from revenue growth and a change in mix with NIM improving to 8.2%. Cost of risk increased to 1.9%, reflecting a higher risk profile in Personal Loans and following some changes to our impairment methodologies to include customer-based probabilities of default.

All of our lending businesses are funded primarily by retail deposits. In 2016, we developed shorter term products which, taken together with the impact of the interest rate changes in August following the decision to leave the EU, allowed us to reduce funding costs of retail deposits by 0.2% to 2.0%. Whilst we would anticipate making further use of the Bank of England's Term Funding Scheme, we will continue to offer relatively attractive rates to savers as we see this source of funding as key to our longer term funding and liquidity profile.

Environment

The year 2016 was one of considerable volatility and uncertainty in the political, economic and market environment and much of that uncertainty remains as we move into 2017. Clearly the UK's future relationship with Europe will continue to dominate economic and political sentiment which, in turn, will influence the confidence and thus investment intentions of many of our customers. Equally, our customers' confidence will be influenced by world events and how these impact our home markets, by way of either trade or price inputs.

It is entirely appropriate to be conscious of the impact of these factors on our future business prospects and the risk profile of our asset base. However, with change comes opportunity and we continue to see the mainstream banks reorganise their business lines to improve their efficiency, which in turn creates opportunities for Shawbrook in terms of products and customers. We thus retain confidence in our longer term ambitions for the Group whilst being cognisant of the need for prudence in our lending standards, capital base and liquidity profile.

Conclusion and Outlook

We laid out our strategy and 2020 vision at our Capital Markets Day in May 2016 and, although there remains macroeconomic and regulatory uncertainty, the momentum we have seen in our results and the pipeline we continue to build for 2017 and beyond as we continue to invest in our platform gives confidence in our ability to continue to deliver strong and stable returns whilst we grow the business at a pace appropriate to market conditions as they unfold. The rationale for Shawbrook is as clear as it was when the bank was first put together in 2011, and then subsequently listed on the London Stock Exchange in April 2015. Whilst it is true that the journey since listing has been somewhat more challenging than anticipated, Shawbrook today has sound foundations and is well placed to take advantage of the opportunities that will continue to arise from the structural changes taking place in the UK banking market.

The management team has been strengthened, systems and infrastructure significantly improved, new partnerships have been established and we are expanding our product capability in each of our three divisions.

These foundations allow us to execute key regulatory projects such as IFRS 9 and to consider how best to apply capital standards across the business, so that we can effectively manage whatever changes may emerge from the latest Basel consultations.

Our discipline on risk, returns, costs and optimal use of liquidity and capital is clear and reflected in our underlying performance in 2016. As we move forward into what will be more challenging markets, our guiding principle will be quality rather than quantity and this, combined with practical banking and good sense, will create resilience, durability and sustainability.

In my first year as CEO, I have very much appreciated the support and commitment of the team around me in Shawbrook; they share my view that treating customers well - helping them achieve their ambitions but doing so in a way that is good for all stakeholders - is the foundation upon which great banks are built. I have equally valued the support and encouragement from my colleagues on the Board and, in particular, our Chairman.

Shawbrook enters 2017 with a clear strategy, solid foundations and high levels of staff and customer engagement. It is thus well placed to continue its growth trajectory notwithstanding the uncertainties that inevitably lie ahead.

Steve Pateman

Chief Executive Officer

Market overview

Macroeconomic environment

Brexit

On 23 June 2016, the UK voted to leave the EU. The Prime Minister set out her 12-point Brexit plan on 17 January 2017, announcing the UK's priorities for exit negotiations, and is expected to trigger Article 50 before the end of March 2017.

Brexit-related effects on Shawbrook's businesses have been limited to date, both on lending volumes and credit quality. Although economic forecasts have been upgraded from their post-referendum lows, it remains likely that the cycle will turn earlier than previously expected; however, given Shawbrook's prudent and conservative risk appetite, it has not felt the need to materially amend its risk appetite or underwriting criteria in light of the referendum outcome. Nonetheless, this is something that is continuously monitored and reviewed.

UK Economy

The economic forecasts for the UK have changed markedly following the UK's decision to leave the EU. The Office for Budget Responsibility (OBR) reduced its 2017 UK growth prediction from 2.2% in March 2016 to 1.4% in November 2016. In January 2017, the International Monetary Fund (IMF) increased its 2017 growth forecast by 0.4% to 1.5%; however, it reduced its 2018 projection from 1.7% to 1.4%. Inflation reached 1.6% by December 2016, with the Bank of England stating that it could increase to 2.75% by 2018. Unemployment has also stayed low and ended 2016 at 4.8% - compared to 4.9% in June 2016.

Outlook

As the UK begins negotiations for Brexit, there will undoubtedly be uncertainty in the UK macro environment which may impact growth, inflation and unemployment forecasts amongst other economic metrics. This in turn could impact consumer confidence and market in a number of the markets in which Shawbrook operates.

Economists are typically assuming slower growth going forward because businesses will be less certain about investing in the UK as the country negotiates its exit from the EU. In addition, the depreciation of Sterling will continue to result in higher prices of British imports such as food and fuel, driving higher inflation.

Monetary policy

On 4 August 2016, the Bank of England reduced the Bank Rate from 50bps to 25bps and introduced a package of measures designed to provide additional monetary stimulus, including the Term Funding Scheme (TFS) and an expansion of the Bank of England's asset purchase programme for UK government bonds.

Bank of England base rate (Bank Rate) reduction

The desired outcome of the reduction in the Bank Rate was to encourage consumer lending by reducing the cost of credit. However, many banks reduced their savings rates by more than 25bps, whilst making only marginal, if any, changes to the cost of credit. This resulted in a highly liquid deposit market with savers having very few options to earn interest. The reduction in deposit rates was further fuelled by the introduction of the TFS. Given the level of existing competition in the first-charge residential mortgage market, margins were already competitive prior to the Bank Rate cut, resulting in many lenders being unable to pass on the reduction to new borrowers without their products becoming loss-making.

Term Funding Scheme

As with the Funding for Lending Scheme (FLS), the TFS was announced with the intention of supplying low-cost funding to banks to encourage greater lending at reasonable rates to consumers. Like the FLS, the TFS works by enabling banks to pre-position collateral with the Bank of England and to receive funding in return. The cost of this funding is equivalent to Bank Rate, and banks can initially encumber up to 5% of their loans and advances and subsequently fund 100% of their growth using the TFS. The introduction of the TFS added to the surplus liquidity in the funding market, resulting in further reductions to deposit rates and an increase in market demand for savings accounts.

Asset purchase programme

The expansion of the Bank of England's asset purchase programme for UK government bonds is expected to lower the yields on securities that are used to determine the cost of borrowing for households and businesses. It is also likely to trigger portfolio rebalancing into riskier assets by current holders of government bonds, further enhancing the supply of credit to the broader economy. The expansion of the asset purchase programme resulted in increased competition, particularly in the asset finance market, as non-bank lenders benefited from the lower costs of their borrowings.

Outlook

Modest increases in the Bank of England base rate could be imposed to manage continued rising levels of inflation and significantly low asset pricing. In order to compete for volume, pricing in some markets has become so low that it could be considered unsustainable as the price does not plausibly cover the level of risk undertaken.

An increase in the Bank Rate, along with the termination of the TFS in January 2018, may have a detrimental effect on the cost of retail deposits as competition in the market increases to fund stable balance sheets and further growth. The level of impact will depend heavily on the extent of the competition, particularly if larger players in the deposit market decide not to pass on the full rate to UK depositors as they seek to widen margins.

Regulation

Mortgage Credit Directive (MCD) for second-charge mortgages

On 21 March 2016, second-charge mortgages became regulated under the MCD with loans written after this date no longer being regulated under the Consumer Credit Act. This resulted in significant changes to the provision of advice, the processes for underwriting and the processing of second-charge mortgages for both lenders and intermediaries.

Buy-to-let (BTL) underwriting standards expectations

On 29 September 2016, the Prudential Regulation Authority (PRA) announced its expectations of firms' underwriting standards for the BTL market, following a review in 2015 and 2016. The PRA's actions are intended to bring all lenders up to prevailing market standards and guard against any slipping of underwriting standards during a period in which firms' growth plans could be challenged by the changing economic landscape and the impact of forthcoming tax changes.

The PRA's statement outlines minimum expectations that firms should meet in underwriting BTL mortgages, including:

- affordability assessments should take into account borrowers' costs including tax liabilities, verified personal income and possible future interest rate increases; and
- lending to portfolio landlords (defined by the PRA as being those with four or more mortgaged BTL properties) should be assessed using a specialist underwriting process.

In addition, the changes to income tax relief on mortgage interest for BTL properties announced in 2015 begin to take effect in April 2017.

Outlook

The implementation of the standard minimum BTL underwriting and the changes to income tax relief on mortgage interest are forecast by most commentators to slow the BTL market. Given the ever present imbalance in supply and demand for property in the UK, this is likely to have a larger impact on the amateur BTL market than the professional BTL market. The introduction of minimum underwriting standards for BTL mortgages from the PRA could arguably be beneficial for specialist lenders such as Shawbrook, whose target market only consists of professional landlords and lenders which already have in place the operational framework for stressed affordability assessments and manual underwriting.

Chief Financial Officer's review

Solid Financial Performance

In 2016, Shawbrook achieved 26% growth in statutory profit before tax (PBT) to £88.2 million (14% growth in underlying PBT to £91.4 million), driven by increased volumes and further cost efficiencies. This includes costs and impairments relating to the controls breach in the Business Finance Division (see page 49 in the Risk management report for further details).

Statutory return on tangible equity (RoTE) amounted to 18.8% (2015: 20.7%) and on an underlying basis, RoTE was 19.4% (2015: 22.7%). When excluding costs and impairments relating to the controls breach in the Business Finance Division, RoTE remained within our guidance, amounting to 22.0%.

Net Operating Income

The Group achieved a net interest margin (NIM) of 5.6% in 2016, down from 6.2% in 2015. This was due partly to a higher proportion of lower yielding property loans following the portfolio acquisition made at the end of 2015; and partly to the higher yielding back book running off and being replaced by a lower yielding front book as a result of the 'lower for longer' interest rate environment and increased competition in some of our markets. However, following the UK's decision to leave the EU, the Bank of England subsequently reduced the Bank Rate and introduced the Term Funding Scheme (TFS), which have both had a beneficial impact on the cost of funds.

The Group's customer loans (including operating leases, net of provisions) amounted to £4.1 billion at 31 December 2016, up 22% from £3.4 billion at 31 December 2015. The Group achieved originations of £1.9 billion in 2016, an increase of 14% compared to £1.7 billion in 2015, with all three divisions delivering record levels of originations as we continue to develop new products and expand into adjacent markets, for example, expansion into the development finance market, expansion into Jersey through Shawbrook International, and the agreement of strategic partnerships which increase our addressable market (e.g. Saga and RAC).

Administrative Expenses

Growth in income, coupled with continued operational efficiencies across the three divisions and in the central functions, resulted in a reduction in the cost to income ratio of 7.8 percentage points to 46.3% (3.2 percentage points on an underlying basis to 45.1%). Administrative expenses (including provisions for liabilities and charges) amounted to £97.1 million in 2016 (£94.9 million on an underlying basis), compared to £90.3 million in 2015 (£80.8 million on an underlying basis). The development of the COO function will drive further efficiencies in 2017 and beyond; however, we will continue to invest in innovative solutions to ensure our competitive advantages of exceptional service, and speed and certainty of delivery, remain best in class.

Impairments and non-performing loans (NPLs)

The impairment charge for 2016 amounted to £24.3 million, £11.2 million of which related to the controls breach in the Business Finance Division. The cost of risk for 2016 was 64bps (35bps excluding the controls breach), compared to 24bps in 2015. The low levels of impairments that we continue to experience are representative of the benign economic environment in which we are operating. The widely anticipated downturn following the UK's decision to leave the EU has yet to materialise, and whilst we remain cognisant of the macroeconomic environment, we have yet to witness any associated material changes in the performance of our loan book. The non-performing loan (NPL) ratio as at 31 December 2016 of 0.99% (1.17% including the controls breach, 31 December 2015: 0.65%) continues to reflect the benign economic environment with the increase largely attributable to slower transaction cycles in a number of prime property segments of the market, the time taken to optimise the recovery of assets in Business Finance and the maturity of the residential mortgage portfolio. Our credit appetite remains conservatively positioned with significant collateral against our watch list cases. Overall, our assessment of the impairment requirement against these cases results in a NPL provision coverage ratio of 51% at 31 December 2016.

Continue to build on conservative foundations

Funding

The Group continues to be primarily retail deposit funded, with a loan to deposit ratio of 102.7% at 31 December 2016 (31 December 2015: 104.2%). As at 31 December 2016, the Group's deposit balance amounted to £3.9 billion, an increase of 24% from £3.2 billion at 31 December 2015.

Following our entry into the easy access and ISA deposit markets in 2015, we have continued to diversify our deposit base, with 17% relating to easy access products; however, we remain predominantly funded by longer-dated term and notice deposits. The increase in the proportion of easy access products, along with the exceptionally low deposit rates in the market following the Bank Rate reduction and introduction of the government's TFS, has resulted in a decrease in the cost of new deposit flows. The cost of funds has reduced from 2.3% in 2015 to 2.2% in 2016, with further benefit expected in 2017 and beyond as more expensive back-book deposits are replaced.

Capital

As part of its 2016 results announcement, the Group has announced that the Board has recommended a maiden final dividend of 2.7p per share, equating to c.10% of 2016 post-tax profits, subject to shareholder approval at the forthcoming AGM.

The Common Equity Tier 1 (CET1) ratio and total capital ratio at 31 December 2016 were 13.3% and 16.4% respectively (31 December 2015: 14.4% and 18.0% respectively). The CET1 ratio remains above our target minimum and our risk-weighted asset (RWA) density (RWAs divided by customer loans) for the Group at 31 December 2016 was 68%. This resulted in a leverage ratio of 7.8% (2015: 7.6%). We will continue to assess capital optimisation in conjunction with our growth strategy.

The Group continues to use standardised risk weights to calculate its capital requirement. As we progress with our preparations for the implementation of IFRS 9, the models being built put us in a good position to develop internal ratings-based (IRB) models which will allow us to consider the adoption of an advanced IRB approach. A transition to an advanced IRB approach continues to be discussed and considered by management, with the changing regulatory environment being a catalyst for potential adoption.

<u>Liquidity</u>

True to Shawbrook's conservative foundations, the Group continues to position risk appetite against its lending assets, with the majority of the Group's liquidity held with the Bank of England. The liquidity ratio at 31 December 2016 was 16.8% (2015: 25.8%) with 96.4% of the liquidity balance being liquidity buffer eligible assets (2015: 96.2%). The Group has commenced utilisation of the Term Funding Scheme (TFS) to begin to replace its off-balance-sheet Treasury Bills acquired as part of the Funding for Lending Scheme (FLS). Going forward, we expect to continue to utilise the TFS.

Consideration of accounting policy and regulatory changes

During 2016 and continuing into 2017, there has been a particular focus on our preparedness for IFRS 9, which aims to ensure we understand the impacts and have the necessary systems and processes in place ahead of the effective date of 1 January 2018. Progress has been made in developing our Expected Credit Loss (ECL) models, including our Credit Grading Framework (CGF). The IFRS 9 programme, which is jointly sponsored by the Chief Financial Officer and Chief Risk Officer and managed by a dedicated management committee, is currently within its build phase, with the majority of the testing and implementation concluding during 2017. Until such time as the ECL models (including the CGF and future-looking economic scenarios) have been tested, we do not plan to quantify the impacts of IFRS 9.

Outlook

2016 was a pivotal year for Shawbrook, in which we invested significantly across the bank to position us for continued success in the short and medium term. Whilst we have seen little evidence to date to suggest a downturn in the economy, we remain alert to the potential effects of uncertainty in the macroeconomic environment following the triggering of Article 50. We also continue to proactively monitor our risk appetite and underwriting criteria, policies and procedures to ensure our loan book can withstand various macroeconomic scenarios.

Our primary aim in 2017 and beyond is to maintain returns of between 22% and 25% whilst adhering to our conservative risk appetite and prudent approach to managing capital and liquidity. Should the economy weaken and we find ourselves unable to deliver progressive growth within these parameters, we will look to realign our growth ambitions. However, as of today we see no reason to scale back any of our initiatives and we are continuing to develop a number of new product and market opportunities in order to progressively grow our lending portfolio. We are confident that our diverse product offering and the flexibility and agility with which we can deploy capital put us in a favourable position to ensure a successful year ahead, and beyond as we look to deliver towards our 2020 vision.

Dylan Minto

Chief Financial Officer

Business Review

Property Finance

We provide finance to the specialist residential investment and commercial property market and to professional property investors and SME owner-occupiers. In addition we provide second charge mortgages to consumers.

<u>Activity</u>

The Property Finance Division has a well-diversified product range with both residential and commercial mortgage offerings. Within these broad markets, we actively specialise in the following areas:

- Residential: serving homeowners primarily through second-charge mortgages and specialist first-charge mortgages.
- Commercial: serving property professionals in both residential and commercial investment markets through the provision of traditional mortgages and short-term lending, and development finance to established SME housebuilders and well-established SME owner-occupiers.

The Division's products are distributed through the mortgage intermediary market, leveraging long-established relationships and a highly regarded brand.

<u>Differentiation</u>

The Property Finance Division is our most mature business, built on foundations of strong, longstanding relationships with mortgage brokers and intermediaries, working hand in hand to deliver exceptional service and positive outcomes for our customers. We remain progressive in our approach to further product diversification and process innovation in order to continuously improve our customer service proposition. For example, during 2016, we formed a new specialist development finance team; took a leading role in the second-charge mortgage market's transition to mortgage regulation from the consumer credit regime; and introduced an electronic application (E-AIP) system for our investment mortgage products. This E-AIP system now receives the majority of our initial case submissions, allowing us to deliver speedier and more efficient initial agreements in principle.

Our specialist knowledge and deep sector expertise allow us to continue to provide thoughtful judgement and a personal service. We operate selectively within extensive markets and our specialist approach continues to resonate with customers. Each loan is manually underwritten, allowing our teams to provide pragmatic and good sense solutions. As with all our divisions, we continue to maintain a sensible and clearly defined risk appetite which, allied to our robust underwriting processes, positions us appropriately through the cycle. The breadth of our product range, combined with the exceptional service levels delivered by our teams, continue to receive industry accolades - we received a total of 10 awards during 2016.

<u>Residential</u>

Our residential proposition remains predominantly focused on the second-charge mortgage market - we provide a wide range of secured loans, primarily to super-prime and prime borrowers. Loans are provided for a variety of purposes including home improvements, loan consolidation and large consumer purchases.

During 2016, second-charge mortgages transitioned to FCA regulation under the Mortgage Credit Directive, away from the former consumer credit regime. This took place on 21 March 2016 and created significant system, process and documentation changes for the industry. Our teams managed this transition well with minimal disruption to lending flows. This was a testament to the capability of our mortgage platform and the expertise of our teams who, through our Academy programme, took a leading role in supporting our intermediary partners. More broadly, the inclusion of second-charge lending within the mortgage market is having a significant impact on product distribution, as generalist advisers become more aware of the product and the loan application process is more aligned to first-charge lending. This has significant potential to grow the market, although 2016 volumes remained broadly flat. We therefore believe that this growth will take some time to materialise.

Whilst remaining committed to maintaining our prominent position in the second-charge mortgage market, we have made progress with our plans to diversify into specialist segments of the first-charge market. In Q1 2017, we will be actively launching a range of 'lending into retirement' products and continue to explore other segments where our pragmatic approach can deliver good outcomes for carefully identified customer segments.

<u>Commercial</u>

Our activity in the commercial markets remains focused on providing financing to property professionals for the purpose of investment, refurbishment or redevelopment and to SMEs for owner-occupied property. Specialist buy-to-let (BTL) mortgages remain a significant part of our activity and we have seen strong growth during the year.

We have progressed with our ambition to develop a capability within the development finance market, and we now have in place a dedicated and experienced team who have commenced activity in a controlled manner. Our early engagement in the market has reaffirmed our confidence in our product design and capability to offer a selective service to professional SME housebuilders, many of whom we have existing relationships with. Allied to the distribution reach we have with our intermediary partners, we are able to adopt a controlled entry into this market, validating our principles in regard to risk appetite and customer service delivery.

The BTL sector was subject to a number of material events in 2016. The stamp duty surcharge introduction at the beginning of Q2 had a distorting effect on transaction activity in Q1 and, combined with the impending changes to interest tax relief for landlords, has started to drive an emerging trend of lower BTL purchases relative to 2015 levels. This has been offset, however, by significant demand for refinancing driven by increasing liquidity.

Financials and KPIs

The Division has had a record year in terms of originations, driving loan book growth of 21% to £2.5 billion at 31 December 2016. The change in mix following the acquisition of BTL loans and commercial mortgages in December 2015 contributed to a reduction in NIM to 4.3% in 2016 from 4.8% in 2015. Continued adherence to strict underwriting criteria has resulted in a stable cost of risk of 0.1%, reflective of the continued benign macro environment.

Outlook

Going into 2017, most commentators forecast a slowing trend in BTL activity as the headwinds of stamp duty, interest tax relief and the introduction of a higher affordability standard for new lending combine. We are confident our proposition is well placed for the changing and increasingly complex environment in which landlords operate, and that our specialist underwriting capability and service proposition are well suited to supporting customers through these changes.

Following the transition of second-charge mortgages from the consumer credit regime to the Mortgage Credit Directive, there is significant growth potential in the market, although it may take some time to materialise. Following the launch of our 'lending into retirement' products, we would expect increasing originations throughout 2017 and beyond as significant volumes of interest-only mortgages begin to mature.

Business Finance

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

Activity

The Business Finance Division has an extensive product range, enabling it to provide a comprehensive suite of services to address the needs of the poorly served UK SME market. The Division is managed through three propositions:

- Regional Business Centres: proven lenders to established businesses in UK SME markets, primarily through a direct product offering.
- Structured Finance: lending to SME finance companies with security against receivables within their portfolios.
- Specialist Sectors: leasing and hire purchase finance solutions in specialist UK SME market segments such as marine and aviation, healthcare and taxis.

Differentiation

The Business Finance Division provides a comprehensive suite of collateral-backed finance solutions for SMEs across the UK and Jersey, competing on quality of service and speed of delivery. We operate in several niche and poorly served markets, offering a well-diversified range of products.

Following the global financial crisis, many SMEs either lost funding lines due to the tightening of lending criteria from high-street banks and the exit of non-UK-based banks from the UK market, or found that lenders ceased to provide the most appropriate funding to SMEs. Whilst funding has returned to the SME market, levels remain significantly below pre-crisis levels and a proportion of the SME market therefore remains underserved, as there are fewer local experts and minimal opportunity to understand and price for idiosyncratic risk.

Our relationship-led model has an entrepreneurial edge which complements our high-touch, high quality service approach. Our expert teams have deep sector understanding and recognise that every SME is different and has different needs and risks. Our pragmatic and personal attitude to lending allows us to consider each circumstance's merits and risks, manually underwriting each loan to ensure the Division generates strong risk-adjusted returns.

Regional Business Centres

Shawbrook's Regional Business Centres (RBCs) primarily provide leasing finance for business-critical assets operated by established UK SME businesses, and working capital solutions in the form of invoice discounting and asset-based lending. The RBCs provide SMEs with access to the full suite of Shawbrook product offerings and direct access to our sales experts. They also provide intermediaries and key business introducers with a first point of contact for Shawbrook, developing and enhancing the intermediary-led distribution channel within our Business Finance Division.

The locations of the RBCs have been carefully selected to provide a wide and far-reaching geographical footprint, focusing on the regions we believe are key to the growth of the SME market in the UK. Developing and supporting the growth of businesses located outside London is a top priority for the government and we are fully committed to supporting growth in the economy across the whole of the UK.

Whilst retention rates have improved across our working capital solutions offering in 2016, the asset finance business has typically been more challenging due to increased liquidity driving greater competition in the hire purchase and leasing market. The Bank of England's quantitative easing (QE) programme was extended in August 2016, resulting in new, non-deposit-taking lenders entering the markets in which we operate. Our absolute focus on returns and credit quality has resulted in a marginal reduction in asset finance originations. The controls breach in the asset finance business (see page 49 in the Risk management report for further details) led to the acceleration of our plans to restructure the Division, creating a more integrated offering, and further improving the service we deliver to our customers.

Structured Finance

The Structured Finance product set provides wholesale finance and block discounting to smaller UK financial institutions to allow customers to release cash and grow their businesses. Loans are secured against receivables within the customers' portfolios, with the security given by the ultimate borrower taking the form of a hard asset or a pool of loan receivables.

Products are distributed directly through a team of specialists located at our London and Dorking offices. The team continues to expand as we achieve significant growth in our current markets as well as continuing to develop new products to fulfil the needs of customers. In 2016, we launched an investor 'call bridge' product, to provide liquidity to UK private equity funds, to assist them in achieving higher returns. We have also been actively involved in a number of syndicated loan propositions, attracting considerable trade media praise.

2016 was a highly successful year for Structured Finance with record growth at strong margins whilst maintaining excellent credit quality. Lending in Structured Finance is capital-intensive; however, the sub-division continues to contribute to the high risk-adjusted returns delivered by the Group on a consistent basis.

Specialist Sectors

Specialist Sectors provides financing to UK SMEs for business-critical assets in specialist markets including marine, aviation, healthcare, technology, agriculture and taxis. We distribute the majority of our Specialist Sectors products directly through our experienced and expert teams. Leveraging the significant lending and sector experience of our sales teams, we build and develop relationships with our clients by providing specialist insight and advice.

We continued to develop our current product set throughout 2016, recently entering adjacent markets such as marine leisure, technology and agriculture. Whilst we have achieved loan book growth of 5% across the range of our Specialist Sectors offerings, success in the various markets has been mixed, with challenges arising primarily from internal market dynamics - notably in the taxi market. However, these challenges have been counteracted by sustainable growth in areas such as marine and aviation, as our knowledge and relationships continue to deliver growth in both originations and the overall loan book.

In late 2016, we recruited Adam Dawson, a very experienced banker, to develop and head up our product offering in Jersey. As with all our markets, we identified a poorly served market with an opportunity to fulfil the needs of SMEs and consumers in the vicinity. We have started to establish our brand and develop our relationships, and initiated underwriting in Q4 2016.

Financials and KPIs

The 2016 financial year has been a successful one for the Business Finance Division with the loan book reaching £1.1 billion, a 17% increase from 31 December 2015. The Division achieved originations of £636 million, driven by strong originations in Structured Finance. This was partly offset by the negative impact on asset finance originations of uncertainty surrounding Brexit and the removal of certain delegated authorities following the identification of the controls breach in this Division.

Cost of risk for the Division was 137bps. Excluding the controls breach, this was 31bps - a 14bps reduction compared with 2015 which is in line with management's expectations and reflective of the benign credit environment. In addition, the net interest margin of 6.6% generated on the Business Finance portfolio in 2016 gave more than adequate coverage of the heightened cost of risk, resulting in a positive contribution of £39.5 million.

Outlook

Looking further into 2017, we will continue with the roll out of our RBCs, with current plans to have seven fully operational centres by the end of 2017. Whilst we remain mindful of the economic climate, we have yet to experience any material deterioration in credit quality following Brexit. We firmly believe our credit risk appetite remains appropriate through the cycle; however, we continuously monitor this, making minor changes where necessary. The current forecasts by independent researchers are far less severe than initially thought post Brexit; however, should the economy soften, the diversity of our product offering provides a degree of protection, given the counter-cyclical nature of our invoice discounting portfolio.

Within Structured Finance, we will continue to leverage the benefits of integrating our block discounting and wholesale teams through the sharing of knowledge and expertise. Growth in Structured Finance will be primarily driven by continued development and enhancement of our current product set, along with further identification of opportunities.

As we go into 2017, we will continue to identify opportunities in specialist sectors where SMEs are being poorly served as mainstream banks and other lenders continue to deal with internal issues, taking their attention away from customer needs. This will allow us to achieve strong returns while maintaining our conservative risk appetite, through exceptional service as well as speed and certainty of delivery.

Consumer

We provide tailored finance and savings products directly to consumers and through strategic partners. We use efficient systems, combined with human oversight to underwriting and the latest technology to give fast and fair credit decisions with transparent pricing.

Activity

The Consumer Division has an extensive product range, enabling us to provide unsecured loans for a variety of purposes, in addition to a range of savings products for consumer and business customers.

Consumer lending operates through relationships with major home improvement firms, in-store and online retailers, carefully selected holiday ownership companies, loan broker partners, affinity partners and through our newly launched direct to consumer channel. Savings products are available directly to personal and business customers. The Division is managed in three lending sub-divisions: Home Improvement/Holiday Ownership (HIL/HOL), Retail Finance and Personal Loans, alongside the Savings sub-division.

Differentiation

Shawbrook has a specialist and deep understanding of the consumer market, both in lending and savings. Our key differentiator is our commitment to offer fair and transparent products and pricing to all customers.

The Division's lending proposition has significant potential to grow through our Retail Finance and Personal Loan offerings, as well as through entering adjacent markets. We provide innovative solutions to our partners and customers enabling a seamless process for the provision of credit. Our advanced risk management and scoring techniques combined with our expert judgement allow us to make sensible lending decisions whilst providing the best possible outcome for our partners and customers.

In Savings, we maintain consistently competitive rates across our broad range of simple and straightforward retail deposit offerings, providing exceptional levels of service from our UK call centre. Our savings franchise is not an advised service, and has no sales incentives. Our deposit book is fully administered in-house, which offers the advantage of rapid execution of decisions on pricing and service.

Home Improvement/Holiday Ownership (HIL/HOL)

The HIL/HOL sub-division provides financing for home improvement and holiday ownership. We distribute our products through carefully selected partners, working closely with them to understand their needs and key customer demographics to ensure alignment with our own target markets. We continue to develop innovative solutions to enhance end-customers' experiences and deliver a seamless and timely service.

The HIL/HOL growth strategy was designed to counter the fall in the solar market following the feed-in tariff changes in early 2016, whilst achieving increased originations year on year. We have successfully achieved this by continuing to execute on our proven approach and growing our loan book through building new, and enhancing existing, relationships. In the lead-up to the EU referendum, activity in the home improvement market was marginally suppressed as consumers adopted a 'wait and see' approach to investment; however, following the referendum activity in this market returned to expected levels.

Retail Finance

The Retail Finance sub-division provides point-of-sale consumer finance in partnership with recognised retail brands both in-store and online. This is a rapidly growing sector and we have a strategy built on maintaining and developing strong relationships with SMEs, ensuring that their product offerings and target markets are aligned to our values.

During 2016, we focused on a significant repositioning of the Retail Finance proposition, as we ended partnerships with a number of underperforming retailers and brokers in the early part of the year at the same time as investing further in our experienced Retail Finance team. We achieved significant growth during 2016 by developing our strategic partnerships and bringing new retailers on board.

Personal Loans

The personal loans market in the UK is dominated by extremely low representative teaser rates which are subsidised, in many cases, by a group of customers being offered much higher rates than those advertised. Shawbrook's Personal Loans offering is built on the principles of fairness and transparency, providing a risk-based pricing solution to consumers who may be unable to obtain the super-prime loss-leading rates available in the mainstream personal loans market.

Our personal loans are primarily distributed through affinity partnerships and specialist broker partners. In H2 2016, we launched a direct-to-consumer proposition to further expand our distribution capabilities and grow originations in this sector. Through our website, a consumer can obtain a fair and transparent price quotation which is tailored to them as an individual, and which they receive upon successful completion of a full credit application. We have partnered with ClearScore to promote our products directly to our target market (see case study on page 38) and we continue to be optimistic about the growing potential of digital intermediaries.

In addition to the successful launch of our direct-to-consumer proposition, we have continued to develop strategic partnerships with third parties where our propositions are aligned. We announced in our Q3 2016 Interim Management Statement the agreement of a partnership with Saga plc and have subsequently launched a bespoke personal loan product to their customers. In Q4 2016, we agreed a four-year strategic partnership with RAC to offer personal loans exclusively to their customer base, with our products being successfully launched in Q1 2017. We continue to work closely with all our strategic partners to develop our relationships and enhance our offerings.

Savings

The Savings sub-division provides a wide range of cash savings solutions, primarily targeting affluent UK consumers. The broad product range, which includes notice, fixed rate, cash ISAs, and the more recently launched Easy Access products, has driven sustainable deposit growth by meeting a wider range of customer savings needs. It has increased our addressable market as we have, and continue to develop, an active presence in all key UK savings categories, for example, our growing easy access and shorter term product sets. Whilst the business attracts deposits from all customer demographics, a significant proportion of the customer deposit base continues to be sourced from affluent customers, with a wide range of savings needs and high average balances.

Our exceptional levels of customer service and satisfaction combined with a wide product range have translated into deeper relationships with our customers, resulting in 20% of new account openings in 2016 being made by existing customers. In addition, our fair and transparent pricing across both our existing and new customer segments has driven continued strong fixed rate retention performance.

Whilst we continue to generate new deposits predominantly through our direct online offering, we have also built a distribution capability with three affinity partners, who work alongside us to market Shawbrook's Savings offerings to our target markets. Focus on this area will continue through 2017 as we develop additional affinity relationships with selected partners and explore other potential markets.

The transition towards a fully digitised savings business that is supporting the progressive growth of the balance sheet continued throughout 2016, with 66% of all applications made online (2015: 61%) and 68% of customers being registered for online servicing as at 31 December 2016.

Further investment into digital capability, including an enhanced online banking and application experience and increased 'straight-through' self-service, will take place during 2017.

Financials and KPIs

The Consumer loan book was £0.5 billion at 31 December 2016, up 39% on 2015 driven by originations of £291 million. The mix change towards personal loans has offset competitive pressures resulting in a stable gross yield of 10.6%. The cost of risk increased to 1.9% compared with 0.7% in 2015 as we continue to grow our higher yielding personal loan portfolio and following some changes to our impairment methodologies to include customer-based probabilities of default. The 1.9% cost of risk for 2016 is in line with management's expectations and the average expected through the cycle cost of risk of 2.0% that we articulated to the market in the H1 2016 results presentation.

The Consumer deposit book increased by 24% in 2016 to reach a balance of £3.9 billion at 31 December 2016, as the Group continues to be predominantly retail deposit funded. The loan to deposit ratio at 31 December 2016 was 102.7%, down marginally from 104.2% at 31 December 2015. The highly liquid market following the Bank of England's base rate reduction in August 2016 and the announcement of the Term Funding Scheme resulted in significant pricing reductions to savings products across the entire deposit market. Our in-house operational capabilities allowed us to manage our deposit pricing strategy actively, giving us flexibility and agility to control deposit inflows whilst still offering consistently competitive rates. The decline in market interest rates, combined with Shawbrook's greater product diversity as our Easy Access proposition continues to strengthen, has resulted in a lower than anticipated cost of funding, with further tailwinds expected as our higher-costing fixed term deposits mature and we continue to realign our back book in line with the market, whilst maintaining fairness in customer pricing.

Outlook

The consumer credit market has continued its expansion since 2012, buoyed by low interest rates and record levels of employment. Despite this, a number of external factors continue to present a mixed message and uncertain outlook. In particular, the continued uncertainty relating to the UK's vote to leave the EU has manifested in fragile consumer confidence. Levels of personal indebtedness are also at record levels, and affordability may be squeezed by forecast rises in inflation. The personal loans industry also continues to be subject to intense competition, with teaser rates at all-time low levels and a number of new fintech disruptors entering and working with the market.

Nevertheless, we are well placed to deliver against our strategic plan by continuing to focus on specialist lending segments, building new strategic affinity partnerships and diversifying our portfolios through strong credit risk management, optimised pricing and market expertise.

The HIL/HOL sub-division is the most mature element of our Consumer lending proposition, and our growth going forward will be delivered through maintaining existing business by deepening our supplier relationships and through long-term strategic deals with our key partners.

We will further grow the Retail Finance portfolio by working with our current partners and creating new partnerships in the sectors and industries where we currently operate. In addition, we will look to expand our proposition through offering our products to emerging retail markets such as the legal and funeral services sectors.

We plan to expand the distribution channels for our Personal Loans offerings and continue to enhance our decision-making capabilities, to enable further growth in our existing segments and adjacent ones. We will further develop our broker channel by gaining, maintaining and deepening relationships, building on the progress we made in 2016. We will also enhance customer-level pricing, credit risk and automated decision-making, thus optimising acceptance rates and customer journeys.

Risk Management Report

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

The Group's approach to risk management continues to evolve and has benefited from further investment during 2016 to ensure that it remains comprehensive, consistent and scalable to accommodate the Group's growth plans. The embedding of the new Risk Management Framework was substantively completed in 2016 with further enhancement of testing and quality assurance planned for completion during 2017.

This enterprise-wide Risk Management Framework is underpinned by the following key elements:

Risk strategy

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

The strategic risk management objectives are to:

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

Risk appetite

The level of risk that the Group is willing to tolerate in operating the various elements of its business is defined in the risk appetite statement, which is agreed by the Board and reviewed on a regular basis. This articulates qualitative and quantitative measures of risk which are cascaded down through various areas of the Group's operations, calibrated by reference to the Group's absolute capacity for risk absorption, limit of appetite and target thresholds. During 2016 the Group completed a full annual review of the Group Risk Appetite Framework incorporating enhancements in the assessment of concentration risk, information security and the development of divisional risk appetite statements.

Risk Management Framework

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

Governance

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

Culture

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

Risk appetite statement

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

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

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

The RAS identifies four groups of risk appetite objectives which are further subdivided into 21 appetite dimensions as set out diagrammatically below. A suite of qualitative statements and quantitative measures have been set for each dimension, with hard risk limits calibrated by reference to absolute capacity, maximum risk tolerance and a threshold trigger level.

Risk appetite statement objectives and dimensions

Business Performance	**Infrastructure**	**Conduct**	**Reputation**
Profit Volatility	Systems	Product Design	Customers
Financial Strength	People	Sales	Regulators
Growth and Concentration	Data Quality	Post-sales Service	Shareholders and Market
Funding and Liquidity	Processes	Culture	People
	Transformation Projects	Intermediaries	
	Outsourcing	Third Parties	
	Information Security		

Risk Management Framework

Responsibility for risk management sits at all levels, both across the Group and from the Board and Executive Committee down through the central functions, and in turn to each divisional head and their business managers and risk officers.

In 2016 the Group continued to invest in enhancing the design and build of its integrated Risk Management Framework to support its strategic and commercial objectives. This activity will continue into 2017 as the framework is further embedded across the Group and supported by further enhancements to testing and quality assurance.

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

Risk strategy					
Risk Management Framework principles					
Risk appetite					
Key risk categories					
Credit & Concentration Risk	Market & Liquidity Risk	Operational Risk	Conduct, Legal & Compliance Risk	Strategic Risk	Systems & Change Risk
Policies					
Process & procedures					

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

Risk governance

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

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

Accountability, responsibility and authority for risk management are delegated to the Chief Executive Officer (CEO) and Chief Risk Officer (CRO), who in turn allocate responsibility for oversight and certain approvals across a number of management committees.

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

Board/Board Risk Committee				
Oversight				**Board Audit Committee**
Risk Category	**First Line**	**Second Line**		**Third Line**
Credit Risk	Credit Management in Business Areas and Treasury	Credit Risk	ERMC	Internal Audit
Liquidity and	Treasury	Market and	ALCo	

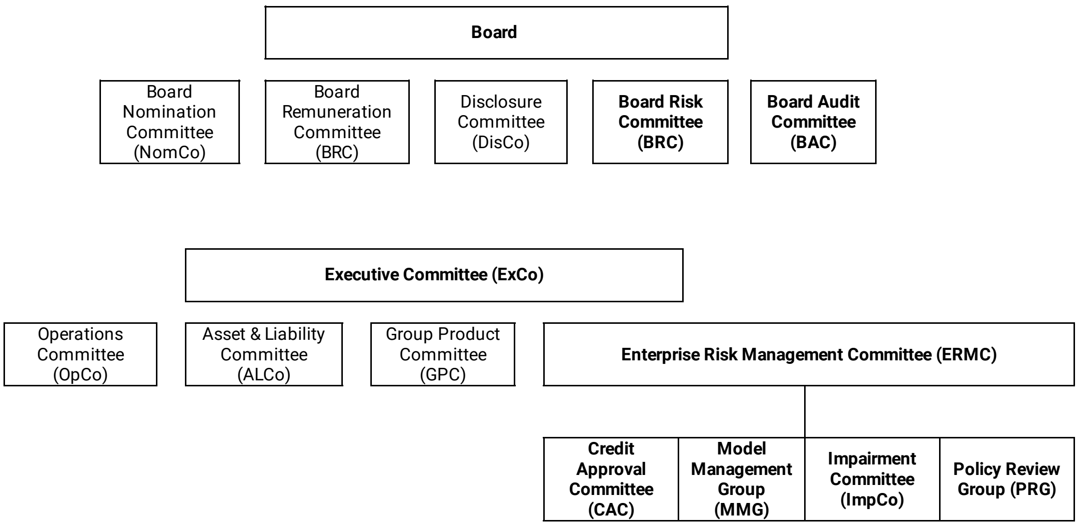
Market Risk		Liquidity Risk and Finance		
Operational Risk	All divisions and functional areas	Operational Risk	ERMC	
Conduct, Legal and Compliance Risk	All Business divisions and functional areas	Compliance	ERMC	
Strategic Risk	Executive Directors and Senior Management	Finance	ExCo	
Systems and Change Risk	IT/Change Management	Operational Risk	ERMC	

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

Formal risk escalation and reporting requirements are set out in risk policies, individual committee terms of reference and the approved risk appetite thresholds and limits.

Committee Structure and Risk Responsibilities

An abbreviated Board and management committee structure is set out below, highlighting those Risk Committees with primary risk-related duties:



The monitoring and controlling of risk is a fundamental part of the management process within the Group. The Board oversees the management of the key risk categories across the organisation.

The Board delegates specific powers for some matters to committees, details of which are set out in the Corporate Governance section of our website at investors.shawbrook.co.uk.

During 2016 the Group made a number of changes to enhance its risk governance. These included the launch of its Enterprise Risk Management Committee (ERMC), which takes an enterprise-wide view of the risk profile of the Group and is the senior risk committee within the Group. The ERMC replaced the Group Credit Committee (GCC) and the Conduct and Operational Risk Committee (CORC). To support the ERMC in embedding the Risk Management Framework and to reflect the Group's development of credit grading, the ERMC implemented two new groups. The Model Management Group (MMG) oversees the development, approval and monitoring of the Group's models and the Policy Review Group (PRG) oversees the consistent development, approval and monitoring of the Group's policies.

'Three lines of defence' model

The Group's approach to risk management is underpinned by the 'three lines of defence' model, which is summarised on page 45 of the Annual Report & Accounts.

First line of defence

Responsibility for risk management resides in the front-line business divisions and functions, and line managers are directly accountable for identifying and managing the risks that arise in their business or functional area. They are required to establish effective controls in line with the Group risk policy and act within the risk appetite parameters set and approved by the Board. The first line of defence comprises each of the three lending divisions. The first line of defence also includes the Finance function led by the Chief Financial Officer (CFO), Operations led by the Chief Operating Officer (COO) and Human Resources (HR) led by the Group HR Director as, although they are not customer-facing themselves, they provide support and back-up to the customer-facing divisions and have insight into many operational factors that could ultimately impact on the Group's exposure to market, liquidity, credit, regulatory, legal, conduct, compliance and operational risk.

Each division and functional area operates to set risk policies to ensure that activities remain within the Board's stated risk appetite for that area of the Group. The risk policies are approved by the appropriate Committee in accordance with its terms of reference and reviewed annually, with any material changes requiring approval at Committee level.

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

Second line of defence

The second line of defence comprises the Group's central and independent risk management and compliance function led by the Chief Risk Officer, who reports to the Chairman of the Board Risk Committee and to the CEO. It also includes the General Counsel & Company Secretary (who is also the Money Laundering Reporting Officer), who reports to the CEO.

The high-level risk structure is set out on page 46 of the Annual Report & Accounts.

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

- the design and build of the various components of the Group's Risk Management Framework and embedding these, together with the risk strategy and risk appetite, throughout the organisation;
- independent monitoring of the Group's activities against the Board's risk appetite and limits, and provision of monthly analysis and reporting on the risk portfolio to the ExCo and the Board;
- issuing and maintaining the suite of Group risk policies;
- undertaking physical reviews of risk management, controls and capability in the first-line units and providing risk assurance reports to the ExCo and the Board on all aspects of risk performance and compliance with the Risk Management Framework;
- providing advice and support to the first line of defence in relation to risk management activities;
- credit approvals between divisional and the threshold for Credit Approval Committee; and
- undertaking stress testing exercises and working with Finance and Treasury on the production of the ICAAP, ILAAP, Recovery Plan and Resolution Pack.

<u>Third line of defence</u>

The third line of defence - Internal Audit (currently outsourced to Deloitte LLP) - provides independent assurance on the activities of the Group and the effectiveness of the Group's Risk Management Framework and controls directly to the Board and Board Audit Committee. Internal Audit reports directly to the non-executive Chairman of the Board Audit Committee as well as the CEO and is independent of the first and second lines of defence.

The third line of defence has access to the activities and records of both the first and second lines of defence. It can inspect and review adherence to policy and controls in the first line, the monitoring of activity in the second line and the setting of policy and controls in the second line. The third line of defence does not independently establish policy or controls itself, beyond those necessary to implement its recommendations with respect to the other two lines of defence. The third line may in some cases use as a starting point the reports and reviews compiled by the second line, but is not restricted to them or necessarily influenced by their findings.

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

The Group's engagement of Deloitte LLP to carry out the functions of the third line of defence provides the Group with access to specialist capabilities beyond its current scale and provides insight into best practice. The performance of Deloitte in this role is reviewed by the Board Audit Committee. The Group is considering transitioning to an 'in-house' model in 2017, when the current arrangements will be up for review.

Risk Policies and Controls

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

The Group's high-level control documents and risk policies are owned and managed by the Group Risk function, headed by the Chief Risk Officer (CRO) and approved by the Board or, where delegated, the appropriate Risk Committee. The suite of policies is grouped according to importance and key risk categories.

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

The effectiveness of and compliance with the risk policy framework is evaluated on a continuous basis through the monthly reporting requirements (including risk policy exceptions reporting). Additionally a quarterly control self-certification process, supplemented by a programme of audits, thematic risk assurance reviews and quality control testing, is undertaken by each of the three lines of defence.

The Group set up a Policy Review Group (PRG) in 2016 to assist the ERMC in the oversight of the Group's policy inventory, the review and challenge of the waiver and dispensation process, and the tracking of actions to deliver compliance.

<u>Asset Class Policies</u>

The Group's lending policies are contained in 16 asset class policies. These have been arranged to operate on a Group-wide basis rather than based upon divisional products. This is considered to provide a more stable, consistent risk standard and control across the Group's portfolio of loan assets. Asset classes can also be aligned more readily with risk weightings, probability of default, loss given default and expected loss metrics, which facilitates risk reporting, risk-adjusted profitability analysis and modelling for stress testing and capital adequacy purposes.

Asset class policies are structured on the basis of policy rules, which must be adhered to, and guidelines, where an element of controlled discretion is permitted. All planned exceptions to policy rules require approval at the Group Risk function level and both planned and unplanned exceptions to policy rules are reported monthly to the relevant Risk Committee.

Key Risk Categories

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

Risk Category	Definition
Credit Risk (including concentration and single name risk)	· Credit Risk is 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	· 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 unhedged or mismatched asset and liability positions that are sensitive to changes in interest rates or currencies.
Operational Risk	· 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	· Conduct Risk is the risk that the Group's behaviour will result in poor customer outcomes and/or 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 Group may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice.
Strategic Risk	· Strategic Risk is the risk that the Group is unable to meet its objectives through the inappropriate selection or implementation of strategic plans. This includes the ability to generate lending volumes inside risk appetite.
Systems and Change Risk	· Systems and Change Risk is the risk that transition changes in the business will be improperly implemented.

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

<u>Credit Risk</u>

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 the aggregated credit risk exposure to counterparties, group of connected counterparties or, where applicable, a portfolio of lending assets that are subject to a single transaction. In addition to maximum amounts of credit exposure, sole lending mandates may stipulate sub-limits and/or further conditions and criteria.

During 2016, the Group implemented as part of its improving Risk Management Framework a number of changes to its hierarchy of lending mandates. Each division has a maximum authority level allocated, with exposures above these levels requiring approval from an approver in the second line of defence or the Credit Approval Committee (CAC). In each lending division, at least one signatory to the loan must be a segregated first line of defence credit approver who has no responsibility for, or remuneration arrangements linked to, sales targets, or ongoing sales origination or relationship responsibility with the borrower.

The maximum divisional mandate for the Regional Business Centres, Specialist Sectors and Commercial sub-divisions is £1.25 million. The maximum divisional mandate for residential lending in the Property Finance Division is £300,000 and in the Consumer Division £75,000. Exposures beyond these limits up to £5 million may be approved by an approver in the second line of defence, and exposures above this figure, up to the Group single name concentration limit of £25 million, must be approved by the CAC. In addition, where transactions involve financing portfolios of lending assets in excess of £15 million Board approval is also required.

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 a review of the Board's appetite for concentration risk.

Controls Breach in the Business Finance Division

Throughout 2015 and 2016, the Group implemented upgrades to its risk management systems and controls that included, amongst other things, improvements in quality assurance activity. Following this implementation, irregularities were identified in relation to a number of asset finance facilities originated from one of the Group's offices. The irregularities related to a controls breach in the underwriting process for these facilities that did not meet the Group's strict lending criteria and were originated over a period of several years, particularly between 2012 and 2015. The Group engaged external forensic accountants to undertake an investigation to provide assurance on both the scale of the impacted facilities and an assessment of the adequacy of the revised control framework. Following this external investigation, the Group announced that it would be recognising a charge of c.£9 million on a £14.7 million portfolio of impacted facilities. The Group has continued to monitor and assess the collateral supporting the impacted facilities and, as a result, has increased the impairment charge to £11.2 million. Associated costs amounted to £0.8 million. The Group has simplified its business model into three divisions with clear management lines and has continued to implement and embed its upgraded Risk Management Framework into the divisions. The Group believes that the steps taken to strengthen risk controls, including the removal of certain delegated authorities and appropriate segregation of origination and operations, should minimise the risk of a further breach. In addition, the results of the external forensic investigation and the ongoing stability of the £14.7 million impaired portfolio give confidence that the entirety of the affected portfolio has been fully identified and that the contagion risk is limited.

Credit Monitoring

Approval and ongoing monitoring control is exercised both within the businesses and through oversight by the Group Credit Risk function. This applies to 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 2017 to develop our 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.

<u>Liquidity and Market Risk</u>

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 function personnel independent of the Treasury function. Additionally, a series of liquidity stress tests are performed weekly by the Risk function 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.

<u>Operational Risk</u>

The Board Risk Committee receives regular reports across the spectrum of operational risks and information security. These reports cover 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 2016, none of these were material in nature and the Committee was satisfied that the actions taken were appropriate and that the control of operational incidents continued to improve. In response to the growing threat posed to information security, a full review of information security risk appetite was undertaken, in addition to a cyber crime risk assessment. A test of the Group's Cyber Incident Response Plan was also undertaken to assess the adequacy of the Group's internal control framework to respond to this threat, and a review of the Group's strategy to manage increasing levels of cyber risk in the marketplace. The operational risk reports were also developed throughout 2016 to include more focus on forward-looking risks, which permits a more strategic discussion at Board Risk Committee level.

<u>Conduct, Legal and Compliance Risk</u>

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

The Group has no appetite for knowingly behaving inappropriately, resulting in unfair outcomes for its customers. During 2016 the Group further reviewed its risk appetite for conduct risk to introduce measures across the conduct risk lifecycle, which includes product design, sales or aftersales processes, and culture. It also added new measures to support annual product reviews and risk appetite to support the management of brokers, intermediaries and outsource partners. 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 the issue, agreeing appropriate actions and communicating clearly with its customers to ensure a fair outcome is achieved.

<u>Strategic Risk</u>

Strategic Risk focuses on large, long-term risks that could become a material issue for the delivery of the Group's goals and objectives. Management of Strategic Risk is primarily the responsibility of the 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 ExCo and the Board. The Board received and approved a number of reports during 2016 including the Strategy Update and the Group's annual review of risk appetite. It has also been engaged actively in the formation of the Group's ICAAP and ILAAP, which are critical tools for the management of Strategic Risk.

<u>Systems and Change Risk</u>

Customer expectations for service availability are rising, with the rapid evolution 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 2016 the Group reviewed its approach to managing change, and plans in 2017 to review and further enhance its business continuity and disaster recovery capability in line with its Target Operating Model and, in particular, its location requirements, to deliver its commitments as outlined in the Strategy Update.

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 and competitive environment;
- Pace of regulatory change;
- Intermediary and outsourcing;
- Pace, scale of change and management stretch;
- Credit impairment; and
- Information security.

Key: No Change Risk Decreased Risk Increased

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	**Mitigation**	**Change**
Economic and competitive environment A reversal in UK economic conditions, 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: · lower demand for the Group's products and services; · changes in funding costs resulting from ongoing political uncertainty accompanied by a loss of confidence; · rising competition compressing Group margins below sustainable levels; and · higher impairments through increased defaults and/or reductions in collateral values.	The Group uses its expertise and deep understanding of its customers' needs to drive customer service and long-term relationships with its customers through the cycle. The Group monitors its chosen markets on a regular basis and regularly reviews adjacent markets where it has expertise, and also reviews opportunities for inorganic growth. 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. The Group undertakes a comprehensive assessment of its risk appetite to ensure that it can meet its objectives in severe but plausible economic conditions. The Group completes comprehensive stress testing of its lending and deposit portfolios to test resilience to severe but plausible economic conditions. The Group also establishes a prudent balance sheet strategy with robust levels of capital and liquidity and a prudent funding structure. The Group maintains risk appetite and pricing discipline.	The UK economy remains resilient with near-term momentum slightly to the upside of immediate post-referendum expectations. However, the Board expects there to be a period of uncertainty following the UK government formally triggering Article 50 expected by the end of Q1 2017.
Pace of regulatory change 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.	The regulatory environment continues to evolve and change. The Group actively engages with regulators, industry bodies and advisors in consultation processes.	UK financial services businesses remain subject to significant scrutiny and the current level of risk remains stable compared to last year. The Group adopts the Standardised Approach to its assessment of credit risk regulatory capital. The Group remains exposed to any potential future changes to the risk weightings under the Standardised Approach that could lead to an increase in capital requirements. The Group remains on track to deliver its IFRS 9 programme during 2017 in time to support a period of parallel run by Q3 2017 and adoption from 1 January 2018.

Intermediary and outsourcing 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 could mean that some customers find themselves with an increased risk of an unfavourable outcome. For the Group this could also lead to increased conduct-related redress, additional fraud or credit risk impairments.	The Group works with carefully selected intermediary and broker partners who take on the role of advising SMEs and consumers. The Group recognises that it is ultimately accountable for the lending it originates through its partners and continually undertakes reviews 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 in which the Group operates.	The Group implemented a new policy and suite of monitoring controls to manage its exposure to intermediaries, brokers and outsource partners during 2016 and believes that it has improved its risk profile. The Group saw one of its strategic outsourcing partners, Target Group, acquired by Tech Mahindra, a global specialist in digital transformation, in May 2016. The global support and resources provided by Tech Mahindra combined with the Group's continued investment in its strategic relationship is expected to further improve its outsourcing risk profile.
Pace, scale of change and management stretch The scale and pace of change could create delivery challenges and could lead to disruption of the Group's plans and in 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 are led by a dedicated Executive member. The risks are further mitigated by the Group's strengthening of the senior management team. The Group has a formal Operations 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.	The Group continues to invest in its change management processes to increase the pace and scale of change without impacting on the Group's operations and customer service. However, the Group has a strong appetite for change and the risk of an impact on its operations remains.
Credit impairment At 31 December 2016 the Group had customer loans (including operating leases and net of impairment provisions) of £4.1 billion, and is exposed to credit impairment if customers are unable to repay loans and any outstanding interest and fees. In addition the Group has exposure to a small number of counterparties with which it places surplus funding.	The Group recognises that it will experience credit impairment in connection with its lending activities, but manages its exposure by: · undertaking a prudent assessment of through-the-cycle losses in pricing, forecasting and stress testing; · maintaining consistent and conservative loan-to-value ratios and avoiding material weakening of credit quality to drive volumes; · lending predominantly on a secured basis against identifiable and accessible assets; · operating strong controls and governance with effective oversight by a centralised Group credit team; and · maintaining a prudent Treasury counterparty policy with surplus funding placed with the Bank of England and UK clearing banks.	Underlying Group credit impairment has remained low, reflecting favourable market conditions in the UK and the Group's approach to lending. The Group's counterparty exposure has remained broadly unchanged with the majority of surplus funding placed with the Bank of England and balances with UK clearing banks. The Group believes that the potential for additional credit impairment has increased with uncertainty following the referendum vote and the decision to trigger Article 50 no later than Q1 2017. The Group also believes that accounting developments, with the parallel run of IFRS 9 in 2017, will to lead to an increase in the Group's credit impairment requirement.
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 could exceed the Group's ability to provide highly reliable and widely available systems and services; • the evolving nature and scale of criminal activity could increase 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 to which the Group is exposed. The Group's strategy for mitigating information security risk is comprehensive, including: a documented cyber-strategy, ongoing threat assessments, regular penetration testing, the wide deployment of detective controls and a programme of education and training.	The Group continues to invest in its capabilities to reduce its exposure to a cyber attack and has further developed its risk appetite and controls with respect to information security. However, the risk of information security breaches, threats from cyber crime and the impact of new technology on the Group's businesses remains.

ICAAP, ILAAP and Stress Testing

The ICAAP, ILAAP and associated stress testing exercises represent important elements of the Group's ongoing risk management processes. The results of the risk assessment contained in these documents is embedded in the strategic planning process and risk appetite to ensure that sufficient capital and liquidity are available to support the Group's growth plans as well as to cover its regulatory requirements at all times and under varying circumstances.

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

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

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

Recovery Plan and Resolution Pack

The Group has prepared and submitted a Recovery Plan and Resolution Pack (RP&RP) in accordance with Prudential Regulatory Authority (PRA) Supervisory Statements SS18/13 and SS19/13 and submitted it to the PRA following Board approval.

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

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

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

The Board considers that the Group's public status, its business model and the diversified nature of its business markets provide it with the flexibility to consider selective business or portfolio disposals, loan book run-off, equity-raising or a combination of these actions. The Group would invoke the Recovery Plan and Resolution Pack if required.

Group Viability Statement

The Directors have assessed the outlook for the Group over a longer period than the 12 months required by the 'Going Concern' statement in accordance with the 2014 UK Corporate Governance Code.

The assessment relied on:

- the Board-approved Strategic Update presented to the capital markets in May 2016 and the 2017 Budget that outlines the Group's business plans and financial projections;
- the Internal Capital Adequacy Assessment Process (ICAAP);
- the Internal Liquidity Adequacy Assessment Process (ILAAP);
- a review and evaluation of the Group's top and emerging risks (as reported upon earlier in this section);
- consideration of the effect of a moving regulatory landscape on the Pillar 2A, Pillar 2B and the CRD IV Combined Buffer requirements, together with the effect of the Group's Capital Contingency Plan to restore the capital position in scenarios of capital headwinds;
- the assumption that the Group has ongoing access, if required, to the debt capital markets as we consider the optimal capital composition of the Group; and
- the effect of the implementation of the IFRS 9 "Financial Instruments", taking into account the phase-in arrangements proposed by the Basel Committee on Banking Supervision.

The Group is not large enough to participate in the annual Bank of England concurrent stress testing programme but has, as part of its ICAAP, performed a variety of equivalent stress tests and reverse stress tests of its business. These include two market-wide stress tests and two Group-specific (idiosyncratic) stress tests. The stress tests were derived through discussions with senior management and the Board, after considering the Group's principal risks. The Group also considered its funding and liquidity adequacy in the context of the reverse stress testing. The risk of the UK leaving the EU had been considered and the Board believes this risk was captured within its stress testing scenarios. The Board expects there to be a period of uncertainty following the UK Government triggering Article 50 and will keep this under review.

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

The Board aims to build a sustainable lending and savings bank for SMEs and consumers over the medium to long term. The Board monitors a five year Strategic Plan that provides a robust planning tool against which strategic decisions are made. Whilst the Board has no reason to believe that the Group will not be viable for a five year period, given the inherent uncertainty involved, the Board concluded that a three year period is an appropriate length of time to perform a viability assessment with a greater level of certainty.

Based on the results of the above mentioned assessments, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years.

Corporate social responsibility

During 2016 Shawbrook developed its corporate social responsibility (CSR) programme to better reflect how we operate as a company and how we position ourselves in the communities we operate in. We recognise the importance of social responsibility and are committed to maintaining the highest standards and conducting business in a responsible way.

Shawbrook is committed to maintaining high ethical standards, adhering to laws and regulations, conducting business in a responsible way and treating all stakeholders with honesty and integrity. These principles are reflected in our culture throughout the organisation and are adhered to by our employees.

The Shawbrook approach to CSR addresses both how we deal with our employees and our customers, and how we manage our ethical and environmental responsibilities. Our approach to CSR and sustainability focuses on four main stakeholder areas:

- Environment,
- Marketplace,
- Workplace, and
- Community.

Environment

Shawbrook is dedicated to responsible business through its financial activities, by protecting the environment in which we operate and working sustainably. We are committed to creating a strong business that is not achieved at the expense of the environment. Our Environmental Management defines responsibilities and processes in relation to waste, energy, water and travel at our offices across the UK. Our head office is also ISO 14001 compliant. Smart meter technology is installed across the business and we are able to track the individual performance of our properties. This allows us to monitor ongoing consumption profiles, and alter plant operational times in line with the requirements of each property, reducing energy wastage. We are pleased with our 2016 results but realise this is a journey requiring continual improvement, and have committed to reducing energy consumption in 2017 and beyond across the estate and to increasing the recycling of paper, plastic, aluminium and general waste produced at our offices.

Greenhouse Gas emissions: The main greenhouse gas (GHG) generated as a result of running our business is carbon dioxide, generated from our use of fuels in heating, cooling and lighting our offices, and through business travel. We are committed to reducing carbon dioxide emissions.

We have measured our GHG footprint since 2014 and have set ourselves a target of reducing this figure by 20% by 2020, reflecting our continued efforts to reduce energy consumption and improve efficiency overall.

Using the internationally recognised Greenhouse Gas framework, we have calculated the GHG emissions associated with our Scope 1 and 2 operations using DEFRA Environmental Reporting Guidelines conversion factors. Scope 1 includes fuel emissions from buildings and company vehicles, and Scope 2 includes our emissions from purchased electricity.

Total Scope 1 CO_2 emissions (t)	**49.5**	**61.5**	***(19.5)***
Scope 2 CO_2 emissions (t):			
Brentwood	284.7	268.1	*6.2*
Croydon	57.5	95.8	*(40.0)*
Dorking	86.7	88.7	*(2.3)*
Glasgow	47.9	47.7	*0.4*
London	24.6	n/a	*n/a*
Wisbech	n/a	21.3	*n/a*
Total Scope 2 CO_2 emissions (t)	**501.4**	**521.6**	***(3.9)***
Total Scope 1 and Scope 2 CO_2 emissions (t)	**550.9**	**583.1**	***(5.5)***
Total emissions per FTE (t)	1.0	1.1	*(8.8)*

Transport: Measures to reduce the impact of transportation across the business, for both commuting and business travel, has been a focus throughout 2016. Promotion of tele- and video- conferencing facilities has helped improve take-up of these facilities as an alternative to travel. The Group also provides a shuttle bus covering various nearby locations for employees at its head office in Brentwood, thereby reducing the use of personal vehicles.

Marketplace

Our traditional values and culture of respect, care, good sense and thoughtful judgement underpin our approach to working with our supply chain. We recognise the importance of collaborative relationships when doing business and Shawbrook strives to work with suppliers who subscribe to, operate on and promote similar principles.

We take seriously our responsibilities to customers, employees, shareholders, business partners and to the local community. We conduct all business relationships with respect, honesty and integrity, and we promote equitable working relationships throughout the supply chain.

Shawbrook relies on an extensive number of external suppliers and expects all suppliers and staff to behave, and to be seen to behave, ethically at all times during the sourcing and supply of goods and services. In 2017, we will further review our supply chain management and request that our suppliers report their GHG emissions to us, allowing us to collectively monitor and meet shared environmental goal.

Workplace

We pride ourselves in being a bank that is 'specialist in good sense'; however, this can only be achieved if we embed this philosophy with our people. The key to this is having a workplace that provides excellent opportunities for career progression and that encourages accountability and teamwork.

We work hard to create a business where we can attract and retain talented, customer-focused people who can do their best work and grow fulfilling careers.

We aim to attract and reward the most talented and dedicated individuals with first-class development and training programmes, in a workplace that encourages ambition, with a vision of providing first-class customer service. In 2016 we commenced our relationship with specialist resourcing partner Cielo, a leading global provider of talent acquisition services. This partnership will allow us greater scope to accommodate our business growth and further promote the Shawbrook employer brand to a wider market.

Colleague interaction: The 2016 employee survey, urging employees to offer their opinions of the Group.

The survey achieved a 78% response rate, surpassing the previous 76%. It also achieved an 81% overall engagement score: 7% above the financial services benchmark demonstrating our employees' enthusiasm for their workplace.

"This is a very good result when compared with our benchmark group." People Insight.

We also believe in giving back to our employees and offering them the opportunity to be a greater part of our growing organisation. As a result we have continued running our employee Sharesave scheme, which gives permanent and fixed-term-contract colleagues the opportunity to join a tax-free savings scheme and buy shares at a 20% discount.

Training and development: We have devoted considerable efforts to ensuring that all colleagues are supported in their training requirements, enabling them to be the best they can be. In 2016 we invested over £635,000 in employee learning and development. This included both internal training and external qualifications, all with the aim of educating and improving our talent.

The Shawbrook 'Learning Bank', launched in March 2016, also plays a significant part in our training programme and acts as a go- to tool for all training needs and records. The Learning Bank includes both face-to-face and eLearning modules, allowing for individual and independent development. Each staff member is encouraged to complete a minimum of 35 hours continuing professional development per year.

Future talent: This initiative, designed to attract and teach the Shawbrook employees of tomorrow was launched over summer, intending to entice new talented individuals whose core values and prospects are similarly aligned to that of Shawbrook.

"From day one I had a real job to do and the opportunity to contribute. My ideas are listened to despite the limited experience I had in the financial field; I genuinely feel like part of the team with the ability to influence the outcomes of the bank." Georgina Griffin, Graduate

Workforce diversity: We believe in supporting diversity and creating an inclusive culture where all our people feel valued and able to fulfil their potential. During 2016, we signed up to the HM Treasury Women in Finance Charter, in support of our commitment to gender equality, particularly in relation to senior management. Currently, 33% of our Executive Committee members are female - well above the industry average of 14%.

Communication and consultation: We continue to involve and inform employees on matters that affect them. Through our intranet, team meetings, regional/divisional conferences and national conferences, we keep employees informed of news and strategic developments. Through initiatives such as 'My Shawbrook Idea' we seek to harness the ideas of our people to build on this work.

Community

At Shawbrook we are committed to supporting local causes that are close to the hearts of our employees and the communities in which we work, aspiring to make a difference. Dedication to the community is embedded in our core values, and we understand the importance of investing our time and contributions in non-profit organisations.

Charitable partnerships: Over the past three years we have put our time and energy into our charitable partnerships ensuring that they are looked after and rewarded with the greatest achievable donations. Throughout 2016 we continued to develop our charity programme, based on an approach to social investment grounded in the local communities where our employees and customers live. Our two principal chosen organisations are the educational charity Future First, and Contact the Elderly, which supports older people and combats loneliness. During 2016 we contributed over £102,000 to community groups across the country.

Over the past financial year these contributions allowed us to support the building of and roll-out of a mentoring portal that Future First provides to teenagers preparing for life after school, and have helped Contact the Elderly continue its excellent work tackling loneliness and social isolation among older people.

Shawbrook also operates a Communities Committee which provides grants to UK registered charities, particularly in communities where Shawbrook operates. Through its grant programmes focused on education, local and employee-nominated charities, it was able to support more than 30 charities over the year.

Corporate Governance Report

Chairman's introduction

Dear Shareholders

This was a busy year for the Board - its first full year as a listed company - as we continued our journey of ensuring that we have governance appropriate for a growing bank operating in a heavily regulated environment.

We recognise that good governance supported by a strong culture is vital to the successful delivery of Shawbrook's strategy and a key underpinning to our continued ability to grow the bank, to deliver returns to shareholders in a safe and sustainable way and to serve the interests of our customers and our people. We are committed to adhering to principles of the 2014 UK Corporate Governance Code (the Code).

The Board performance evaluation we carried out during the year confirmed the good progress we have made in strengthening the governance framework and more detail on the review is set out on page 74 of this report.

Full details of the Group's governance arrangements are also set out in this report. In addition to its ongoing oversight activities, the key issues on which the Board focused time during 2016 included:

- consideration (in one of two strategy days) of the 2020 strategy which was presented at the Capital Markets Day in May;
- deep-dives into each of the business divisions, considering both current performance and future opportunities and plans;
- the evolution of the Target Operating Model and infrastructure required to support the future development of the Group;
- consideration of the competitive environment and future opportunities in a second strategy day;
- a 2016 governance plan to improve the operation of the Board and ensure it focuses on the main issues;
- the people strategy for the business;
- a number of training and briefing sessions on particular topics, including ICAAP, ILAAP, an overview of IFRS 9 requirements, the Mortgage Credit Directive and Consumer Credit Act, the Market Abuse Directive, remuneration overview and the FCA's regulation of conduct;
- capital and liquidity adequacy, including approval of the ICAAP and ILAAP documents, with specific sessions held to ensure the Board had sufficient opportunity to consider the key elements of both;
- oversight of the Group's response to the controls breach in the Business Finance Division (see page 49 in the Risk management report for further details);
- participation in a review of its own effectiveness facilitated by an independent third party; and
- oversight of the implementation of the Senior Managers Regime.

The Nomination Committee considered the appropriateness of the Board's composition during the year and concluded that it has the appropriate mix of skills and experience to fulfil its responsibilities. There were a number of changes during the year. Both Graham Alcock and Tom Wood stood down and Andrew Didham joined the Board in February 2017, taking over from Roger Lovering as Chair of the Board Audit Committee. Dylan Minto was also appointed CFO in February 2017, after holding the interim position for the past eight months. Profiles of all the Directors are set out on pages 66 to 68. I believe that Shawbrook has a strong and highly committed Board with the mix of expertise, experience and character that the business requires to go on being successful.

We look forward to welcoming shareholders to our second Annual General Meeting on 6 June 2017.

Iain Cornish

Chairman

Key areas of Governance in this section:

<u>Leadership</u>

The Directors believe that the Board has an appropriate balance of skills, experience, knowledge and independence to satisfy the requirements of good corporate governance.

<u>Compliance</u>

Significant time and resource is given to governance matters by the Board and within the everyday operations of the Group. This ensures compliance within the framework of regulations but is also central to delivering sustainable business success.

<u>Effectiveness</u>

The Board understands that an effective corporate governance framework is an inherent part of running a business.

<u>Accountability</u>

A key element of ensuring sound governance is guaranteeing an appropriate system of controls and accountability.

Compliance with the UK corporate governance code

The Directors consider that the Group has been in compliance with the provisions set out in the Code throughout the year.

The Board of Directors

Name	Role	Skills and Experience	Other External Directorships	Former Appointments
Iain Cornish Appointed to the Board in July 2015	Chairman and Non-Executive Director Chairman of the Nomination Committee Member of the Remuneration Committee	Iain was a founding member of the PRA Board at its formation in 2013. He holds a degree in Business, Economics and Statistics from Southampton University.	Iain is currently senior independent director of both Arrow Global Group PLC and St James's Place plc. Iain also serves as a Trustee of Macmillan Cancer Support.	Iain spent 19 years (between 1992 and 2011) at Yorkshire Building Society, including eight as Chief Executive Officer (between 2003 and 2011).
Steve Pateman Appointed to the Board in January 2016	Chief Executive Officer	Steve joined Shawbrook from Santander UK, where he was Executive Director and Head of UK Banking, running the bank's Corporate, Commercial, Business and Retail	None	Before joining Santander UK, Steve spent eight years at RBS, where he was Chief Executive Officer of Business Banking, Retail Markets and Managing Director of Commercial Banking and Corporate Banking, Corporate Markets.

		Banking operations as well as Wealth Management. He joined Santander in 2008 with responsibility for building an SME franchise. He is a Fellow of the Chartered Institute of Bankers in Scotland.		
Dylan Minto Appointed to the Board in February 2017	Chief Financial Officer	Dylan spent eight months as Interim CFO at Shawbrook. He previously spent 11 years with KPMG (amongst other things, providing advice on the original Northern Rock restructure in 2009 and RBS's participation in the Asset Protection Scheme) and joined Shawbrook in 2013. He has extensive experience in the UK banking and finance sector. He is ACA qualified and holds a dual BA Honours degree in German and Business Studies from Sheffield University.	None	None
Stephen Johnson Appointed to the Board in May 2015	DeputyChief Executive Officer and Managing Director Property Finance Division	Stephen has 14 years' experience in building specialist lending businesses, across commercial and consumer lending markets in the UK. He is qualified as a chartered accountant.	A Director of Latchglen Ltd	Stephen was part of the founding team at Shawbrook Bank and was also a founding member of the management team at Commercial First. Prior to this Stephen worked in corporate finance advisory.
Robin Ashton Appointed to the Board in March 2015 (Appointed to the Board of Shawbrook Bank Limited in December 2011)	Senior Independent Director Member of the Audit Committee Member of the Nomination Committee Member of the Risk Committee Chairman of the Remuneration Committee	Robin has extensive experience of retail financial services both in the UK and internationally. He is a chartered accountant and holds a Bachelor of Arts (Hons) degree in Economics and Law from Durham University.	Robin has been a Non-Executive Director of Leeds Building Society since April 2011 and Chairman since March 2013.	Robin spent 24 years at Provident Financial plc, joining the Board in 1993 initially as Finance Director, then Deputy Chief Executive in 1999 and Chief Executive in 2001, leaving in early 2007. He was Non-Executive Chairman of the original holding group for what is now the Group's secured lending business, and was previously a Non-Executive Director of Albemarle & Bond Holdings plc and Non-Standard Finance plc.
Andrew Didham Appointed to the Board in February 2017	Independent Non-Executive Director Chairman of the Audit Committee Member of the Risk Committee	Andrew has extensive financial services experience. He is a qualified accountant, having enjoyed a successful career at KPMG, becoming a partner in 1990 and specialising in financial services.	Andrew is currently an Executive Vice-Chairman for Rothschild and also a Non-Executive Director of Charles Stanley PLC and Non-Executive Director of its principal operating company Charles Stanley & Co Ltd.	Andrew was Group Finance Director at Rothschild from 1997 to 2012, before becoming Executive Vice-Chairman
David Gagie Appointed to the Board in January 2016	Independent Non-Executive Director Member of the Audit Committee Member of the Risk Committee	David has global experience in consumer lending, banking, credit card payments and risk management. Whilst a Senior Advisor at the Financial Conduct Authority and member of the Payments Systems Regulator Executive he focused on regulatory conduct issues relating to retail banking, consumer credit and payments.	David is a Non-Executive Director of Lowell GFKL Group, and of MWS Technologies Ltd. He is also a Non-Executive Director of Populus Consulting Ltd.	David was a Senior Advisor at the Financial Conduct Authority and a member of the Payments Systems Regulator Executive Committee. He was also an Advisory Board Director for ING Direct, Managing Director of Consumer Lending for Lloyds TSB, Chairman of MasterCard UK, and a director of Visa UK and of Link Ltd.
Sally-Ann Hibberd Appointed to the Board in November 2015	Independent Non-Executive Director Member of the Remuneration Committee Member of the Risk Committee	Sally-Ann has a broad financial services background having worked in Life Assurance, Asset Management, Retail Banking,	Sally-Ann is currently a Non-Executive Director of Equiniti Group plc and NFU Mutual, and sits on the Governing Body of Loughborough University.	Sally-Ann has held senior roles at Prudential, Lloyds TSB and Willis Group. Prior to becoming a Non-Executive Director she worked for Willis where she served in two

		Bancassurance and General Insurance. Her particular strengths are in Operations, Technology and Business Transformation.		separate roles over a six year period, firstly as COO of the International division and latterly as Group Operations and Technology Director.
Paul Lawrence Appointed to the Board in August 2015	Independent Non-Executive Director Chairman of the Risk Committee Member of the Audit Committee Member of the Nomination Committee	Paul was formerly Global Head of Group Internal Audit for HSBC.	None	During a 31 year career with HSBC, Paul was CEO of HSBC Bank, North America, Head of Global Banking & Markets USA, CEO of HSBC Singapore, and CEO of HSBC Philippines.
Roger Lovering Appointed to the Board in March 2015 (Appointed to the Board of Shawbrook Bank Limited in January 2013)	Independent Non-Executive Director Member of the Audit Committee Member of the Risk Committee	Roger has over 25 years of experience in the consumer finance industry, focussing on lending to individuals. He has extensive knowledge of secured and unsecured lending, both fixed and revolving term via credit cards. Roger is a member of ICAEW and has a degree in Accountancy and Financial Analysis from Warwick University.	Roger is a Non-Executive Director of Caswell Consultancy Limited, Logical Glue Limited and Amigo Loans Limited. He is also a Non-Executive Director of Harrods Bank Ltd.	Roger was Chief Executive Officer at Santander Cards UK Limited, Head of European cards at HSBC and Chief Operating Officer and Director at HFC Bank Limited.
Lindsey McMurray Appointed to the Board in April 2010 (Appointed to the Board of Shawbrook Bank Limited in January 2011)	Non-Executive Director	Lindsey has over 20 years of experience as a private equity investor with a particular focus on the financial services sector. She holds a first class honours degree in Accounting and Finance from Strathclyde University.	Lindsey is managing partner of private equity fund manager Pollen Street Capital, an affiliate of the SOF General Partner (Guernsey) LP. She is also currently an Executive Director of Pollen Street Capital Limited and a Director of Freedom Acquisitions Limited, Honeycomb Holdings Limited, Honeycomb Finance plc and Capitalflow Holdings Limited.	Prior to her time at Pollen Street Capital, Lindsey was head of RBS Equity Finance where she led the management of the RBS Special Opportunities Funds, a £1.1 billion private equity fund. Prior to this she was at Cabot Square Capital, Ltd for six years where she was a partner.

Leadership structure

The Board

The primary role of the Board is to provide leadership to the Group, to set the Group's long-term strategic objectives and to develop robust corporate governance and risk management practices. The Board delegates specific powers to some committees, details of which are set out below.

Nomination Committee	Audit Committee	Disclosure Committee	Remuneration Committee	Risk Committee
· Recommends Board appointments · Plans successions	· Oversees financial reporting · Monitors internal control · Monitors internal and external auditors	· Monitors disclosure controls · Reviews and advises on the scope and content of the disclosure	· Monitors the level and structure of Remuneration for the Senior Executives · Approves annual performance objectives	· Reviews the design and implementation of risk management · Reviews the Group's ICAAP

Executive Committee

The Executive Committee is responsible for developing the business and delivering against a Board-approved strategy, putting in place effective monitoring, control mechanisms and setting out a framework for reporting to the Board. Details of its Sub-Committees are set out below:

Operations Committee	Group Product Committee	Asset and Liability Committee	Enterprise Risk Management Committee
· Provides operational oversight · Assures quality and performance management	· Approves the Product Approval and Management policy · Reports to ERMC as necessary	· Identifies, manages and controls balance sheet risks; · Oversees and monitors Liquidity control frameworks; · Oversees and monitors Capital control frameworks; · Recommends Liquidity, Funding, Market and Counterparty Risk policy for approval; and · Recommends Liquidity and Market Risk Appetite Statements and limits for approval and monitoring.	· Oversees the design and implementation of the Risk Management Framework and conduct of business issues including fair outcomes for customers · Oversees regulatory reporting requirements and the Financial Crime and Anti-Money Laundering (AML) regime · Defines detailed risk appetite Limit and statements and limits and recommends to Board Risk Committee material risk appetite limits and statements;

Model Management Group	Impairment Committee	Credit Approval Committee	Policy Review Group
· Ensures that the Group has in place, and operates effective, appropriate and robust procedures and business processes for managing the Group's models and model risk policy. · Accountable for the overall model maintenance and governance across the Group · Approves / ratifies the model inventory	· Oversees impairment forecasts and budgets · Monitors impairment from lending portfolios	· Considers and approves individual credit proposals submitted by the business units of the Group which fall outside their permitted delegated lending authority.	· Ensures that the Group has in place, and operates effective and appropriate policies · Maintains policies and governance across the Group; · Oversees the Group Policy Inventory including the annual refresh of the Group risk policies;

The Board

The Board has responsibility for ensuring that the Group is managed effectively and in the best interests of its shareholders, customers, employees and other stakeholders (including regulators), and its principal banking subsidiary, Shawbrook Bank Limited. The Board operates within a formal schedule of matters reserved, which can be found on the website, investors.shawbrook.co.uk, and which is reviewed and updated on a regular basis.

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

Roles and responsibilities

Chairman (Iain Cornish) Responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role as well as being responsible for its governance. Sets the tone for the Group and ensures that the links between the Board and management and between the Board and shareholders are strong. Sets the Board agenda and ensures that sufficient time is allocated to important matters. Key responsibilities: · Promote effective flow of information between Board members · Provide entrepreneurial leadership · Ensure effective communication between Executive Directors and Non-Executive Directors · Chair Board and Nomination Committee meetings · Handle relationships with the government, authorities, regulators and stakeholders	**Chief Executive Officer (Steve Pateman)** Responsible for the day-to-day management of the Group's operations, for recommending the Group's strategy to the Board and for implementing the strategy agreed by the Board. Accountable to the Board for the Group's operational and financial performance. Supported in decision making by the Executive Committee comprising of senior managers. The CEO chairs the Executive Committee, which meets three times a month to provide oversight and scrutiny of the Group's business and consider matters that need to be escalated to the Board. Key responsibilities: · Maintain a good working relationship with the Chairman and Board members · Assess the principal risks of the Group · Lead communications with shareholders and other stakeholders · Ensure effective internal controls and management information systems are in place
Senior Independent Director (Robin Ashton) Provides a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary. Available to shareholders if they have concerns, which the normal channels of Chairman, Chief Executive Officer or other Executive Directors have failed to resolve, or for which such contact is inappropriate. Key responsibilities: · Chair the Nomination Committee when considering the succession of the Chairman to the Board · Meet with other Non-Executive Directors to appraise the Chairman's performance · Provide feedback to the Board on the Independent Non-Executive Directors' views	**Non-Executive Directors** Provide constructive challenge to executive management, and bring experience and objectivity to the Board's discussions and decision making. Monitor the delivery of the Group's strategy against the governance, risk and control framework established by the Board. Led by the Senior Independent Director, the Non-Executive Directors are also responsible for evaluating the performance of the Chairman. Further responsibilities: · Scrutinise management performance · Ensure the integrity of financial information and ensure that the financial controls and systems of risk management are effective · Seek independent professional advice if needed
Company Secretary (Daniel Rushbrook) All Directors have access to the services of the Company Secretary in relation to the discharge of their duties. Responsible for working with the Chairman to develop Board and Committee agendas and to ensure that all Board procedures are complied with. Advises the Board on corporate governance, legal, regulatory and compliance matters and developments. Additional duties: · Ensure the Group's governance framework is maintained · Organise Directors' training and induction · Oversee Board and Committee administration and record-keeping	

There is a clear division of responsibility at the head of the Group. The roles of the Chairman and the Chief Executive Officer are separate, clearly defined in writing and have been agreed by the Board.

Board committees

The Board has a number of Committees: Audit, Risk, Nomination and Remuneration. The written terms of reference of the Committees, including their objectives and the authority delegated to them by the Board, are available upon request from the Company Secretary or via the Group's website at investors.shawbrook.co.uk. All Committees have access to independent expert advice and the services of the Company Secretary. The

Chairman of each Committee reports to the Board. The constitution and terms of reference of each Committee are reviewed annually to ensure that the Committees are operating effectively and any changes considered necessary are recommended to the Board for approval.

The Board also has a Disclosure Committee, which is responsible for monitoring, evaluating and enhancing disclosure controls and procedures within the Group. In particular, responsibilities set out in its terms of reference include the identification of inside information and maintenance of insider lists, the design, implementation and evaluation of disclosure procedures and the resolution of any questions concerning the materiality of certain information. The Disclosure Committee is also required to help the Group make timely and accurate disclosure of all information where disclosure is required to meet legal and regulatory obligations.

The Board delegates daily management responsibility for the Group to the Executive Committee, which meets three times a month. The Executive Committee is responsible for developing the business and delivering against a strategy approved by the Board and ensuring effective monitoring and control mechanisms. There are also a number of executive sub-committees (a table showing the governance structure is set out on page 69) which assist the Executive Committee in discharging its responsibilities.

Composition, meetings and attendance

The Board currently consists of 11 members, namely the Chairman, six Independent Non-Executive Directors, three Executive Directors and one Non-Independent Non-Executive Director. Biographical details of all Directors are given on pages 66-68.

The Non-Executive Directors have strong and relevant experience across all aspects of banking and specifically have relevant skills in financial management, regulatory, credit assessment and pricing, liability management and conduct matters. To ensure the Board continues to have an appropriate balance of skills, these skill sets are reviewed annually through the completion of a skills matrix which is considered by the Nomination Committee and the Board.

The Board holds meetings at regular intervals, at which standing items such as the Group's financial and business performance, risk, compliance, IT, human resources and strategic matters are reviewed and discussed. There is a comprehensive Board pack and agenda which is circulated beforehand so that Directors have the opportunity to consider the issues to be discussed, and detailed minutes and any actions are documented.

The below list shows some of the other noteworthy matters considered by the Board in the year:

- Review of executive governance
- Membership of Board Committees
- Risk Management Framework and risk policies
- Enterprise Wide Risk Management Report
- Capital and liquidity adequacy, including ICAAP
- Target Operating Model
- Creation of Jersey subsidiary
- Regulatory developments, in particular the Senior Managers Regime and IFRS9
- Corporate development opportunities
- Information security
- HR and people strategy
- The historical controls breach in the Business Finance Division

In addition, the Board also held two strategy workshops where, amongst other matters, the competitive environment and the impact of Brexit were discussed.

Regular meetings are scheduled up to a year in advance, and if any Director is unable to attend then they may provide comments on the papers to the Chairman before the meeting. Meetings are structured so that appropriate time is devoted to all agenda items. In addition to these regular, scheduled meetings, 'ad hoc' Board meetings are held outside the published cycle where circumstances require - for example, to approve appointments to the Board, any material transactions or the approval of regulatory submissions.

Throughout the relevant period, the Chairman has held a number of meetings with Non-Executive Directors, without the Executive Directors being present. The Senior Independent Director has held meetings with Non-Executive Directors, without the Chairman being present.

The attendance of Directors at Board and Committee meetings during the year is set out below. The number of meetings held during the period that the Director held office is shown in brackets.

In 2016, a total of 13 Board meetings were held, 11 of which were scheduled and two of which were ad hoc meetings. Attendance at meetings is shown below:

Director	Date appointed or resigned in the year	Meetings attended/meetings eligible to attend as a Director
Iain Cornish		13/13
Graham Alcock	Resigned 9 June 2016	3/4
Robin Ashton		13/13
David Gagie	Appointed 1 January 2016	13/13
Sally-Ann Hibberd		12/13
Stephen Johnson		13/13
Paul Lawrence		12/13
Roger Lovering		13/13
Lindsey McMurray		11/13
Steve Pateman	Appointed 1 January 2016	13/13
Tom Wood[2]	Resigned 30 June 2016	4/6

Since the year-end Andrew Didham was appointed as an Independent Non-Executive Director on 1 February 2017 and Dylan Minto as Chief Financial Officer and Executive Director on 6 February 2017.

Board balance, independence and time commitment

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

The Board has reviewed the structure, size and composition of the Board (together with an evaluation of the Board's balance of skills, knowledge and experience); the membership of the various Board committees and the expected time commitment; and the policy for Board appointments for Executive and Non-Executive Directors throughout the year.

The Board has reviewed the independence of each of the Non-Executive Directors who have served on the Board throughout the financial year and the relevant period and concluded that Robin Ashton, David Gagie, Roger Lovering, Paul Lawrence, Sally-Ann Hibberd and Andrew Didham are independent. Lindsey McMurray, who represents the Group's largest shareholder, is not considered independent. During the relevant period, the Board has satisfied the Code requirements that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent.

The Non-Executive Directors are considered to be of sufficient calibre and experience to bring significant influence to bear on the decision-making process. The Board has satisfied itself that Robin Ashton is independent notwithstanding his interest in shares in the Group. It has done this by observing the way he has discharged his duties as Chairman of the Board Remuneration Committee, his contribution to and challenge in Board and Committee meetings and the way he interacts with the Chairman in his role as Senior Independent Director, including conducting an evaluation of the Chairman's effectiveness at the end of 2016.

The Board has also considered the independence of Roger Lovering who a Non-Executive Director of Amigo Loans, which has a wholesale facility from the Group and Sally-Ann Hibberd who is a Non-Executive Director of Equiniti, which is the Group's share registrar and concluded that these outsider interests do not affect their independence. This is based on observations of the way both have discharged their duties as members of the Board Committees, their contribution to and challenge in Board meetings.

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

Conflicts of interest

All Directors have a duty to avoid situations that may give rise to a conflict of interest. Formal procedures are in place to deal with any conflict of interest. Directors are responsible for notifying the Chairman and the Company Secretary as soon as they become aware of any actual or potential conflict of interest for discussion by the members of the Board who will take into account the circumstances of the conflict when deciding whether to permit potential conflict or to impose conditions on the Director in the interests of the Group. Any actual or potential conflicts of interest are recorded in a central register and Directors are also required, on an annual basis, to confirm that they are not aware of any circumstances which may affect their fitness and propriety and therefore their ability to continue to serve on the Board. In addition, Directors are required to seek the Board's approval of any new appointments or changes in commitments.

Induction, training and professional development

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

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

The Chairman is responsible for reviewing the training needs of each Director, and for ensuring that Directors continually update their skills and knowledge of the Group. All Directors are advised of changes in relevant legislation, regulations and evolving risks, with the assistance of the Group's advisers where appropriate. Dedicated Board training sessions are held and scheduled around Board meetings. During 2016 training was provided in this format on ICAAP, ILAAP, an overview of IFRS 9 requirements, the Mortgage Credit Directive and Consumer Credit Act, the Market Abuse Directive, a remuneration overview and the FCA's regulation of conduct.

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

Board evaluation

The Board carried out an externally facilitated evaluation, using Praesta Partners, an independent facilitator with no links to the Group, at the end of 2016. The assessment was conducted according to the guidance set out in the Code.

Given the changes within the organisation since the IPO in April 2015, the review sought to address whether the Board does the right work, to the right agenda, using the right information, with the right people, and operating the right culture.

The evaluation was based around a number of key areas:

- Board composition, role, skills, diversity, balance and experience
- Board leadership and culture
- Interaction between the work of the Board and the work of the executive; and
- Strategic risk and the wider risk framework.

This review explored the Board's journey to date, looked at its trajectory and considered how Board effectiveness could be enhanced further.

The Review was based on data collected between September and December 2016 and comprised of:

<u>Stage 1 (Comprehensive questionnaires and review of papers)</u>

- Analysis of two electronic questionnaires completed by Directors. One assessed how the Board spent its time and energy to date and how it would like to continue. The other looked at the role and culture of the Board.
- Desk-top reviews of the Board and Committee packs over the past 12 months. This helped determine what the Board looked at in its annual cycle and how the value chains between the Board and the Board sub-committees and between the Board and the Executive Committee operated.

<u>Stage 2 (Interviews and one-on-one discussion)</u>

- Structured, one on one interviews with all Directors, the Interim CFO and the General Counsel to whom the Company Secretariat reports.
- This involved a structured, round table discussion with other Executive Committee members.

<u>Stage 3 (Observation)</u>

- Observation of the Board Risk Committee and Board Audit Committee meetings held in October and November and of the Board meeting held on 2 November 2016.

<u>Stage 4 (Evaluation and reporting)</u>

Production of a report with findings based on:

- evaluating the documentary, observation, questionnaire and interview data.
- using the Code and the PRA's Supervisory Statement SS5/16 "Corporate governance: Board responsibilities," as points of reference.
- utilising reviewer insights into how other boards work.

<u>Stage 5 (Discussion)</u>

Discussion with the Chairman, Board and Executive Committee.

Board Review and Insights

The review found that:

- overall the Board provided effective oversight to the business whilst also:
    - o commissioning and being highly engaged in the drafting, approval and implementation of robust risk policies and frameworks; and,
    - o providing guidance and input to the Executive Committee's determination of longer term strategies and plans for the Group.
- progress had been made in terms of:

- membership
- the focus of its work
- its delegation to Committees and to the Executive Committee
- culture.

The report found that the conditions are in place to sustain a strong rate of progress.

Follow up:

The results of the evaluation will be discussed with the Chairman, Board and Executive Committee to formulate a plan against which progress can be assessed.

Evaluation of the Chairman

The Senior Independent Director held discussions with other members of the Board to assess the performance of the Chairman. They are satisfied that the Chairman devotes a significant amount of time to the Group's business and that he had performed effectively during 2016. In particular they are satisfied that the Chairman has ensured that the Board focused on the key issues facing the Group.

Internal control

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The Audit Committee and Risk Committee have been in operation throughout the relevant period and oversee the Group's system of internal control. Material risk or control matters (which this year included the controls breach in the Business Finance Division (see page 49 in the Risk management report for further information), together with the appropriate remedial action, are reported by the Audit Committee and Risk Committee to the Board. The Board monitors the on-going process by which 'top risks' to the Group are identified, measured, managed, monitored, reported and challenged. This process is consistent with both the Group Risk Management Framework and with internal control and related financial and business reporting guidance issued by the Financial Reporting Council in September 2014, and has been in place for the relevant period under review and up to the date of approval of the Annual Report & Accounts. The key elements of the Group's system of internal control include regular meetings of the Executive and Risk Management Committees, together with annual budgeting, and monthly financial and operational reporting for all businesses within the Group. Conduct and compliance are monitored by management, the Group's Risk function, Internal Audit and, to the extent it considers necessary to support its audit report, the External Auditor.

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

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

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

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

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

Shawbrook Bank Limited (the main operating subsidiary of the Group) is subject to regulation by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and as such undertakes an Internal Capital Adequacy Assessment Process (ICAAP) and an Internal Liquidity Adequacy Assessment Process (ILAAP) on a regular basis. These processes benefited from ongoing improvements in risk assessment during 2016 including, in the case of the ICAAP, an update to reflect the latest guidance from the PRA on approaches to the calculation of Pillar 2 capital. The ICAAP and ILAAP are reviewed by the Board from time to time. The process involves an assessment of all the risks that the Group faces in its operating environment, the likelihood of those risks crystallising and their potential materiality and the effectiveness of the control framework in mitigating each risk. This includes a thorough evaluation of how the Group would be impacted by severe, but plausible, periods of stress in its stress testing programme.

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

Relationships with shareholders

The Board remains committed to maintaining good relationships with shareholders. There is a good dialogue with institutional shareholders. The Chief Executive Officer and the Chief Financial Officer meet with institutional shareholders on a regular basis. Institutional shareholders will in future be given the opportunity to meet with the Chairman and /or other Non-Executive Directors if they have concerns that have not, or cannot, be addressed through the Chief Executive Officer or the Chief Financial Officer.

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

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

Report of the Nomination Committee

Dear Shareholder

I am pleased to present the report of the Nomination Committee.

The Committee's primary focus in 2016 has been on Board succession and development plans. This has included considering plans for the continued development of key personnel within the business to ensure a pipeline of executive talent, and we have worked with the Group Human Resources Director to monitor the implementation of these plans. We remain committed to ensuring that our succession and development plans are robust and position us well to deal with any future requirements at Board and senior management levels. Succession planning and talent development will therefore continue to be an area of particular focus for the Committee in 2017 and future years.

During the year the Committee recommended the appointment of Andrew Didham as Chairman of the Board Audit Committee and Dylan Minto as Chief Financial Officer to the Board.

The Board also undertook an externally facilitated Board effectiveness review which found that significant progress had been made in terms of the Board's membership, the focus of its work, its delegation to Committees and to its executive and its culture. The outcomes of the review (further details of which can be found on page 74) will be considered and reviewed throughout 2017.

We have also continued to strengthen our belief in the benefits of a diverse and inclusive working environment and remain committed to seeing that in our workforce. We have signed the Government's Women in Finance Charter, an initiative by HM Treasury which seeks to increase the representation of women in financial services, particularly at senior levels. We have set our own targets in line with the Charter to achieve a third of women on our Board and 40% in senior management positions by 2020. Our diversity policy is described on page 78.

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

Iain Cornish

Chairman of the Nomination Committee

Role of the Nomination Committee

The Nomination Committee's principal function is to keep the Board's governance, composition, skills, experience knowledge and independence and succession plans under review and to make appropriate recommendations to the Board.

As part of the identification and nomination process for Board approval, the Committee carries out a formal selection process for Executive and Non-Executive Directors and subsequently proposes to the Board any new appointments. Ultimate responsibility for the appointment of Directors resides with the Board.

The Committee also oversees succession planning for Directors and senior managers below Board level. The Nomination Committee also has oversight of recruitment activity in relation to anyone designated a Senior Manager under the Senior Managers Regime.

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

A full copy of the terms of reference of the Nomination Committee can be found on the Group's website at investors.shawbrook.co.uk.

Membership, composition and meetings

The Nomination Committee is chaired by Iain Cornish (the Chairman of the Group) and its membership comprises three Non-Executive Directors, a majority of whom are Independent Non-Executive Directors in line with provision B.2.1 of the Code.

Meetings are held at least four times per year. The Nomination Committee met on seven occasions during 2016 to discuss proposed appointments, succession and development and to evaluate the balance of skills, experience, independence and knowledge on the Board. Individual meeting attendance during 2016 is set out below. The number of meetings held during the period, and the number of meetings that each Director was eligible to attend as a member is shown below:

Member	Date joined or stepped down in the year	Meetings attended/Meetings eligible to attend as a member
Iain Cornish		7/7
Robin Ashton		7/7
Graham Alcock	Stepped down 3 March 2016	1/1
Paul Lawrence	Joined 3 March 2016	6/6

At the invitation of the Chairman of the Nomination Committee, on occasion, other attendees included the Chief Executive Officer, Human Resources Director and Lindsey McMurray (Non-Executive Director).

Appointments

The Committee ensures that a diverse pool of candidates is considered for any vacancy which arises and any appointments are made based on merit, having regard to the skills, competencies and experience of the candidate.

During the year, the Committee recommended to the Board the appointment of Andrew Didham as an Independent Non-Executive Director, and Dylan Minto as an Executive Director. These appointment processes involved the services of two executive search agencies, Odgers Berndston and Ridgeway Partners, both of which have no other connection with the Group. In each case, the executive search agencies provided a shortlist of candidates who were compared against the role profile and candidate brief and interviewed by members of the Nomination Committee, following which recommendations to appoint Andrew and Dylan were submitted to and approved by the Board.

Diversity

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

When searching for candidates for Board appointments, the Nomination Committee takes into account a number of factors, including the benefits of diversity, including gender diversity, and the balance of the composition of the Board. The overriding requirement is to ensure that recommendations for appointments are made on merit against objective criteria, and that the best candidates are put forward for Board appointments.

Succession planning

The Committee is responsible for ensuring that appropriate succession and development plans are in place for appointments to the Board. We are satisfied that the succession planning structure in place is appropriate for the size and nature of the Group. Succession planning arrangements will be kept under regular review in the future.

Election of directors

Having reviewed the findings of the Board effectiveness process, the Nomination Committee is satisfied that the Board continues to be effective and has recommended to the Board that each of the Directors should stand for re-election (in accordance with provision B.7.1 of the Code) at the 2017 Annual General Meeting.

Primary areas of focus during the year

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

- a review of the current structure, size and composition of the Board;
- the time commitment expected of Non-Executive Directors;
- leadership and succession planning;
- the proposed election and re-election of Directors at the forthcoming Annual General Meeting;
- the appointment of new Non-Executive Director;
- the appointment of a new CFO;
- responsibilities under the Senior Managers Regime;
- the Board effectiveness review; and
- the implementation of the Group's Diversity Policy.

Report of the Audit Committee

Dear Shareholder

I am pleased to present my first report as Chairman of the Audit Committee, a role which I assumed on 1 February 2017, having succeeded Roger Lovering, who remains a Committee member. As a Committee, we possess, as required by provision C.3.1 of the UK Corporate Governance Code ('the Code'), recent and relevant financial expertise.

It was a busy year for the Committee in 2016, being the first full financial year following the IPO of the Group. During the year, David Gagie joined the Committee and Graham Alcock stepped down. As a result of these changes, we feel that the Committee has both members with a longstanding knowledge of the business and those who can provide fresh perspectives.

We have an annual work plan framed around the Group's financial reporting cycle which ensures that the Committee considers all matters delegated to it by the Board and covers significant accounting estimates and judgements - which are set out in a table on page 82.

During the year the Financial Reporting Council (FRC) reviewed the 2015 Annual Report and Accounts and raised a number of points to the Board. The resolution of the actions was overseen by the Committee and I am pleased to report that all matters were successfully resolved. The majority of the points related to enhancing disclosures to improve the quality of our Annual Report & Accounts.

Inevitably there are also one-off matters which require the Committee's attention which this year included the impairment relating to the controls breach in the Business Finance Division (see page 49 in the Risk management report for further details). The Committee worked closely with management and the Internal Audit function to scope the size of the issue and determine the appropriate impairment.

Another key area of focus was the roll-out of the IFRS 9 implementation programme. Particular focus in 2016 was on our preparedness for IFRS 9 and parallel run in 2017, which aims to ensure we understand the impacts and are ready ahead of the effective date. Progress has been made in developing our Expected Credit Loss (ECL) models, including our Credit Grading Framework. The IFRS 9 programme sponsored jointly by the Chief Financial Officer and Chief Risk Officer and managed by a single steering committee is within its build phase with the bulk of the testing and implementation due to take place in early 2017.

During the year the Committee received regular reports on the progress of this project, and has challenged management to ensure its implementation runs smoothly.

Looking ahead to 2017, in addition to the routine audit schedule, the key areas of focus for the Committee will be IFRS 9 and giving consideration to the transition towards our own 'in-house' Internal Audit function.

Andrew Didham

Chairman of the Audit Committee

Role of the Audit Committee

The Audit Committee is responsible on behalf of the Board, for, amongst other things:

- Financial reporting process
  - the significant areas of judgement and their application to the results of the Group;
  - reviewing the Group's Annual Report & Accounts and the Group's Interim Report to ensure that, taken as a whole, based on the information supplied to it and challenged by the Committee and on its judgement is fair, balanced and understandable and advising the Board to that effect;
  - monitoring the integrity of the Annual Report & Accounts and the Interim Report and reviewing the critical accounting policies, disclosure obligations and changes in accounting requirements;
  - reviewing and challenging the going concern and viability assessment undertaken by management, further details of which can be found on page 83; and
  - reviewing the Group's Pillar III disclosures to ensure compliance with prescribed requirements.
- Internal controls and risk management
  - considering the process used to evaluate the effectiveness of internal controls, financial reporting and risk management;
  - considering the extent of the work undertaken by the finance function and ensuring the finance teams have adequate resources to ensure that the control environment continues to operate effectively; and
  - continuously considering any findings of internal investigations into control weaknesses, fraud or misconduct and management's responses to any deficiencies identified.
- External audit
  - making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the auditor's remuneration and terms of engagement; and
  - reviewing the findings of the External Audit and the level of challenge produced by the external auditor and considering management's responsiveness to the findings and recommendations.
- Internal audit
  - monitoring the activity, role and effectiveness of the Internal Audit function and their audit programme;
  - approving the audit plan and budget and monitoring the progress against it at regular intervals, confirming that appropriate resource and capability is in place to execute the plan effectively; and
  - considering the internal audit reports, including thematic and routine reviews on prudential and regulatory compliance.
- Whistleblowing
  - continuously considering the Group's whistleblowing policies and procedures, including the protection of whistleblowers.

Membership and meetings

The Audit Committee comprises four members. In accordance with provision C.3.1 of the Code, all members of the Committee are Independent Non-Executive Directors of the Group.

The Committee meets as required, but holds at least six meetings a year. The Committee met formally seven times last year, and met on another five occasions to discuss other matters. The number of meetings held during the period that the Director was a member and therefore eligible to attend is shown below.

Member	Date joined or stepped down	Meetings attended/Meetings eligible to attend as a member
Andrew Didham	Joined 1 February 2017	
Roger Lovering		7/7
Graham Alcock	Stepped down 3 March 2016	2/2
Robin Ashton		7/7
David Gagie	Joined 3 March 2016	4/5
Paul Lawrence		7/7

The Company Secretary acts as secretary to the Committee. Other individuals attend at the request of the Committee Chairman. During the year, the External Auditor, Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Internal Audit and other senior managers as appropriate would usually attend meetings to report to the Committee and provide clarification and explanations where appropriate. The Committee also met with the external and internal auditors without executive management on regular occasions in 2016.

The Board is satisfied that Andrew Didham and his predecessor, Roger Lovering, have recent and relevant financial experience, as referred to in the Code.

A full copy of the terms of reference for the Audit Committee can be obtained by request to the Company Secretary or via the Group's website at investors.shawbrook.co.uk.

Significant areas of judgement

During 2016 the following significant issues and accounting judgements were considered by the Committee in relation to the 2016 Annual Report & Accounts:

Significant financial and reporting issue	***How the Committee addressed the issue***
Impairment of loans and advances	The Committee received presentations from management explaining the provisioning methodology across the Group's lending operations ahead of both the interim and full year results. The Committee considered and challenged the provisioning methodology applied by management, including the inputs to the statistical loan loss models prepared by the Group Risk function. The Committee also considered the calibration of model parameters in the light of economic indicators, including house price movements and underlying book performance. The Committee concluded that the impairment provisions, including management's judgements, were appropriate. The disclosures relating to impairment provisions are set out in Note 14 to the Financial Statements.
Effective interest rate	Interest earned on loans and receivables is recognised using the Effective Interest rate (EIR) method. EIR is calculated on the initial recognition of loan lending through a discounted cash flow model that incorporates fees, costs and other premiums or discounts. There have been no changes to the EIR accounting policies during the year. The Committee considered and challenged the EIR methodology applied by management, including expected future customer behaviours, redemption profiles and changes to existing redemption profiles and concluded that the EIR methodology was appropriate as at 31 December 2016. The disclosures relating to EIR are set out in Note 3 to the Financial Statements.
Impairment assessment of Goodwill	The Committee considered and challenged the annual assessment of the carrying value of goodwill as well as a paper during the year setting out the final goodwill impairment review of the Business Credit cash generating unit (CGU) prior to the integration of the Business Credit and Asset Finance CGUs into a single Business Finance CGU. Following the review and challenge of the Group's value-in-use calculations and key assumptions, the Committee agreed with management's conclusion that the carrying value of the Business Credit goodwill prior to integration into Business Finance, and the Group's carrying value of goodwill as at 31 December 2016 was reasonably stated.

In addition to the matters described above, the Committee considered issues relating to the IFRS 9 implementation process and the acquisition of loan books. The Committee was regularly updated on the progress of the IFRS 9 programme against the programme plan. Areas of focus include the review and interpretation and of technical accounting opinions, policy setting and operational changes required in the Finance function to implement IFRS 9.

The build phase of the IFRS 9 programme is near completion and the Committee will oversee the parallel run in 2017.

At the end of 2015, the Group made a Property portfolio acquisition. During 2016, the Committee considered and challenged the assumptions used in determining the unwind of the fair value discount and concluded that the fair value adjustment as at 31 December 2016 was reasonably stated.

Financial reporting process

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

Going concern and long-term viability

The Committee reviewed a detailed paper presented by management setting out the assumptions underlying the going concern statement. The paper covered the capital position of the Group, improvements to the Group's Risk Management Framework and governance, and the work performed on the Group's ICAAP. Based on the work performed, the Committee concluded that the Group will have adequate resources to continue in operational existence for the period of assessment of 12 months from the date of signing the accounts. The Committee reported accordingly to the Board, which also considered Going Concern in detail.

In order to support the Board's approval of the statement on page 56 as to the longer term viability of the Group, the Committee reviewed papers from management setting out the intended approach to the disclosures and providing details in support of the statement based in particular on the Group's medium term plan and the results of stress testing.

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

Internal controls and risk management

Together with the Group's Risk Committee, the Audit Committee has performed a robust assessment of the Risk Management Framework and principal risks and uncertainties. Details of the risk management systems in place and principal risks and uncertainties are provided within the Risk management report on pages 40 to 56.

The Group's system of internal control has been designed to manage risk and whilst risk cannot be eliminated, the new system improvements assist in providing reasonable assurance against material misstatement or loss.

The Audit Committee receives reports on a regular basis on compliance with the Group's policies and procedures and the effectiveness of the Group's systems and controls. The Group's Internal Audit function as the third line of defence is outsourced to Deloitte LLP providing assurance to the Group that the specialist nature of the Group's activities can be fully assessed.

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

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

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

On behalf of the Board, the Committee through discharging its responsibilities under its terms of reference undertakes regular reviews of the effectiveness of the Group's systems of internal control as set out on page 75. In addition, following the implementation of upgrades to the Group's risk management systems and controls throughout 2015 and 2016 and the subsequent identification of the controls breach in the Business Finance Division, the Group engaged external forensic accountants to provide assurance on the adequacy of the revised control framework.

Internal Audit

The Group has outsourced the Internal Audit function to Deloitte LLP since June 2013. The Committee is satisfied that in 2016 this continued to be the most appropriate way of managing the delivery of internal audit services, however as the size and nature of the business has changed, the Audit Committee has considered the need and suitability of transitioning to an 'in-house' Internal Audit function, on the subject of which it will make a recommendation to the Board in 2017.

The terms of reference of the Internal Audit function are set out in the Internal Audit Charter. The Audit Committee approves the annual audit plan and audit methodology for Internal Audit and monitors progress against the plan during the year. The Internal Audit Partner agrees the programme of work and reports directly to the Committee on the outcomes. Special reviews are carried out as required.

Internal Audit carried out a significant number of audits during 2016 of varying size and complexity. Thematic audits focused on, amongst other things, new business processes, capital and liquidity and the Risk Management Framework. Audit reports are circulated to the Audit Committee members prior to each scheduled meeting and the Committee monitors progress against actions identified in these reports.

The Committee used a questionnaire to monitor and review Internal Audit's effectiveness using feedback from the Board, senior management and regular attendees. The Audit Committee also assesses annually the resources available to Internal Audit to complete its remit. Internal Audit has unrestricted access to all Group documentation, premises, functions and employees as required to enable it to perform its functions. The appointment and removal of Internal Audit staff is the responsibility of the Audit Committee.

External Audit

The Audit Committee oversees the relationship with the External Auditor and considers the External Auditor's engagement (including remuneration), their effectiveness, their continued independence and their objectivity. The Committee also considers audit and audit strategy (including the planned levels of materiality). The external auditor attends the Committee meetings as appropriate and meets at least annually with the Committee without executive management. The Chairman of the Committee also meets privately with the External Auditor before each Committee meeting.

During the year, the Committee received regular detailed reports from the External Auditor including formal written reports dealing with the audit objectives; and reports on: the auditors' qualifications, expertise and resources; the effectiveness of the audit process; procedures and policies for maintaining independence; and compliance with the ethical standards issued by the Auditing Practices Board. The External Auditor's management letter is reviewed, as is management's response to issues raised and progress is monitored against actions identified in these reports.

The Committee monitors the latest ethical guidance regarding rotation of audit partners. Non-audit services provided by the External Auditor is regularly monitored by the Committee.

<u>External Audit independence and objectivity</u>

The Committee is responsible for reviewing the independence of the Group's External Auditor KPMG LLP and making a recommendation to the Board on their engagement. KPMG LLP has a policy of partner rotation which complies with regulatory standards, and the audit partner changed with effect from March 2016, in line with this requirement.

Maintaining an independent relationship with the Group's auditor is a critical part of assessing the effectiveness of the audit process. The Committee has a formal policy on the use of the Auditor for non-audit work and ensures that work is only awarded when, by virtue of the Auditor's knowledge, skills or experience are a decisive factor and when the Auditors are clearly to be preferred over alternative suppliers.

The Committee receives and reviews each year an analysis of all non-audit work and reviews the level of audit and non-audit fees paid to KPMG LLP and also ensures that significant assignments are not awarded without first being subject to the scrutiny of the Committee. The fees paid to KPMG for audit and non-audit services are set out in note 7 of the financial statements. The key principles of the policy on non-audit services are:

Summary of non-audit services policy

The Committee reviewed payment for non-audit services in 2016.

(i) Prohibited services include services remunerated on a success fee or participation in activities normally undertaken by management.

(ii) The Committee approved a list of permitted audit related reviews of the Group's interim results or any other review of its accounts for regulatory purposes. (Details of the services provided by the external Auditors can be found in note 7 of the Financial Statements).

(iii) The Committee maintains a list of prohibited services which is aligned to the 'black-list' of services set out in the EU Audit regulations and directives.

(iv) Pre-approved services up to £100,000 require approval by the CFO/CEO or the Chairman of the Audit Committee. All services that are not pre-approved, or are discretional or exceed the monetary threshold of £100,000 should be referred to the Audit Committee for approval.

The Committee confirms that no prohibited services were provided by the External Auditor and it is satisfied that the policy on the supply of non-audit services could not lead to audit objectivity and independence being compromised.

In order to comply with the policy, the External Auditor ceased the provision of tax advisory services from 1 January 2017.

In December 2016 the Committee assessed the effectiveness of the External Auditor and the audit process. The review included seeking the views of Audit Committee members, Executive Directors and senior executives. The review concluded that the external audit process was effective.

The Committee is satisfied with the performance of the External Auditor in 2016 and the policies and procedures in place to maintain their objectivity and independence, and has recommended that they be re-appointed at the forthcoming Annual General Meeting.

Audit Tender

The Group appointed KPMG Audit Plc as External Auditor from 2011 to 2014, and KPMG LLP thereafter. The Group did not carry out a formal tender process in the year as it sought to embed stability in the year following the IPO. KPMG LLP has continued as External Auditor. However, the Committee has adopted the transitional provisions under the EU Statutory Audit Directive permitting the Group to put the external contract out to tender no later than 2021. The Group will keep under review regulatory and legislative developments around the tenure of the Auditors and will undertake a formal competitive tender at the appropriate time. Following discussions with KPMG LLP and consideration by the Committee Chairman and the Chief Financial Officer of possible candidates, approval was given to the appointment of John Ellacott as the Group's new audit partner from March 2016.

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

Whistleblowing

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

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

Governance

The Committee has undertaken a review of its own performance, focussing on the Code requirements for Audit Committees, as part of the Board effectiveness review. The results were positive.

During the year the Financial Reporting Council (FRC) performed a review of Shawbrook's 2015 Annual Report and Accounts and invited comments on a number of reporting areas. The 2015 Annual Report and Accounts was Shawbrook's maiden set of accounts as a FTSE 250 listed organisation and we welcomed the opportunity to improve the quality of our reporting.

All issues raised by the FRC have been discussed by the Committee and, in consultation with the external auditor have been cleared with the FRC with no points outstanding at the date of this report and where applicable, we enhanced our disclosures.

Fair, balanced and understandable

The Committee considered on behalf of the Board whether the 2016 Annual Report & Accounts taken as a whole is fair, balanced and understandable, and whether the disclosures are appropriate. The Committee is satisfied that the 2016 Annual Report & Accounts meets this requirement, and in particular, that appropriate disclosure has been made with respect to any developments in the year. In justifying this statement the Committee has considered the robust procedures around the preparation, review and challenge of the Report and the consistency of the narrative sections with the financial statements. The Annual Report & Accounts is drafted by the Executive with overall governance and co-ordination provided by the Annual Report & Accounts Working Group comprising a team of cross-functional senior management.

Assurances are sought by the Audit Committee on each section of the Annual Report in advance of final sign-off by the Audit Committee and ultimately the Board.

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

Andrew Didham

Chairman

Board Audit Committee

Report of the Risk Committee

Dear Shareholder

I am pleased to present the report of the Risk Committee, our second as a listed Group. This year we have continued to strengthen our Risk Management Framework and controls in line with the Group's aspirations and risk appetite.

The following report explains in further detail how the Committee has discharged its responsibilities and highlights the key matters discussed by the Committee in 2016. This has involved balancing the agenda to include standing areas of risk management whilst ensuring key risks which have emerged during the course of the year are appropriately addressed. Considerable time has also been spent contributing to documents such as the ICAAP and ILAAP before making recommendations to the Board.

Good progress has been made during 2016 in further understanding underlying risks and enhancing risk management. We are now well positioned to further embed the revised Risk Management Framework and further enhance testing and quality assurance in 2017.

The environment in which the Group operates continues to evolve and I believe the Committee is well placed to review inherent and emerging risks and embed an appropriate risk culture.

Paul Lawrence

Chairman of the Risk Committee

Committee membership

The Risk Committee comprises six members, all of whom are Independent Non-Executive Directors of the Group.

Meetings are held at least bi-monthly. Individual meeting attendance during 2016 is set out below. The number of meetings held during the period and those that each Director was eligible to attend as a member of the Committee are shown below.

Member	Date joined or stepped down in the year	Meetings attended/meetings eligible to attend as a member
Paul Lawrence		7/7
Robin Ashton		6/7
Graham Alcock	Stepped down 9 June 2016	3/3
David Gagie	Joined 3 March 2016	4/6
Sally-Ann Hibberd	Joined 3 March 2016	6/6
Roger Lovering		7/7
Andrew Didham	Joined 1 February 2017	

During the year, the members of the Committee were Paul Lawrence, Robin Ashton, Graham Alcock, David Gagie and Roger Lovering, who each also served on the Audit Committee throughout the reporting period. Sally-Ann Hibberd does not sit on the Audit Committee. Andrew Didham was appointed to the Committee on 1 February 2017.

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

Role of the Risk Committee

A full copy of the terms of reference of the Risk Committee can be obtained by request to the Company Secretary or via the Group's website at investors.shawbrook.co.uk.

The purpose of the Committee is to assist the Board in its oversight of risk within the Group, with particular focus on the Group's risk appetite, risk culture, risk profile and the effectiveness of the Group's Risk Management Framework. As well as reviewing the Group's risk assessment processes and methodology it identifies and manages new risks, alongside advising on proposed transactions and reviewing reports on any material breaches of risk limits. The Committee is also responsible for monitoring and reviewing the effectiveness of the risk function and the capital adequacy requirements of the Group's relevant subsidiaries on an on-going basis.

Over the course of 2016, the Committee considered a wide range of risks facing the Group, both standing and emerging, across all areas of risk management in addition to the risk appetite and culture. Below is an outline of these risks, with a summary of the material factors considered by the Committee, including the conclusions that were ultimately reached.

Key matters considered by the Committee in 2016

Significant Risks	Board Risk Committee Review
Enterprise Risk Management	· The Committee received and recommended for the Board's approval the 2016 Risk Plan which included the key areas of focus for the Group Risk function. · The Committee recommended Board approval of the Group's new Risk Management Framework in January 2016 which set out the Group's approach to managing the enterprise wide risks that the Group faces. This includes culture, governance, the 'three lines of defence' system and clear roles and responsibilities throughout the Group. · The Committee received regular summaries of the enterprise risk profile of the Group through the Chief Risk Officer's report. · The Committee received an independent review of the strategic plan.
Risk Governance	· The Committee recommended to the Board approval of revisions to risk governance, including the establishment of an Enterprise Risk Management Committee in March 2016.
Board Risk Appetite	The Committee received a number of reports during the year including (but not limited to): · a new overarching risk appetite statement for the Group · an annual review of the Board Risk Appetite statements covering all principal risks. · consideration of new risk appetite statements in the strategic areas of information risk and concentration risk · consideration of divisional risk appetite limits
Credit Risk	· The Committee received a report on changes to delegated authorities which aligns to the 'three lines of defence' system, ensures segregation of duties and supports escalation to the Credit Approval Committee where appropriate.

	· The Committee received via the Board regular updates on the Group's preparations for IFRS 9.
Operational Risk	· The Committee received updates on changes to the Group's product management policy and annual reviews. · The Committee received updates on the Group's investment in an information security risk management framework, controls and risk appetite. · The Committee received updates on Business Continuity testing and a test of the Cyber Incident Response Plan.
Conduct, Legal and Compliance Risk	· The Committee received the Group's Annual Compliance Monitoring Plan and updates on performance. · The Committee received a revised intermediary and broker risk management framework.
Liquidity and Market Risk	· The Committee received and recommended to the Board approval of the Internal Liquidity Adequacy Assessment Process (ILAAP). · The Committee received and recommended to the Board approval of the Contingent Liquidity Plan (CLP)
Stress Testing and Capital	· The Committee received the Group's Internal Capital Adequacy Assessment Process (ICAAP) in March 2016 and was actively engaged in the oversight of the macroeconomic stress testing, the development of idiosyncratic stress tests and reverse stress testing. · The Committee received the Capital Contingency Plan (CCP) in July 2016.
Recovery and Resolution Plan	· The Committee received the Group's updated Recovery Plan and Resolution Pack in November 2016.
Remuneration	· The Risk Committee received a report from the Chief Risk Officer on the progress made on risk management in early 2016. The report formed a key part of the Remuneration Committee's assessment of remuneration.

Primary areas of focus during the year

- ICAAP - The Board was actively engaged in the development of the Group's ICAAP. Activities included workshops to review and approve recommendations of the Group's assessment of its Pillar 2A risks and the review and approval of the macroeconomic scenarios used to assess the Group's risks over a three to five year period. The Committee was also involved in identifying and reviewing risks the Group's business model through the development of idiosyncratic scenarios and the reverse stress testing scenario.
- ILAAP - the Group undertook a comprehensive review of its ILAAP, with the Board Risk Committee with the Board actively involved throughout. This included workshops to enhance and refine the Group's liquidity stress testing framework; review the Group's liquidity risks and resources; and ensure the Group's overall liquidity adequacy.
- Risk Management Framework - continued development and investment to ensure business development and transformation programmes are properly supported;
- Group's risk profile and risk appetite - continually reviewed to ensure they remain appropriate to the current and future strategy of the Group;
- Brexit assessment - continually monitored and reviewed preparedness before the Brexit vote and in light of the referendum result;
- Regulatory and legislative change - continually assessed and monitored;
- Review of internal controls and risk management systems;
- Regular review of strategic, operational and credit risk events;
- Technology infrastructure - considered the adequacy and effectiveness of the technology infrastructure supporting the Risk Management Framework;
- Risk Culture - monitored the training and development requirements of the Group to ensure the requisite skills are in place to control risk and promote an effective risk culture; and
- Recovery and Resolution Plan - monitored and developed the preparedness and contingency plan to respond to and manage levels of severe stress.

Other matters considered in detail by the Committee in 2016

- Block Discount Lending Policy;
- 2016 Business Continuity Test Plan; and
- Intermediary and Broker Management policy.

During 2016 the Group has enhanced its three lines of defence model, as outlined on page 45 in the Risk management report. This model has been implemented through the creation of a comprehensive suite of risk policies, embracing all aspects of the risk management agenda, including the credit, operational, reputational and conduct risk arenas under the auspices of Program Horizon, which is the program initiated in March 2015 to upgrade the risk architecture of the Group.

During 2016 the Group made a number of changes to enhance its risk governance. These included the launch of its Enterprise Risk Management Committee (ERMC), which provides an enterprise wide view of the risk profile of the Group and is the senior risk committee within the Group. The ERMC replaced the Group Credit Committee (GCC) and the Conduct and Operational Risk Committee (CORC). To support the ERMC in embedding of the Risk Management Framework and to reflect the Group's development of credit grading, the ERMC implemented two new groups. The Model Management Group (MMG) to oversee the development, approval and monitoring of the Group's models and the Policy Review Group (PRG) to oversee the consistent development, approval and monitoring of the Group's policies.

The Risk Committee received a number of reports from management that provide strong evidence that the Group's regulatory documents are being embedded into the way the Group does business including in the setting of strategy and risk appetite.

The Group has also undertaken a comprehensive and wide ranging review of credit risk approval governance. The change in framework seeks to deliver under the following key principles:

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

During the year, revised authority levels were proposed based upon a balanced consideration between risk profile and current practice, namely:

- The Group operates a hierarchy of lending authorities based principally upon the size of the aggregated credit risk exposure to counterparties, group of connected counterparties or, where applicable, a portfolio of lending assets that are subject to a single transaction. In addition to maximum amounts of credit exposure, sole lending mandates may stipulate sub-limits and / or further conditions and criteria.
- The Group implemented as part of its improving Risk Management Framework a number of changes to its hierarchy of lending mandates during 2016. Each Division has a maximum authority level allocated, with exposures above these levels requiring approval from an approver in the second line of defence, or the Credit Approval Committee (CAC). In each Division, at least one signatory to the loan must be a segregated first line of defence credit approver who has no responsibility for, or remuneration arrangements linked to, sales targets, on-going sales origination or relationship responsibility with the borrower.

- The maximum divisional mandate for the Regional Business Centres Business Finance Specialist Sectors and Commercial Property in the Property Division is £1,250,000. The maximum divisional mandate for residential lending in the Property Division is £300,000 and £75,000 in Consumer. Exposures beyond these limits up to £5million may be approved by an approver in the Second Line of Defence and exposures up to the Group single name concentration limit of £25million must be approved by the Credit Approval Committee (CAC). In addition, where transactions involve portfolios of lending assets in excess of £15million Board approval is also required.
- 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 a review of the Board's appetite for concentration risk.

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

Priorities for 2017

The Group will continue to invest in its risk management capability during 2017 with a key priority being to fully embed a risk aware culture throughout the Group. During 2017 the Group will complete an update on many of the items delivered in 2016 and deliver / support the transformation agenda.

The key projects which the Group Risk function are accountable for delivering in 2017 include:

- operationalising the Group's new Credit Grading System into key front-end decision systems;
- delivery of IFRS 9 compliance ;
- delivery of the Enhancing Operational Risk project to systemise the management and oversight of operational risk including embedding risk and control assessments and key indicators;
- development of a problem loan management strategy;
- launch of a credit risk application system; and
- delivery of a plan to support the bank's consideration of Advanced Internal Ratings Based (AIRB) permission.

Statement by the Remuneration Committee Chairman

Dear Shareholder,

On behalf of the Board, as Chairman of the Remuneration Committee, I am pleased to present our 2016 Directors' Remuneration Report.

This report is my first as Chairman of the Committee and sets out how we have implemented the Directors' Remuneration Policy (approved by shareholders at the 2016 AGM) in 2016 and outlines our intentions with regards to remuneration in 2017. The Directors' Remuneration Policy can be found in the 2015 Annual Report and Accounts available on the Group's website www.shawbrook.co.uk.

During 2016 the Committee has, in addition to its regular activities, reviewed the current policy to ensure that it remains fit for purpose. It also considered the leaving arrangements for Tom Wood who left Shawbrook in June 2016 and, in early 2017, approved the remuneration arrangements for his successor, Dylan Minto.

I have set out below a summary of the key decisions that the Committee has taken during the year including with respect to determining the 2016 bonus outcomes, changes to the implementation of the remuneration policy during the year and a summary of how the policy will be implemented in 2017.

Board changes

At the start of 2016, we welcomed Shawbrook's new Chief Executive Officer (CEO), Steve Pateman, to the Group. His remuneration arrangements were set out in the 2015 Directors' Remuneration Report and are again disclosed in this report.

Tom Wood, the Chief Financial Officer, left Shawbrook at the end of June 2016. The terms of his departure are set out on page 100 and the treatment is in line with the shareholder approved Directors' Remuneration Policy, the terms of his contract and the relevant share plan rules.

In February 2017, we appointed Dylan Minto as Chief Financial Officer (CFO) and Executive Director. His remuneration arrangements will therefore be in line with the approved Directors' Remuneration Policy and are set out on page 102.

2016 bonus outcomes

With the exception of the identification of the controls breach referred to below, 2016 has been a positive year for Shawbrook. With continuing demand and strong risk-adjusted returns in our selected markets, financial performance has aligned well to our Strategic Pillars. As a result, the Group has delivered against its 2016 guidance and remains well placed to deliver its 2020 vision.

The 2016 bonus outcomes for Executive Directors were based on a scorecard of financial measure and non-financial measures as well as individual performance.

<u>Financial performance (55% weighting)</u>

The financial element of the 2016 bonus assessment was based on profit before tax (35%) return on tangible equity (10%) and cost to income ratio (10%).

The Committee considered Shawbrook's financial performance against these metrics and also the impact of exceptional items, which may be excluded from the calculation of financial performance under the bonus plan design.

During 2016, a controls breach was identified in the Business Finance Division which led to an income statement charge of £12 million being recognised in 2016 (see page 49 in the Risk management report for further details). This related to a number of loans, originated over a period of several years particularly between 2012 and 2015, that did not meet the Group's strict lending criteria. Following the identification of the controls breach, a full review of the underlying facts was undertaken and the Committee reviewed the findings when considering the implications for remuneration for 2016. The Committee considered the current Executive Directors' oversight and management responsibilities for the Business Finance Division at the time the issues arose and considered that the charge should be treated as an exceptional item when calculating the bonus outcome for the Executive Directors. The Committee noted that Steve Pateman had joined the Group as Chief Executive Officer (CEO) on 1 January 2016 after the majority of the identified transactions had been originated and ensured that appropriate management focus was provided to the improved Risk Management Framework and controls that enabled the controls breach to be identified, and that Stephen Johnson did not have oversight or management responsibilities for the Business Finance Division at any time during his employment by the Group.

On this basis and following adjustment for the controls breach (but not adjusting for the underlying adjustments described on page 2), the Group achieved profit before tax of £100.2 million, return on tangible equity of 21.3% and a cost to income ratio of 45.9%. Overall, this resulted in a score of 38.6 out of 55 in respect of the financial measures.

Whilst the Committee concluded that Executive Directors' bonus outcomes should not be impacted by the charge relating to the controls breach, in order to ensure alignment of the interests of the Executive Directors with the long-term interests of shareholders, it determined that in light of the charge, an exceptional increase to deferral levels for Executive Director annual bonuses was warranted for the 2016 financial year only. As such, 75% of the total bonus awarded for 2016 will be deferred into Shawbrook shares under the Deferred Share Bonus Plan, which will vest in equal tranches over three years.

<u>Non-financial performance (25% weighting)</u>

The non-financial element of the 2016 bonus assessment was based on risk management (15%), customer (5%) and culture and employee engagement (5%).

During 2016, the Group continued to embed its Risk Management Framework leading to increased first-line risk management capability and much improved oversight, monitoring and reporting. In relation to customer, a Net Promoter Score (NPS) of 27 was achieved, which was a good outcome given external factors and in particular the impact of the current interest rate environment on savings customers. On culture and employee engagement, the maximum score was awarded reflecting the significant work undertaken by senior management in the transformation of the culture of the Group as well as high employee engagement scores. Given this level of performance, the Committee determined that a score of 18.5 out of 25 should be awarded in respect of the non-financial measures.

<u>Individual performance (20% weighting)</u>

The remaining 20% of the bonus was based on individual performance. Since his appointment as CEO in January 2016, Steve Pateman has substantially achieved all his agreed objectives ensuring an appropriate balance between risk, return and customer needs in the delivery of strong financial performance in 2016 as well as driving continued focus on the Group's 2020 strategy. Stephen Johnson has continued to lead the Property Finance business to success with outperformance on margin, costs and contribution leading to an excellent return on tangible equity, whilst maintaining high standards of professionalism, risk management, ethics and team work.

As a result of this performance, the overall bonus outcome for 2016 was 77.1% of maximum for Steve Pateman and 75.1% of maximum for Stephen Johnson. Further details can be found on pages 96 to 98.

Changes to remuneration arrangements during 2016

In our 2015 Directors' Remuneration Report, we highlighted that a review of pension arrangements for Executive Directors, other than the CEO, was being undertaken against wider market practice and pension provision within the Group. With effect from 1 September 2016, the Committee determined that the pension contribution of 7.5% of salary for Executive Directors should be amended to a pension allowance of 15% of salary to ensure the offering remains appropriate, particularly given internal relativities with other senior management. Having made this one-off adjustment, the Committee does not intend to review pension levels again in the foreseeable future.

During 2016, we also reviewed and strengthened our clawback provisions such that deferred bonus awards granted in respect of the 2016 performance period onwards may be subject to clawback at any time prior to the third anniversary of vesting.

2017 implementation and looking ahead

There will not be any significant changes to the implementation of the Remuneration Policy in 2017 for Executive Directors. The salaries of Steve Pateman and Stephen Johnson will not be increased in 2017, as it was decided that the salary increase budget should be targeted at the wider employee base. The annual bonus opportunity will remain the same as 2016. Performance Share Plan (PSP) awards to Executive Directors in 2017 will be granted at a level of 100% of salary.

The Committee has reviewed the performance measures, weightings and targets for the 2017 bonus plan and PSP awards. The 2017 bonus measures are unchanged from 2016, using a scorecard of financial, non-financial and individual performance metrics. Within this scorecard, the customer and employee aspects have been combined for 2017, and the underlying customer and employee metrics have been updated to include a wider range of key goals for Shawbrook, including overall customer satisfaction as well as employee engagement, talent management, diversity and inclusion.

In relation to the PSP, the Committee has decided to retain the relative total shareholder return (TSR), earnings per share (EPS) and risk management measures, as well as including a scorecard of customer and employee metrics. The TSR peer group has been updated to ensure it continues to provide a robust assessment of performance, with the additions to the group being challenger banks. The customer and employee metrics reflect Shawbrook's long-term strategic priorities and goals in this area. For example, during 2016, Shawbrook signed up to HM Treasury's Women in Finance Charter, and therefore the PSP scorecard will measure progress towards our aspirations in this area.

Closing remarks

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

Robin Ashton

Remuneration Committee Chairman

Annual Remuneration Report

This section summarises how Shawbrook implemented the Remuneration Policy in 2016, and how it is intended to be operated in 2017. This Annual Remuneration Report will be submitted to shareholders for an advisory vote at the 2017 AGM. Where required, sections of the Annual Remuneration Report have been audited by KPMG LLP and this is indicated in the 2016 Annual Report & Accounts. The Directors' Remuneration Policy can be found in the 2015 Annual Report and Accounts available on the Group's website (www.shawbrook.co.uk).

Consideration by the Directors of matters relating to Directors' remuneration

The Board Remuneration Committee comprises three members including the Board Chairman. Meetings are held at least four times per year. Individual meeting attendance during 2016 is set out below. The number of scheduled meetings held during the period that the Director was a member and therefore eligible to attend is shown below.

Member	Date joined or stepped down	Meetings attended/Meeting eligible to attend
Robin Ashton[3]	Appointed Committee Chairman 9 June 2016	8 / 8
Iain Cornish		8 / 8
Sally-Ann Hibberd	Joined 23 May 2016	5 / 5
Graham Alcock[4]	Stepped down 9 June 2016	4 / 4

A full copy of the terms of reference of the Remuneration Committee can be found on the Group's website at www.shawbrook.co.uk.

During the year the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group HR Director, Head of Reward and Non-Executive Director, Lindsey McMurray, all attended Committee meetings by invitation. In addition, the General Counsel and Company Secretary and Head of Secretariat provided secretariat support to the Committee during the year. No individual was present for discussions relating to their own remuneration.

Deloitte LLP provided independent advice to the Committee on executive remuneration matters, including a review of the Group's remuneration policy, advice on incentive design and performance measurement, provision of current market trends data and regulatory updates, and support in relation to the Directors' Remuneration Report. In respect of these services, Deloitte was paid fees totalling £79,000. Deloitte LLP also provided risk advisory, internal audit and forensic advisory services to Shawbrook during 2016. Deloitte LLP is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. The Committee is satisfied that the advice received from Deloitte LLP was objective and independent.

Single total figure of remuneration

The tables below set out the single total figure of remuneration for Executive and Non-Executive Directors for the financial year ended 31 December 2016.

Year ended 31 December 2016:

Executive Director	Steve Pateman[5]	Stephen Johnson	Tom Wood[6]
Salary (£000)	625	260	213
Taxable benefits[7] (£000)	2	2	1
Pension[8] (£000)	219	26	16
Annual bonus (£000)	482	195	-
Total (£000)	**1,328**	**483**	**230**
Recruitment award[9]	**2,184**		**-**
Total (£000)	**3,512**	**483**	**230**

Non-Executive Director	Iain Cornish	Graham Alcock[10]	Robin Ashton	Sally-Ann Hibberd	Paul Lawrence	Roger Lovering	Lindsey McMurray[11]	David Gagie[12]

Fees (£000)	190	35	93	73	92	90	-	73
Total (£000)	**190**	**35**	**93**	**73**	**92**	**90**	**-**	**73**

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

Year ended 31 December 2015:

Executive Director	Richard Pyman[13][14]	Stephen Johnson[15][6]	Tom Wood[1][16]
Salary (£000)	251	171	423
Taxable benefits (£000)	2	1	10
Pension[17] (£000)	20	12	23
Annual bonus (£000)	-	235	424
SAYE[18] (£000)	-	3	3
Total (£000)	**273**	**422**	**883**
Legacy share plan[19] (£000)	3,425	-	7,954
Total (£000)	**3,698**	**422**	**8,837**

Non-Executive Director	Sir George Mathewson[20]	Iain Cornish[21]	Graham Alcock[22]	Robin Ashton[10]	Sally-Ann Hibberd[23]	Paul Lawrence[24]	Roger Lovering[10]	Lindsey McMurray[25]	James Scott[26]
Fees (£000)	31	94	56	61	10	32	64	-	-
Total (£000)	**31**	**94**	**56**	**61**	**10**	**32**	**64**	**-**	**-**
Legacy share plan (£000)[27]	3,590	-	-	2,308	-	-	-	-	-
Total (£000)	**3,621**	**94**	**56**	**2,369**	**10**	**32**	**64**	**-**	**-**

Notes to the single total figure of remuneration table

Taxable benefits and pension

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

In our 2015 Directors' Remuneration Report, we highlighted that a review of pension arrangements for Executive Directors, other than the CEO, was being undertaken, against wider market practice and pension provision within the Group. With effect from 1 September 2016, the Committee determined that the pension contribution of 7.5% of salary for Executive Directors should be amended to a pension allowance of 15% of salary to ensure the offering remains appropriate, particularly given internal relativities with other senior management. Having made this one-off adjustment, the Committee does not intend to review pension levels again in the foreseeable future. The pension provision for the CEO which was agreed on appointment remains at 35% of salary, in line with the opportunity offered by his previous employer.

All-employee share plans

No Executive Directors participated in the 2016 SAYE offering.

Annual bonus

Executive Directors were eligible to participate in the annual bonus in 2016, with a maximum opportunity of 100% of salary.

For each Executive Director, the 2016 annual bonus outcome was based on performance against a scorecard of measures, weighted 55% on financial measures, 25% on non-financial measures reflecting the strategic goals of the Group and 20% on individual objectives. The table below illustrates performance against the targets set for each measure.

Measure	Weighting	Threshold	Target	Maximum	Actual performance	Bonus outcome
Financial measures						
Profit before tax	35%	£85.6m	£100.7m	£104.5m	£100.2m	27.0%
Return on tangible equity	10%	20.7%	21.8%	22.1%	21.3%	4.5%
Cost to income ratio	10%	48.0%	45.7%	45.1%	45.9%	7.1%
Non-financial measures						
Risk management	15%	Remuneration Committee judgement			See below	12.5%
Customer (NPS)	5%	26	30	34	27	1%
Culture and employee engagement	5%	Remuneration Committee judgement			See below	5%
Individual measures						
Individual performance	20%	Remuneration Committee judgement			See below	See below

Of the 2016 bonus, 55% is based on financial measures before any exceptional profits or losses as determined by the Committee.

The Committee concluded that an income statement charge of £12 million should be treated as exceptional for 2016 bonus purposes for the continuing Executive Directors, Steve Pateman, CEO, and Stephen Johnson, Deputy CEO and Managing Director of the Property Finance Division. This charge arose following the controls breach identified in the Business Finance Division and related to a number of loans, originated over a period of several years particularly between 2012 and 2015 that did not meet the Group's strict lending criteria. The controls breach was identified and accounted for in 2016. In concluding that the charge arising from the controls breach should not impact the amount of the 2016 bonus earned by the two Executive Directors, the Committee noted that:

a) Steve Pateman had joined the Bank as CEO on 1 January 2016 after the majority of the identified transactions had been originated and ensured that appropriate management focus was provided to the embedding of the improved Risk Management Framework that enabled the controls breach to be identified; and

b) Stephen Johnson had only been appointed to the Board in May 2015 and his responsibilities did not extend to management or oversight of the Business Finance business. Stephen's primary role is as Managing Director of the Property Finance Division. Stephen's responsibilities prior to joining the Board were also for the Property Finance Division and he has not had oversight or management responsibilities for the Business Finance business at any time during his employment by the Group.

The Group believes that the steps it has taken to strengthen risk controls, including the removal of certain delegated authorities and appropriate segregation of origination and operations, should minimise the risk of a further breach in the future.

In order to ensure alignment of the interests of the Executive Directors with the long-term interests of shareholders, the Committee has determined that the above treatment warrants an exceptional increase to deferral levels for Executive Director annual bonuses for the 2016 financial year only. Of the total bonus awarded for 2016, 75% will be deferred into share awards under the Deferred Share Bonus Plan (DSBP).

25% of the 2016 bonus is based on non-financial measures

Following a review of the Group's risk management performance over the year and based on input from the Chief Risk Officer and the Chairman of the Board Risk Committee, the Committee determined a payout of 83.33% (being a score of 12.5 out of 15) under the risk management element of the scorecard. This outcome reflects the Group's continued journey towards the embedding of a robust Risk Management Framework in 2016 including increased first line risk management capability, positive regulatory interactions, strong credit risk performance and improved oversight, monitoring and resourcing. In reaching this conclusion, the Committee noted that the improved Risk Management Framework had helped to uncover the controls breach outlined above.

The Committee also reviewed performance against the 'culture and employee engagement' measure, taking into account input from the Group HR Director, and determined a payout of 100% of maximum was warranted. In reaching this conclusion, the Committee took into consideration the strong scores obtained from two employee engagement surveys undertaken during 2016 as well as the significant work undertaken to further embed structured learning and performance management and to improve employee communication across the Group. The Committee also noted the significant work undertaken to progress the corporate social responsibility agenda and the role this has played in developing the Group's culture.

20% of the 2016 bonus is based on Individual measures

The Committee also assessed the individual performance of the Executive Directors over the year.

The Committee concluded that Steve Pateman substantially achieved all his agreed personal objectives for 2016 and performed at a high level in the discharge of his duties. In delivering strong financial performance, Steve has ensured an appropriate balance between risk, return and customer needs in maximising opportunities in our carefully selected markets. Having driven the appropriate embedding of our risk management framework, Steve has also championed a strong risk culture throughout the Group that will support the continued growth of the business and allow us to maintain a strong capital position. Steve's personal focus on living the Group's values and good sense approach has helped us to deepen relationships with our customers, community and business partners as well as establish a highly engaged leadership team and wider workforce that is focused on delivering the Group's 2020 strategy. Given this assessment, the Committee determined a payout of 100% in respect of the individual measure (being a score of 20 out of 20).

In assessing Stephen Johnson's individual performance, the Committee determined a payout of 90% under the individual measure (being a score of 18 out of 20). In reaching this conclusion, the Committee noted the strong performance of the Property Finance Division under his leadership, with outperformance on margin, costs and contribution leading to an excellent return on tangible equity. The Committee also recognised the high standards of professionalism, risk management, ethics and teamwork that have been the hallmark of Stephen's leadership as well as his passion and commitment to the Group, its people and customers.

Of the annual bonus earned, 25% has been paid in cash, with the other 75% deferred under the DSBP, which will vest in equal tranches after one, two and three years in March 2018, 2019 and 2020. The bonus outcome for each Executive Director is summarised in the table below:

Director[28]	Bonus outcome (% of maximum)	Amount paid in cash	Amount deferred into shares[29]
Steve Pateman	77.1%	£120,469	£361,406
Stephen Johnson	75.1%	£48,815	£146,445

Performance Share Plan

No PSP awards vested in 2016.

Scheme interests awarded during the financial year

Deferred Share Bonus Plan awards

Awards were made under the DSBP on 9 March 2016 in respect of 50% of the 2015 annual bonus. These are not subject to any further performance conditions.

Director	Type of award	Plan	Date of award	Number of shares awarded	Face value of award [30]	Vesting date
Stephen Johnson	Nil-cost options	DSBP	9 March 2016	38,377	£117,500	1/3rd - March 2017 1/3rd - March 2018 1/3rd - March 2019
Tom Wood[31]				69,079	£211,500	

Performance Share Plan awards

PSP awards were granted to the Executive Directors on 9 March 2016. To the extent that these vest following the end of the performance period, the awards will be subject to a two-year holding period.

Director	Type of award	Plan	Date of award	Number of shares awarded	Face value of award [32]	Face value of award	Performance period
Steve Pateman	Nil-cost options	PSP	9 March 2016	204,135	£625,000	100% of salary	1 January 2016 to 31 December 2018
Stephen Johnson				84,920	£260,000	100% of salary	
Tom Wood[33]				138,812	£425,000	100% of salary	

The 2016 PSP awards vest subject to the achievement of a balanced scorecard of measures, as set out in the table below:

Measure	Weighting	Target performance requirement	Maximum performance requirement
Financial measures			
Relative TSR	20%	Median against peer group	Upper quartile against peer group
Earnings per share	40%	20% growth p.a.	30% growth p.a.
Non-financial measures			
Customer (NPS)	20%	26	34
Risk management	20%	Judgmental assessment against a number of factors (see below)	

TSR for the 2016 PSP awards will be measured relative to a group of selected peers as set out in the table below.

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

The risk management measure will include an assessment of risk and compliance factors by the Committee at the time of vesting, and which include: Board risk appetite metrics, material regulatory breaches, and completion of actions arising from regulatory/audit/control effectiveness reviews, regulatory change programmes and customer complaints.

Recruitment awards

Upon recruitment, Steve Pateman received awards over shares in respect of remuneration forfeited on leaving his previous employment. These awards are not subject to performance conditions, however, they will only vest if he remains in employment. The awards are subject to malus and clawback provisions. Full details of Steve's joining arrangements are provided on page 79 of the Annual Report and Accounts for the year ended 31 December 2015.

Director	Type of award	Date of award	Number of shares awarded	Face value of award[34]	Vesting date[35]
Steve Pateman	Conditional share award	4 January 2016	71,408	£250,000	4 January 2016
	Conditional share award		64,267 256,631 149,681 82,044	£225,000 £898,466 £524,033 £287,236	27 January 2016 18 February 2016 18 February 2017 18 February 2018

Payments to past Directors

There were no payments made to past Directors during 2016.

Payments for loss of office

Tom Wood resigned as a Director of Shawbrook Group plc with effect from 30 June 2016 and his employment with the Group ended on this date. Remuneration arrangements in respect of his departure were determined by the Remuneration Committee in line with the Shawbrook Directors' Remuneration Policy approved by shareholders in June 2016.

Tom Wood's salary, pension and benefits were paid until 30 June 2016. He has received an amount of £228,437.50, less any necessary withholdings for income tax or national insurance contributions, being a sum equal to the value of his salary and employer pension contributions for a period of 6 months in lieu of his contractual notice provision of 12 months. Tom Wood will continue to be provided with private medical healthcare until 30 June 2017.

Tom Wood's unvested awards under the Shawbrook DSBP will be released in accordance with the original timetable in March 2017, March 2018 and March 2019 and remain subject to malus and, where applicable, clawback provisions. He remains entitled to two outstanding deferred bonus cash awards of £16,667 relating to the 2014 performance year, which will be released in accordance with the original timetable in March 2017 and March 2018.

Tom Wood will retain his outstanding 2016 award under the Shawbrook PSP and this will be subject to time pro-rating to 31 December 2016. The original performance conditions will continue to apply to this award. This award will vest on the original vesting date in March 2019 to the extent that the performance conditions are met. This award will remain subject to malus and, where applicable, clawback provisions. Tom Wood will not receive any bonus in respect of 2016.

Statement of Directors' shareholding and share interests

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

Unvested shares, including shares under the DSBP, are not taken into account when assessing achievement against the shareholding requirement.

Interests in shares

The table below summarises the shareholdings as at 31 December 2016, and achievement against the shareholding requirements, of the Executive Directors.

Director	Shares owned oht[36]	Shareholding (% of salary) [37][38]	Requirement met?
Steve Pateman	207,543	91%	No
Stephen Johnson	2,713,538	2,851%	Yes
Tom Wood	1,371,421	N/A	N/A

Scheme interests

The table below summarises the scheme interests of the Executive Directors as at 31 December 2016.

	Share awards	Share options	
Director	Unvested and not subject to performance conditions[39]	Unvested and subject to performance conditions[40]	Unvested and not subject to performance conditions[41]
Steve Pateman	231,725	204,135	-
Stephen Johnson	-	84,920	38,377
Tom Wood	-	37,651	69,079

The table below summarises the shareholdings of Robin Ashton as at 31 December 2016. The other Non-Executive Directors have not been included in the table as they currently hold no shares in the Group.

Director	Shareholding at 31 December 2016[42]
Robin Ashton	596,693

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

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

	% change in salary (2015 to 2016)[43]	% change in annual bonus (2015 to 2016)[44]	% change in benefits (2015 to 2016)
Interim Chief Executive Officer/Chief Executive Officer[1]	44%	14%	-6%
All employees[45]	7%	14%	-6%

Historical TSR performance and CEO remuneration outcomes

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

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

	Period to 31 December 2016	Period to 31 December 2015
Single figure[46]	£3,512,261	£6,694,417
Annual bonus payout (% of maximum)	77.1%	100%

Relative importance of spend on pay

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

	Year ended 31 December 2016	Year ended 31 December 2015	%
Total staff costs	£54,091,439	£46,611,275	**16%**
Dividends paid[47]	n/a	n/a	**n/a**

External appointments for Executive Directors

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

Stephen Johnson is a Director of Latchglen Limited, but does not receive any fees in respect of this appointment. At the time of this report, Steve Pateman did not have any external appointments.

Implementation of the Remuneration Policy for 2017

The Remuneration Policy will be implemented in 2017 in line with the Directors' Remuneration Policy as set out in the Annual Report and Accounts for the year ended 2015, which is available on the Group's website (www.shawbrook.co.uk).

Salary

The Committee determined that there would be no change to the salaries of Steve Pateman and Stephen Johnson as it was decided that the salary increase budget should be targeted at the wider employee base. The salaries effective from 1 January 2017 are set out below. The table also includes the 2017 salary for Dylan Minto who was appointed Chief Financial Officer and Executive Director on 6 February 2017.

	2017 salary	2016 salary
Steve Pateman	£625,000	£625,000
Stephen Johnson	£260,000	£260,000
Dylan Minto	£335,000	-

Pension

In line with the Remuneration Policy, the CEO receives a pension allowance of 35% of salary. Other Executive Directors receive an allowance of 15% of salary.

Annual bonus

The maximum annual bonus opportunity remains unchanged at 100% of salary for Executive Directors, with 50% of any bonus earned subject to deferral under the DSBP.

For 2017, the annual bonus will be based on:

Measure	**Weighting**
Financial measures	
Profit before tax	35%
Return on tangible equity	10%
Cost to income ratio	10%
Non-financial measures	
Risk management	15%
Customer and employee	10%
Individual measures	
Individual performance	20%

The overall weightings applicable to financial, non-financial and individual measures for the 2017 annual bonus structure remain unchanged against 2016.

The customer and employee measures used in 2016 have been combined for 2017 and the underlying metrics have been updated to include a wider range of key goals for Shawbrook, including overall customer satisfaction as well as employee engagement, talent management, diversity and inclusion. This will include an assessment of the Group's progress towards its commitments under the HM Treasury's Women in Finance Charter.

For each Executive Director, individual performance will continue to be assessed against a personal scorecard of financial and non-financial metrics (including financial, strategic, risk, customer, and people measures).

The Remuneration Committee retains discretion to reduce the formulaic outcome (including to zero) where the outcome is not reflective of the overall performance of the Group or as a result of the risk adjustment process.

The 2017 bonus targets are considered to be commercially sensitive and have therefore not been disclosed at this time. Performance against these targets will be provided in next year's Directors' Remuneration Report.

Deferred Share Bonus Plan

For DSBP awards granted in 2017 onwards, the clawback provisions have been strengthened such that the Committee will, in exceptional circumstances, have the discretion to clawback the value of DSBP awards at any time prior to the third anniversary of the normal vesting date of the relevant award. Any operation of the clawback provisions would be effected in line with the "Malus and Clawback" section of the Directors' Remuneration Policy and would be disclosed to shareholders in the subsequent Directors' Remuneration Report.

Performance Share Plan

PSP grants in 2017 will be equal to 100% of salary for Executive Directors. Any awards that vest will be subject to a two-year holding period following the end of the three-year performance period, during which time Executive Directors will not be able to sell any shares that have vested.

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

Measure	Weighting	Target performance requirement	Maximum performance requirement
Financial measures			
Relative total shareholder return	20%	Median against peer Group	Upper quartile against peer Group
Earnings per share	40%	10% growth p.a.	25% growth p.a.
Non-financial measures			
Customer and Employee	20%	Judgemental assessment against a number of factors (see below)	
Risk management	20%	Judgemental assessment against a number of factors (see below)	

Total shareholder return will be measured relative to a revised group of peers as set out in the table below:

Aldermore Group	Lloyds Banking Group	Provident Financial
Barclays	Metro Bank	The Royal Bank of Scotland
Close Brothers	OneSavings Bank	Secure Trust Bank
CYBG	Paragon Group of Companies	Virgin Money

The earnings per share (EPS) growth target is based on the average annual growth rate over the performance period. The Committee set the targets taking into account the business plan, external forecasts and anticipated market conditions over the period, including the potential uncertainty arising from the UK's decision to leave the European Union. For the 2017 PSP awards, an EPS growth rate of 10% per annum is required for threshold vesting under this element, rising to full vesting for an EPS growth rate of 25% per annum. The Committee considers these targets to be appropriately stretching in the above context.

The 2016 EPS figure to be used as the base year for the calculation will be the Group's reported EPS excluding the charge relating to the controls breach in the Business Finance Division, being 29.4p. This is to ensure that the targets measure true business performance across the full performance period.

The 'customer (NPS)' measure used for 2016 has been replaced with a more rounded judgement based 'customer & employee' scorecard that will take into account overall customer satisfaction and employee engagement as well as diversity and inclusion and talent management. This will include an assessment of the Group's progress towards its commitments under the HM Treasury's Women in Finance Charter.

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

The Remuneration Committee has discretion to reduce the formulaic outcome (including to zero) where the outcome is not reflective of the overall performance of the Bank or as a result of the risk adjustment process. In exceptional circumstances, the Committee may vary any performance condition applicable to a PSP award in accordance with its terms if anything happens which causes the Committee to consider it appropriate, provided that it considers the amended condition to be fair, reasonable and not materially less challenging but for the event in question.

Non-Executive Director Fees

The current fees payable to Non-Executive Directors are as set out below.

	Fee from 1 January 2016
Non-Executive Director base fee	£65,000
Chairman fee	£190,000
Senior Independent Director fee	£10,000
Audit and Risk Committee Chairman fee	£20,000
Remuneration Committee Chairman fee	£5,000
Audit and Risk Committee membership fee	£5,000
Remuneration and Nomination Committee membership fee	£2,500

As the role of Nomination Committee Chairman is performed by the Chairman of the Board, there is currently no additional fee for this role. The Chairman of the Board also receives no additional fee for his membership of the Remuneration Committee.

Statement of voting at the AGM

The Directors' Remuneration Report, including the Remuneration Policy, was put to shareholders for approval at the Group's 2016 AGM. The voting outcomes are set out below:

Resolution	% of votes cast for	% of votes cast against	Withheld
Report - 2016 AGM	89.57% *(193.8m votes)*	10.43% *(22.6m votes)*	6.1m votes
Policy - 2016 AGM	98.64% *(218.1m votes)*	1.36% *(3.0m votes)*	1.4m votes

Approval

This report was reviewed and approved by the Board on 6 March 2017.

Robin Ashton

Remuneration Committee Chairman

Directors' Report

Corporate Governance Statement

The Strategic report and Corporate governance report found on pages 1 to 104 and, together with this report of which it forms part, fulfils section 414C of the Companies Act 2006 and the Financial Conduct Authority's Disclosure Rules and Transparency Rules requirements by including, by cross reference, details of the Group's financial risk management objectives and policies, business review, future prospects and environmental policy.

They consider that the Annual Report & Accounts for the year ended 31 December 2016 and consider that taken as a whole they are fair, balanced and understandable and provide the information necessary for shareholders and other stakeholders to assess the Group's position and performance, business model and strategy.

Compliance with the UK Corporate Governance Code

The Directors consider that the Group has been in compliance with the provisions set out in the Code throughout the year.

Results for the year

The Group made a profit before tax for the year of £88.2 million (2015: £70.1 million) and a profit after tax of £64.8 million (2015: £58.5 million). The reconciliation of statutory results to underlying results is set out in the Basis of preparation on pages 2 and 3.

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8 this Directors' Report and the Strategic report on pages 1 to 62 comprise the management report.

Dividends

The Board has recommended a maiden final dividend in respect of the year ended 31 December 2016 of 2.7p per share. Subject to shareholder approval at the forthcoming AGM, the dividend is expected to be paid on 30 June 2017 to shareholders on the register of members as at close of business on 2 June 2017. The Board continues to target an increase in the dividend payout ratio to 30% of 2017 post-tax profits subject to the continuing evolution of regulatory capital requirements, the rate at which the Group continues to grow, attractive investment opportunities that may arise and the optimal capital composition of the Group's balance sheet.

Directors

The names and biographical details of the current Directors are shown on pages 66 to 68. Particulars of their emoluments and interests in shares are given on pages 91 to 104. Changes to the composition of the Board since 1 January 2016 up to the date of this report are shown in the table below:

Name	Joined the Board	Left the Board
David Gagie	1 January 2016	
Steve Pateman	1 January 2016	
Graham Alcock		9 June 2016
Tom Wood		30 June 2016
Andrew Didham	1 February 2017	
Dylan Minto	6 February 2017	

Appointment and retirement of Directors

The Group's Articles of Association sets out the rules for the appointment and replacement of Directors. In accordance with the recommendations of the Code, all Directors shall retire from office and may offer themselves for re-appointment at the Annual General Meeting. The Directors' powers are conferred on them by UK legislation and by the Group's Articles of Association.

Changes to the Group's Articles of Association must be approved by shareholders passing a special resolution and must comply with the provisions of the Companies Act 2006 and the FCA's Disclosure and Transparency Rules.

Directors' interests

The Directors' interests (and those of any Persons Closely Associated with them) in the share capital of the Group during the course of 2016 are set out on pages 91 to 104 of the Directors' Remuneration Report.

Directors' indemnities

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

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

The Group has maintained appropriate Directors' and Officers' liability insurance in place throughout 2016.

Share capital

Shawbrook Group Plc is a public company limited by shares.

Details of the Group's issued share capital, together with details of the movements in the Group 's issued share capital during the year, are shown on page 151 in note 27.

The Group's share capital comprises one class of ordinary share with a nominal value of 0.01p each. At 31 December 2016, 250,500,000 ordinary shares were in issue. 500,000 ordinary shares were issued under a block listing in December 2015 and will be used for the award of shares pursuant to the Shawbrook Group Performance Share Plan. Of the 500,000 shares issued under the December 2015 block listing, 71,408 were used in 2016.

Restrictions on the transfer of shares

According to the articles of association and prevailing legislation there are no specific restrictions on the transfer of shares of the Group.

Rights attaching to shares

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

New issues of share capital

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

Shareholder authority for the Group to allot shares up to an aggregate nominal amount of £835,000 for any purposes was granted at the 2016 Annual General Meeting. No shares were allotted pursuant to this authority during the year.

The Board considers it would be appropriate to seek a renewal of the shareholder approval for such authority at the forthcoming Annual General Meeting. Details of the resolution for such authority will be included in the Notice of the forthcoming Annual General Meeting.

Purchase of own shares

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

The Directors were granted the authority at the 2016 AGM to repurchase up to a maximum of 2,505,000 ordinary shares. No shares were purchased pursuant to this authority during the year. The Board considers it would be appropriate to seek a renewal of the shareholder approval for the authority to purchase shares of up to 10% of its issued share capital at the forthcoming Annual General Meeting.

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

Substantial shareholdings

In accordance with the Disclosure and Transparency Rules, DTR 5, the Group as at 6 March 2017 (being the latest practicable date before publication of this report), has been notified of the following disclosable interests in its issued ordinary shares.

Shareholder	Ordinary shares held	% of voting rights
Special Opportunities Fund (Guernsey) LP	97,358,600	38.87

Old Mutual Global Investors	30,723,970	12.27
Fidelity Mgt & Research	10,319,310	4.11

Interests as at 31 December 2016 were as follows:

Shareholder	Ordinary shares held	% of voting rights
Special Opportunities Fund (Guernsey) LP	97,358,600	38.87
Old Mutual Global Investors	30,294,772	12.09
Fidelity Mgt & Research	11,540,797	4.61

Relationship with major shareholder

On Admission of its shares following the IPO in April 2015, the Group entered into a relationship agreement (the 'Relationship Agreement') with its major shareholder SOF General Partner (Guernsey) LP (the 'Major Shareholder'). Pursuant to the Relationship Agreement, the Major Shareholder has been granted the right to appoint up to two Directors to the Board so long as it holds a substantial interest in 20% of the Group's ordinary 0.01 pence shares; one Director if it holds a relevant interest in 10% of the Group's ordinary 0.01 pence shares. Despite the Major Shareholder holding 38.87% in the Group's shares (as indicated in the table above), the Major Shareholder currently only has one appointee at the Board. The Board confirms that, since the IPO, the Group has complied with the independence provisions included in the Relationship Agreement and that, so far as the Group is aware, the Major Shareholder and its associates have also complied with such provisions.

Disclosure of information under listing rule (LR) 9.8.4r

Additional information, where not already contained in the Directors' Report, required to be disclosed by Listing Rule 9.8.4R, where applicable to the Group, can be found in the following sections of the Annual Report:

Subject matter	Page reference
Amount of interest capitalised	Note 3, page 128
Publication of unaudited financial information	n/a
Details of any Long Term Incentive Schemes	Pages 98 and 99
Waiver of emoluments	n/a
Allotment of equity securities	Page 106
Significant contracts	n/a

Post-balance sheet events

On 3 March 2017, following share price movement, the Group announced that it was in discussions with Pollen Street Capital Limited (Pollen Street) and BC Partners LLP (BC Partners) (together the Consortium) regarding a possible offer to be made by a new company to be jointly owned by funds managed or advised by Pollen Street and BC Partners for the entire issued and to be issued share capital of Shawbrook Group plc (the Possible Offer).

Under the terms of the Possible Offer, shareholders would receive 330p per ordinary share in cash. In addition, shareholders would be entitled to retain the final maiden dividend in respect of the year ended 31 December 2016 referred to in this Annual Report & Accounts. As at the date of publication of this Annual Report & Accounts, the Board had issued a rejection of the Possible Offer. Discussions with the Consortium were ongoing and there was no certainty either that an offer would be made nor as to the terms of any offer, if made.

There have been no other significant events between 31 December 2016 and the date of approval of the Financial statements which would require a change to or additional disclosure in the Financial statements.

Change of control

The Group is not party to any significant contracts that are subject to change of control provisions in the event of a takeover bid.

There are no agreements between the Group and its Directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

Significant contracts

Details of related party transactions are set out in note 32 to the Financial Statements. There are no contracts of significance in which a Director is interested.

Business activities

The Group's business activities, together with the factors likely to affect its future development and performance and its summarised financial position are set out on pages 8 to 39 of the Strategic report.

Branches, future developments and financial risk management objectives and policies

The Group operates in the United Kingdom and has one branch in Jersey. Information about future developments, internal control and financial risk management systems in relation to financial reporting and financial risk management objectives and policies in relation to the use of financial instruments can be found in the following sections of the Annual Report which are incorporated into this report by reference:

Future developments - please refer to the Strategic report (pages 8 to 39).

Internal control and financial risk management systems in relation to financial reporting- please refer to the Corporate governance report (page 75).

Financial risk management objectives and policies in relation to the use of financial instruments - please refer to the Risk management report (pages 40 to 56) and note 29 of the Financial Statements.

Research and development activities

During the ordinary course of business the Group develops new products and services within the business units.

Employees

The Group is committed to being an equal opportunities employer and opposes all forms of discrimination. Applications from people with disabilities will be considered fairly and if existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

The Group regularly provides employees with information of concern to them, which incorporates the Group's current performance and its future aims and strategies. The Group conducts an Annual Employee Survey and uses the results of this survey to improve performance in areas that are important to staff. A monthly newsletter providing business updates and background information on the Group is circulated to all staff.

Employee share schemes

All employees may participate in the Group's Save as You Earn (SAYE) Scheme. Full details of the Group's employee share schemes are set out on page 131 to 133.

Employee benefit trust

Equiniti Trust (Jersey) Limited is the trustee of the Shawbrook Group plc Employee Benefit Trust, an independent trust, which holds shares for the benefit of employees and former employees of the Group. Unless otherwise directed by the Group, the trustee has agreed to waive all rights to any dividends which may at any time be payable on any shares held by the trust. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the Group funds the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 27 on pages 151 and 152 of the Financial Statements.

Emissions reporting

Details on performance can be found on page 58 of the Strategic report.

Slavery and human trafficking

In 2016, the Group took the following steps to ensure slavery and human trafficking did not occur within the organisation or supply chain:

- identifying and addressing risks: the Group has updated its processes for evaluating prospective suppliers and reviewing existing suppliers to understand its suppliers' self-assessment of slavery and human trafficking issues;
- developing policy: the Group has and continues to update its compliance policies to include consideration of slavery and human trafficking issues (as applicable); and
- training: the Group has made available training to those of its staff who deal most with its suppliers. Development of an intranet resources page is also underway which staff will be able to access to learn about modern slavery and human trafficking.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the 12 months from the reporting date. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the 12 months from the reporting date, including a range of stressed scenarios, the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the twelve months from the reporting date and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

Fair, balanced and understandable

The Directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, strategy and business model.

Details of the governance procedures which have been embedded to support this can be found in the Audit Committee Report.

Disclosure of information to the Auditor

The Directors confirm that:

a) so far as each of the Directors is aware, there is no relevant audit information of which the auditor is unaware; and

b) the Directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Auditor

Resolutions to reappoint KPMG LLP as the Group's auditor and to give the directors the authority to determine the auditor's remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

Shawbrook Group plc's second Annual General Meeting will be held at Instinctif Partners, 65 Gresham Street, London EC2V 7NQ on 6 June 2017 at 10:00a.m.

By order of the Board

Steve Pateman

Chief Executive Officer

Statement of Directors' responsibilities in respect of the Annual Report & Accounts

The Directors are responsible for preparing the Annual Report & 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 Group 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 its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

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

Responsibility statement of the Directors in respect of the Annual Financial Report

The Directors as at the date of this statement whose names and functions are set out on pages 66 to 68 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 Group 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 Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Daniel Rushbrook

Company Secretary

Financial Statements

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Notes	**2016 £m**	2015 £m
Interest and similar income	3	**280.2**	216.9
Interest expense and similar charges	4	**(83.1)**	(63.8)
Net interest income		**197.1**	153.1
Operating lease rentals		**13.5**	14.9
Other income		**0.1**	1.1
Depreciation on operating leases	16	**(11.3)**	(12.2)
Net income from operating leases		**2.3**	3.8
Fee and commission income	5	**15.4**	13.1
Fee and commission expense		**(5.7)**	(2.8)
Net fee and commission income		**9.7**	10.3
Fair value gains/(losses) on financial instruments	15	**0.5**	(0.3)
Net operating income		**209.6**	166.9
Administrative expenses	6	**(96.0)**	(88.7)
Impairment losses on loans and advances to customers	14	**(24.3)**	(6.5)
Provisions for liabilities and charges	23	**(1.1)**	(1.6)
Total operating expenses		**(121.4)**	(96.8)
Profit before taxation		**88.2**	70.1
Income tax charge	12	**(23.4)**	(11.6)
Profit after taxation, being total comprehensive income, attributable to owners		**64.8**	58.5

Earnings per share	Notes	**2016 Pence**	2015 Pence
Basic	35	**25.9**	24.1
Diluted	35	**25.5**	24.0

The notes on pages 122 to 179 are an integral part of these financial statements.

Consolidated and Company Statements of Financial Position

	Notes	**Group 2016 £m**	**Company 2016 £m**	Group 2015 £m	Company 2015 £m
Assets					
Cash and balances at central banks		**429.9**	**-**	521.9	-

Loans and advances to banks		**24.1**	**-**	30.9	-
Loans and advances to customers	13	**4,050.4**	**-**	3,319.1	-
Derivative financial assets	15	**5.2**	**-**	2.8	-
Property, plant and equipment	16	**42.6**	**-**	48.6	-
Intangible assets	17	**59.9**	**-**	54.7	-
Current tax assets		**-**	**-**	-	0.1
Deferred tax assets	18	**17.9**	**-**	14.1	-
Other assets	19	**16.6**	**2.2**	7.9	4.2
Investment in subsidiaries	20	**-**	**277.0**	-	272.2
Subordinated loan receivable	26	**-**	**76.1**	-	75.0
Total assets		**4,646.6**	**355.3**	4,000.0	351.5
Liabilities					
Customer deposits	21	**3,943.5**	**-**	3,186.4	-
Due to banks	22	**147.7**	**-**	39.9	-
Provisions for liabilities and charges	23	**1.3**	**-**	0.9	-
Derivative financial liabilities	15	**0.4**	**-**	-	-
Current tax liabilities		**14.2**	**-**	7.4	-
Other liabilities	24	**27.0**	**-**	323.8	1.4
Subordinated debt	26	**75.3**	**75.3**	74.0	74.0
Total liabilities		**4,209.4**	**75.3**	3,632.4	75.4
Equity					
Share capital	27	**2.5**	**2.5**	2.5	2.5
Share premium account		**87.3**	**87.3**	87.3	87.3
Capital redemption reserve		**183.1**	**183.1**	183.1	183.1
Retained earnings		**164.3**	**7.1**	94.7	3.2
Total equity		**437.2**	**280.0**	367.6	276.1
Total equity and liabilities		**4,646.6**	**355.3**	4,000.0	351.5

The notes on pages 122 to 179 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 6 March 2017 and were signed on its behalf by:

Steve Pateman — Chief Executive Officer

Dylan Minto — Chief Financial Officer

Registered number 07240248

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 2015	185.3	1.3	-	32.1	218.7
Total comprehensive income for the year:					
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
Transactions with owners recorded directly in equity					
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 issue	-	(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
Balance as at 1 January 2016	**2.5**	**87.3**	**183.1**	**94.7**	**367.6**
Total comprehensive income for the year:					
Profit for the year	-	-	-	**64.8**	**64.8**
Total comprehensive income for the year	**-**	**-**	**-**	**64.8**	**64.8**
Share-based payments	-	-	-	**4.8**	**4.8**
Balance as at 31 December 2016	**2.5**	**87.3**	**183.1**	**164.3**	**437.2**

The notes on pages 122 to 179 are an integral part of these financial statements.

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 2015	185.3	1.3	-	(0.4)	186.2
Total comprehensive income for the year:					
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
Transactions with owners recorded directly in equity					
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 issue	-	(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
Balance as at 1 January 2016	**2.5**	**87.3**	**183.1**	**3.2**	**276.1**
Total comprehensive income for the year:					
Loss for the year	-	-	-	**(0.9)**	**(0.9)**
Total comprehensive income for the year	**-**	**-**	**-**	**(0.9)**	**(0.9)**
Share-based payments	-	-	-	**4.8**	**4.8**
Balance as at 31 December 2016	**2.5**	**87.3**	**183.1**	**7.1**	**280.0**

The notes on pages 122 to 179 are an integral part of these financial statements.

Consolidated and Company Statement of Cash Flows

	Notes	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Cash flows from operating activities					
Profit/(loss) for the year before taxation		**88.2**	**(0.9)**	70.1	(4.6)
Adjustments for non-cash items	28	**51.8**	**11.3**	27.1	4.1
Cash flows from operating activities before changes in operating assets and liabilities		**140.0**	**10.4**	97.2	(0.5)
Increase/decrease in operating assets and liabilities					
Increase in mandatory balances with central banks		**(1.7)**	**-**	(0.6)	-
Increase in loans and advances to customers		**(755.6)**	**-**	(1,040.3)	-
Increase in operating lease assets*		**(7.5)**	**-**	(7.4)	-
(Increase)/decrease in derivatives		**(2.0)**	**-**	0.9	-
(Increase)/decrease in other assets		**(8.7)**	**2.0**	(1.1)	(79.2)
(Increase) in subordinated debt receivable		**-**	**(1.1)**	**-**	**-**
Increase in customer deposits		**757.1**	**-**	765.4	-
Increase in provisions for liabilities and charges		**0.4**	**-**	0.3	-
(Decrease)/increase in other liabilities		**(296.8)**	**(1.4)**	287.2	1.4
Net change in operating assets and liabilities		**(314.8)**	**(0.5)**	4.4	(77.8)
Tax (paid)/received		**(20.4)**	**0.1**	(13.8)	-
Net cash flow (used by)/generated from operating activities		**(195.2)**	**10.0**	87.8	(78.3)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(0.2)**	**-**	(4.7)	-
Sale of property, plant and equipment		**0.2**	**-**	-	-
Purchase of intangible assets		**(7.9)**	**-**	(6.1)	-
Investment in subsidiaries net of cash and cash equivalents acquired		**-**	**(4.8)**	-	(86.2)
Dividend received from subsidiary		**-**	**-**	-	4.0
Net cash used by investing activities		**(7.9)**	**(4.8)**	(10.8)	(82.2)
Cash flows from financing activities					
Increase/(decrease) in amounts due to banks		**107.8**	**-**	(1.1)	-
Repayment of subordinated debt		**-**	**-**	(33.7)	-
Increase in subordinated debt		**-**	**-**	74.0	74.0
Payment of subordinated debt interest		**(5.2)**	**(5.2)**	-	-
Proceeds from the issue of ordinary share capital		**-**	**-**	86.3	86.3
Net cash generated from financing activities		**102.6**	**(5.2)**	125.5	160.3
Net (decrease)/increase in cash and cash equivalents		**(100.5)**	**-**	202.5	(0.2)
Cash and cash equivalents at 1 January		**550.5**	**-**	348.0	0.2
Cash and cash equivalents at 31 December		**450.0**	-	550.5	-

* The cashflow impact of operating leases is now shown under operating activities and not investing activities. £7.4m has been reclassified from investing activities to operating activities for 2015.

The notes on pages 122 to 179 are an integral part of these financial statements.

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, The Drive, Great Warley, Brentwood, Essex, CM13 3BE. The consolidated financial statements of Shawbrook Group plc, for the year ended 31 December 2016, 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 Company and its subsidiaries' 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) denominated in foreign currencies are translated at the exchange rate at the date of the transaction.

1.4 IPO costs

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

1.5 Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for at least 12 months following the year end. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections suggest that it will be able to operate at adequate levels of both liquidity and capital for at least 12 months following the year end, including in a range of stressed scenarios, assuming the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for at least 12 months following the year end, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

1.6 Basis of consolidation

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

Entities are regarded as subsidiaries where the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to affect those returns. Inter-company transactions and balances are eliminated upon consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that power over an investee, exposure or rights to variable returns and the ability to affect these returns ceases. A Special Purpose Entity (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 ultimately differ 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
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 Other reserves

· Capital redemption reserve

This is a statutory, non-distributable reserve into which amounts are transferred following the redemption or purchase of a company's own shares. The provisions relating to the capital redemption reserve are set out in section 733 of the Companies Act 2006.

1.9 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, the standard replaces IAS 39, addressing recognition, basis of valuation, income recognition methods, impairment and hedging for financial instruments.

While areas such as the amortised cost basis of valuation and the effective interest rate method of recognition are largely unchanged in the new standard, the new basis of accounting for impairments is likely to have a significant impact on the Group due to the requirement for earlier recognition of losses.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, loan receivables, certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 month ECL'). In the event of a significant increase in the credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets, which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering the increase in ECL.

The assessment of credit risk and estimated ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of the impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12 month ECL and the population for financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

During 2016 and continuing into 2017, there has been a particular focus on the Group's preparedness for IFRS 9 which aims to ensure that the Group has the necessary systems and processes in place ahead of the effective date. Progress has been made on developing the Expected Credit Loss models, including our Credit Grading Framework. The IFRS 9 program, which is jointly sponsored by the CFO and CRO and managed by a dedicated management committee, includes defining the IFRS 9 methodology and accounting policies, identifying data, reconciliation and system requirements, and the development and establishment of appropriate and compliant operating models within an appropriate governance framework, is currently within its build phase with testing and implementation due to take place by the end of 2017. The Group is on track to begin running the Expected Credit Loss models in parallel with the current risk models in Q2 of 2017. Until such time as the Expected Credit Loss models, encompassing the Credit Grading Framework and future looking economic scenarios, have been tested, the Group does not plan to quantify the extent of the impacts of IFRS 9.

The classification and measurement categories prescribed in IFRS 9 will remain largely similar to the categorisation under IAS 39. The Group has also decided to exercise the accounting policy choice to continue applying hedge accounting under IAS 39, which is permitted under IFRS 9. The Group assessed the impact on the classification and measurement with reference to the "solely payments of principal and interest" and concluded that the current classification under IAS 39 will remain materially unchanged. The Group is on track to successfully deliver the changes required to adopt IFRS 9 on 1 January 2018 and will not early adopt any elements of the Standard.

· IFRS 16 'Leases'

Effective from 1 January 2019, 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 its financial statements, although the standard is not anticipated to have a material impact as the Group is mainly a lessor of assets. The Group is however evaluating the impact this might have on a continuing basis. 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, the standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 3. IFRIC 18, 'Transfer of Assets from Customers' was applied on 1 July 2009. 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 in the same line of business exchange non-monetary assets to facilitate sales to other parties.

IFRS 15 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 due to the nature of the products and services provided to clients. The Group is however evaluating the impact this might have on a continuing basis. The Group intends to adopt the standard on the date it becomes effective.

All other significant accounting policies have been discussed in the corresponding notes.

2. Operating segments

Accounting policy

The Group determines operating segments according to similar economic characteristics and the nature of its products and services in accordance with IFRS 8 'Operating Segments'. Management reviews the Group's internal reporting based around these segments in order to assess performance and allocate resources.

Segment performance is evaluated based on the underlying profit or loss and is measured consistently with underlying profit or loss in the consolidated financial statements. Segment results are regularly reviewed and reported to the Board of Directors to allocate resources to segments and to assess their performance. Operating segments are reported in a manner consistent with the internal reporting provided to the Board. The Group Executive Committee has been determined to be the Chief Operating Decision Maker for the Group.

The Group has four reportable operating segments as described below which are based on the Group's three lending divisions plus a central segment which represents the savings business, central functions and shared central costs. These segments have changed since the 2015 Annual Report, in which the Group reported six operating segments (representative of five lending divisions rather than the current three). The reduced number of operating segments in the year is an operational change that reflects the way the business is managed and reports at a operational and oversight level. The Commercial Mortgages and Secured Lending divisions have been amalgamated to form the Group's Property Finance division. The Asset Finance and Business Credit divisions have been amalgamated to form the Group's Business Finance division.

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

· Property Finance: Provides mortgages for investors, businesses and personal customers. It serves professional landlords and property traders in residential and commercial asset classes across long-term and shorter-term finance. It lends to trading businesses to fund the acquisition and refinancing of business premises. The division serves the needs of personal customers through the provision of loans secured by second charge on the main residence and increasingly through specialist areas of first charge lending.

· Business Finance: Provides the following propositions:

  o the Regional Business Centres provide financing solutions to established businesses in UK SME markets, primarily through a direct product offering. The centres principally provide leasing finance for business-critical assets operated by established UK SME businesses, and working capital solutions in the form of invoice discounting and asset-based lending;

  o the Structured Finance proposition includes lending to SME finance companies with security against receivables within their portfolios. The Structured Finance product set provides wholesale finance and block discounting to smaller UK financial institutions to allow customers to release cash and grow their businesses. Loans are secured against receivables within the customers' portfolios, with the security given by the ultimate borrower taking the form of a hard asset or a pool of loan receivables; and

  o the Specialist Sectors proposition include leasing and hire purchase finance solutions in specialist UK SME market segments such as marine and aviation, healthcare and taxis. We distribute the majority of our Specialist Solutions products directly through our experienced and expert teams. Leveraging the significant lending and sector experience of our sales teams, we build and develop relationships with our clients by providing specialist insight and advice.

· Consumer Lending: Provides unsecured loans for a variety of purposes, primarily focused on home improvements, holiday ownership, personal loans and certain retailers.

· Central: As well as common costs, Central includes the Group's Treasury function and Consumer 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 is 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. Comparative numbers are recalculated to reflect the four segments. 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 table below includes a reconciliation between the statutory results and the underlying basis:

Year ended 31 December 2016	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Central £m**	**Total £m**
Interest and similar income	**154.9**	**75.1**	**44.7**	**5.5**	**280.2**
Interest expense and similar charges	**(52.8)**	**(21.2)**	**(9.9)**	**0.8**	**(83.1)**
Net interest income	**102.1**	**53.9**	**34.8**	**6.3**	**197.1**
Operating lease rentals	**-**	**13.5**	**-**	**-**	**13.5**
Other income	**-**	**0.1**	**-**	**-**	**0.1**
Depreciation on operating leases	**-**	**(11.3)**	**-**	**-**	**(11.3)**
Net income from operating leases	**-**	**2.3**	**-**	**-**	**2.3**
Fee and commission income	**0.4**	**14.7**	**0.3**	**-**	**15.4**
Fee and commission expense	**(2.7)**	**(0.6)**	**(2.0)**	**(0.4)**	**(5.7)**
Net fee and commission income	**(2.3)**	**14.1**	**(1.7)**	**(0.4)**	**9.7**
Fair value gains/(losses) on financial instruments	**-**	**-**	**-**	**0.5**	**0.5**
Net operating income	**99.8**	**70.3**	**33.1**	**6.4**	**209.6**
Administrative expenses	**(15.2)**	**(16.3)**	**(10.8)**	**(53.7)**	**(96.0)**
Impairment losses on loans and advances to customers	**(2.1)**	**(14.5)**	**(7.7)**	**-**	**(24.3)**
Provision for liabilities and charges	**-**	**-**	**-**	**(1.1)**	**(1.1)**
Statutory profit before tax	**82.5**	**39.5**	**14.6**	**(48.4)**	**88.2**
Underlying adjustments	**-**	**-**	**-**	**3.2**	**3.2**
Profit before tax on a underlying basis	**82.5**	**39.5**	**14.6**	**(45.2)**	**91.4**
Income tax charge on an underlying basis					**(24.3)**
Profit after taxation on an underlying basis					**67.1**
Assets	**2,519.1**	**1,104.4**	**465.0**	**558.1**	**4,646.6**
Liabilities	**-**	**-**	**-**	**(4,209.4)**	**(4,209.4)**
Net assets/(liabilities)	**2,519.1**	**1,104.4**	**465.0**	**(3,651.3)**	**437.2**

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

Year ended 31 December 2015	Property Finance £m	Business Finance £m	Consumer Lending £m	Central £m	Total £m
Interest and similar income	116.4	67.2	28.9	4.4	216.9
Interest expense and similar charges	(37.9)	(18.9)	(6.9)	(0.1)	(63.8)
Net interest income	78.5	48.3	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	0.3	12.6	0.2	-	13.1
Fee and commission expense	(1.8)	(0.5)	(0.5)	-	(2.8)
Net fee and commission income	(1.5)	12.1	(0.3)	-	10.3
Fair value losses on financial instruments	-	-	-	(0.3)	(0.3)
Net operating income	77.0	64.2	21.7	4.0	166.9
Administrative expenses	(14.1)	(13.8)	(8.7)	(52.1)	(88.7)
Impairment losses on loans and advances to customers	(0.9)	(3.8)	(1.8)	-	(6.5)
Provision for liabilities and charges	-	-	-	(1.6)	(1.6)
Statutory profit before tax	62.0	46.6	11.2	(49.7)	70.1
Underlying adjustments	-	-	0.6	9.4	10.0
Profit before tax on an underlying basis	62.0	46.6	11.8	(40.3)	80.1
Income tax charge on an underlying basis					(12.8)
Profit after taxation on an underlying basis					67.3

Assets	2,083.1	944.5	333.4	639.0	4,000.0
Liabilities	-	-	-	(3,632.4)	(3,632.4)
Net assets/(liabilities)	2,083.1	944.5	333.4	(2,993.4)	367.6

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

3. Interest and similar income

Accounting policy

Revenue represents income derived from loans and advances to customers, operating lease rentals and 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 EIR, 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 EIR, 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 exhibit 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.

Management continues to perform sensitivity analyses on the EIR models applied. A decrease in the behavioural life of a loan by 10% per calendar month would result in a net income statement decrease of £1.0m (2015: £0.6m). The movement in the sensitivity can be both attributed to Property Finance and Consumer Lending. Property Finance is expected to show an income of £0.1m mainly due to income received from early settlement fees. Consumer Lending is expected to show an expense of £1.1m mainly attributable to the acceleration of the amortisation of broker fees.

	2016	2015
	£m	£m
Interest paid by customers	**274.8**	212.7
Interest received from derivative financial instruments	**3.7**	2.9
Interest on loans and advances to banks	**1.7**	1.3
Interest and similar income	**280.2**	216.9

The interest income recognised during the year on loans impaired was £2.1m (2015: £1.0m). The Group did not capitalise any interest during the year.

4. Interest expense and similar charges

	2016	2015
	£m	£m
Interest paid to depositors	**73.0**	59.9
Interest on amounts due to banks	**1.2**	1.0
Interest on subordinated debt	**6.5**	2.9
Other interest	**2.4**	-
Interest expense and similar charges	**83.1**	63.8

5. Fee and commission income

	2016	2015
	£m	£m
Fee income on loans and advances to customers	**9.0**	8.8
Credit facility related fees	**6.4**	4.3
Fee and commission income	**15.4**	13.1

6. Administrative expenses

Accounting policy

Staff costs

Staff costs include salaries and social security costs and are recognised over the period in which the payments relate. Cash bonus awards are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised over the period of service that employees are required to work to qualify for the payment.

The accounting policies for employee share-based payments are set out in Note 10 'Employee share-based payment transactions'.

Leases

If a lease agreement in which the Group is a lessee transfers the risks and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and is depreciated over the estimated useful life. The lease obligations are recorded as borrowings.

If the lease does not transfer the risks and rewards of ownership of the asset, the lease is recorded as an operating lease.

Operating lease payments are charged to profit and loss on a straight-line basis over the lease term unless a different systematic basis is more appropriate. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor in compensation is charged to profit and loss in the period in which termination is made.

	Notes	**2016** £m	2015 £m
Staff costs	8	**54.1**	46.6
Depreciation (excluding operating lease assets)	16	**2.2**	1.5
Amortisation of intangible assets	17	**2.7**	0.9
Operating lease rentals - land and buildings		**1.8**	1.1
Other administrative expenses		**35.2**	38.6
Administrative expenses		**96.0**	88.7

7. Auditor's remuneration

	2016 £000	2015 £000
Audit of these financial statements	100	100
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	423	385
Tax compliance services	28	86
Other tax advisory services	101	72
Audit related assurance services	133	200
All other assurance services	39	30
Corporate finance services	-	400
All other services	106	124
	930	1,397

8. Employees

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

	2016 No.	2015 No.
Property Finance	**122**	115
Business Finance	**139**	146
Consumer Lending	**44**	39
Central	**264**	214
	569	514

The aggregate payroll costs of these persons were as follows:

	2016 £m	2015 £m
Wages and salaries	**46.9**	41.1
Social security costs	**5.0**	3.9
Pension costs	**2.2**	1.6
	54.1	46.6

9. Employee retirement obligations

Accounting policy

The Group does not operate a pension scheme. Pension contributions are paid to staff members' 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 £2.2m (2015: £1.6m) 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 is adjusted to reflect the actual number of awards for which the related services and non-market vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with market performance conditions or non-vesting conditions the grant date fair value of the award is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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.

Expected volatility is determined by reviewing the share price volatility for the expected life of each option/scheme up to the date of the grant.

Critical accounting estimates and judgements

Critical accounting estimates and judgements have been discussed below within the various categories of share based payments.

The employee share-based payment charge comprises:

	2016	2015
	£m	£m
Legacy share plan	**-**	3.4
SAYE	**0.1**	0.1
Performance share plan - 2015	**1.6**	0.6
Performance share plan - 2016	**3.1**	-
At 31 December	**4.8**	4.1

Included in the 2016 Performance Share Plan are share options related to new hires as discussed below.

Movements in the number of share-based awards are as follows:

No. of shares	**SAYE - 2016**	SAYE - 2015	**PSP - 2016**	PSP - 2015	**Total**
At 1 January	-	1,104,214	**-**	1,492,901	**2,597,115**
Granted	**1,298,794**	-	**2,181,165**	-	**3,479,959**
Vested	-	-	**(125,017)**	-	**(125,017)**
Lapsed	-	(944,119)	**(263,536)**	(215,430)	**(1,423,085)**
At 31 December	**1,298,794**	160,095	**1,792,612**	1,277,471	**4,528,972**

Save-As-You-Earn schemes (SAYE)

In October 2015 the Save-As-You-Earn 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.

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 but are not subject to performance conditions after the grant date. The awards vest over a period of three years.

In October 2016 a further SAYE scheme was introduced for all employees. The scheme's terms and conditions are the same as those of the 2015 scheme. The fair value of the call options for this scheme was calculated as £0.66. The awards generally require employees to remain in employment over the vesting period but 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:

Assumptions	**2016 Scheme**	2015 Scheme
Share price	**£2.48**	£3.10
Expected volatility	**30.80%**	25.90%
Risk-free rate	**0.19%**	0.74%
Dividend yield	**3.31%**	2.08%
Weighted average contractual life (years) at grant date	**3.17**	3.17
Exercise price	**£1.87**	£2.60

Performance Share Plan (PSP) - 2016 Tranche

During the year 2,181,165 share awards were granted to a set of individuals. These individuals are entitled to acquire ordinary shares in Shawbrook Group plc, subject to performance conditions. The scheme is deemed to be an equity-settled scheme. This amount included a number of options related to new hires as discussed below.

The performance conditions for the 2016 tranche relate to the growth in total shareholder return (TSR) over the vesting period for 20% of each award, the net-promotor score (NPS) at the date of vesting for 20% of each award, the risk performance over the vesting period for 20% of each award and the annual compound growth in the earnings per share (EPS) over the vesting period for 40% of each award. The outcome of the performance conditions, as assessed by the Remuneration Committee, will determine the vesting outcome of the awards and the shares available for exercise.

The performance condition relating to the TSR element is measured in relation to the ranking of the Group's TSR within a comparator group of companies selected by the Remuneration Committee.

The fair value of the shares in the EPS, NPS and risk performance elements of the awards is based on the share price at the date of the grant discounted for any expected dividends over the vesting period. The dividend-adjusted fair value of these awards is £2.63.

The fair value of the shares in the TSR award is calculated using a Monte Carlo model with 100,000 simulations. Set out below is a summary of the key data and assumptions used to calculate the fair value of the TSR award:

Assumptions	
Share price at grant date	**£2.87**
Volatility	**30% p.a.**
Dividend yield	**2.83% p.a.**
Risk-free rate of return	**0.51% p.a.**

The fair value of the shares in the TSR award is £1.46.

Performance Share Plan (PSP) - 2015 Tranche

During 2015 a number of share awards were granted to a set of individuals other than 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, namely the Group earning a defined underlying profit before tax in 2017, and subject to the Group maintaining its threshold capital and liquidity requirements.

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 is £3.25.

New hires - 2016

During the year a number of senior hires were, under the terms of their employment with the Group, granted options over shares of £0.01 in the Company, in accordance with the Shawbrook Performance Share Plan in order to compensate them for forfeited awards from previous employment. A total of 897,403 options have been granted that vest over the following two years.

11. Directors' remuneration

	2016	2015
	£000	£000
Directors' emoluments	**3,328.9**	1,894.3
Contributions to money purchase scheme	**13.0**	55.5
Directors' remuneration	**3,341.9**	1,949.8

Included in the current year Directors' emoluments is £1.1m relating to new hires (refer to Note 10 for more information) and £228k relating to termination payments.

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.

	2016	2015
Recognised in the income statement	**£m**	£m
Current tax:		
Current year	**27.4**	15.8
Adjustment in respect of prior years	**(0.2)**	0.1
Total current tax	**27.2**	15.9
Deferred tax:		
Origination and reversal of temporary differences	**(4.0)**	(3.9)
Adjustment in respect of prior years	**0.2**	(0.4)
Total deferred tax	**(3.8)**	(4.3)
Total tax charge	**23.4**	11.6

	2016	2015
Tax reconciliation	**£m**	£m
Profit before tax	**88.2**	70.1
Implied tax charge thereon at 20% (2015: 20.25%)	**17.6**	14.2
Adjustments:		
Banking surcharge	**5.4**	-
Prior year adjustment	**-**	(0.3)
Disallowable expenses and other permanent differences	**0.4**	0.9
Effect of tax rate changes	**-**	(3.2)
Total tax charge	**23.4**	11.6

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 17% (effective 1 April 2020) were substantively enacted on 16 March 2016. The deferred tax asset at 31 December 2016 has been calculated based on an aggregation of a rate of 18% substantively enacted at the balance sheet date and the additional 8% of tax suffered in relation to the banking surcharge that will unwind over the remaining life of the underlying assets with which they are associated.

13. Loans and advances to customers

Accounting policy

Loans and advances

The Group's loans and advances to banks and customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the customer and where the Group has no intention of trading the loan or receivable. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. Subsequent recognition is at amortised cost using the effective interest rate method, less any provision for impairment.

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:

	2016 **£m**	2015 £m
Loan receivables	**3,639.5**	2,873.0
Finance lease receivables	**93.6**	114.3
Instalment credit receivables	**316.9**	331.8
Fair value adjustments for hedged risk	**0.4**	-
Total loans and advances to customers	**4,050.4**	3,319.1

At 31 December 2016, loans and advances to customers of £695.2m (2015: £612.3m) was positioned with the Bank of England for use as collateral under its funding schemes.

Loan receivables	**2016** **£m**	2015 £m
Gross: loan receivables	**3,653.1**	2,883.5
Less: allowances for impairment losses	**(13.6)**	(10.5)
Net loan receivables	**3,639.5**	2,873.0

The Group provides finance lease and instalment credit agreements to customers for a variety of assets including plant and machinery, taxis, aviation and marine vessels. These assets provide security against the gross receivables. Included within instalment credit receivables are block discounting facilities of £107.5m (2015: £105.6m).

Finance lease receivables	**2016** **£m**	2015 £m
Gross amounts receivable		
within one year	**59.5**	55.3
in the second to fifth year inclusive	**55.2**	79.9
after five years	**1.5**	0.5
	116.2	135.7
Less: unearned finance income	**(14.1)**	(19.4)
Less: allowances for impairment losses	**(8.5)**	(2.0)
Net investment in finance lease receivables	**93.6**	114.3
Amounts falling due:		
within one year	**47.1**	44.7
in the second to fifth year inclusive	**45.2**	69.2
after five years	**1.3**	0.4
Net investment in finance lease receivables	**93.6**	114.3

Instalment credit receivables	**2016** **£m**	2015 £m
Gross amounts receivable		
within one year	**165.9**	176.3
in the second to fifth year inclusive	**182.6**	198.1
after five years	**6.6**	0.8
	355.1	375.2
Less: unearned finance income	**(35.9)**	(42.4)
Less: allowances for impairment losses	**(2.3)**	(1.0)
Net investment in instalment credit receivables	**316.9**	331.8
Amounts falling due:		
within one year	**143.3**	152.4
in the second to fifth year inclusive	**167.3**	178.9
after five years	**6.3**	0.5
Net investment in instalment credit receivables	**316.9**	331.8

Cost of equipment acquired during the year	**2016** **£m**	2015 £m
Finance leases	**43.9**	68.2
Instalment credit	**128.7**	170.0
Total cost of equipment acquired during the year	**172.6**	238.2

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;
- initiation of bankruptcy proceedings;
- the customer being granted a concession that would otherwise not be considered; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

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.

When a loan or receivable is not economic to recover, it is written off against the related provision for loan impairments. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised directly in the income statement through the impairment line as post write-off recoveries. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the customer's credit rating), the previously recognised impairment loss is reversed by adjusting the impairment allowance. The amount of reversal is recognised in profit or loss.

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 are appropriate to the customer's specific situation. The Group seeks to ensure that any forbearance results in a fair customer outcome and will not repossess an asset unless all other reasonable attempts to resolve the position have failed. Further information is provided on pages 158 to 159.

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 individual provision, statistical models are used for consumer and second-charge loans, whilst provisions for first-charge loans, asset finance and business finance are assessed on a loan-by-loan basis. Where models are used for individual provisions, score cards are used to calculate the probability of default (PDs) based on the recent performance of the portfolios. Loss given defaults (LGDs) is calculated taking into account the valuations of available collateral, and the experienced forced sale discounts when collateral has been realised. These factors are applied to all the aged portfolios of debt at each balance sheet date to derive the individual impairment requirement.

For the purpose of collective impairment, financial assets are grouped on the basis of similar risk characteristics. For some portfolios the collective impairment requirement is based on the forecast cost of risk, being the annualised percentage loss per monetary unit of loan across the loan portfolios. These loss rates are multiplied by emergence periods, currently 6 months for all portfolios (2015: 6 months), for each class of loan to calculate the amount of loss which is incurred at the balance sheet date but not yet individually identified.

The key assumptions, being the emergence periods, forced-sale discount (FSD) on the residential portfolio, cost of risk and PD of the residential and consumer portfolios, 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 example, for loans and advances:

- change of one month in the emergence period across all portfolios, would change the collective provision by £0.9m (2015: £0.5m);
- a change in the cost of risk rate of 10 basis points, would change the collective provision by £1.7m (2015: £1.5m);
- an increase in the forced sale discount on the residential portfolio of 5%, would increase the individual provisions by £0.5m (2015: £0.4m); and
- an increase in the PD on the residential and consumer portfolios of 10%, would increase the individual provisions by £1.1m (2015: £1.0m).

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

	2016	2015
	£m	£m
At 1 January	**13.5**	11.1
Charge for impairment losses	**24.3**	6.5
Provisions utilised	**(13.4)**	(4.1)

At 31 December	**24.4**	13.5

Analysis of impairment type:		
Loan receivables	**13.6**	10.5
Finance lease receivables	**8.5**	2.0
Instalment credit receivables	**2.3**	1.0
At 31 December	**24.4**	13.5

A controls breach was identified in the Business Finance division in H1 2016 following a significant investment in the Risk Management Framework during 2015 and 2016. The upgraded quality assurance procedures detected a portfolio of facilities that did not meet the Group's strict lending criteria. This has resulted in an impairment charge of £11.2 million and associated administrative expenses of £0.8 million in 2016.

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.

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 (at a benchmark interest rate, typically LIBOR or its equivalent) 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) to its derivative exposures as it deems the adjustment to be immaterial.

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within policy parameters utilising forward foreign exchange contracts.

Fair Value Hedge

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

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

	Notional amount £m	**Fair value £m**
Interest rate swaps:		
Assets	**485.0**	**5.2**
Liabilities	**39.0**	**(0.4)**
Foreign Exchange swaps:		
Liabilities	**16.4**	-
At 31 December 2016	**540.4**	**4.8**
Interest rate swaps:		
Assets	535.0	2.8
At 31 December 2015	535.0	2.8

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

	2016 £m	2015 £m
Fair value gain/(loss) on financial instruments	**2.0**	(0.9)
Fair value (loss)/gain on hedged risk	**(1.5)**	0.6
Fair value gain/(loss) on financial instruments	**0.5**	(0.3)

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 payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are aggregated into a single net amount payable by one party to the other and the agreements terminated.

Under margining agreements where 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 those that are subject to collateral arrangements only (e.g. loans and advances).

	Amounts subject to enforceable netting arrangements		
	Effect of offsetting on balance sheet	***Related amounts not***	**Amounts not**

					offset	
						subject to
			Net amount			enforceable
	Gross	Amount	reported on	Cash	Net	netting
	amount	offset	balance sheet	collateral	amount	arrangements
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	£m	%	£m	£m	£m	£m
2016						
Derivative financial instruments - assets	**5.2**	**-**	**5.2**	**5.2**	**-**	**-**
Derivative financial instruments - liabilities	**(0.4)**	**-**	**(0.4)**	**(0.4)**	**-**	**-**
Total financial instruments	**4.8**	**-**	**4.8**	**4.8**	**-**	**-**
2015						
Derivative financial instruments - assets	2.8	-	2.8	2.8	-	-
Total financial instruments	2.8	-	2.8	2.8	-	-

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. 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 3/5 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 operating leases

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 it 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 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 and equipment £m	Assets on operating leases £m	Total £m
Cost					
At 1 January 2015	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)
At 31 December 2015	0.2	0.1	10.2	67.3	77.8
Additions	**-**	**-**	**0.2**	**11.1**	**11.3**
Disposals	**(0.2)**	**-**	**-**	**(11.2)**	**(11.4)**

Transfer to finance leases	-	-	-	(10.6)	(10.6)
At 31 December 2016	**-**	**0.1**	**10.4**	**56.6**	**67.1**
Depreciation					
At 1 January 2015	-	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)
At 31 December 2015	-	0.1	3.7	25.4	29.2
Depreciation charge for the year	-	-	2.2	11.3	13.5
Disposals	-	-	-	(9.9)	(9.9)
Transfer to finance leases	-	-	-	(8.3)	(8.3)
At 31 December 2016	**-**	**0.1**	**5.9**	**18.5**	**24.5**
Net book value					
At 31 December 2015	0.2	-	6.5	41.9	48.6
At 31 December 2016	**-**	**-**	**4.5**	**38.1**	**42.6**

17. Intangible assets

Accounting policies

Goodwill

Goodwill may arise on the acquisition of companies whose businesses become 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.

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 (CGUs). 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 post-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the CGU.

An impairment loss is recognised if the carrying amount of an asset is greater than its recoverable amount. No impairment losses were recognised during 2016 (2015: £nil).

Computer software

Expenditure on software development activities is capitalised if the following conditions are met: the product or process is technically and commercially feasible; the Group intends to, and has the technical ability and sufficient resources to, complete development; future economic benefits are probable; and 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 as 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 and 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 CGUs and the rates used to discount these cash flows, both which are subject to uncertainty as follows:

· the future cash flows of the CGUs 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 (CAPM), which incorporates inputs reflecting a number of variables. These variables are subject to fluctuations beyond Management's control, are also subject to uncertainty and require the exercise of significant judgement.

The factors and inputs are described in more detail below.

	Goodwill	Computer software	Total
	£m	£m	£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

At 1 January 2016	**44.8**	**9.9**	**54.7**
Additions during the year	**-**	**7.9**	**7.9**
Amortised in the year	**-**	**(2.7)**	**(2.7)**
At 31 December 2016	**44.8**	**15.1**	**59.9**

Total cost of computer software amounted to £19.3m (2015: £11.5m) while accumulated amortisation amounted to £4.2m (2015: £1.6m), additions of £7.9m included £7.6m of internally generated assets.

Impairment testing for CGUs containing goodwill

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

	2016	2015
	£m	£m
Property Finance	**9.0**	9.0
Business Finance	**34.7**	34.7
Consumer Lending	**1.1**	1.1
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 CGUs. No impairment losses were recognised in 2016 (2015: £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:

Post-tax discount rate	
Property Finance	**12.22%**
Business Finance	**13.40%**
Consumer Lending	**13.99%**
Terminal value growth rate	**2.0%**
Cash flow period (years)	**5**

Following the consolidation of the business units, the goodwill has been re-allocated to three CGUs, namely Property Finance, Business Finance and Consumer Lending. The CGUs have been identified at what management believe to be smallest group of assets that generate cash inflows from continuing use and that are largely independent of the cash inflows of other groups. Goodwill was allocated to the CGUs following an allocation and impairment review performed prior to the interim 2016 reporting. Prior to allocation a final goodwill impairment test was performed as at 30 June 2016 which concluded that no impairment was needed.

Impairment testing has been performed based on a discounted free cash flow model in line with the accounting policy and no impairment losses were recognised because the recoverable amounts of the CGUs were determined to be higher than the carrying values.

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 in 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 2016 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 five years. The rate is estimated by Management, taking into account rates disclosed by comparable institutions.

Management's judgement in estimating the cash flows of CGUs: 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 CGUs, however the cash flows are reduced by any earnings retained to support the growth in the underlying CGUs 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 has assessed the sensitivity of the discount rate and identified that an increase of 3.00% in each of the individual CGU discount rates will not result in any impairment of the goodwill balance.

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:

	2016	2015
	£m	£m
Accelerated tax depreciation	**14.9**	13.5
Deferred tax on acquisition adjustments	**-**	(0.1)
Share Based Payments	**1.1**	0.1
Bad debt provision	**1.8**	0.5
Other	**0.1**	0.1
Deferred tax asset	**17.9**	14.1
At 1 January	**14.1**	9.8
Current period movement - recognised in income	**1.8**	0.3

Prior year adjustment	**(0.2)**	0.4
Share Based Payments	**0.9**	0.1
Bad debt provision	**1.3**	0.3
Effect of tax rate changes	**-**	3.2
At 31 December	**17.9**	14.1

The Group had a deferred tax asset of £17.9m at 31 December 2016 (2015: £14.1m) resulting primarily from decelerated capital allowances. The business plan projects profits in future years sufficient to recognise the £17.9m deferred tax asset. The tax assets will unwind over the remaining life of the underlying leased assets with which they are associated.

A 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 17% (effective 1 April 2020) were substantively enacted on 16 March 2016. The deferred tax asset at 31 December 2016 has been calculated based on an aggregation of a rate of 18% substantively enacted at the balance sheet date and the additional 8% of tax suffered in relation to the banking surcharge that will unwind over the remaining life of the underlying assets with which they are associated.

19. Other assets

	2016 **£m**	2015 £m
Other debtors	**1.9**	1.9
Prepayments	**14.7**	6.0
Total other assets	**16.6**	7.9

20. Investment in subsidiaries held at cost

	Company 2016 **£m**	Company 2015 £m
At 1 January	**272.2**	186.0
Issue of share capital in Shawbrook Bank Limited	**-**	82.1
Share-based payments	**4.8**	4.1
At 31 December	**277.0**	272.2

21. Customer deposits

	2016 **£m**	2015 £m
Instant access	**636.6**	102.9
Term deposits and notice accounts	**3,301.9**	3,080.3
Fair value adjustment for hedged risk	**5.0**	3.2
Total customer deposits	**3,943.5**	3,186.4

22. Amounts due to banks

Total amounts due to banks of £147.7m at 31 December 2016 includes £24.8m (2015: £36.3m) 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 2017. Also included is £118m of deposits received from the Bank of England under the Term Funding Scheme (TFS) which fall due for repayment in 2020. The TFS deposits are collateralised by loan assets of £160m.

23. Provisions for liabilities and charges

	2016 **£m**	2015 £m
At 1 January	**0.9**	0.6
Provisions utilised	**(0.7)**	(1.3)
Provisions made during the year	**1.1**	1.6
At 31 December	**1.3**	0.9

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Group pays levies to the Financial Services Compensation Scheme (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, via 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 FSCS'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 2016.

24. Other liabilities

	2016 **£m**	2015 £m
Other creditors	**12.8**	306.6
Accruals	**14.2**	17.2
Total other liabilities	**27.0**	323.8

Included in other creditors are amounts relating to sundry creditors, deferred incomes and other taxes.

Other creditors in 2015 were at an increased level primarily due to amounts owing to a bank in relation to the purchase of a loan book.

25. Operating leases

Accounting policy

Operating lease income is recognised in the profit or loss on a straight line basis over the lease term unless a different systematic basis is more appropriate. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor in compensation is charged to profit or loss in the period in which termination is made.

Leases as lessee

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

	2016 £m	2015 £m
Less than 1 year	**1.5**	1.0
Between 1 and 5 years	**3.4**	3.6
	4.9	4.6

Leases as lessor

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

	2016 £m	2015 £m
Less than 1 year	**10.4**	12.4
Between 1 and 5 years	**16.0**	18.3
More than 5 years	**1.0**	1.1
	27.4	31.8

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:

In 2015, the Group issued £75m fixed rate reset callable subordinated notes due 2025 with an initial semi-annual coupon of 8.5%, which was listed for trading on the London Stock Exchange on 28 October 2015. Fees of £1m were incurred on issuance. On the same date, the subordinated debt dated 31 October 2013 was cancelled and repaid.

	2016 £m	2015 £m
At 1 January	**74.0**	30.8
Issued in year	**-**	74.0
Repaid in year	**-**	(33.7)
Interest expense	**6.5**	2.9
Repayment of interest	**(5.2)**	-
At 31 December	**75.3**	74.0

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 redemption reserve of £183,067,856.

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

	2016 No.	2015 No.
Ordinary £0.01 shares	**250,500,000**	250,500,000

	2016 No.	2016 £	2015 No.	2015 £
On issue at 1 January	**250,500,000**	**2,505,000**	-	-

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	**250,500,000**	**2,505,000**	**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, but does not have any rights of redemption. Par value is £0.01 per share.

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 three 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	Notes	**Group 2016 £m**	**Company 2016 £m**	Group 2015 £m	Company 2015 £m
Capitalisation of subordinated debt interest	26	**6.5**	**6.5**	2.9	-
Depreciation	16	**13.5**	**-**	13.7	-
Amortisation of intangible assets	17	**2.7**	**-**	0.9	-
Provisions against loans and advances to customers	14	**24.3**	**-**	6.5	-
Amortisation of share scheme fair value		**4.8**	**4.8**	4.1	4.1
Profit on sale of operating leased assets		**-**	**-**	(1.0)	-
Total non-cash items		**51.8**	**11.3**	27.1	4.1

Cash and cash equivalents	**Group 2016 £m**	**Company 2016 £m**	Group 2015 £m	Company 2015 £m
Cash and balances at central banks	**429.9**	**-**	521.9	-
Loans and advances to banks	**24.1**	**-**	30.9	-
Less: mandatory deposits with central banks	**(4.0)**	**-**	(2.3)	-
Cash and cash equivalents	**450.0**	**-**	550.5	-

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.

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.

Derecognition of financial assets and liabilities

Derecognition 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 when 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 is 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; and

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 then 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 simpler financial instruments, such as 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 scale and frequency of trading activity, the availability of prices and the size of bid/offer spreads assists in the assessment of whether a market is active. If, in the opinion of Management, a significant proportion of an 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 as cash and balances at central banks have minimal credit losses and are either short-term in nature or re-price frequently.

Loans and advances to banks, customer deposits, amounts due to banks and derivatives

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

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.

Loans and advances to customers

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, and adjusted for future credit losses if considered material.

Subordinated debt

Fair values are based on quoted prices where available or by discounting cash flows using market rates.

Fair value hierarchy

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

	2016	**2016**	**2016**	2015	2015	2015
	Level 3	**Level 2**	**Level 1**	Level 3	Level 2	Level 1
	£m	**£m**	**£m**	£m	£m	£m
Financial assets:						
Cash and balances at central banks	**-**	**-**	**429.9**	-	-	521.9
Loans and advances to banks	**-**	**24.1**	**-**	-	30.9	-
Loans and advances to customers	**4,050.4**	**-**	**-**	3,319.1	-	-
Financial liabilities:						
Customer deposits	**-**	**3,943.5**	**-**	-	3,186.4	-
Amounts due to banks	**-**	**147.7**	**-**	-	39.9	-
Subordinated debt	**-**	**75.3**	**-**	-	74.0	-

There were no transfers of assets or liabilities between the levels of the fair value hierarchy during the year (2015:£nil).

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

	2016	**2016**	**2016**	2015	2015	2015
	Level 3	**Level 2**	**Level 1**	Level 3	Level 2	Level 1
	£m	**£m**	**£m**	£m	£m	£m
Financial assets						
Derivative financial instruments	**-**	**5.2**	**-**	-	2.8	-
Financial liabilities						
Derivative financial instruments	**-**	**(0.4)**	**-**	-	-	-

Financial instruments (continued)

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

	Loans and receivables	**Other liabilities at amortised cost**	**Total carrying amount**	**Fair value**
	£m	**£m**	**£m**	**£m**

At 31 December 2016

Cash and balances at central banks	**429.9**	**-**	**429.9**	**429.9**
Loans and advances to banks	**24.1**	**-**	**24.1**	**24.1**
Loans and advances to customers	**4,050.4**	**-**	**4,050.4**	**4,100.5**
	4,504.4	**-**	**4,504.4**	**4,554.5**
Customer deposits	**-**	**3,943.5**	**3,943.5**	**3,963.8**
Due to banks	**-**	**147.7**	**147.7**	**147.7**
Subordinated debt	**-**	**75.3**	**75.3**	**76.0**
	-	**4,166.5**	**4,166.5**	**4,187.5**
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

30. Risk management

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

- Credit 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 the 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 2016.

	2016	2015
	£m	£m
Assets		
Cash and balances at central banks	**429.9**	521.9
Loans and advances to banks	**24.1**	30.9
Loans and advances to customers	**4,050.4**	3,319.1
Derivative financial assets	**5.2**	2.8
	4,509.6	3,874.7
Contractual commitments	**459.2**	378.6
Maximum exposure to credit risk	**4,968.8**	4,253.3

The contractual commitments are a combination of loan commitments and committed undrawn facilities.

The amount of collateral held at 31 December 2016 is £3,603.0m (2015: £2,994.9m) of which £2,524.3m (2015: £2,086.6m) is in the form of residential and commercial property and £1,078.7m (2015: £908.3m) 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:

- Property Finance: For the residential mortgage portfolio a risk rating scale is applied to the individual loans and weighs the propensity of non-performance and write-offs. The provisioning methodology within the residential portfolio was amended during the year to utilise credit scoring to drive loan level probability of default. The combined propensity scores are scaled into low risk, medium risk and higher risk. In the Commercial mortgage portfolio loans are classified as low risk, medium risk and high risk on a case by case basis based on the circumstances of every case.
- Business Finance: Loans are classified as low risk, medium risk and higher risk on a case by case basis. Classification is based on management's review of the individual circumstances of every case.
- Consumer Lending: Any loans that are 90 days or more past due are deemed to be impaired. Loans that are neither past due nor impaired are considered by management to be low risk.

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

	Property Finance		Business Finance		Consumer Lending		Total	
	£m	%	£m	%	£m	%	£m	%

As at 31 December 2016								
Low risk	**2,397.5**	**98.1**	**986.5**	**95.1**	**460.8**	**100.0**	**3,844.8**	**97.5**
Medium risk	**38.5**	**1.6**	**50.3**	**4.9**	**-**	**-**	**88.8**	**2.3**
Higher risk	**7.9**	**0.3**	**0.1**	**-**	**-**	**-**	**8.0**	**0.2**
Total neither past due nor impaired	**2,443.9**	**100.0**	**1,036.9**	**100.0**	**460.8**	**100.0**	**3,941.6**	**100.0**

	Property Finance		Business Finance		Consumer Lending		Total	
	£m	%	£m	%	£m	%	£m	%
As at 31 December 2015								
Low risk	2,048.6	99.7	853.2	97.7	331.8	100.0	3,233.6	99.2
Medium risk	0.9	-	11.0	1.2	-	-	11.9	0.3
Higher risk	5.7	0.3	9.5	1.1	-	-	15.2	0.5
Total neither past due nor impaired	2,055.2	100.0	873.7	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 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 2016, the number of forbearance arrangements in place was 701 (2015: 559), the carrying value of which was £45.5m (2015: £19.0m) against which impairment provisions of £4.6m (2015: £2.6m) were held.

Forbearance as at 31 December 2016	**Number**	**Capital balances £m**	**Provisions £m**	**Coverage %**
Property Finance	**191**	**13.6**	**0.7**	**5.1%**
Consumer Lending	**273**	**1.8**	**0.6**	**33.3%**
Business Finance	**237**	**30.1**	**3.3**	**11.0%**
Total	**701**	**45.5**	**4.6**	**10.1%**

Forbearance as at 31 December 2015	Number	Capital balances £m	Provisions £m	Coverage %
Property Finance	184	7.7	0.6	7.8%
Consumer Lending	249	1.7	1.1	64.7%
Business Finance	126	9.6	0.9	9.4%
Total	559	19.0	2.6	13.7%

There were six property repossessions during the year (2015: five). The total carrying value of these assets was £2.1m. Of the 6 repossessions 5 were disposed of by December 2016 and the 6^{th} in January 2017.

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 past due but not impaired consist predominantly of Loans in Property Finance and Business Finance that are past due and individually assessed as not being impaired. This definition also includes Unsecured loans in the Consumer division that are past due but not more than 90 days.
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. This definition also includes unsecured loans in the Consumer Division that are more than 90 days in arrears and carry identified impairment.

The Group enters into agreements with customers and where appropriate takes security. Loan receivables include amounts secured against property (commercial and residential), or 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 profile of the loan receivable book is shown below:

	2016 £m	2015 £m
Loan receivables	**3,639.5**	2,873.0
Finance lease receivables	**93.6**	114.3
Instalment credit receivables	**316.9**	331.8
Fair value adjustment for hedged risk	**0.4**	-
Total loans and advances to customers	**4,050.4**	3,319.1

Loan receivables	**2016** £m	2015 £m
Neither past due nor impaired	**3,548.7**	2,842.0
Past due but not impaired:		
Up to 30 days	**18.3**	5.2
30-60 days	**40.2**	17.3
60-90 days	**15.5**	4.3
Over 90 days	**15.8**	5.7
Total past due but not impaired	**89.8**	32.5
Impaired assets	**14.6**	9.0
	3,653.1	2,883.5
Fair value adjustment on hedged risk	**0.4**	-
Less: allowances for impairment losses	**(13.6)**	(10.5)
Net loan receivables	**3,639.9**	2,873.0

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:

	2016 £m	2015 £m
Secured on commercial and residential property	**2,524.3**	2,086.6
Secured on debt receivables	**545.4**	386.4
Secured on finance lease and instalment credit assets	**421.3**	449.1
Secured on other assets	**49.3**	72.8
Total secured receivables	**3,540.3**	2,994.9
Unsecured	**534.5**	337.7
Gross loan receivables	**4,074.8**	3,332.6

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

Finance Receivables	**2016** £m	2015 £m
Neither past due nor impaired	**82.3**	101.1
Past due but not impaired:		
Up to 30 days	**4.6**	5.6
30-60 days	**1.1**	3.3
60-90 days	**0.4**	1.1
Over 90 days	**2.3**	1.7
Total past due but not impaired	**8.4**	11.7
Impaired assets	**11.4**	3.5
	102.1	116.3
Less: allowances for impairment losses	**(8.5)**	(2.0)
Net loan receivables	**93.6**	114.3

Instalment credit receivables	**2016** £m	2015 £m
Neither past due nor impaired	**310.6**	317.6
Past due but not impaired:		
Up to 30 days	**3.6**	11.3
30-60 days	**0.9**	1.9
60-90 days	**0.6**	0.4
Over 90 days	**1.3**	0.7
Total past due but not impaired	**6.4**	14.3
Impaired assets	**2.2**	0.9
	319.2	332.8
Less: allowances for impairment losses	(2.3)	(1.0)

Net loan receivables	**316.9**	331.8

31 December 2016	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Neither past due nor impaired	**2,443.9**	**1,036.9**	**460.8**	**3,941.6**
Past due but not impaired:				
Up to 30 days	**13.8**	**12.0**	**0.7**	**26.5**
30-60 days	**33.6**	**4.3**	**4.3**	**42.2**
60-90 days	**10.7**	**4.2**	**1.6**	**16.5**
Over 90 days	**12.2**	**7.2**	**-**	**19.4**
Total past due but not impaired	**70.3**	**27.7**	**6.6**	**104.6**
Impaired assets	**10.1**	**14.1**	**4.0**	**28.2**
	2,524.3	**1,078.7**	**471.4**	**4,074.4**
Fair value adjustment on hedged risk	**-**	**-**	**0.4**	**0.4**
Less: allowances for impairment losses	**(5.2)**	**(12.4)**	**(6.8)**	**(24.4)**
Net loan receivables	**2,519.1**	**1,066.3**	**465.0**	**4,050.4**

31 December 2015	Property Finance £m	Business Finance £m	Consumer Lending* £m	Total £m
Neither past due nor impaired	2,055.2	873.7	331.8	3,260.7
Past due but not impaired:				
Up to 30 days	2.6	19.0	0.5	22.1
30-60 days	14.7	5.5	2.3	22.5
60-90 days	3.6	1.5	0.7	5.8
Over 90 days	5.5	2.4	-	7.9
Total past due but not impaired	26.4	28.4	3.5	58.3
Impaired assets	5.0	6.2	2.4	13.6
	2,086.6	908.3	337.7	3,332.6
Less: allowances for impairment losses	(3.5)	(5.7)	(4.3)	(13.5)
Net loan receivables	2,083.1	902.6	333.4	3,319.1

*- The Past due but not impaired and impaired balances have been restated as a result of management's review of the credit quality of the loan portfolios and the refinements to the definition of impaired assets.

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 2016, based on Moody's long term ratings.

Loans and advances to banks	2016 £m	2015 £m
A1	**15.6**	9.1
A2	**1.1**	1.1
A3	**7.4**	20.7
Total credit risk	**24.1**	30.9

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	2016 £m	2015 £m
Aa1	**429.9**	521.9

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 2016 cash collateral of £4.8m had been received by the Group (2015: £3.7m).

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.

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite.

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.

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

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 the 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 and appropriate financial instruments including derivatives. The table below sets out the Group's exposure to foreign exchange risk:

Assets and liabilities in foreign currencies at Sterling carrying values		US	Australian
	Euros	Dollars	Dollars
2016	£m	£m	£m
Loans and advances to banks	0.4	(0.9)	-
Loans and advances to customers	12.9	6.6	-
Net position	13.3	5.7	-

Assets and liabilities in foreign currencies at Sterling carrying values		US	Australian
	Euros	Dollars	Dollars
2015	£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)

Foreign exchange sensitivity

The Group estimates that a 5% movement in exchange rates would have no greater impact on the 2016 profit than an increase or decrease of £1.0m.

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 - £9.5m positive (2015: £8.0m positive)

-200 bps - £12.1m positive (2015: £24.5m positive)

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

+200 bps - £20m positive (2015: £19.9m positive)

-200 bps - £1.9m positive (2015: £1.4m 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 2016. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

At 31 December 2016	Within 3 months	3 months but less than 6 months	6 months but less than 1 year	1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks	425.9	-	-	-	-	4.0	429.9
Loans and advances to banks	24.1	-	-	-	-	-	24.1
Loans and advances to customers	2,812.3	117.8	201.1	714.1	254.9	(49.8)	4,050.4
Derivative financial assets	-	-	-	-	-	5.2	5.2
Other non-financial assets	2.9	2.9	5.3	23.1	4.2	98.6	137.0
	3,265.2	120.7	206.4	737.2	259.1	58.0	4,646.6
Liabilities							
Customer deposits	1,191.2	954.8	630.7	1,166.8	-	-	3,943.5
Due to banks	123.3	-	24.4	-	-	-	147.7
Derivative financial liabilities	-	-	-	-	-	0.4	0.4
Other non-financial liabilities	-	-	-	-	-	42.5	42.5
Subordinated debt	-	-	-	-	75.3	-	75.3
Total equity	-	-	-	-	-	437.2	437.2
	1,314.5	954.8	655.1	1,166.8	75.3	480.1	4,646.6
Notional values of derivatives	524.0	-	(340.0)	(145.0)	(39.0)	-	-
Interest rate sensitivity gap	2,474.7	(834.1)	(788.7)	(574.6)	144.8	(422.1)	-
Cumulative gap	2,474.7	1,640.6	851.9	277.3	422.1	-	-

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

At 31 December 2015	Within 3 months £m	3 months but less than 6 months £m	6 months but less than 1 year £m	1 year but less than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m

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	535.0	-	(50.0)	(485.0)	-	-	
Interest rate sensitivity gap	2,384.4	(546.0)	(448.3)	(888.9)	150.6	(651.8)	-
Cumulative gap	2,384.4	1,838.4	1,390.1	501.2	651.8	-	-

Capital risk management

Overview
Our objective in managing Group capital is to maintain appropriate levels of capital to support our business strategy and meet regulatory requirements.

	Group 2016	**Bank 2016**	Group 2015	Bank 2015
Common Equity Tier 1 ratio	**13.3%**	**13.2%**	14.4%	14.2%
Total capital ratio	**16.4%**	**16.3%**	18.0%	17.9%
Leverage ratio	**7.8%**	**7.7%**	7.6%	7.5%

The Common Equity Tier 1 capital ratio (CET1) for the Group was 13.3% as at 31 December 2016 (31 December 2015: 14.4%), compared with a regulatory minimum of 4.5%.
The leverage ratio for the Group (based on the Basel III definition of January 2014, and the revised EU capital requirements directive (CRD IV) definition of October 2014) is 7.8% (2015: 7.6%). The Group is not required to comply with the PRA leverage ratio framework until its retail deposits exceed the £50 billion threshold; however the Group maintains a prudent risk appetite for leverage.

Common Equity Tier 1 ratio

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

	Group 2016 £m	**Bank 2016 £m**	Group 2015 £m	Bank 2015 £m
Share capital	**2.5**	**175.5**	2.5	175.5
Retained earnings	**164.3**	**145.8**	94.7	79.7
Share premium account	**87.3**	**81.0**	87.3	81.0
Merger reserve	**-**	**1.6**	-	1.6
Capital redemption reserve	**183.1**	**9.2**	183.1	4.4
Intangible assets	**(59.9)**	**(38.8)**	(54.7)	(33.6)
Foreseeable dividend	**(6.7)**	**(6.7)**	-	-
Common Equity Tier 1 capital	**370.6**	**367.6**	312.9	308.6
Subordinated debt	**75.3**	**76.1**	74.0	75.0
Collective provision	**8.7**	**8.7**	4.6	4.6
Tier 2 capital	**84.0**	**84.8**	78.6	79.6
Total regulatory capital	**454.6**	**452.4**	391.5	388.2
Risk-weighted assets				
Property Finance	**1,107.1**	**1,107.1**	897.8	897.8
Business Finance	**1,019.7**	**1,019.7**	821.4	821.4
Consumer Lending	**372.9**	**372.9**	263.3	263.3
Other	**66.9**	**66.9**	69.0	69.0
Operational risk	**212.0**	**212.0**	123.1	123.1
	2,778.6	**2,778.6**	2,174.6	2,174.6

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

	Group 2016 £m	**Bank 2016 £m**	Group 2015 £m	Bank 2015 £m
Regulatory capital	**454.6**	**452.4**	391.5	388.2
Subordinated debt	**(75.3)**	**(76.1)**	(74.0)	(75.0)
Collective impairment allowance	**(8.7)**	**(8.7)**	(4.6)	(4.6)
Intangible assets	**59.9**	**38.8**	54.7	33.6
Foreseeable Dividend	**6.7**	**6.7**	-	-
Total equity	**437.2**	**413.1**	367.6	342.2

As required by Article 26(2) of the Capital Requirements Regulation, a deduction has been made for foreseeable dividends from the 2016 profit.

The following table shows the movement in Common Equity Tier 1 capital during the year:

	Group 2016 £m	Bank 2016 £m	Group 2015 £m	Bank 2015 £m
Common Equity Tier 1 capital at 1 January	**312.9**	**308.6**	169.2	168.4
Profit in the period attributable to shareholders	**64.8**	**66.1**	58.5	63.3
Dividend paid	**-**	**-**	-	(4.0)
Other movements in retained earnings	**4.8**	**-**	4.1	4.1
(Decrease)/increase in share capital	**-**	**-**	(182.8)	1.0
Increase in share premium account	**-**	**-**	86.0	81.0
Increase in capital redemption reserve	**-**	**4.8**	183.1	-
Increase in intangible assets	**(5.2)**	**(5.2)**	(5.2)	(5.2)
Increase in foreseeable dividend	**(6.7)**	**(6.7)**	-	-
Common Equity Tier 1 capital at 31 December	**370.6**	**367.6**	312.9	308.6

Leverage ratio

	Group 2016 £m	Bank 2016 £m	Group 2015 £m	Bank 2015 £m
Tier 1 capital	**370.6**	**367.6**	312.9	308.6
Exposure measure				
Total regulatory balance sheet assets	**4,646.6**	**4,625.0**	4,000.0	3,978.1
Exposure value for securities financing transactions	**0.6**	**0.6**	-	-
Off-balance sheet items	**171.6**	**171.6**	149.4	149.4
Exposure value for derivatives	**1.3**	**1.3**	3.0	3.0
Other regulatory adjustments	**(59.9)**	**(38.8)**	(54.7)	(33.6)
Total exposures	**4,760.2**	**4,759.7**	4,097.7	4,096.9
Leverage ratio	**7.8%**	**7.7%**	7.6%	7.5%

Exposure values associated with derivatives and securities financing transactions have been reported in compliance with CRD IV rules. For purposes of the leverage ratio, the derivative measure is calculated as the replacement cost for the current exposure plus an add-on for future exposure and is not reduced for any collateral received or grossed up for collateral provided.

Off-balance sheet exposure comprises of pipeline and committed facilities balances which have a medium risk attached to them.

Other regulatory adjustments comprise of net replacement costs of derivatives and securities financing transactions to the leverage ratio exposure.

Regulation

CRD IV requires the Group to hold Common Equity Tier 1 capital to account for capital conservation, countercyclical and systemic risk buffers. A capital conservation buffer of 0.625% was introduced on 1 January 2016 and will increase each year to 2019 in line with regulations.

CRD IV also introduced a new leverage ratio requirement. The leverage calculation determines a ratio based on the relationship between Tier 1 capital and total consolidated exposure, being the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet exposures. This leverage ratio is a risk-based measure that is designed to act as a supplement to risk based capital requirements.

Minimum Requirements for Eligible Liabilities (MREL) are applicable from 1 January 2016 and will be phased in fully by 1 January 2020. Prior to 31 December 2019, MREL will be equal to an institution's minimum regulatory capital requirements. The Bank of England has provided MREL guidance to the Group, as well as guidance on the transitional arrangements until 1 January 2020.

Policies and processes for managing the Group's capital

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

The Group's principal objectives when managing capital are to:

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

The Prudential Regulation Authority (PRA) supervises the Group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority (FCA). The aim of the capital adequacy regime is to promote safety and soundness in the financial system and embed the requirements of Pillar 3 on market discipline. Under Pillar 2, the Group completes an annual self-assessment of risks known as the "Internal Capital Adequacy Assessment Process" (ICAAP). The ICAAP is reviewed by the PRA which culminates in the PRA setting 'Individual Capital Guidance' (ICG) on the level of capital the Group and its regulated subsidiaries are required to hold. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk assessment process. The Group's Pillar 3 disclosures can be found on the Group's website.

The Group maintains a strong capital base with the aim of supporting the development of the business and to ensure it meets the Pillar 1 capital requirements and ICG at all times. As a result, the Group maintains capital adequacy ratios above minimum regulatory requirements. The Group's individual regulated entities complied with all of the externally imposed capital requirements to which they are subject for the years ended 2016 and 2015.

31. Subsidiary companies

Accounting policy

Subsidiaries

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

The Company has the following subsidiary companies whose results are included in these consolidated financial statements:

	Country of incorporation	Class of shares held	Ownership %	Principal activity
Shawbrook Bank Limited	England and Wales	Ordinary	100%	Banking
and its subsidiaries:				
Shawbrook International Limited	Jersey	Ordinary	100%	Banking
Shawbrook Buildings and Protection Limited	England and Wales	Ordinary	100%	FCA authorised

				introducer of insurance
Singers Corporate Asset Finance Limited	England and Wales	Ordinary	100%	Dormant
Singers Healthcare Finance Limited	England and Wales	Ordinary	100%	Dormant
Coachlease Limited	England and Wales	Ordinary	100%	Dormant
Hermes Group Limited	England and Wales	Ordinary	100%	Dormant
Singer & Friedlander Commercial Finance Limited	Scotland	Ordinary	100%	Dormant
Link Loans Limited	England and Wales	Ordinary	100%	Non - trading
Centric Group Holdings Limited	England and Wales	Ordinary	100%	Dormant
and its subsidiaries:				
Centric Group Finance 2 Limited	England and Wales	Ordinary	100%	Dormant
Centric Group Finance Limited	England and Wales	Ordinary	100%	Dormant
and its subsidiaries:				
Centric Commercial Finance Limited	England and Wales	Ordinary	100%	Dormant
Centric SPV 1 Limited	England and Wales	Ordinary	100%	Dormant
Centric SPV 2 Limited	England and Wales	Ordinary	100%	Dormant
Resource Partners SPV Limited	England and Wales	Ordinary	100%	Dormant

All entities have the same registered address as the Company, except the following:

- Shawbrook International Limited - 1st Floor Kensington Chambers, Kensington Place, St Helier, JE4 0ZE, Jersey; and
- Singer & Friedlander Commercial Finance Limited - 8 Nelson Mandela Place, Glasgow, G2 1BT, Scotland

Singer & Friedlander Finance Limited was dissolved at Companies House during 2016.

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.

Company

Movement in amounts owed by Group companies:

	2016 £m	2015 £m
Balance at 1 January	**2.6**	-
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**	(0.3)
Transfer of funds	**(1.2)**	35.9
Balance at 31 December	**1.7**	2.6

In 2015 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 was an investment of Pollen Street Capital Limited (which was sold by Pollen in 2016). 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 £0.2m (2015: £0.6m) and the balance outstanding at 31 December 2016 was £1.7m (2015: £10.1m).

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 was charged £8.7m during 2016 for these services (2015: £6.6m) and no amounts were due at 31 December 2016. In addition, the Group paid £1.8m (2015: £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.

Iain Cornish is a non-executive director of Arrow Global Limited. The Group has received £0.9m (2015: £1.0m) in broker fees and interest income from Arrow Global Limited. The outstanding balance was settled and the facility was cancelled during the year (2015: £9.2m drawn balance).

Sally-Ann Hibberd is a non-executive director of Equinity Group Plc. The Group had no material transactions with Equinity Group Plc during the year and the balance outstanding at 31 December 2016 is £nil (2015: £nil).The Group has paid £1.7m (2015: £1.4m) in broker fees to Freedom Finance Limited, an investment company of Pollen Street Capital Limited. Similarly the Group has paid £30k in broker commissions to Pay4Later in which Pollen Street Capital Limited has an investment.

The Group entered into a revolving credit facility with guarantor lending Amigo Loans Limited (then S&F) in August 2012. Roger Lovering, a Director of Shawbrook Group plc, was appointed as a Director of Amigo Loans Limited (December 2015 - 20 April 2016) of its holding company, Amigo Holdings Limited on 20 April 2016, where he is an active director. The balance outstanding at 31 December 2016 was £24.4m with £25m committed.

Non-Standard Finance plc was established as cash shell (initial equity raise of £102m followed up by an additional £180m) and listed on the LSE (main market) in February 2015 and is backed by a capable management team, including Shawbrook Director, Robin Ashton (who has stepped down during 2016). The Group has entered into 2 facilities in the business's structure: Everyday Lending Limited - The Group supported the acquisition of Everyday Loans by Non-Standard Finance plc in December 2015, which was FCA approved in June 2016. S.D. Taylor Limited - The Group entered into a revolving credit facility with home collect credit provider S.D. Taylor Limited (trading name Loansathome), to support the business following being acquired by Non-Standard Finance plc in August 2015. The outstanding balance at 31 December 2016 was £22.9m with £25m committed.

Transactions with key management personnel

Key management personnel are defined as the Executive Committee of Shawbrook Group plc. excluding the executive and non-executive directors. The total remuneration which included short-term benefits and employer pension contributions totalled £2.4m (2015: £1.5m)

33. Capital commitments

The Group had capital commitments totalling £0.3m at 31 December 2016 (2015: £0.9m).

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 the 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; alternatively they 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 an 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 fixed charge over a blocked deposit account to an 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.

The Group's Consumer Lending division is exposed to risk under Section 75 CCA, in relation to any misrepresentations or breaches of conduct by suppliers of goods and services to customers where the purchase of those goods and services is financed by the Group. While the Group would have recourse to the supplier in the event of such liability, if the supplier becomes insolvent then that recourse would have limited value. During 2016, at least one supplier has become insolvent and therefore the Group may have an increased exposure to customer complaints in relation to such suppliers although any such exposure is not considered to be material.

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 (EPS) shall be adjusted retrospectively. The tables below are based on the number of shares in issue:

	2016	2015
	Pence	Pence
Earnings per share		
Basic	**25.9**	24.1
Diluted	**25.5**	24.0

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 (2015: £nil).

Basic EPS computations are based on profit attributable to ordinary equity holders of the parent of £64.8m (2015: £58.5m) and weighted number of ordinary shares of 250.5m (2015: 242.3m).

Diluted EPS computations are based on profit attributable to ordinary equity holders of the parent of £64.8m (2015: £58.5m) and weighted number of ordinary shares of 253.7m (2015: 243.9m).

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, 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 CBCR 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 (except if stated otherwise), the activities of which are disclosed on page 175 of the Annual Report and Accounts.

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

	2016	2015
Net operating income (£m)	**209.6**	166.9
Profit before tax (£m)	**88.2**	70.1
Income tax charge (£m)	**(23.4)**	(11.6)
Tax paid (£m)	**20.4**	13.8
Average number of employees on a full time equivalent basis	**569**	514

The Group did not receive any public subsidies.

38. Post-balance sheet events

On 3 March 2017, following share price movement, the Group announced that it was in discussions with Pollen Street Capital Limited (Pollen Street) and BC Partners LLP (BC Partners) (together the Consortium) regarding a possible offer to be made by a new company to be jointly owned by funds managed or advised by Pollen Street and BC Partners for the entire issued and to be issued share capital of Shawbrook Group plc (the Possible Offer).

Under the terms of the Possible Offer, shareholders would receive 330p per ordinary share in cash. In addition, shareholders would be entitled to retain the final maiden dividend in respect of the year ended 31 December 2016 referred to in this Annual Report & Accounts. As at the date of publication of this Annual Report & Accounts, the Board had issued a rejection of the Possible Offer. Discussions with the Consortium were ongoing and there was no certainty either that an offer would be made nor as to the terms of any offer, if made.

There have been no other significant events between 31 December 2016 and the date of approval of the Financial statements which would require a change to or additional disclosure in the Financial statements.

Glossary

ALCo	Asset and Liability Committee.
Average Principal Employed	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.
BAC	Board Audit Committee.
BRC	Board Risk Committee.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	Global regulatory standard on bank capital adequacy, stress testing and market and liquidity proposed by the Basel Committee on Banking Supervision in 2010. It aims to strengthen regulation, supervision and risk management in the banking sector. See also CRD IV.
Basis Point (bp)	One hundredth of a percent (0.01%). 100 basis points is 1%. It is used in quoting interest rates or yields on securities.
BBA	British Bankers Association, the leading trade association for the UK banking sector.
Board	The Board of Directors of Shawbrook Group plc.
BoE	Bank of England.
Buy-to-let Mortgages	Buy-to-let mortgages are those mortgages offered to customers purchasing residential property as a rental investment.
Capital Requirements Regulation (CRR)	The European Union has implemented the Basel III capital proposals through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), collectively known as CRD IV. CRD IV was implemented on 1 January 2014.
CCA	Consumer Credit Act.
Code	The FRC's UK Corporate Governance Code (2014 edition).
Common Equity Tier 1 Capital (CET1)	The highest quality form of capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
Common Equity Tier 1 Ratio (CET1 Ratio)	The Common Equity Tier 1 ratio is calculated as common equity tier 1 capital divided by risk-weighted assets.
Cost of Risk	Cost of risk is calculated as impairment losses on financial assets divided by average principal employed.
Cost to Income Ratio	Cot to Income Ratio is calculated as administrative expenses plus provisions for liabilities and charges, divided by net operating income.
CRD	Capital Requirements Directive.
CRD IV	In June 2013, the European Commission published legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR) which form the CRD IV package. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. The rules are implemented in the UK via the PRA policy statement PS7/13 and came into force from 1 January 2014, with certain sections subject to transitional phase in.
Customer Deposits	Monies deposited by individuals and companies that are not credit institutions. Such funds are recorded as liabilities in the Group's Statement of Financial Position.
Customer Loans	Loans and advances to customers, net of impairment provision and including operating leases, which are classified as property, plant and equipment in the Group's statutory accounts.
Deferred Tax Assets	Income taxes recoverable in future periods as a result of deductible temporary differences (temporary differences between the accounting and tax base of an asset or liability that will result in tax-deductible amounts in future periods) and the carry-forward of tax losses and unused tax credits.
Earnings at Risk (EaR)	Approach set out for the quantification of interest rate risk expressed as the impact of the sensitivity analysis on the change to net interest income.
EBA	European Banking Authority.
Effective Interest Rate (EIR)	The effective interest rate method calculates the amortised cost of a financial asset or financial liability, and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or financial liability. Calculation of the effective interest rate takes into account all contractual terms of the financial instrument but includes all amounts received or paid that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.
Encumbrance	The use of assets to secure liabilities, such as by way of a lien or charge.
EPS	Earnings per share.
European Securities & Market Authority (ESMA)	An independent European Supervisory Authority with the remit of enhancing the protection of investors and reinforcing stable and well-functioning financial markets in the European Union.
Expected Loss (EL)	A measure of anticipated loss for exposures captured under an internal ratings based credit risk approach. The 12 month expected loss amount is the exposure, arising from a potential default of a counterparty, over the next 12 months in respect of the amount expected to be outstanding at default.
Exposure at Default	An estimate of the amount expected to be owed by a customer at the time of a customer's default.
Fair Value	The amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
FCA	Financial Conduct Authority.

Financial Services Compensation Scheme (FSCS)	The Financial Services Compensation Scheme is the UK's independent statutory compensation fund for customers of authorised financial service firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by management expenses levies and, where necessary, compensation levies on the authorised firms.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to borrowers' financial difficulties. Forbearance options are determined by assessing the customer's personal circumstances.
FRC	Financial Reporting Council.
Full-Time Equivalent (FTE)	A full-time employee is one that works a standard five-day week. The hours worked by part-time employees are measured against this standard and accumulated along with the number of full-time employees and counted as full-time equivalents.
Funding for Lending Scheme (FLS)	The Bank of England launched the Funding for Lending scheme in 2012 to allow banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years. This was designed to increase lending to businesses by lowering interest rates and increasing access to credit.
Group	The Company and its subsidiaries.
Gross Yield	Gross yield is calculated as the sum of interest and similar income, net income from operating leases, net fee and commission income and fair value gains/(losses) on financial instruments divided by average principal employed.
HIL	Home Improvement Loan
HOL	Holiday Ownership Loan.
IFRS	International Financial Reporting Standards.
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. This definition also includes unsecured loans in the Consumer Division that are more than 90 days in arrears and carry identified impairment.
Impairment Allowance	The impairment allowance includes allowances against loans that have been individually impaired and those that are subject to collective impairment.
Instalment credit agreement	An instalment credit agreement is an agreement similar in nature to a hire purchase agreement or otherwise known as a rent-to-own agreement.
Interest rate risk	The risk of a reduction in the present value of the current balance sheet or earnings as a result of adverse movement in interest rates.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment, based on Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events as they apply on a solo level and on a consolidated level.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's own assessment of its overall liquidity adequacy and in particular the level of liquidity resources it requires to meet its liabilities as they fall due even under stressed conditions, in accordance with the Prudential Regulation Authority's liquidity rules under PS11/15.
International Organization of Securities Consensus (IOSCO)	The international body that brings together the world's securities regulators and is recognised as the global standard-setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognised standards for securities regulation.
IASB	International Accounting Standards Board.
IMF	International Monetary Fund.
IPO	Initial Public Offering.
Leverage Ratio	The leverage ratio is calculated Common Equity Tier 1 capital divided by the sum of total assets (excluding intangible assets and include adjustments for certain off balance sheet items such as pipeline and undrawn collateral).
Liability yield	Liability yield is calculated as interest expense and similar charges divided by average principal employed.
LIBOR (London Inter-Bank Offered Rate)	The interest rate participating banks offer to other banks for loans on the London market.
Liquidity Coverage Ratio (LCR)	The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress, and ideally, central bank eligible.
Liquidity Ratio	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.
Loan-to-Deposit Ratio	Calculated as loans and advances to customers divided by customer deposits.
Loss Emergence Period	The loss emergence period is the estimated period between impairment occurring and the loss specifically identified and evidenced by the establishment of an appropriate impairment allowance.
Loss Given Default	The estimated loss that will arise if a customer defaults. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.
Management expenses ratio	Management expenses ratio is calculated as administrative expenses plus provisions for liabilities and charges, divided by average principal employed.
MCD	Mortgage Credit Directive.
MLRO	A Money Laundering Reporting Officer (MLRO) is the officer nominated within a firm or practice to make disclosures to the Serious Organised Crime Agency (SOCA) under the Proceeds of Crime Act 2002 and the Terrorism Act 2000.
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.
Net Interest Income	The difference between interest received on assets and interest paid on liabilities.
Net Interest Margin (NIM)	Calculated as net operating income divided by average principal employed.
Net Stable Funding Ratio (NSFR)	The ratio of Available Stable Funding required to support the assets and activities over the medium term as set out by the Basel III requirements and implemented by the EBA and the PRA
NPL Ratio	The NPL ratio 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.
NPL Provision Coverage Ratio	Calculated as Balance sheet Impairment Provision as a percentage of past due over 90 days loans and advances to customers and impaired loans and advances to customers.
OBR	Office for Budget Responsibility.
Past due	A loan is considered past due when the borrower has failed to make a payment under the terms of the loan contract. This may also include loans past maturity where an

	outstanding balance exists.
Past due but not impaired	Loans past due but not impaired consist predominantly of loans in Property Finance and Business Finance that are past due and individually assessed as not being impaired. This definition also includes unsecured loans in the Consumer Division that are past due but not more than 90 days.
Pillar 1	The part of the Basel framework that sets outs the rules that govern the calculation of Minimum capital requirements for credit, market and operational risks.
PRA	Prudential Regulation Authority.
PSP	Performance Share Plan.
Recovery Plan and Resolution Pack (RP&RP)	The Bank Recovery and Resolution Directive (BRRD) establishes a common approach to the recovery and resolution of banks and investment firms. The Group's Recovery Plan enables the Board and senior management manage a crisis which may threaten the capital and / or liquidity adequacy of the Bank, or its ultimate viability. The objective of the plan is to put in place measures (recovery options) to restore capital, liquidity or profitability so that the Bank can operate sustainably and viably. The Group's Resolution Pack lays out the information required to support effective resolution planning. The requirements for the Recovery Plan and Resolution Pack are set out in supervisory statement SS18/13 and SS19/13 respectively.
Repurchase Agreements or 'Repos'	An agreement where one party, the seller, sells a financial asset to another party, the buyer, at the same time the seller agrees to reacquire and the buyer to resell the asset at a later date. From the seller's perspective such agreements are repurchase agreements (repos) and from the buyer's perspective they are reverse repurchase agreements (reverse repos).
Return on Lending Assets	Return on lending assets before tax is calculated as profit/(loss) before taxation divided by average principal employed.
Return on Tangible Equity (RoTE)	Return on tangible equity is calculated as 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. The 2015 opening tangible equity position has been adjusted to include the £82m of IPO proceeds to enable like for like comparisons.
Risk-weighted Assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with PRA rules and are used to assess capital requirements and adequacy under Pillar 1.
Secured Lending	Lending on which the borrower uses collateral such as equity in their home.
Standardised Approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings of obligators (where available) and supervisory risk weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of specified business lines.
Stress Testing	Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital or liquidity resources which are required to be held.
Term Funding Scheme (TFS)	The Bank of England launched the Term Funding Scheme in 2016 to allow banks and building societies to borrow from the Bank of England at rates close to Bank Base Rate. This is designed to increase lending to businesses by lowering interest rates and increasing access to credit.
Tier 1 Capital	A measure of banks financial strength defined by the PRA. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, but is subject to a deduction in respect of material holdings in financial companies.
Tier 1 Capital Ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 Capital	A further component of regulatory capital defined by the PRA. It comprises eligible collective assessed impairment allowances under CRD IV.
Total Capital Ratio (TCR)	The Total Capital Ratio is calculated as total regulatory capital divided by risk-weighted assets.
TNAV	Tangible Net Asset Value.
Unencumbered Assets	Assets that are readily available to secure funding or to meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.

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1 See the Basis of preparation and the Risk management report in the Annual Report & Accounts for further details.
2 All references are to underlying results, unless otherwise stated. See the Basis of preparation in the Annual Report & Accounts for further details of underlying adjustments and statutory equivalents.
3 Opening tangible equity has been adjusted to include £82 million of net IPO proceeds.
4 Ratio of past due over 90 days and impaired loans.
5 Includes operating leases and net of impairment provisions.
6 Risk weighted assets of £2,778.6 million against Customer Loans of £4,088.5 million. Total balance sheet exposure for leverage ratio was £4,760.8 million at 31 December 2016.
[1] Refer to the Glossary on page 180 for KPI definitions and calculations
[2] Dylan Minto was appointed Interim Chief Financial Officer on 30 June 2016 following Tom Wood's resignation.
[3] Robin Ashton assumed the role of Chairman of the Committee in June 2016 following Graham Alcock's retirement from the Board.
[4] Graham Alcock was Chairman of the Remuneration Committee until the AGM on 9 June 2016 when he stepped down from the Board.
[5] Assumed role of CEO on 1 January 2016.
[6] Tom Wood stepped down from the Board with effect from 30 June 2016. The amounts set out above include amounts received up to this date, but exclude payments for loss of office as set out below under 'Payments for loss of office'.
[7] No Executive Directors participated in the 2016 SAYE offering.
[8] Pension contributions or cash allowances.
[9] Upon recruitment, Steve Pateman received awards over shares in respect of remuneration forfeited on leaving his previous employment. This included:

- A one-off grant of awards over 552,623 ordinary shares of Shawbrook Group plc by Special Opportunities Fund (Guernsey) LP as compensation for bonus and awards arising from his previous employment which he forfeited on joining the Group. These awards are subject to clawback and malus provisions. Other shareholders have not suffered any dilution as a result of this award. The first tranche of 64,267 shares vested on 27 January 2016; the second tranche of 256,631 shares vested on 18 February 2016; the third tranche of 149,681 shares vested on 18 February 2017 and the final tranche of 82,044 shares will vest on 18 February 2018, subject to continued service. The full value of these awards is included in the value above, given that they are not subject to further performance conditions. The closing share price on 31 December 2015 of 350.1p has been used to calculate the award level, being the last trading day before the award was made.
- A further award over 71,408 ordinary shares was granted by the Group to compensate him for the reduction in fixed remuneration from his previous employment. This award vested immediately and the resulting net shares are subject to a three-year holding period. This award is included in the value above. The closing share price on 31 December 2015 of 350.1p has been used to calculate the award level, being the last trading day before the award was made.

[10] Graham Alcock stepped down from the Board with on 9 June 2016.
[11] Pollen Street Capital was paid £30,000 for the services of Lindsey McMurray for the year ended 31 December 2016.
[12] David Gagie was appointed on 1 January 2016.
[13] Appointed on 20 March 2015.
[14] Richard Pyman stepped down as CEO on 2 October 2015.
[15] Appointed on 21 May 2015.
[16] Inclusive of additional allowance of £110,000 (based on annualised allowance of £175,000) for acting as Interim CEO for the period 21 May to 31 December 2015.
[17] Pension contributions or allowances.

[18] Eligible employees were invited to subscribe for options over ordinary shares of 1p ('ordinary shares') with an exercise price of 259.76p per share, a 20% discount to the average closing middle market quotation of an ordinary share for the three dealing days immediately preceding the date on which the invitation to participate was made on 7 September 2015. The options have a savings contract start date of 1 December 2015 and are exercisable between 1 December 2018 and 1 June 2019. On 2 October 2015, some of these options to buy ordinary shares were granted under the terms of the Sharesave scheme to certain Executive Directors of the Group. During 2016, Tom Wood's options lapsed upon his departure from Shawbrook and Stephen Johnson surrendered the options he was granted in 2015 on 29 September 2016. Stephen Johnson did not participate in the 2016 SAYE offering.
[19] Richard Pyman and Tom Wood had previously subscribed for B and/or C ordinary shares in the Group, the terms of which provided for their conversion into ordinary shares upon the IPO on a basis determined by reference to the IPO price. As a result of this conversion, Richard Pyman held 1,181,164 ordinary shares and Tom Wood held 2,742,841 ordinary shares.
[20] Appointed on 20 March 2015 and stepped down from the Board on 6 July 2015.
[21] Appointed on 6 July 2015.
[22] Appointed on 20 March 2015.
[23] Appointed on 5 November 2015.
[24] Appointed on 24 August 2015.
[25] Pollen Street Capital was paid £30,000 for the services of Lindsey McMurray for the year ended 31 December 2015.
[26] James Scott was a Director of Laidlaw Acquisitions Limited prior to Admission. He resigned on 20 March 2015. He received no fee for this position.
[27] Sir George Mathewson and Robin Ashton had previously subscribed for B and/or C ordinary shares in the Group, the terms of which provided for their conversion into ordinary shares upon the IPO on a basis determined by reference to the IPO price. As a result of this conversion, Sir George Mathewson held 1,237,874 ordinary shares and Robin Ashton held 795,776 ordinary shares.
[28] Tom Wood stepped down from the Board with effect from 30 June 2016 and will not receive any bonus in respect of 2016.
[29] The clawback provisions have been strengthened such that amounts deferred into shares under the 2016 annual bonus may be subject to clawback at any time prior to the third anniversary of vesting.
[30] 306.17 p per share, i.e. the average of the mid-market closing price on the three consecutive business days immediately preceding the date of grant.
[31] Tom Wood stepped down from the Board with effect from 30 June 2016. His deferred share bonus plan award relating to the 2015 annual bonus will subsist and vest on the usual dates.
[32] 306.17 p per share, i.e. the average of the mid-market closing price on the three consecutive business days immediately preceding the date of grant.
[33] Tom Wood stepped down from the Board with effect from 30 June 2016. He was treated as a good leaver under the Performance Share Plan and as such his award will be subject to time pro-rating to 31 December 2016 and will vest on the usual dates.
[34] Based on the closing share price on 31 December 2015 of 350.1p used to calculate the award size, being the last trading day before the award was made.
[35] The award of 71,408 shares is subject to a three-year holding period following award, save for those shares that have been sold to cover tax liabilities.
[36] Directors' beneficial holdings in the ordinary shares of the Group, including holdings of connected persons.
[37] There have been no changes in the shareholdings of the current Directors between 31 December 2016 and 6 March 2017 other than 79,154 shares which were transferred to Steve Pateman following the vesting of 149,681 shares under his recruitment award, and the sale of 70,527 shares to cover tax withholding requirements.
[38] Current shareholding valued using the three-day average closing share price to 31 December 2016 of 273.13p.
[39] The share award of 231,725 for Steve Pateman relates to the third and final tranches of the one off grant of awards over ordinary shares of Shawbrook Group plc by Special Opportunities Fund (Guernsey) LP as Compensation for bonus and awards arising from his previous employment which he forfeited on joining the Group. Of the 231,725 shares, 149, 681 shares vested on 18 February 2017 and 82,044 will vest on 18 February 2018.
[40] Granted under the PSP. In respect of Tom Wood, this represents the remaining number of options remaining following time pro-rating.
[41] Granted under the DSBP.
[42] There have been no changes in the share interests between 31 December 2016 and to 6 March 2017.
[43] The percentage change in salary is based on the salary of Richard Pyman for the period between January and May 2015 and Tom Wood (including an allowance as Interim CEO) for the period between June and December 2015 compared to the salary of Steve Pateman during 2016. Steve Pateman's salary was set with reference to market-competitive rates, taking into account his skills and experience and the role of the Group CEO at Shawbrook.
[44] The percentage change in annual bonus is based on the 2015 annual bonus awarded to Tom Wood and the 2016 bonus awarded to Steve Pateman.
[45] Figures for 'All employees' have been calculated using data for all relevant colleagues except the CEO, which is considered to be the most appropriate group of colleagues for these purposes. This has been adjusted for movements in colleague numbers and other impacts to ensure a like-for-like comparison.
[46] Based on the total remuneration of Richard Pyman for the period between January and May 2015 and Tom Wood (including an allowance as Interim CEO) for the period between June and December 2015.
[47] No dividends paid in 2015 and 2016.