Shawbrook Bank

Shawbrook Group plc

Annual Report and Accounts 2020

Contents

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Shawbrook – Proudly different.

We remain committed to the simple quality of good sense, adopting traditional values with a modern delivery. This is a big part of who we are.

Communication matters. We listen, we understand, and we talk to one another. We care about our customers and their specialist needs. People are the life force of our business, so our approach is to blend human judgement with data and technology when it comes to decision-making.

That's why ensuring a deep understanding of our customers is a top priority.

The difference in being different.

How we've done
2020 key highlights

How we delivered against our strategic pillars in a challenging year:

Achieve strong risk adjusted returns

5.8%
Gross asset yield
(2019: 6.4%)

Enhance customer focus

81%
Customer satisfaction score*
(introduced in 2020)

*Savings only

Progressively increase originations

4.7%
Growth in loan book
to £7.1 billion
(2019: £6.8 billion)

Maintain excellent credit quality

80bps*
Cost of risk
(2019: 47bps)

*inclusive of payment holidays

Maintain conservative foundations

12.6%
CET1

16.8%
Total capital ratio

(2019: 12.0% CET1, 16.4% Total capital ratio)

Our business

What we do

Shawbrook is a specialist UK lending and savings bank focused on Property Finance, Business Finance, Consumer Lending and Savings. We differentiate ourselves by concentrating on markets where our expert knowledge, judgement and personalised approach to lending offer us a competitive advantage.

Our divisions

Property Finance
Our Property Finance division comprises our commercial property and residential mortgages teams. Aimed at serving professional landlords and property traders in residential and commercial asset classes, and personal customers through specialist second charge mortgages.

£4.9bn
Loan book

Business Finance
Our Business Finance division offers a wide range of products to serve the UK SME market, including asset finance, corporate lending, structured finance and development finance.

£1.8bn
Loan book

Consumer Lending
Our Consumer Lending division provides unsecured personal loans both directly and through partners to customers to support a variety of purposes.

£0.4bn
Loan book

Savings
Our Savings division provides a wide range of cash savings products, both directly and through partners to our personal and SME customers.

£6.9bn
Customer deposits

Our differentiated approach

The Shawbrook way
A customer led approach...

- Specialists.
- Thoughtful decision-making through judgement.
- Using technology to complement the human touch.
- Driven by customer needs.
- Innovative and tailored products.
- Focus on quality of service.

Our values

We are expert:
we are quietly confident and enabling.

We are driven:
we are ambitious and passionate.

We are practical:
we are down to earth and pragmatic.

We act with integrity:
we are thoughtful and responsible.

Our people and community

811
Employees
(average on a full-time equivalent basis)

73
Charities supported

Group gender metrics

All employees
56% | 44%

Senior Management team
77% | 23%

Executive Committee
90% | 10%

Board
78% | 22%

Our five strategic pillars

- **Achieve strong risk adjusted returns**
- **Enhance customer focus**
- **Maintain excellent credit quality**
- **Progressively increase originations**
- **Maintain conservative foundations**

Chairman's statement
John Callender

"Looking after our mental and physical wellbeing has never been more important than it is now"

As Shawbrook enters its 10th anniversary year, despite continuing to face into a challenging external environment, it is clear that we have much to look forward to as well as to celebrate. It feels appropriate however to begin by reflecting on the incredible response of my colleagues and our customers in 2020 to the uncertainties resulting from the global COVID-19 pandemic.

Although 2020 was a challenging year both professionally and personally, I am extremely proud of the way in which we as a business have responded to the crisis. As well as demonstrating strong operational and financial resilience, we have successfully supported our customers and employees during the year. I believe the business is in a strengthened position as a result, further driving us towards our strategic aspiration to become the UK's Specialist Lender of Choice.

I would like to offer my sincere gratitude to all of my colleagues for their continued hard work, professionalism and determination throughout 2020, reflected in the way in which they have embraced the uncertainties whilst also adapting to the continually changing demands in both our working and family lives.

We recently announced that Marcelino Castrillo has been appointed to succeed Ian Cowie as Chief Executive Officer later this year, subject to regulatory approval. Marcelino is ideally suited to lead the delivery of the Group's strategic ambitions as we enter the next phase of our journey and I look forward to welcoming him to Shawbrook.

Ian Cowie, who has led the business since 2018, will step down as Chief Executive Officer after 4 years at Shawbrook. Ian has worked tirelessly over this period to get us to where we are today, as a leading specialist lender with strong foundations and well-positioned to build upon this going forward. On behalf of the Board and our shareholder, I want to take this opportunity to thank him for all that he has contributed and wish him well in his future endeavours.

Responding to COVID-19

Strong collaboration between Management and the Board proved critical to delivering our response to the crisis. Despite the uncertain and changing environment, we have made crucial decisions quickly and effectively, prioritising the safety of our people and the soundness of the Group.

One particular highlight was the way in which the organisation executed its resiliency plans in a short period of time and with minimal disruption, enabling seamless continuation of service. With solid foundations already in place, we were able to leverage both existing and new technology effectively to maintain business continuity.

Our agile processes and technology have enabled us to remain open for business throughout and provide continued support to our customers and intermediary partners. In addition to providing a range of payment holiday concessions to our existing customers, we participated in the government's Coronavirus Business Interruption Loan Scheme (CBILS) to support our SME customers. While adopting a responsible approach to new lending, we have been in a position to take advantage of opportunities in markets which have shown resilience through COVID-19, for example our core property markets have remained particularly buoyant.

During the pandemic we have been focused on understanding and supporting the needs of our customers who find themselves vulnerable. Our Vulnerable Customer Network highlights initiatives and provides a platform for the sharing of good practice across our business divisions for customers suffering from the effects of the pandemic or experiencing other vulnerabilities.

Supporting our people

The Board agreed early on in the pandemic that protecting the safety and wellbeing of our employees would remain central to our response. As such, the vast majority of employees have continued to work remotely throughout the year, supported and enabled by the quick introduction of additional tools to adapt to the new ways of working.

Looking after our mental and physical wellbeing has never been more important than it is now. Acknowledging the additional pressures on our colleagues, I am particularly pleased with the significant progress made in developing our mental health and wellbeing proposition. We have introduced numerous initiatives, for example regular workshops welcoming expert guests such as nutritionists and personal trainers, to keep the sense of community alive for our workforce and give them the tools to cope better during these unprecedented times.

Evolving the business

Notwithstanding the challenges of 2020, we have successfully driven forward our digital transformation agenda, deploying technology to enhance resiliency and scalability to support our future growth ambitions.

Testament to the capabilities of the team and operations, 2020 has in many respects been business as usual: key regulatory projects such as LIBOR transition are on track whilst we have in parallel delivered continual improvements to our risk management framework and controls.

Our approach to managing the risks of climate change also continues to develop, enabling us to deliver on regulatory expectations and our Board-approved Climate Change Plan. External advisers were appointed during the year to help shape our thinking and form our 2021 implementation plan, while the Board has benefited from externally facilitated training and regular updates on progress from the dedicated working group.

At Shawbrook, we differentiate our offering by combining expert knowledge and a human, relationship led approach with modern, technology-driven delivery. Our investment in digital capabilities continued during 2020 and we are already benefiting from this across the business with more modern customer journeys and improvements in overall service levels.

The recent acquisitions of The Mortgage Lender Limited (TML) and the RateSetter development finance team and loan book are exciting developments which, alongside our organic growth plans, show the ambition that we have for the business.

Outlook

Considerable uncertainty remains as the COVID-19 pandemic continues to disrupt businesses and lives across the UK and globally. However, as vaccines begin to be deployed, we are hopeful of a pathway to recovery from the pandemic. The agreement on a trade deal between the UK and the EU is also a positive development which has brought some clarity and certainty for us and our customers.

As a specialist bank, we offer a truly differentiated proposition in our chosen markets. As we celebrate the Group's 10th anniversary year, we look forward to continuing to build a successful, sustainable business and remain committed to supporting our customers through the crisis and beyond. While I don't doubt that 2021 will continue to present us with challenges, our proven financial and operational strength and the strong foundations already in place mean we are well positioned to thrive.

John Callender
Chairman

Chief Executive Officer's statement
Ian Cowie

"Remaining fully open for business throughout, we have adopted a considered approach to ensure ongoing support to customers and partners in our specialist markets."

I am pleased to present Shawbrook's 2020 Annual Report and Accounts following what has been an unprecedented year. Whilst the COVID-19 pandemic necessarily changed our focus during the period, we entered 2020 with good momentum and strong foundations, meaning we were well positioned to address the challenges that emerged. This position of strength has enabled us to navigate a careful path through uncertain terrain whilst supporting and protecting our people, customers, brokers and partners.

I am incredibly proud of the way in which we have supported all of our stakeholders while at the same time safeguarding the long-term sustainability of our business. This would not have been possible without the continued dedication and energy of our employees and I would like to take this opportunity to express a heartfelt thank you to each and every one of them.

In March 2021, the Group announced that I would be stepping down from the Chief Executive Officer role at Shawbrook later in the year, with Marcelino Castrillo appointed as my successor, subject to regulatory approval. It has been a privilege to lead the Group since 2018 and I am immensely proud of all that we have achieved over this period, laying a robust and differentiated platform for a sustained period of growth.

Our COVID-19 response

As reported at half year, following the announcement of the first UK lockdown in March 2020, we acted with speed and agility, moving to an almost entirely remote operation within a few days. Our operational performance and resiliency have remained strong and ongoing investment has also further enhanced our position, for example through the adoption of new technology and further strengthening our portfolio and risk management capabilities.

Recognising the increased pressures on our people, we placed significant emphasis on developing our health and wellbeing offering during 2020 and have continued this into 2021. Various initiatives have been launched, such as workshops covering a diverse range of topics including mental health awareness training.

Remaining fully open for business throughout, we have adopted a considered approach to ensure ongoing support to customers and partners in our specialist markets. By leveraging our sector expertise and a prudent approach to credit decisioning, we have continued to offer both new and additional lending in our markets. In May 2020, we became a CBILS accredited lender and we have also continued to offer a range of concession options, granting a total of £1.9 billion payment holidays/COVID-19 concessions, of which £0.23 billion are still in force[1] as at 31 March 2021.

Financial performance

After a strong first quarter performance, the disruption caused by COVID-19 impacted trading as we dynamically managed our risk appetite in response to the uncertainty created by the pandemic.

In the final quarter of the year we saw activity return to pre-pandemic levels and overall the loan book grew by 4.7% to £7.1 billion.

Despite the growth in the loan book, overall the Group reported a 40% reduction in profit before tax to £73.5 million (2019: £122.4 million). This was predominantly driven by impairment charges being 84% higher at £54.9 million (2019: £29.9 million) and reflects possible future credit losses, as modelled and required, under IFRS 9 impairment standards. As a result, the overall cost of risk increased to 80 basis points (2019: 47 basis points) but we remain confident in the underlying quality of our loan book and continue to work closely with customers who are struggling financially. Additionally, during the year we experienced an increased number of complaints in relation to exposure under the Consumer Credit Act relating to solar panels financed by our Consumer Lending division where suppliers have become insolvent and, accordingly, the expense for provisions for liabilities and charges increased to £20.3 million (2019: £4.5 million). We have received an initial interim payment on confidential terms from our insurers and continue to work closely with them on progressing further recoveries.

The Group's gross asset yield reduced to 5.8% (2019: 6.4%), reflecting the product mix weighting, the disposal of a £0.1 billion higher yielding consumer loan portfolio and the impact on our variable rate loan book as the Bank of England base rate reduced to 10 basis points. Funding costs for the Group reduced to 1.7% (2019: 1.8%) benefitting from the lower base rate as we repriced our deposit book and wholesale funding costs reduced which resulted in an overall net interest margin of 4.1% (2019: 4.6%).

Our adjusted cost to income ratio (adjusted for the conduct related provision increase) decreased to 46.5% (2019: 46.9%) as we managed our cost base efficiently to reflect the change in working environments whilst continuing to invest in our proposition and infrastructure.

Our capital ratios have strengthened throughout the year with Common Equity Tier 1 (CET1) capital ratio at 12.6% (2019: 12.0%). We refinanced our Tier 2 £75 million debt and completed a £0.3 billion structured asset sale and securitisation of buy-to-let mortgages in September 2020.

Throughout the year we maintained a conservative liquidity buffer as we assessed customer, competitor and market reactions and our capital and liquidity ratios remained comfortably above regulatory requirements. In this challenging environment, overall the Group delivered a solid return on tangible equity of 8.0% (2019: 15.7%).

1 'Still in force' is defined as where the customer is still on a payment holiday (including extensions), or where the payment holiday has matured and we are in the process of establishing the customers circumstances to determine whether forbearance would be appropriate, or where forbearance has been agreed.

"As we celebrate our 10th anniversary year, our position as a leading specialist bank is stronger than ever before, making a real difference when circumstances for our customers are fluid and complex as they are now."

Investing in our business

Despite the pandemic, we have continued to invest to accelerate our digital capabilities to deliver market leading customer service. We have used 2020 to modernise our offerings further, enhancing our customer journeys and delivering significant operational efficiencies.

We have initially focused on elements of the customer and intermediary journeys that can have the greatest impact and improve overall experience. During the year, we materially enhanced our offering across the business, further developing the 'My Shawbrook Portal' in our Property Finance division and launching the first components of our new growth platform in our Business Finance division. In our Consumer Lending division, we made further improvements to our automated decisioning approach, through the introduction of new and richer data sources such as Open Banking and, in our Savings division, we further enhanced our online customer deposit platform. The digital agenda also extends to improving data capabilities across the Group as well as operational resiliency enhancements, further creating long-term sustainability, scalability and value for our business.

In December 2020, we completed the acquisition of the development finance team and assets comprising a £167 million facility limit portfolio of development finance loans from RateSetter. The acquisition has added over 100 active clients to the Group's existing business as well as increased operational and distribution capabilities.

In February 2021, we completed the acquisition of TML. This is an exciting and unique opportunity to further grow our Property Finance franchise through the integration of a highly respected business already well known to us given the successful partnership we have developed with TML over the past three years.

Both the TML and RateSetter acquisitions add significant depth and breadth to our offering, strengthening our presence in carefully selected growing markets and serving to accelerate our strategic ambitions.

People and culture

The Group is led by an experienced Management team which, along with the dedication and expertise of our entire workforce, firmly positions it for successful execution of the longer-term strategy.

The circumstances in which we found ourselves in 2020 have been challenging with the required level of change to our established ways of working extraordinary and largely unpredictable. Today we have a talented, motivated and professional workforce with the success of the Group at the centre of our ambitions. Employee engagement scores are at their highest levels, a significant accomplishment against this backdrop and a strong reflection of how well supported our people have felt.

Looking to the future

Shawbrook was founded during an uncertain period, taking advantage of opportunities resulting from the 2008 global financial crisis. As we celebrate our 10th anniversary year, our position as a leading specialist bank is stronger than ever before, making a real difference when circumstances for our customers are fluid and complex as they are now.

The trade deal agreed with the EU at the end of the year has provided a degree of certainty and will assist some of our customers who trade across the bloc. Although significant uncertainties in relation to the true economic impacts of COVID-19 and Brexit remain, we have demonstrated that we can move at pace to protect, build and grow the franchise whilst responding to opportunities as they arise. There is real value in the diversity of the business and each of our markets has presented, and continues to present, compelling opportunities, showing continued resilience through COVID-19.

I would like to express my gratitude to the Board for giving me the opportunity to play a leading role in Shawbrook's history.

I will continue to watch the Group's progress with pride and wish Marcelino and the broader team every success for the future. I am confident that the continued focus on carefully selected specialist markets and expertise of our employees, combined with ongoing investment in modern technology, means the Group is well positioned to support both SMEs and consumers into 2021 and beyond.

Ian Cowie
Chief Executive Officer

COVID-19 response

The COVID-19 pandemic has affected all of us and has presented many challenges for our employees, customers, partners and suppliers. As the nation was forced into lockdown in March 2020, the business plans and economic growth of all of our business divisions were impacted. We responded quickly by triggering our operational resiliency plans, placing us in a strong position to support our stakeholders.

The investment and development of our digital solutions to serve customers has proved vital. Whether it was how we processed payment holidays, coped with surges in demand or alleviated the pressure on call centres and operations teams, the pandemic highlighted how essential digital user journeys and tools are in our everyday interactions.

Economic uncertainty and complex customer circumstances meant access to real time data and having the right tools to drive decisions has never been more important to the business and our customers.

The automation of our lending processes has been key to staying competitive. Bringing decisioning earlier in the customer journey, handling simple cases entirely digitally and digitally verifying customer data has helped us reduce costs, increase speed and deliver an amazing customer experience even in a time of crisis.

Section 172 in practice – The COVID-19 pandemic

Providing support to our key stakeholders while safeguarding the long-term sustainability of our business was central to the Board's considerations in the Group's response to the pandemic.

Operational resilience

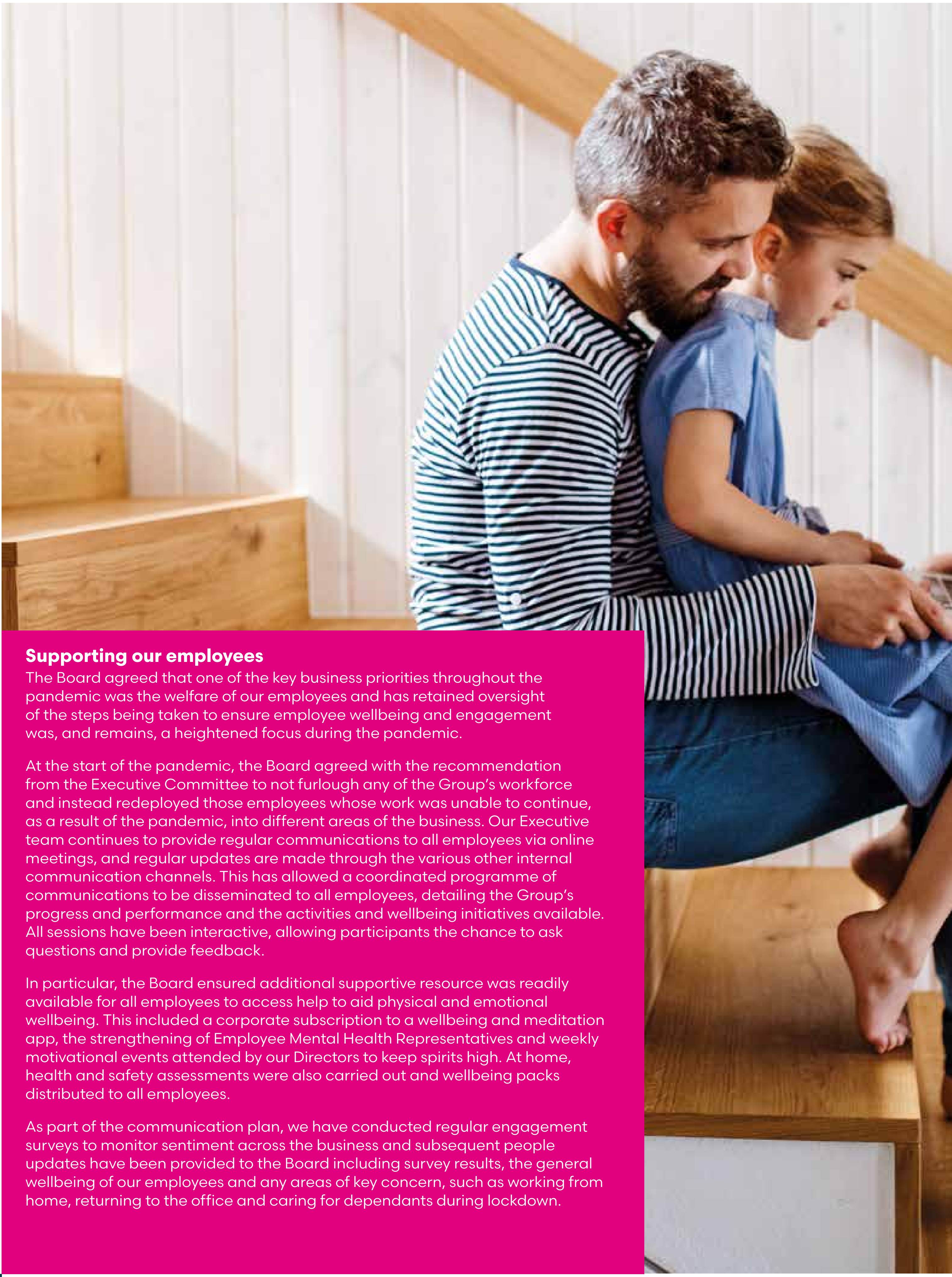
As a result of COVID-19, one of our key priorities was to remain open for business. Plans had been made prior to the announcement of the UK lockdown to ensure all employees could work remotely and customer service levels could be preserved. As part of these preparations, we trialled large populations, including customer service and call centre employees, to work remotely using technology such as 'soft phones' and video communications, to enable customers and employees to remain in contact with each other. As remote working was already enabled across the business, we had the relevant controls in place for system security and data to allow us to scale the remote operation.

When the first UK lockdown started in March 2020, the Board's priority was to protect its employees, customers and business partners whilst remaining operational. Within 48 hours, 98% of the Group (including the Board) had moved to remote working, with no disruption to our Tier 1 services. As part of the Board's priority to remain operational, weekly Board meetings took place where up to date management information (detailing the immediate and possible future impacts on the Group and its stakeholders) were discussed at length. As the pandemic progressed, the Board moved to fortnightly meetings and in July 2020, resumed its normal annual meeting schedule and approved the transition to a 'COVID-19 Exit Plan' led by a 'COVID-19 Business Continuity Plan Exit Committee'. The Committee focuses on four main workstreams (location, people, technology and processes) and is aligned to a set of principles and conditions, prioritising employee safety and wellbeing.

As part of our response to COVID-19, additional meetings were held with the regulators which were attended by members of the Board, the Executive Committee and divisional experts regarding the management of operational issues arising from the pandemic, including COVID-19 payment holidays and arrears, divisional risk updates, operational risks and controls and analysis of the Group's exposure to the retail sector.

As part of the COVID-19 Exit Plan, we have worked to prepare our offices to be COVID-19 secure to allow our employees to return to an office environment when it is safe to do so. In February 2020, the Board approved the consolidation of our existing London office space into one office. The national lockdown has also afforded the Group the opportunity to consider in detail the type of office space that would be best suited to our workforce. Technological updates, such as virtual conference rooms have been established in most of our offices and an electronic desk booking system has also been introduced to complement the Group's return to office plans.

In line with government guidelines and national lockdowns in operation, we have had some short periods where high priority employees have been able to return to the office, but largely our offices have remained closed to all but essential employees. The Board continues to receive regular updates about progress on the return to office strategy and encourages insight from all employees through the People Engagement Forum to determine the future ways of working.



Supporting our employees

The Board agreed that one of the key business priorities throughout the pandemic was the welfare of our employees and has retained oversight of the steps being taken to ensure employee wellbeing and engagement was, and remains, a heightened focus during the pandemic.

At the start of the pandemic, the Board agreed with the recommendation from the Executive Committee to not furlough any of the Group's workforce and instead redeployed those employees whose work was unable to continue, as a result of the pandemic, into different areas of the business. Our Executive team continues to provide regular communications to all employees via online meetings, and regular updates are made through the various other internal communication channels. This has allowed a coordinated programme of communications to be disseminated to all employees, detailing the Group's progress and performance and the activities and wellbeing initiatives available. All sessions have been interactive, allowing participants the chance to ask questions and provide feedback.

In particular, the Board ensured additional supportive resource was readily available for all employees to access help to aid physical and emotional wellbeing. This included a corporate subscription to a wellbeing and meditation app, the strengthening of Employee Mental Health Representatives and weekly motivational events attended by our Directors to keep spirits high. At home, health and safety assessments were also carried out and wellbeing packs distributed to all employees.

As part of the communication plan, we have conducted regular engagement surveys to monitor sentiment across the business and subsequent people updates have been provided to the Board including survey results, the general wellbeing of our employees and any areas of key concern, such as working from home, returning to the office and caring for dependants during lockdown.

Supporting our customers

To help mitigate the impact of the national lockdown on consumers, businesses, homeowners and landlords, the UK Government introduced relief schemes that enabled customers to take payment holidays. Payment holidays were initially for a three month period, but the scheme was extended to enable customers that required further support as a result of the pandemic, to extend their payment holiday with a second three month concession.

As at 31 March 2021, details regarding payment holidays are as follows[1]:

- **Group:** a total of £1.9 billion payment holidays/COVID-19 concessions (including extensions) have been granted, of which £0.23 billion are still in force[2], of this total £0.15 billion are in arrears.
- **Property Finance:** 94% (£1.2 billion) of customers have matured from their payment holiday, of which 92% have resumed payments or redeemed. A pool of £169.9 million is still in force[2], of which £100.0 million are in arrears.
- **Business Finance:** 99% (£454.5 million) of customers have matured from their payment holiday/COVID-19 concession, of which 91% have resumed payments or redeemed. A pool of £45.9 million is still in force[2], of which £41.6 million are in arrears.
- **Consumer Lending:** 88% (£38.0 million) of customers have matured from their payment holiday, of which 80% have resumed payments or redeemed. A pool of £12.8 million is still in force[2], of which £7.7 million are in arrears.

In addition to providing a range of payment holiday concessions to our existing customers, in April 2020, the Board approved the business case for the Group's participation in CBILS, which saw us provide emergency liquidity to SMEs directly impacted by the pandemic. As a result, in May 2020, we became an accredited CBILS lender, enabling us to offer customers with existing Shawbrook debt facilities term loans of between £250,000 and £5 million.

Outlook

Overall, we are proud of our response to COVID-19 and we are confident that we have the operational resilience to deliver the levels of customer service and employee safety required now and in the future.

1 Given the low levels of residual payment holidays and level of total arrears falling close to pre-pandemic levels, we will not report this going forward unless it materially changes.

2 'Still in force' is defined as where the customer is still on a payment holiday (including extensions), or where the payment holiday has matured and we are in the process of establishing the customers circumstances to determine whether forbearance would be appropriate, or where forbearance has been agreed.

Financial review

"The COVID-19 outbreak and subsequent lockdown impact on the UK economy and the markets we operate in significantly affected the Group's 2020 performance. These impacts included lower customer demand for financing, higher levels of impairment and the reduction in the Bank of England's base rate to 10 basis points. However, the Group responded quickly and adapted to the changing dynamics to deliver a resilient performance whilst supporting the needs of our customers, partners and employees."

Dylan Minto, Chief Financial Officer.

Summary statutory results for the year

	2020 £m	2019 £m	Change
Operating income [1]	**398.2**	408.3	(2.5%)
Interest expense and similar charges	**(115.6)**	(113.2)	(2.1%)
Net operating income	**282.6**	295.1	(4.2%)
Administrative expenses	**(131.3)**	(138.5)	5.2%
Impairment losses on financial instruments	**(54.9)**	(29.9)	(83.6%)
Provisions for liabilities and charges	**(20.3)**	(4.5)	(351.1%)
Total operating expenses	**(206.5)**	(172.9)	(19.4%)
Net share of results and impairment of associate [2]	**(2.6)**	(0.1)	n/a
Net gain on disposal of subsidiary	**–**	0.3	–
Statutory profit before tax	**73.5**	122.4	(40.0%)
Tax	**(15.4)**	(28.8)	46.5%
Statutory profit after tax, attributable to owners	**58.1**	93.6	(37.9%)

Key performance indicators

Definitions of all metrics set out in the table below are provided on page 246.

	2020	2019	Change
Assets and liabilities			
Loan book (£m)	**7,102.8**	6,781.7	4.7%
Average principal employed (£m)	**6,825.7**	6,372.6	7.1%
Customer deposits (£m)	**6,894.1**	6,109.4	12.8%
Wholesale funding (£m)	**1,020.3**	1,122.3	(9.1%)
Profitability			
Gross asset yield	**5.8%**	6.4%	(0.6%)
Liability yield	**(1.7%)**	(1.8%)	0.1%
Net interest margin	**4.1%**	4.6%	(0.5%)
Management expenses ratio	**(2.2%)**	(2.2%)	–
Stock cost of retail deposits	**1.2%**	1.7%	0.5%
Cost to income ratio	**53.6%**	48.5%	(5.1%)
Cost of risk	**(0.80%)**	(0.47%)	(0.33%)
Return on lending assets before tax	**1.1%**	1.9%	(0.8%)
Return on tangible equity	**8.0%**	15.7%	(7.7%)
Liquidity			
Liquidity coverage ratio	**229.7%**	274.5%	(44.8%)
Liquidity ratio	**21.0%**	19.1%	1.9%
Capital and leverage [3]			
Common Equity Tier 1 capital ratio	**12.6%**	12.0%	0.6%
Total Tier 1 capital ratio	**15.0%**	14.5%	0.5%
Total capital ratio	**16.8%**	16.4%	0.4%
Leverage ratio	**8.7%**	8.6%	0.1%
Risk-weighted assets (£m)	**5,271.7**	4,974.5	6.0%

1 Includes interest income calculated using the effective interest rate method, other interest and similar income, net income from operating leases, net fee and commission income, net gains on derecognition of financial assets measured at amortised cost, net (losses)/gains on derivative financial instruments and hedge accounting and net other operating income/(expense).

2 In the year ended 31 December 2020, the net share of results and impairment of associate comprises a £0.1 million share of profits and a £2.7 million impairment to the carrying amount of the Group's investment in the associate (2019: £0.1 million share of losses).

3 Capital and leverage metrics are shown on a transitional basis after applying IFRS 9 transitional arrangements. See page 158 for further details. A comparison of the Group's reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis) is provided on page 162.

Financial review

Operating profit

Profit before tax for 2020 was £73.5 million (2019: £122.4 million), 40% lower than 2019. This was primarily attributable to higher impairment charges and increased provisioning for liabilities relating to Consumer Credit Act claims where the supplier has become insolvent. Despite this, the Group delivered an 8.0% (2019: 15.7%) return on tangible equity in a challenging year.

Operating income

Operating income at £398.2 million (2019: £408.3 million) decreased by 2.5%. This reflects a prudent adjustment to our risk appetite at the onset of the pandemic, coupled with lower levels of new business as customer confidence was negatively impacted. Alongside this, the lower interest rate environment impacted returns on the Group's cash reserves deposited with the Bank of England and customer loans on variable rates resulting in the gross asset yield reducing to 5.8% (2019: 6.4%). The Group prudently held significant balances of cash at the Bank of England to shield against the unknown liquidity risks during the pandemic, which negatively impacted operating income. The margin compression also reflects the product mix weighting as we reduced our higher yielding Consumer Lending portfolio with the sale of a £0.1 billion unsecured personal loan portfolio in January 2020. However, the loan book grew by 4.7%, ending the year at £7.1 billion (2019: £6.8 billion), which is net of the fully derecognised securitisation structured asset sale in September of £0.3 billion buy-to-let mortgages originated through TML and the acquisition of the £0.1 billion RateSetter development finance portfolio in December 2020.

Interest expense at £115.6 million (2019: £113.2 million) increased by 2.1% with customer deposits growing by 12.8% to £6.9 billion (2019: £6.1 billion). The stock cost of retail deposits reduced to 1.2% (2019: 1.7%) as both new and existing products were repriced to reflect the lower base rate. The overall liability yield for the Group, which includes the funding from participating in the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) and other secured funding reduced to 1.7% (2019: 1.8%).

As a result, the Group's net interest margin reduced to 4.1% (2019: 4.6%).

Operating expenses

Careful cost management remains a key objective of the Group, however we continue to invest to support our business priorities.

Total administrative expenses reduced to £131.3 million (2019: £138.5 million). This is a decrease of 5.2% reflecting reduced operational expenses as we moved all employees to remote home working. All employees remained on full pay throughout the COVID-19 crisis and we continued to invest in our technology and operational infrastructure to enhance our operational resilience and customer proposition.

The expense for provisions for liabilities and charges increased to £20.3 million (2019: £4.5 million) reflecting an increase in Consumer Credit Act claims and a review of the assumptions used for historical Solar loans where the original suppliers have become insolvent. We have made claims under our liability insurance programme and are continuing to engage closely with our insurers on the ongoing insurance recovery process. Any future proceeds from the insurance recovery process have not been recognised and as at 31 December 2020, the provision held of £14.8 million is to cover the cost of redress on all customer complaints not yet received or resolved.

The cost to income ratio when adjusted for the conduct related provision charges improved to 46.5% (2019: 46.9%).

Impairment losses on financial assets

The careful and robust management of loan books has remained a strategic priority throughout the year and during the pandemic, the Group granted a total of £1.9 billion of payment holidays/COVID-19 concessions, of which £0.23 billion are still in force[1] as at 31 March 2021.

Impairment losses for 2020 totalled £54.9 million (2019: £29.9 million) reflecting the higher expected credit losses (ECLs) from the impact of COVID-19 on the UK economy and our loan exposures.

Prior to the onset of COVID-19 in March 2020, the Group's arrears and impairment position was continuing to trend favourably, supported by the benign macroeconomic backdrop. However, to recognise the economic impact of COVID-19 on the Group's ECLs, we revised the economic assumptions in the model to use

1 'Still in force' is defined as where the customer is still on a payment holiday (including extensions), or where the payment holiday has matured and we are in the process of establishing the customers circumstances to determine whether forbearance would be appropriate, or where forbearance has been agreed.

a probability-weighted blended scenario with a 30% base case, 10% upside and 60% downside scenario which generated an ECL charge on customer loans and loan commitments of £47.3 million reported in our half year results, which increased the total loss allowance to £109.4 million as at 30 June 2020.

For the year end, the macroeconomic scenarios were revised and, per best practice, we implemented a fourth economic scenario, shifting weightings to a 40% base case, 10% upside, 35% downside and 15% severe downside scenario. The result of these changes and the more favourable evolution of the macroeconomic outlook since 30 June 2020 resulted in a reduction to the loss allowance for customer loans and loan commitments from the half year position of £109.4 million to £95.5 million for the full year (2019: £62.1 million) resulting in a cost of risk of 0.80% (2019: 0.47%) for the full year.

Tax

The tax expense in the year was £15.4 million (2019: £28.8 million), which corresponds to an effective tax rate of 21.0% (2019: 23.5%) and reflects the lower profits in the year.

Capital

The Group maintained a robust capital position throughout the year with a total capital ratio of 16.8% (2019: 16.4%) and CET1 of 12.6% (2019: 12.0%). The increase in the capital ratios over the period includes the temporary benefit from the regulatory response to COVID-19 which included reducing the UK countercyclical capital buffer from 1% to 0% and increasing the IFRS 9 transitional relief to include impairment provisions made in the current year. Without these transitional reliefs the CET1 and total capital ratios would be 11.9% (2019: 11.6%) and 16.1% (2019: 16.1%). The other main impacts on the ratios primarily relate to retained profit after tax of £58.1 million offset by net growth in risk-weighted assets of £297.2 million.

During 2020, we refinanced our £75 million listed Tier 2 instrument (yielding 8.5%), which had a call date in October 2020, and issued a new £75 million Tier 2 instrument yielding 9.0%. Additionally, we securitised a structured asset sale of a £330 million buy-to-let portfolio of TML originated loans and disposed of the residual notes in the structure, providing a capital benefit of £16 million and a £9.6 million gain on sale, gross of hedge adjustments, recognised upon derecognition. We continue to optimise our capital resources and maintain a robust and prudent risk appetite whilst supporting our customers.

The Group is not required to comply with the Prudential Regulation Authority (PRA) leverage ratio framework, however the Group maintains its returns with prudent levels of leverage. The leverage ratio for the Group is 8.7% (2019: 8.6%), compared to the minimum requirement of 3.0%, with risk-weighted assets as a proportion of the loan book having increased slightly to 74% (2019: 73%).

Funding

Our funding base remains predominantly retail and SME deposit led supplemented by wholesale funding sources as part of the Group's prudent funding and diversification strategy. The wholesale funding programmes provide diversity and are accessed on a tactical basis when they provide a competitive cost relative to the Group's core retail funding.

We continue to invest in our deposit proposition ensuring that we offer customers value for money, security and competitive rates and customer deposits increased 12.8% to £6.9 billion (2019: £6.1 billion). Wholesale funding decreased 9.1% to £1.0 billion (2019: £1.1 billion), which includes £0.8 billion from the TFSME scheme as we repaid and replaced the £0.8 billion funding from the original Bank of England's Term Funding Scheme. The £0.1 billion reduction in 2020 was due to repayment of secured funding that matured during the year, amortisation of debt securities issued as part of the Group's 2019 securitisation programme and subsequent repurchase of £20 million of the notes issued as part of this securitisation.

In response to COVID-19, we prudently increased our liquidity ratio to a peak of 31.2% but as the economic and customer response to the pandemic became clearer this was actively reduced towards the end of the year to 21.0% (2019: 18.9%). Additionally, we remained comfortably above the regulatory liquidity coverage ratio with the monthly average for 2020 increasing to 301% (2019: 260%) due to increasing liquidity in response to the pandemic. With a strong capital and liquidity base, we are confident in our ability to continue to meet the changing needs of our customers and business partners throughout this challenging period.

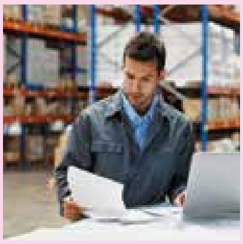
Our business model
A 'proudly different bank'...

At Shawbrook, we provide specialist solutions to both UK SME and consumer markets through our unique approach to understanding and servicing the customer. We use advanced technologies to efficiently understand the full picture and empower our teams to be creative problem solvers.

Our approach
A customer led approach...

- **Specialists**
- **Technological solutions**
- **Thoughtful decision making**
- **Driven by customer needs**
- **Innovative and tailored products**
- **Service excellence**

Our customers



SMEs

Landlords

Homeowners

Consumers

Savers

Across our carefully selected markets...

Property Finance

Business Finance

Consumer Lending

Our channels to market

Through direct and indirect channels...

KBIs:
key business introducers in professional services are primarily utilised by our Business Finance division.

Direct:
our customers can access our services directly via our website, call centres and relationship staff.

Digital partners:
we partner with a range of innovative digital partners across our Consumer and Savings business to enhance our offering, diversify our distribution and funding, raise awareness and reduce costs to serve.

Sponsors:
working with private equity and venture capital firms to support their financial goals.

Brokers:
we have a selected panel of brokers and for certain products we utilise our broker networks.

Platform lending partners:
our selected platform lending partners enable us to gain an insight into parallel property finance markets and provide the ability to penetrate a wider and more diverse distribution network.

Supported through prudent management of liquidity and capital

Our specialist savings franchise
A primarily deposit funded model through the deployment of our personal and business savings products

c.85%
funding liabilities

Wholesale funding
We also utilise the wholesale funding market to strengthen our capital base:

- TFS
- Securitisation
- Bilateral Secured Funding

c.15%
funding liabilities

Creating value for our stakeholders

This section of the Strategic Report describes how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006. Further detail of how the Board has engaged with the Group's stakeholders is set out below.

The Board believes that effective stakeholder engagement is central to ensuring responsible and balanced outcomes, while also helping to both shape Shawbrook's strategy and align business activities with stakeholder expectations. Throughout the year, the Board continued to engage with each of our stakeholder groups both directly and indirectly to bring their views and insights into the room.

Customers

Our customers are primarily UK SMEs and consumers seeking specialist finance and savings solutions. The interests of our customers sit at the centre of all decisions we make, so understanding what is important to all c.300,500* of them is key to our long-term success. Through regular engagements with our growing customer base, we are always looking for new ways to enhance our proposition to attract new and retain loyal customers.

During the year, Shawbrook became a CBILS accredited lender. Following Board approval, our application was submitted to the British Business Bank and in May 2020, we received CBILS accreditation to provide term loans under the scheme. These loans have been made available to provide critical emergency liquidity to existing customers affected by loss or deferred revenues as a direct result of COVID-19.

We recognise that engagement with our customers facilitates our ability to ensure a continued understanding of their needs, so throughout the year we welcomed our customers and brokers to a range of employee events, attended by some of our Directors, to share first-hand their valuable experiences of Shawbrook.

In 2020, a real time customer satisfaction tool was introduced across our business divisions to increase the voice of our customers and improve interactions. The Board monitors these outputs and engages with the leadership team to understand key performance drivers.

* At 31 December 2020.

Distribution partners

The majority of our specialist propositions are deployed through a range of like-minded distribution partners; including brokers and networks, key business introducers, platform lending partners and digital partners.

The mutually beneficial relationships held with our distribution partners are essential to the successful delivery of our strategy and we believe that working together offers us greater insight into our specialist markets, which is used to drive business decisions.

Over the course of the year, feedback from our partners has been essential in driving our plans to broaden digitalisation across our propositions and to provide significant efficiency enhancements for both our customers and our partners. In Business Finance, partner feedback was used to support and shape the procurement of our new loan management system. Feedback from our partners has also been influential in the continued roll out and development of our Property Finance buy-to-let project.

We are always looking for alternative ways to enhance the customer journey for our partners, as we understand making life easier for them has a positive impact on our customers. With this in mind, during the year, our Property Finance division explored alternative process and technology improvements to streamline the underwriting process and improve cycle times for our stakeholders.

The Board regularly reviewed and contributed to this improvement programme, ensuring the best outcomes were achieved for our stakeholders.

Employees

Our Directors believe that our employees' dedication to serving our customers is core to the successful delivery of our strategic ambitions. As a result, we remain committed to creating an environment in which our people feel valued, are encouraged to develop and are supported to reach their full potential.

We are always looking for ways to offer our employees a platform to have their say and then use the feedback to drive our business decisions. Over the year, we continued to build on this and ran a further two employee engagement surveys, providing the Board the opportunity to better understand employee sentiment and respond to any concerns raised.

Building on this transparent culture, we also established our first People Engagement Forum, to bring the employee voice into the Boardroom. Going forward, this will provide individuals the opportunity to directly engage with the Board on key topics on behalf of the whole Shawbrook workforce. This forum emphasises how much we value engagement between leadership and employees.

The Board continues to be an advocate of Shawbrook's commitment to employee wellbeing. During 2020, we prioritised our employees' welfare and mental health to ensure all felt even more supported through the uncertainty posed by COVID-19. As a result, we introduced several new employee wellbeing initiatives and refreshed the training programme for our Employee Mental Health Representatives.

Despite COVID-19 restricting our ability to meet in person, throughout the year we continued to host a range of virtual events, including our Annual Employee Conference, using the day to share strategic developments and priorities with all employees. The conference was recorded and made available for all employees and Board members to watch.

As a business, we recognise the importance of a diverse workforce and are committed from the Board, Executive Committee and throughout the Group to ensuring that Shawbrook is a fair, inclusive and diverse organisation. Throughout 2020, we continued to make positive changes to drive this and in December the Board updated and reaffirmed the Group's formal Board Diversity Policy, demonstrating their commitment to support diversity and ensure it is considered across all recruitment activity, including Board level. During the year, as an organisation we also became formal signatories to the Race at Work Charter and publicly showed our support for Pride and Black Lives Matter. Our Board has played an active part in this change, with several of our Directors sharing their experiences and views with all employees on key topics including International Women's Day and mental health awareness.

Suppliers

Supported by more than 600 suppliers, our supplier network provides us with the goods and services which we rely on to deliver the best outcomes for our customers.

Underpinning our desire to improve cultural alignment, we regularly engage with our supplier community to help ensure they are acting responsibly, and our supply chain remains aligned to our core values and regulatory requirements.

Every year, the Board approves the Group's Modern Slavery Statement and as a result we expect all of our suppliers to be compliant with the Modern Slavery Act. We also work closely with our suppliers and peers to build on our knowledge and promote best practice particularly in relation to anti-bribery and corruption.

During the year, the Board also approved a new outsourcing policy manual, which separated outsourcing from Group procurement to focus on these enhanced roles and responsibilities for relationship owners. The business regularly updates the Board on supplier performance, sharing regular management information, in addition to ad hoc reports if any supplier specific issues arise.

Regulators

Shawbrook is subject to the regulation of both the PRA and the Financial Conduct Authority (FCA) and the Board understands the importance of further developing relationships with both, liaising regularly on a range of topics.

2020 has been dominated by the pandemic and, as a natural consequence of this, so have the regulatory interactions made throughout the year.

The Chairman and Executive Directors have spoken regularly with the PRA and FCA, providing updates on short and long-term strategic changes as the pandemic developed.

This was also supported by engagements with Senior Management, who had regular calls with the regulators on prudential and conduct aspects, including subjects such as dealing with vulnerable customers and payment holidays, in addition to engagements on routine topics relating to the Group's culture and broader strategy, including progress made with operational resilience and financial crime controls.

Investors

Our investors include both our private equity backed shareholder and our debt investors. We regularly engage with our shareholder to ensure our performance is clearly understood and use their valuable feedback to help shape our strategy. Throughout the year, they and their expert teams worked alongside and challenged us to help us drive our goals and maximise our value while supporting us in shaping our wider Group strategy, with a focus on digitalisation.

In 2020, we also increased interactions with our debt investor community, offering them the opportunity to meet with the Group's Executive Directors to discuss business performance. We also reintroduced quarterly statements into our debt investor communications plan, providing an update on developments in the quarter, with a specific focus on the Group's response to COVID-19 and payment holidays position.

Community

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

As a business, we feel strongly about supporting those who are underserved by the mainstream banks and giving back to the communities we operate in. Details of how we support our local communities are set out in our Sustainability Report at page 49.

The Board has been fully engaged and proactive advocates of our Climate Change Plan throughout 2020. Throughout the reporting period, the Board received programme updates and participated in an externally hosted climate change training session. Further training sessions in respect of Environmental, Social and Governance are scheduled to take place later in 2021.

Case Studies

LIBOR transition

Following the announcement that LIBOR will cease to be used as a benchmark by the end of 2021, the Board and Senior Management undertook a review of the Group's LIBOR linked loans, to ensure an orderly transition for customers to an alternative reference rate.

During this transition, the Group's priority was to ensure that in moving away from LIBOR, customers were not disadvantaged and reasons for the move were clearly understood. In 2020, a Steering Committee with participation of Senior Management and other senior colleagues across the business, was established. The Steering Committee recommended to the Board two distinct approaches for mortgage and SME customers. To service mortgage customers, the preferred course of action was to create the Group's own reference rate 'Shawbrook Base Rate' (SBR) and for SME customers to move to Term SONIA. In order to monitor the transition, a dedicated agenda item was added to scheduled Board meetings and updates were presented by the Chief Financial Officer who also met with Board members and shareholder representatives outside of scheduled meetings to discuss the progress of the project.

Following a customer communication exercise, including letters and notices on the Group's website, the Property Finance LIBOR linked mortgages were replaced by an SBR product in July 2020 followed by the transition of around 9,000 Property Finance customers from LIBOR to SBR on 1 January 2021. The remaining Property Finance book will be transitioned to SBR by the end of 2021.

Business Finance will continue to issue LIBOR loans up until 31 March 2021, but with amended terms and conditions to allow for an easier transition away from LIBOR in 2021, as we wait for the Term SONIA rate to gain market approval. Successful management of this regulatory change, and the implementation of the Group's approach meant that customers have been kept informed throughout the process and this will remain the case until full transition has been achieved.

COVID-19 response

The Board has played a critical role in delivering the Group's response to the pandemic, helping us navigate the crisis and make crucial decisions quickly and effectively, prioritising the interests of our stakeholders. See pages 11 to 14 for the detailed case study.

Business review
Property Finance

Activity

The Property Finance division offers a range of specialist commercial and residential mortgage products to professional landlords, investors and homeowners. Within these broad markets, we operate in the following areas:

- **Property investment:** term and non-regulated bridging finance for professional landlords and property investors in the buy-to-let and commercial investment asset classes.
- **Owner-occupied:** regulated bridging loans and residential second charge mortgages for a variety of purposes including home improvements, loan consolidation and high-value consumer purchases.

2020 was another year of continued robust growth for the division. Application volumes and origination levels continued to build as the business adapted to the external challenges and built upon the strength of its intermediary relationships.

Swift actions at the outset of the pandemic were matched by swift responses when the property market reopened after the initial lockdown.

Credit risk appetite was curtailed in March, and whilst new business levels in Q2 suffered along with the rest of the economy, we were able to maintain a market presence and remain open for business thanks to the Group's use of Automated Valuation Models and other digital tools.

Early in Q3, we continued to refine our credit risk appetite and pricing as the market environment evolved to position us strongly for the remainder of the year, creating a healthy pipeline for 2021.

The division supported its borrowers through the pandemic with payment holidays, in accordance with government and regulatory guidance.

As at 31 March 2021, across Property Finance, 94% (£1.2 billion) of customers have matured from their payment holiday, of which 92% have resumed payments or redeemed. A pool of £169.9 million is still in force, of which £100.0 million are in arrears.

In accordance with regulatory requirements, we successfully transitioned away from LIBOR to an alternative interest rate benchmark. The division migrated its buy-to-let and commercial investment mortgage customers to Shawbrook Base Rate (SBR). SBR is currently equivalent to the Bank of England Base Rate and is the reference rate for all Property Finance products from 1 January 2021.

Buy-to-let

Our specialist buy-to-let proposition forms a core part of the Property Finance division, providing experienced landlords with a range of term-finance options.

During the year, the division simplified its product range, to make it more accessible for brokers and customers. Accompanying this, technology investment continued through the year and in Q4, a new broker portal was piloted ahead of wider rollout plans in 2021. This investment will transform the customer and broker experience and enable Shawbrook to lead the market with its service.

Commercial investment

Our depth of experience in commercial investment lending was invaluable through a year in which the commercial market, perhaps more than any other, was impacted.

This wealth of knowledge enabled the business to maintain its presence in the market, capitalising on selective opportunities as it continued to support customers despite a volatile external environment.

Bridging finance

Bridging is recognised as a key market for the division. We aim to be our brokers' bridging and short-term lending provider of choice. A number of initiatives were therefore undertaken to improve our product offering and service proposition.

A streamlined product range provided clarity for brokers and customers and a range of process improvements delivered a simplified application process. Simplification and clarification are key in the bridging market where overall speed of service and a smooth transactional experience is critical.

During the year, we have dynamically managed our risk appetite and in Q3 we refreshed our product offering resulting in strong new application volumes throughout the remainder of the year.

Residential second charge

Our renewed focus on the second charge market at the end of 2019 resulted in a strong start for our residential business heading into 2020. Continuing our objective to simplify our product offering, the range was refreshed and streamlined from twenty-four products to just nine, making the proposition more transparent and easier to understand.

The second half of the year saw a good recovery in new business levels. This was prompted by a number of factors, including product, technology and criteria changes as well as recovery in the wider economy.

The business' success in the year has helped it gain as much as 10% market share in the second charge market and a solid platform upon which to build.

Outlook

The combination of significant investment in service and proposition, coupled with a resilient property market, creates an encouraging outlook in all of the division's lending markets.

The UK housing market in particular appears robust. Fundamentals of supply and demand will underpin asset values and, in turn, consumer confidence will be restored as we emerge from the pandemic.

Against that backdrop, we remain optimistic for the year.

Shawbrook outlines commitment to modern methods of construction

Case study

Shawbrook Bank funded a property built from non-standard construction materials, adapting lending criteria in the process.

Shawbrook Bank was approached by broker partner Trafalgar Square Financial Planning Consultants in 2020, on behalf of an experienced client who was seeking a buy-to-let loan for their newly built, two-bed detached bungalow built from structural insulated panels - panels consisting of an insulating foam core between two structural facings.

Trafalgar Square reached out to Shawbrook Bank to secure the loan. Trafalgar Square has been a valued broker partner on Shawbrook's panel since 2013.

Given the innovative nature of the construction, Shawbrook undertook a deep assessment of the individual merits of the case and the property's marketability. The new-build property is located in a desirable commuter village, is modern throughout and deemed as "highly energy-efficient" by the valuer.

Shawbrook Bank's solution

Shawbrook offered the customer a £210,000 loan on an 11-year term, interest only, on a 5-year fixed rate at 50% loan to value. We have since updated our lending criteria to include structural insulated panels and other modern and more sustainable construction types, making the Group's appetite in this space very clear.

"A case of this kind demonstrates Shawbrook's specialist approach to lending and consideration of the bigger picture. With this property, made using non-standard materials, we could see the clear opportunity. As a result, we adapted our lending criteria to clarify our appetite for 'greener' construction methods."

Gavin Seaholme, Head of Sales at Shawbrook Bank

"I had previously submitted applications to two other lenders who advised they could consider a structural insulated panels construction property, only to be declined due to valuer's comments. I then approached the team at Shawbrook who took a common-sense view on the construction type, client's circumstances (bearing in mind one of the customers was aged 69) and background portfolio experience to enable the refinance of this new build project to complete. My customers were absolutely over the moon and for myself, as a broker, it's great to have a lender who will think outside the box."

Juspal Nagra,
Trafalgar Square Financial Planning Consultants

Business review
Business Finance

Activity

The Business Finance division provides debt-based financing solutions to UK SMEs. Our portfolio of lending products is delivered through the following four distinct business units:

- **Asset finance:** offers primarily leasing and hire purchase finance to both general and specialist sector markets.
- **Corporate lending:** provides asset-based lending and cash-flow loans to provide both working capital and event-based finance for larger SMEs.
- **Structured finance:** provides wholesale finance to non-bank specialist lenders and debt finance to businesses backed by private equity or venture capital through our unitranche and growth capital products.
- **Development finance:** provides finance to established regional mid-size developers looking to build residential or mixed-use schemes.

After a strong start to the year, with lending volumes for the first quarter in-line with expectations and momentum building across all markets, the Business Finance response to the impacts of COVID-19 was rapid. Protecting employees by swiftly migrating to remote working, sales suppport and customer service resources were then re-focused to support our customers.

The division quickly designed and implemented new processes to help business customers apply for payment holidays, providing practical support and reassurance while protecting operational capacity. This included the implementation of technology to facilitate remote documentation and automated reporting dashboards to track payment holidays and other concession requests. During this time, accreditation was also achieved for CBILS, enabling us to support existing customers through the crisis with additional liquidity via loans between £250,000 and £5 million.

As at 31 March 2021, across Business Finance, 99% (£454.5 million) of customers have matured from their payment holiday/COVID-19 concession, of which 91% have resumed payments or redeemed. A pool of £45.9 million is still in force, of which £41.6 million are in arrears. The taxi sector remains heavily impacted by COVID-19 and we continue to provide support to this customer group.

Throughout the lockdown period we continued to support our pipeline of new to bank customers, remaining an active presence across our markets. Following the easing of lockdown restrictions in Q3, we were well placed to meet recovering demand and concluded the year with a record month of originations and the acquisition of the RateSetter development finance business.

During 2020, we also instigated Platform for Growth, our technology investment programme, which will enable fully digital asset finance transactions as well as significant capacity and operational efficiency gains across a number of other products. These significant technology enablers will continue to strengthen our specialist proposition across the SME market, providing the capacity required to deliver high levels of personal service to more customers whilst reaching new segments for whom straight-through digital journeys will become the norm.

Asset finance

After consolidating all of our asset finance products and markets into a single business unit, our focus at the start of 2020 was to build upon our key broker relationships. The intermediary channel remains a critical route to market and our Platform for Growth investment will deliver a more seamless and efficient journey for the brokers we work with and swift service to customers.

The asset finance sector was hardest hit by the pandemic, which was reflected in our own experience. However, thanks to a well-diversified portfolio and our ability to manage larger and more complex transactions, coupled by the easing of lockdown measures, activity increased from Q3 onwards to end the year on a positive note.

Corporate lending

The corporate lending proposition was launched into the market at the start of 2020, combining our established asset backed lending product and the new commercial loan product. In addition to enhancements to the existing asset backed lending product, the commercial loan enables us to provide debt finance to a much larger proportion of the SME market, specifically profitable but asset-light mid-sized businesses through a senior cashflow loan.

Following formal accreditation by the British Business Bank in May to provide loans under the CBILS, the business announced it would be providing term loans to existing customers affected by lost or deferred revenues as a direct result of COVID-19. As a specialist SME lender, Shawbrook has deep relationships with existing customers, providing the Group with data and an understanding from which to make rapid and accurate lending decisions for those requiring support. CBILS accreditation provided the business with additional tools with which to support customers even further during the pandemic.

Structured finance

The structured finance business remained resilient across both wholesale and block discounting despite external uncertainty as it continued to provide valuable liquidity to the non-bank lending sector; a sector which has proven to be resilient throughout the year.

Appropriate support and concessions were made available to wholesale customers during the lockdown period, providing the headroom required to offer the same levels of support to their own customers.

Throughout the year, the mergers and acquisitions market has remained active with transactions continuing to be written regularly throughout 2020, with several opportunities in the pipeline for 2021. Our financial sponsors team has remained active and has continued to receive strong customer feedback, building a growing reputation in the market, and has now completed its 10th loan transaction.

Development finance

Overall, the development finance portfolio performed well during the year which can be attributed to the close relationships developed over time with key brokers and developers. Despite delays in schemes taking longer to complete as a direct result of the first UK lockdown, the business successfully delivered on commitments made pre-lockdown despite the obvious practical and logistical challenges created by the COVID-19 crisis.

In December 2020, we announced the acquisition of the development finance team and £167 million loan portfolio from RateSetter further enhancing and complementing our existing finance operation.

The successful completion of funding for a number of schemes during the year saw the business successfully surpass the £500 million facilities milestone in January 2020. With several deals completed throughout the summer and into the winter months the development finance business is now focused on achieving its £1 billion lending milestone.

Outlook

Although appreciative of the challenges of lending within a market shaped by the impact of COVID-19 and Brexit, the Business Finance division is confident its skilled people, strategic investments in enhanced and complementary technologies and its specialist knowledge across the board will continue to unearth exciting opportunities in 2021.

Case study

Globally respected incinerator manufacturer, Inciner8, set for accelerated growth following private equity buy-out

Private equity house, Chiltern Capital, has completed an investment in a leading waste management incinerator manufacturer with support from a multi-million pound lending facility from Shawbrook Bank.

Inciner8 Ltd, based in Southport, Merseyside, was acquired by Chiltern in a deal that will enable the business to capitalise on its strong market position as well as grow its product range, service offering and global reach.

Inciner8 designs and manufactures incinerators for a range of uses across the waste management industry, supplying incinerators to corporate, government and non-governmental customers globally.

Its products are often used to safely reduce the mass and disposal of hazardous waste that would otherwise end up in landfill. Its incinerators are environmentally friendly thanks to their ability to retain and reburn harmful exhaust gases.

Chiltern's acquisition was supported with a multi-million pounds unitranche loan, including an additional revolving credit facility, provided by Shawbrook Bank.

Shawbrook has a proven track record in providing streamlined leverage funding of up to £20 million for financial sponsors investing in UK SMEs. The transaction is hot on the trail of the recent backing of Graphite Capital's Ten10 acquisition and is the team's tenth deal completion in 18 months.

"Speed, certainty and flexibility are three essentials we look for in any funding solution and Shawbrook expertly delivered on all three. We are investors in ambitious businesses and Shawbrook's recognition of Inciner8's potential made working with them the obvious choice."

David Butler, Investment Manager at Chiltern

"We are delighted to bring our own expertise and specialist knowledge to the table in providing funding for an ambitious sponsor and innovative UK SME.

Inciner8 has an enviable track record providing innovative incineration products for the global waste management industry. Its global potential is outstanding, and we are delighted to be supporting its continued success and growth.

Chiltern are specialists in investing in growing lower mid-market companies and Inciner8 is yet another example of their ability in spotting ambitious businesses and management teams looking to grow. We are both impressed and excited by the Inciner8 business and management team and immediately identified the value that Chiltern could bring as investors."

James Salmon, Director within Shawbrook's Financial Sponsors team

Business review
Consumer Lending

Activity

The Consumer Lending division focuses on two key product areas, building on its approach to transparency and fairness for customers:

- **Personal loans:** provides unsecured loans to personal customers, across a number of key partners, via its digital real-rate preapproval journey.
- **Partner finance:** provides unsecured loans to consumers through strategic partnerships, funding specific purchases across a range of home improvements and timeshare holidays.

Before the pandemic hit, we were on budget to meet our yearly originations target, however the challenging macro-economic climate brought on by the COVID-19 pandemic arguably had the biggest impact on the Consumer business as it affected both business lending and customer borrowing appetites. As a result, throughout 2020 we continued to originate business, albeit with a reduced lending appetite, and the observed credit performance of those originations has been better than expected.

In response to this environment the division responded well to the challenges presented by the pandemic, quickly adjusting to the new operating landscape whilst maintaining strong levels of client interaction. This helped the division maintain relationships with customers in difficult times, offering appropriate information and guidance to ensure customers made the correct decisions regarding their personal finances in line with their individual situations.

In line with the approach taken in the mortgage market, the UK Government requested lenders to offer payment holidays to support customers impacted by COVID-19, initially for a three month period but this was extended to six months. The Consumer division's data driven proposition enabled it to quickly adapt its approach to lending, alleviating the short-term impact on customers through continuing to offer a broad range of solutions to support those individual circumstances, including payment holidays and other forbearance measures where appropriate.

As at 31 March 2021, across Consumer Lending, 88% (£38.0 million) of customers have matured from their payment holiday, of which 80% have resumed payments or redeemed. A pool of £12.8 million is still in force, of which £7.7 million are in arrears.

There were also significant technology investments during the year as Open Banking went live across our personal loans proposition following a successful 'proof of concept' period.

Personal loans

Following an in-depth strategic review of the personal loans business – which assessed our product range, how we monitor them under latest guidance from the regulator and how best the Group could support its growth potential moving forward – it was concluded that the business would remain within the Shawbrook portfolio despite interest from external parties in acquiring the loan book.

The business has continued to establish itself as a specialist lender in the consumer market and has successfully built and strengthened the Shawbrook brand. Moreover, the team continue to develop an innovative and data-led digital platform, and this expertise can be utilised across Shawbrook's other product lines across the Group.

The Consumer Lending business also achieved one of its key deliverables during the year as it announced the replacement of its primary bureau. This development helped to increase volumes and conversion rates as well as provided critical data on macro events such as Brexit. There is now also greater coverage of newer lenders which has resulted in access to more information for both the decision engine and underwriters, allowing for better understanding of customer risk.

Reduced supply and demand across the market due to COVID-19 had a significant impact on originations but, as the year progressed, the business witnessed an increase in demand to more normalised levels – although caution in the market remains and we continue to lend responsibly.

To strengthen the Group's reputation as a responsible lender, the business works closely with customers and partners, using technology to obtain additional information to better assess an applicants' individual circumstances, such as Open Banking data and more granular employment details.

Open Banking in particular was extended across all personal loan channels for income and bank account validation, providing for a more seamless journey for the applicant and a more efficient process for Shawbrook. This is a further step in digitising the business, mitigating some levels of risk and at the same time ensuring that decisions made are in the customers' best interests.

Partner finance

The division completed the rationalisation of its partner finance proposition in 2020 following a strategic review of its supplier network, designed to simplify the proposition, strengthen its position and mitigate associated risks going into 2021.

The importance of the review was brought to the fore following the UK lockdown announced in March and the subsequent health and safety measures that were introduced. As a result of this development, partner sales reduced significantly although, as lockdown eased and more normalised market conditions returned, the business began seeing an increase in origination volumes.

Outlook

There is confidence within the Group that the personal loans business can drive value for the Group and support the division's growth aspirations and market positioning in 2021.

In partner finance, the business is now working with partners which are focused on home improvement loans. The business is also seeing opportunities emerging around energy efficiency linked to the wider green agenda.

The personal loans business will continue to work with partners such as MoneySuperMarket and ClearScore as it prepares to take advantage of Open Banking data directly and indirectly for customers, helping underwriters build out broader credit strategies and scorecards to ensure the right decisions can be made.

Business review
Savings and Central

Our Savings business offers a wide range of personal and business savings products, underpinned by consistently strong rates and customer service. Our proposition is split into the following two product areas:

- **Personal savings:** provides a range of savings products to personal customers, including easy access, notice, fixed term bonds and both easy access and fixed term cash ISAs.
- **Business savings:** provides a range of savings products for SMEs and charities, including easy access, notice and fixed term bonds.

Savings

The business made a conscious decision to increase its liquidity position due to the uncertainty created by COVID-19, subsequently raising £1.8 billion in retail deposits during a four-month period between March and July. As such, retail savings experienced a consistent and sustainable growth at the height of the pandemic, which mirrored external market trends.

As the market stabilised, the business focused its efforts on reducing that excess liquidity through repricing our products and at year end had a deposit base of £6.9 billion (2019: £6.1 billion) an increase of £0.8 billion. During the year, the Group also successfully reduced its average cost of retail deposits to 1.2% at 31 December 2020 (2019: 1.7%).

In 2020, the Savings business launched a 'real time' customer satisfaction tool, providing customers with the opportunity to rate Shawbrook's customer service and enabling the business to monitor performance in real time while providing key performance indicators for continuous improvement. The customer satisfaction score was 84.3% as at 31 December 2020. The success of this implementation in the Savings division has driven other areas of the business to adopt this technology.

Personal savings

Our 'digital first' strategy, launched in 2019, continued to progress well throughout the year and, despite the effects of COVID-19, continues to drive the division into 2021 and beyond. In line with this strategy, the business continued to refresh its personal savings proposition, enabling the gradual move away from price to a more rounded and consistent value proposition for customers.

Several enhancements to our online customer deposit platform, including activation of proactive digital communications and a straight-through maturity process, were completed as the business improved on customer experience and operational efficiencies and this remained in line with the aim of digitising and automating key areas of the savings proposition.

Overall, customer satisfaction levels remained high in 2020, with the business enjoying an average customer satisfaction score of 81% - which is a reflection of the first-class customer service the team prides itself on. This score was maintained despite the team having to operate remotely since the outbreak of the pandemic.

Central

The Group's central functions include our treasury operations as well as costs which are not directly attributable to the operating segments. Central function costs include, amongst other things, finance, IT, marketing, legal, risk and human resources.

We continue to focus and invest in upgrading key business platforms to enhance online productivity and security and, with the onset of COVID-19 in March 2020, the Group's IT teams focused heavily on ensuring employees could service customers remotely. The prior investment in operational resilience successfully enabled all employees to be working from home within days of lockdown.

Business savings

The launch of the Shawbrook SME Savings Monitor in January 2020 positioned the Group as a 'thought leader', receiving widespread media coverage in the SME savings space and highlighting the growing problem of savings inertia amongst UK micro and small business owners. The report strengthened Shawbrook's foothold in the SME savings market and was a successful next step following the launch of its digital SME deposit range in late 2019.

The business further enhanced its standing in the SME savings space through the extension of its product suite, launching additional notice and fixed term products in February 2020, which helped attract more SME deposit customers. The launch of both products re-iterated Shawbrook's commitment to the UK SME community, and helped the Group reach £415.8 million in SME deposits by 31 December 2020.

Outlook

The Savings division will continue to evolve its 'digital first' proposition to provide personal, business and charity customers with greater automation and self-service capabilities. The strategy will see the division move away from 'price' to 'value' to meet Group-wide funding requirements and continue the reduction of cost of funds.

The building of the deposit book in the non-personal space, focusing on micro and small businesses, as well as charities, will strengthen the Savings brand as a specialist and will play a significant part in the strategic move away from price. A key part of the strategy includes continuing to deepen relationships through strategic partnerships.

Sustainability report

At Shawbrook, we understand that the decisions we make have an impact on society, the UK economy and our environment. In 2020, we expanded our approach to sustainability and embedded it in our everyday thinking. Creating programmes and initiatives to address key themes including diversity and inclusion, employee wellbeing, customer experience and responding to the threat of climate change.

We recognise that we have a responsibility towards the needs of all our stakeholders and we are committed to making a positive impact, both now and into the future. This approach is reflected in our culture that encourages and supports diversity and inclusion at all levels.

This also translates in the expertise and care we offer to our customers through the specialised knowledge we have in our selected markets and the ability to create personalised solutions, that allows our customers to thrive and succeed.

We believe in creating a sustainable bank for the long-term, and the approach we have embedded across the organisation today allows us to help create a sustainable future for all of us.

We continued our approach to sustainability through four key stakeholder segments:

Our environment

We are committed to creating a strong business that is not achieved at the expense of our environment. Whether it be our carbon footprint, our waste and energy consumption or the way we do business, Shawbrook strives to embed sustainability across all aspects of its business operations.

Climate Change Plan
Our Climate Change Working Group meets regularly to assess and determine our responses to the risks and opportunities arising from climate change. Ultimate oversight of our climate change plan is provided by the Chief Risk Officer.

In 2020, we engaged an independent external party to conduct a risk assessment on our exposure to climate change risk and the associated opportunities. The risk assessment complemented the previous climate change impact assessment work done in-house. During 2021, we will look to embed the key recommendations and create measures to report on going forward.

Streamlined Energy Carbon Reporting
In 2020, the Group commissioned a statement of carbon emissions in compliance with the Streamlined Energy and Carbon Reporting, covering energy use and associated greenhouse gas emissions relating to gas, electricity and transport, intensity ratios and information relating to energy efficiency actions. This complemented the Energy Savings Opportunity Scheme Assessment we ran in 2019 and the subsequent action plan we implemented throughout 2020.

As expected, as a result of the pandemic and the move to home working, our internal energy consumption decreased considerably across the combined estate which we believe will continue in 2021.

Current reporting year (Jan 20 – Dec 20)
Total energy use covering electricity, gas, other fuels and transport - 1,654,607 kilowatt-hour
Total emissions generated through use of purchased electricity - 112.05 tonnes of carbon dioxide equivalent (tCO2e)
Total emissions generated through use of other fuels - 0.00 tCO2e
Total emissions generated through combustion of gas - 0.00 tCO2e
Total emissions generated through business travel - 326.08 tCO2e
Total gross emissions - 438.14 tCO2e
Intensity ratio (total gross emissions) - 7.10 kgCO2e per square foot

Sustainable lending

Across all our product propositions, sustainability is a key consideration and we strive to ensure our actions will provide a lasting benefit for both our customers and the wider community.

Our specialist agriculture and renewable energy product propositions provide us with the opportunity to not only support the UK's farming industry with finance solutions, but also support the reduction of carbon emissions through investment in renewable technologies. Our dedicated sustainable energy team have extensive experience in this sector and they work with our customers to provide a funding solution on a wide range of assets including: solar photovoltaic, biomass boilers, combined heat and power systems, onshore wind turbines, air source heat pumps and ground source heat pumps, agricultural, composting and recycling equipment and anaerobic digestion projects.

It's not just the renewable energy sector that allows us to support climate change initiatives, our corporate lending solutions also support many customers with business plans to tackle recycling and energy consumption.

The management behind the UK's largest independent producer of PET bottles and containers is taking a leading position in the fight against single use plastics thanks to a £9 million funding boost.

Case study

Leeds based Esterpet Ltd, set up by the management of Esterform Packaging Ltd, was launched to satisfy a growing demand for recycled Polyethylene Terephthalate (PET) products in the UK.

Following a government tax on plastic packaging containing less than 30% recycled raw material, demand for recycled PET (rPET) is now outstripping supply.

An estimated 100,000 tonnes of rPET is needed across the UK PET container sector as organisations look to conform to the UK Government's requirements.

Now Esterform management, supported by major customers such as Britvic, is tackling the issue head on through the launch of their own food grade rPET production business in the form of Esterpet.

"Esterform and Esterpet are helping their customer base to meet government targets for using recycled materials through their new Starlinger production lines, which makes them the largest producer of food grade rPET in the UK.

At Shawbrook, we pride ourselves on supporting ambitious and innovative SMEs in the UK through specialist funding facilities and this project with Esterform via Esterpet is a great fit for us.

We have also been incredibly impressed by Esterform Managing Director, Mark Tyne, who is a prominent figure in the British plastics industry and has steered the business in a way that compliments current thinking and elevates the environmental credentials of Esterform and Esterpet.

This project is a real statement of intent by Esterform and one that we are delighted to be supporting and associated with."

Kelly Henney, Senior Director at Shawbrook Bank

Our marketplace

At Shawbrook, we strive to achieve mutually advantageous supplier relationships, built on common values and expectations. It is the commitment to conduct business in a responsible and sustainable manner that underpins our engagement with third party suppliers, only working with those that resonate with our values.

Supplier performance

The growth of our third party network has driven us to improve internal controls regarding how we source, onboard and manage supplier relationships. Continuously improving our policies, we introduced our new Group procurement and supplier performance management policy setting out how we will manage and monitor our third party suppliers, whilst adhering to regulatory requirements, including the new European Banking Authority third party governance guidelines.

Human rights and Modern Slavery Act

Shawbrook has zero-tolerance to any modern slavery and by having the correct tools and regularly reviewing our policies, we can ensure that any occurrences are swiftly addressed.

In 2020, we continued to take the appropriate steps to prevent slavery and human trafficking from both our business and supply chain through a database utilised to monitor Modern Slavery Act compliance.

This built upon our established outsourcing policy which ensures that there is a framework which is followed to manage potential and contracted third party relationships efficiently and comply with regulatory obligations. A full copy of our modern slavery statement can be viewed on our company website.

Our workplace

We are committed to creating a thriving workplace that attracts, retains and rewards the most talented and committed people. Where ethics and integrity are the foundation of our business, and a clear driver of customer choice. We are determined to uphold the highest ethical standards, promote human rights and responsible corporate culture.

Diversity and inclusion
In 2020, Shawbrook's inclusion network continued to expand with over 250 participating members. A full programme of diversity and inclusion events contributed to thought-provoking discussions across multi-channels and, for the first time, a diversity and inclusion section was added to the employee opinion survey.

Calendar of activity

In Q1, we celebrated International Women's Day and in the spirit of #EachforEqual, our leaders provided their thoughts and insights on gender equality from both male and female perspectives.

In Q2, for the first time ever, we celebrated Pride. The Shawbrook Lion changed its pink banner to a rainbow flag across all social media platforms and the intranet. We set up #pride-for-everyone network for our LGBTQ+ employees and allies.

In Q3, we focused on disability with the help of Steve Brown, an inspirational paralympian and television presenter and also put invisible disabilities in the spotlight. We sponsored Marley, the guide dog recruit, and set up our own #book-club.

In October, we marked the Black History Month and invited Shaun Wallace from The Chase to tell us about his experiences. We signed up to the Race at Work Charter and set up an advisory group to help us achieve the five objectives of the charter. For the rest of Q4, we celebrated Race and Ethnic diversity of our employees.

Employee engagement
We understand that listening to our employees is key in order to retain, motivate and make Shawbrook an employer of choice. Throughout the pandemic, we ensured employee engagement had a heightened focus. Although employees worked remotely, the Executive team provided regular communication to all employees via online meetings. This allowed a coordinated programme of communications to be disseminated to everyone detailing the progress and performance of the Group and activities and wellbeing initiatives available to support them. All sessions were interactive and allowed participants the chance to ask questions and feedback directly to the Executive team.

In this regard, in 2020, we continued to survey employees to help us determine which factors drive our employees to perform at their best. During our last survey conducted in 2020, we received 89% employee participation, our best response rate to date.

Wellbeing
Additional support was provided to employees to help aid physical and emotional wellbeing which became more prevalent during the pandemic. A corporate subscription to a wellbeing application which supports meditation for stress, anxiety, sleep, focus and fitness was also provided for employees across the business. This was also supplemented with a wellbeing pack which was sent to all employees.

Our community

Dedication to our community is embedded in our core values, so we recognise the importance of investing time and support into the communities we touch so we can continue to make a difference.

"This partnership launches at a really crucial time for us when we are experiencing increased demand for our advice, information and support. In the wake of the COVID-19 pandemic, people are requiring support more than ever, whether they have a diagnosed mental illness or are experiencing mental health problems for the first time."

Katie Legg, Director of Strategy and Partnerships, Mental Health UK, which brings together four national mental health charities to provide crucial services across the UK

Business and banking community

Through our active involvement with industry bodies, we class ourselves a responsible member of the banking and businesses community. This provides Shawbrook with the opportunity to collaborate with other members on industry initiatives and remain informed with relevant policy updates.

Employee fundraising

Although employee fundraising was affected by the pandemic, with many organised sponsored events cancelled due to the restrictions imposed on large gatherings, we are proud of the significant charity and community work that continued to take place across the Group in 2020.

The growth of our employee-led charity committee encouraged support through innovative ways to back charities while adhering to the measures imposed by the pandemic. This resulted in employee fundraising activities increasing, with donations being awarded to 73 worthy causes. As a result of Shawbrook's gift matching benefit scheme, which in most cases, resulted in Shawbrook replicating the amount raised by our employees, the Group donated a total of over £33,000.

Charity

Each year, we ask all Shawbrook employees to nominate their favoured charities, providing an opportunity to support those causes close to their hearts. Following a Group-wide vote, in July 2020, Mental Health UK was chosen as our national charity to support for a year. The Group's £10,000 donation was used to help people affected by mental health problems across the UK at a time when the charity's advice, information and support was needed more than ever due to COVID-19. The Group's initial donation will continue to be topped up into 2021 through colleague-inspired fundraising events and activities.

The Strategic Report was approved by the Board and signed on its behalf by the Chief Executive Officer.

Ian Cowie
Chief Executive Officer

Corporate Governance

Corporate Governance.

Chairman's introduction

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2020.

Our commitment to good corporate governance

We are committed to maintaining high standards of corporate governance within the Group. This report explains how the Board has dealt with ensuring that we have effective corporate governance in place to continue to help support the creation of long-term sustainable value for our shareholder and wider stakeholders.

There has been much focus on corporate governance recently and the standards continue to change and evolve. To help ensure sufficient time is devoted to understanding and discussing governance matters, during 2020, we enhanced the remit of the Nomination Committee to include oversight of the Group's governance framework and renamed it the Nomination and Governance Committee.

Succession planning and Board changes

During the autumn of 2020, the Board asked the Nomination and Governance Committee to undertake an evaluation of the succession plans for the Group's Chief Executive Officer.

The Nomination and Governance Committee conducted a thorough review of the skills and experience required of the Chief Executive Officer in order to complement the strategic ambitions of the Group. The thorough assessment, which is described in more detail on page 86, culminated in its recommendation to the Board that Marcelino Castrillo be appointed as the Group's new Chief Executive Officer. On 10 March 2021, the Board announced that they had approved the appointment of Marcelino Castrillo, subject to regulatory approval, and it is expected that he will join the Group later in the year.

Board meetings and activity

In 2020, the Board considered several key areas. These areas can broadly be categorised into the following themes: COVID-19, strategy and execution, financial performance, risk management, regulatory and corporate governance. Further details on how the Board operated during 2020, including areas of Board focus can be found on page 62.

In March 2020, following the government's announcement of a national lockdown in the UK, I was pleased with how efficiently the Board and Executive Management teams were able to transition to virtual meetings as a result of the Group's strong operational resilience capabilities.

The Board's Committees also continued to play an important role in the governance and oversight of the Group by ensuring adherence to strong governance practice and principles. This section contains a report from the Board's principal Committees, which sets out their approach and considerations.

Effectiveness and evaluation

This year, the Board carried out its effectiveness review in-house (having undertaken an external facilitated review the previous two years) with the assistance of the Company Secretariat. The review concluded that the Board operated effectively. Further details of the review and its findings can be found on page 57.

Culture and values

The Group's success depends on our continual commitment to high corporate governance standards, as well as a strong and healthy culture both in the boardroom and across the Group. The Board is committed to promoting a strong and positive culture and upholding our well-established core values that underpin how we run our business:

- We are expert.
- We are driven.
- We are practical.
- We act with integrity.

The Board receives reports throughout the year on stakeholder issues and concerns including details of our Group-wide employee engagement surveys. I am pleased to announce that in December 2020 we established the People Engagement Forum, with the aim of further enhancing the voice of our employees within the Boardroom so that better, more informed decisions are made in the long-term interests of the Group and its stakeholders.

The People Engagement Forum is made up of a diverse range of our employees from across all areas of the Group. People Engagement Forum meetings are expected to take place on a quarterly basis and will be attended by a member of the Board and/or the Executive Committee who will engage with and listen to employees as well as share the views of the Board across a variety of matters. The first meeting of the People Engagement Forum took place in February 2021 and was attended by the Chief Financial Officer and Chief Risk Officer. The topic for discussion was 'Future ways of working'. The Board looks forward to hearing the outputs from this and future meetings later in the year.

Looking forward

Our corporate governance priorities for the year ahead will be to ensure a successful Chief Executive Officer transition and to embed the lessons and complete the identified actions from the 2019 and 2020 Board effectiveness reviews, which will strengthen the Group's corporate governance framework.

John Callender
Chairman

15 April 2021

Board of Directors

A Audit Committee

RI Risk Committee

R Remuneration Committee

N Nomination and Governance Committee

Committee Chair

John Callender
Chairman

R N

Appointed to the Board in March 2018.

Skills and experience
John was appointed to the Board as Chairman in March 2018. John brings extensive financial services experience to the Board, gained through both his Executive and Non-Executive careers. John has previously served as Non-Executive Director of Aldermore Group plc, Non-Executive Director of Motability Operations plc, Non-Executive Chair of ANZ Bank Europe Ltd for a 10-year term retiring in 2019 and Senior Independent Director and Chair of the Risk Committee of FCE Bank plc retiring in 2020. John also sat on the Regulatory Decisions Committee for the Financial Conduct Authority for 6 years finishing his two statutory terms in January.

External appointments
John is currently a Director of Inglewood Amenity Management Company Limited.

Ian Cowie
Chief Executive Officer

Appointed to the Board in February 2019.

Skills and experience
Ian joined Shawbrook in April 2017, initially leading the Business Finance division. Ian was appointed permanent Chief Executive Officer in February 2019 having served as Interim Chief Executive Officer from July 2018. Ian has a wealth of SME banking experience, after leading the largest business banking franchise in the UK via a number of senior roles at RBS. These included: Chief Executive Officer Business and Commercial Banking, Chairman of SME Banking at NatWest and Director of Lombard Asset Finance and RBS Invoice Finance.

External appointments
None.

Dylan Minto
Chief Financial Officer

Appointed to the Board in February 2017.

Skills and experience
Dylan joined Shawbrook in 2013 from KPMG LLP where he spent 11 years in their Financial Services practice advising large UK and European banks. Dylan was appointed permanent Chief Financial Officer in February 2017 having been Interim Chief Financial Officer from June 2016. He is a Fellow of the ICAEW and holds a dual BA Honours degree in German and Business Studies from Sheffield University.

External appointments
None.

Robin Ashton
Senior Independent Director

A RI R N

Appointed to the Board in March 2015.

Skills and experience
Robin has comprehensive 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.

External appointments
Robin is a Non-Executive Director of Domestic & General Limited.

Andrew Didham
Independent Non-Executive Director

A RI R

Appointed to the Board in February 2017.

Skills and experience
Andrew has extensive financial services experience. He is a qualified accountant, having enjoyed a successful career at KPMG LLP, becoming a partner in 1990, and subsequently as Group Finance Director of the international Rothschild investment banking group.

External appointments
Andrew is currently Executive Vice-Chairman for Rothschild, a Non-Executive Director of Charles Stanley Group plc and is also Non-Executive Chairman of its principal operating company Charles Stanley & Co Limited. He is also Non-Executive Director of IG Group Holdings plc, IG Index Limited and IG Markets Limited.

Paul Lawrence
Independent Non-Executive Director

A RI R N

Appointed to the Board in August 2015.

Skills and experience
Paul has considerable experience in financial services having had a successful career within HSBC Group. Paul has particular strengths in managing risk and internal audit across a number of business lines and previously served as a member on the IIA Committee for Internal Audit Guidance for Financial Services.

External appointments
Paul is currently an Independent Director of HSBC Bank Oman and Chairman of Uley Community Stores Limited.

Michele Turmore
Independent Non-Executive Director

A RI

Appointed to the Board in October 2019.

Skills and experience
Michele has comprehensive experience in operations, transformation, IT and distribution leadership, with focus on the customer. She has operated across blue chip, mid-scale and start-up entities, including Private Equity backed banks. Most recently Michele held the position of Chief Operating Officer at Allica Limited.

External appointments
Michele is currently a Director of Ambant Limited, Ambant Underwriting Services Limited and KMT Management Limited (in voluntary liquidation).

Lindsey McMurray
Institutional Director

A RI R N

Appointed to the Board in April 2010.

Skills and experience
Lindsey has been a private equity investor for 25 years with a particular focus on the financial services sector. She has a First-Class Honours degree in Accounting and Finance and studied for an MPhil in Finance from Strathclyde University.

External appointments
Lindsey is Managing Partner of Pollen Street Capital and is Chairman of their Investment Committee. Lindsey is also a Non-Executive Director of several portfolio companies including Cashflows Europe and BidX1.

Cédric Dubourdieu
Institutional Director

A RI R N

Appointed to the Board in September 2017.

Skills and experience
Cédric has close to 20 years of private equity experience, having led a number of investments in a variety of sectors across Europe. He holds a degree from Ecole Polytechnique, Paris.

External appointments
Cédric is a Managing Partner of private equity firm BC Partners and sits on BC Partners' Investment Committee. BC Partners is an affiliate of Marlin Bidco Limited of which Cédric is also a Director. Cédric is also a board member of iQera, the French leader of credit management services.

Daniel Rushbrook
General Counsel and Company Secretary

Appointed Company Secretary to the Board in March 2015.

Skills and experience
Daniel has over 25 years of legal experience. He has experience in private practice having worked for both Linklaters LLP and Macfarlanes LLP. Daniel became the first in-house lawyer for Commercial First Mortgages Limited, later joining its Board as Legal Director in 2005. In 2011, Daniel transferred to Shawbrook becoming General Counsel and Company Secretary. Daniel holds a first-class law degree from Oxford University and a Masters in Law from the University of Pennsylvania.

External appointments
None.

Corporate Governance Report

This report explains the Board's role and activities, and how corporate governance operates throughout the Group.

The UK Corporate Governance Code
The Company is no longer considered a listed entity (since delisting in 2017) and is not required to adopt the 'comply or explain' approach of the UK Corporate Governance Code 2018 published by the Financial Reporting Council. However, the Company recognises the value of a strong approach to corporate governance and takes account of the UK Corporate Governance Code's principles and provisions when making decisions when deemed appropriate.

Where required, sections of the FCA's Disclosure and Transparency Rules have been applied in line with obligations in relation to the Group's Listed Debt.

The Board
The Board takes account of the views of the Company's shareholder and has regard to wider stakeholder interests and other relevant matters in its discussions and decision-making. The Board recognises that stakeholders' interests are integral to the promotion of the Company's long-term sustainable success. Further information about how the Board considers the interests of its stakeholders can be found on pages 21 to 26.

A Framework Agreement is in place with Marlin Bidco Limited (the 'Shareholder') which includes a formal schedule of matters reserved for the Board and those matters which require recommendation to the Shareholder for approval. This document is supported by a Memorandum of Understanding, which preserves the Board's independence when making significant decisions. The Board delegates specific powers for some matters to Board Committees, with the outputs from each Committee meeting reported to the Board regularly, thus ensuring the Board maintains the necessary oversight. More detail on the Committees and their work is described in the separate committee reports on pages 67 to 88.

Composition, Board balance and time commitment
The Board currently consists of nine members, namely the Chairman, four Independent Non-Executive Directors, two Executive Directors and two Institutional Directors. Biographical details of all Directors are on pages 53 to 54.

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

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

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

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

Meetings and attendance

The Board holds joint meetings of Shawbrook Group plc and Shawbrook Bank Limited at regular intervals, at which standing items such as the Group's financial and business performance, risk, compliance, human resources and strategic matters are reviewed and discussed. 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. Detailed minutes and any actions arising out of discussions are documented.

The Board and Board Committees held a number of scheduled meetings in 2020 at which senior executives, external advisors and independent advisors were invited, as required, to attend and present on business developments and governance matters. The Company Secretary and/or his deputy attended all Board meetings and he, or his nominated deputy, attended all Board Committee meetings. The table below sets out the attendance at scheduled meetings in 2020. A further 23 additional Board and Committee meetings were convened during the year to discuss issues related to COVID-19, ad hoc business development, governance, and regulatory matters.

Number of scheduled meetings attended*					
	Board	**Audit Committee**	**Risk Committee**	**Remuneration Committee**	**Nomination and Governance Committee**
John Callender (Chair)[1]	8/8			3/4	2/2
Ian Cowie	8/8				
Dylan Minto	8/8				
Robin Ashton	8/8	5/5	6/6	4/4	2/2
Lindsey McMurray[2]	6/8	5/5	6/6	4/4	2/2
Cédric Dubourdieu[3]	8/8	5/5	5/6	3/4	2/2
Paul Lawrence	8/8	5/5	6/6	4/4	2/2
Andrew Didham	8/8	5/5	6/6	4/4	
Michele Turmore	8/8	5/5	6/6		

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

Notes

* Meetings were held from January to December 2020.

1. Due to prior commitments, John Callender was unable to attend the 27 February Remuneration Committee meeting.
2. Due to prior commitments, Lindsey McMurray was unable to attend the 30 July and 29 October Board meetings.
3. Due to prior commitments, Cédric Dubourdieu was unable to attend the 23 January Risk Committee and Remuneration Committee meetings.

Corporate Governance Report

Board effectiveness review

The Board carries out a review of the effectiveness of its performance every year. The evaluation is externally facilitated every three years. The next external evaluation will be in respect of the 2022 financial year.

Progress against 2019 actions

Set out below is the progress made against actions identified through the 2019 external Board effectiveness review:

Action
A review of Board meeting reporting would be undertaken, and metrics developed that more readily highlight key points for discussion and enable an improved level of preparation, questions, debate and challenge.

Progress
A new management information dashboard called the Balanced Business Scorecard has been developed and embedded into the Chief Executive Officer Board report. The scorecard sets out key data and KPIs split across the Group and divisions.

Action
The Board will spend a dedicated amount of time reviewing key projects and decisions. Time will be spent reflecting on what worked well and what areas could be strengthened in order to apply any lessons learned to future projects and decisions.

Progress
During 2020, much of the Board's time was taken up with the Group's response to COVID-19 and it was agreed that this action would be carried forward into 2021.

Action
Work will continue to strengthen the Board training programme to enhance the Board and Executive Management's understanding of market insights and views of our wider stakeholders.

Progress
Dedicated Board training sessions established in 2020 and have been built into the 2021 annual Board calendar. The training sessions for 2021 will cover Directors and Officers Liability Insurance, interest rate risk in the banking book, interest rate hedging, Senior Managers and Certification Regime, Environmental, Social and Governance, cyber security and regulatory updates.

Action
Time would be added to the annual Board calendar for the Independent Non-Executive Directors to meet with the Shareholder outside of the boardroom.

Progress
In January 2020 (before the UK entered national lockdown), the Independent Non-Executive Directors attended a meeting and dinner with the Shareholder.

During the national lockdown, virtual meetings took place with the Chairman and the Independent Non-Executive Directors. Individual 1:1 meetings were also scheduled to take place virtually between the Chairman and individual Independent Non-Executive Directors.

2020 internal evaluation

During the year, an internal evaluation was led by the Chairman, with the support of the Company secretariat, using an online questionnaire to capture views of each Director and Executive Committee member. The evaluation was carefully structured to bring about a genuine debate on issues that were relevant and assist in identifying any potential for improvement.

Internal evaluation themes

- Behaviours
- Composition, Skills and Performance
- Meetings
- Role of Company Secretary and Minutes
- Board Packs (Scope and Content)

The internal evaluation concluded that the Board continues to be effective with high scores being recorded across each of the themes. Board and Executive Committee members feel that there is good collaboration and participation in a supportive environment but one in which there is constructive challenge.

The internal effectiveness review identified some opportunities for the Board and the resulting areas of focus are summarised below:

- Additional scheduled breaks are to be built into Board and Committee meetings in order to mitigate meeting fatigue.
- A review of Board packs is to be undertaken and paper writing training to be developed for all individuals preparing papers for Board and Committees focusing on the quality of summaries, timeliness of papers and reducing duplication between Board and Committee meetings.

Structure of the Board, Board Committees and Executive Management

The diagrams on pages 58 to 61 summarise the role of the Board, its Committees and the responsibilities of the Chairman, the Senior Independent Director, the Non-Executive Directors, the Chief Executive Officer and the Executive Committee. The Board and Board Committees have unrestricted access to Executive Management and external advisors to help discharge their responsibilities. The Board and Board Committees are satisfied that, in 2020, sufficient, reliable and timely information was received to enable them to perform their responsibilities effectively. Each Committee plays a vital role in helping the Board to operate efficiently and consider matters appropriately. The Board Committees terms of reference can be found on the website at: **shawbrook.co.uk/investors/**

Board

Leadership

- The Board has clear divisions of responsibility and seeks the long-term sustainable success of the Group.

Stakeholder engagement

- The Board organises and directs the Group's affairs in a way that it believes will help the Group succeed for the benefit of its Shareholder and in consideration of the Group's wider stakeholders. More information about the Group's stakeholders can be found on pages 21 to 26.

Operations

- The Board supervises the Group's operations, with a view to ensuring that they are effectively managed, that effective controls and IT systems are in place, and that risks and operational resiliency are assessed and monitored appropriately.

Financial performance

- The Board sets the financial plans, annual budgets and key performance indicators and monitors the Group's results and levels of capital and liquidity against them.

Strategy

- The Board oversees the development of the Group's strategy, and monitors performance and progress against the strategic aims and objectives.

Culture

- The Board develops and promotes the collective vision of the Group's purpose, culture, values and behaviours.

Information and support

- The Board accesses assistance and advice from the Company Secretary. The Board may seek external independent professional advice at the Company's expense, if required to discharge its duties.

Board Committees

The Audit Committee

- Monitors the integrity of the Group's external financial reporting, including review and challenge of the critical accounting estimates and judgements.
- Oversees and challenges the effectiveness of the Group's financial controls.
- Monitors the work and effectiveness of the Group's internal and external auditors.
- Ensures whistleblowing policies remain adequate and effective to support and encourage employees to raise confidentially any concerns of impropriety.

The Risk Committee

- Provides oversight and advice to the Board in relation to current and potential future risk exposures of the Group and the future risk strategy, including determination of risk appetite and tolerance.
- Responsible for reviewing and approving various formal reporting requirements and promoting a risk awareness culture within the Group.

The Remuneration Committee

- Oversees how the Group implements its remuneration policy.
- Monitors the level and structure of remuneration arrangements for the Board, Executive and material risk takers, approves share incentive plans, and recommends them to the Board and Shareholder.

The Nomination and Governance Committee

- Reviews the Board's structure, size, composition, and balance of skills, experience, independence and knowledge of the Directors.
- Leads the process for Board appointments and Senior Management Function holder appointments and makes recommendations to the Board.
- Oversees and ensures that adequate provision is made for succession planning.
- Oversees and monitors the corporate governance framework of the Group.
- Reviews and monitors the Group's approach to subsidiary governance.

Corporate Governance Report

Board and Executive Management roles

Each Director brings different skills, experience and knowledge of the Company, with the Non-Executive Directors contributing additional independent thought and judgement. There is a clear division of responsibilities between the Chairman, Chief Executive Officer and Senior Independent Director. Their roles have been clearly defined in writing and agreed by the Board. Depending on business needs, the Non-Executive Directors and the Chairman commit at least four days per month to discharge their duties effectively in accordance with their letters of appointment.

The Chairman

- Guides, develops and leads the Board, ensuring its effectiveness in all aspects of its role as well as being responsible for its governance.
- Helps to ensure effective communication and information flows with key stakeholders (such as employees, regulators and investors).
- Sets the tone for the Group and ensures effective relationships between Management, the Board and stakeholders.
- Helps to ensure effective communication and flow of information between Executive and Non-Executive Directors.
- Chairs the Board and Nomination and Governance Committee.

The Senior Independent Director

- Acts as a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary.
- Is available to the Shareholder if they have any concerns, which the normal channels of Chairman, Chief Executive Officer or other Executive have failed to resolve, or for which such contact is appropriate.
- Leads the planning for the succession of the Chairman of Board.
- Meets with the other members of the Board to appraise the Chairman's performance.
- Provides feedback to the Chairman, Shareholder and Executive Directors on the Non-Executive Directors' views.

The Non-Executive Directors

- Provide constructive challenge to Executive Management and bring experience 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.
- Ensure the integrity of financial information and ensure that the financial controls and systems of risk management are effective.
- Led by the Senior Independent Director, the Non-Executive Directors are also responsible for evaluating the performance of the Chairman and Senior Management.

The Chief Executive Officer
As authorised by the Board, the Chief Executive Officer manages the Group's day-to-day operations and delivers its strategy. The Chief Executive Officer delegates certain elements of his authority to members of the Executive Committee to help ensure that senior executives are accountable and responsible for managing their respective businesses and functional units. The Chief Executive Officer chairs the Executive Committee, which meets no less than three times a month.

The 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.

- **Chief Operating Officer**
- **Chief Financial Officer**
- **Chief Risk Officer**
- **Chief Technology Officer**
- **Managing Director Property Finance**
- **Managing Director Business Finance**
- **Managing Director Consumer**
- **General Counsel and Company Secretary**
- **Group Human Resources Director**

Corporate Governance Report

The Executive Committee

The Board delegates daily management responsibility for the Group to the Chief Executive Officer who discharges this responsibility through the 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.

There are currently ten (including the Chief Executive Officer) members of the Executive Committee and their biographical details can be viewed on the Group's website at **shawbrook.co.uk/investors/**

To discharge its duties, the Executive Committee operates four executive level committees. Details of these executive level committees and their responsibilities are set out below.

Enterprise Risk Management Committee

Purpose
The Enterprise Risk Management Committee has oversight responsibility for all operational aspects of risk identification, management, monitoring and reporting as set out in the Group's Risk Management Framework (RMF).

Frequency and membership
The Enterprise Risk Management Committee meets twice a month and is chaired by the Chief Risk Officer or their alternate. Other key members are the Chief Executive Officer, Chief Financial Officer, Enterprise Risk Director, Chief Credit Officer, Chief Compliance Officer and divisional Risk Directors.

Group Product Committee

Purpose
The Group Product Committee is responsible for all aspects of product governance including approval of new, and changes to existing products and the regular review of all products.

Frequency and membership
The Group Product Committee meets monthly and is chaired by the Chief Operating Officer, with the other members comprising the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, General Counsel and Company Secretary, Chief Compliance Officer and the divisional Managing Directors.

Asset and Liability Committee

Purpose
The Asset and Liability Committee oversees asset, liability and other solvency risks, specifically market risk, treasury wholesale credit risk and liquidity risk.

Frequency and membership
The Asset and Liability Committee meets monthly and is chaired by the Chief Financial Officer, or either of the Chief Executive Officer or Chief Risk Officer as their alternate, each of whom are members, with the other members comprising the Deputy Chief Financial Officer, Chief Operating Officer, Group Treasurer, Head of Financial Planning and Analysis, Head of Financial Control and Head of Market and Liquidity Risk.

Operations Committee

Purpose
The Operations Committee provides operational oversight and organisational alignment to deliver an efficient, consistent, and effective operating model, ensuring that operational procedures and business processes are relevant.

Frequency and membership
The Operations Committee meets monthly and is chaired by the Chief Operating Officer, with other members comprising the Chief Executive Officer, Chief Technology Officer, Deputy Chief Financial Officer, Enterprise Risk Director and divisional Commercial Directors.

Board meetings and activity in 2020

Board meetings
The activities undertaken by the Board in 2020 were intended to help promote the long-term sustainable success of the Company.

In March 2020, the Group (including the Board) moved to working remotely utilising online video tools to hold its Board meetings. From the outset of the pandemic, the priority for the Board was to protect its employees, customers and business partners whilst safeguarding the business. In March 2020, the Board established weekly meetings focusing solely on key risks and issues arising from COVID-19. These included supporting those of the Group's customers most impacted by the pandemic, through for example, forbearance and payment holidays, ensuring that the Group's employees were able to work effectively and safely from home, taking steps to safeguard the Group's operations and business and managing the potential risk and financial (including capital and liquidity) impacts of the pandemic. Once through the initial phase of the pandemic, the Board was able to move to bi-weekly meetings and eventually, from July 2020 onwards, the ongoing management of issues related to COVID-19 became subsumed within the agenda for each scheduled Board meeting as a standing item.

Further details of how the Group responded to the COVID-19 pandemic can be found on pages 11 to 14.

The scheduled Board meetings focused on five main themes in 2020:

Strategy and execution, including: approving and overseeing the Group's key strategic targets and monitoring the Group's performance against these targets; reviewing and approving key projects aimed at developing the business; reviewing the strategy of individual divisions.

Financial performance, including: setting financial plans, annual budgets and key performance indicators and monitoring the Group's results against them; approving financial results for publication; and monitoring and approving the approach to the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

Risk management, regulatory and other related governance, including: reviewing and agreeing the Group's policies; setting risk appetites; reviewing the Group's solvency position and forecast and monitoring the Group's approach to financial crime and climate change.

Spotlights, including: deep dive sessions on COVID-19, divisional strategy, Tier 2 refinancing, LIBOR transition, operational resilience and outsourcing, investments, divisional lending strategies and customer due diligence automation.

Board and Board Committee governance, including: receiving reports from the Board's Committees; updating terms of reference for the Committees; approving the renewal of the appointments of John Callender, Robin Ashton and Paul Lawrence and implementing an internally facilitated annual review of Board and Committee effectiveness.

In addition to routine business, the Board considers and discusses key issues that impact on the business as they arise. The Chief Executive Officer and Chief Financial Officer spend a considerable amount of time with the different divisions and business areas ensuring that the Board's strategy is being implemented effectively throughout the Group, and that our employees' views and opinions are reported back to the Board and Board Committees.

Business Review Days
The Board sets aside time each year outside the annual Board calendar to hold review days giving the Directors the opportunity to focus solely on strategic matters of the Group and its divisions. In November 2020, the Board held a Business Review Day. The online session was attended by the Board, Executive Management and representatives of the Shareholder. During the day, sessions were held on the financial shape of the Group, deep dives into each division in respect of their progress against the Group's strategy and their strategic aims for the future.

Board induction
All new Directors appointed to the Board undertake an induction programme aimed at ensuring they develop a solid understanding of the Group, its divisions, people and processes, and of their roles and responsibilities as Directors of the Company. The programmes are tailored to suit each Director and include:

- provision of relevant current and historical information about the Group;
- visits to business units around the Group; and
- one-to-one meetings with Board members, Senior Management and the Company's advisors.

Board effectiveness review
During the reporting period an internal Board effectiveness review was conducted. More information about the nature and outcomes of this review are on page 57.

Corporate Governance Report

Conflicts of interest

All Directors have a duty to avoid situations that may give rise to a conflict of interest (in accordance with Section 175 of Companies Act 2006). Formal procedures are in place to deal with this. Directors are responsible for notifying the Chairman and the Company Secretary as soon as they become aware of any actual or potential conflict of interest for discussion. This will then be considered by the Board, which will take into account the circumstances of the conflict when deciding whether to permit it (and whether to impose any conditions). Any actual or potential conflicts of interest are recorded in a central register and Directors are also required, on an annual basis, to confirm that they are not aware of any circumstances 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 material changes in external commitments.

Induction, training and professional development

On appointment, all new Directors receive a comprehensive and tailored induction, having regard to any previous experience they may have as a Director of a financial services company. The Group also provides additional induction materials and training for those Directors who are also Committee Chairs. The content of our Director induction programmes is tailored, with input from the new Director. The induction information is delivered in a variety of formats, including face to face meetings with the Chairman, Board Directors, Executive Management and key members of staff, and input from external advisers as appropriate. This is supplemented by the provision of key governance documents as reading material, including policies, procedures, Board and Committee minutes, the Board meeting schedule, the Group structure chart, the FCA Handbook, regulatory codes/requirements and information on Directors' duties and responsibilities under the Companies Act 2006 and other relevant legislation.

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

During the year, the Board received training on operational resiliency and climate change. Further sessions on the Senior Managers and Certification Regime, cyber security and environmental, social and governance issues are scheduled to take place later in 2021.

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.

The Board receives detailed reports from Executive Management on the performance of the Group at its meetings and other information as necessary. Regular updates are provided on relevant legal, corporate governance and financial reporting developments. The Board frequently reviews the actual and forecast performance of the business compared against the annual plan, as well as other key performance indicators.

Risk management and internal control systems

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 systems of internal control. Material risk or control matters are reported by the Audit Committee and Risk Committee to the Board. The Board monitors the ongoing process by which 'top risks' affecting the Group are identified, measured, managed, monitored, reported and challenged. This process is consistent with both the Group RMF and with internal control and related financial and business reporting guidance issued by the Financial Reporting Council. The key elements of the Group's system of internal control include regular meetings of the Executive Management and risk governance committees, together with annual budgeting, and monthly financial and operational reporting for all businesses within the Group. Conduct and compliance are monitored by Management, the Group risk function, internal audit and, to the extent it considers necessary to support its audit report, the external auditor.

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

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

The Group's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board considers the materiality of financial and non-financial risks and the relationship between the cost of, and benefit from, the system of internal controls. During 2020, the Group continued to strengthen its risk management and internal controls capability to ensure that it remained relevant, appropriate and scalable to support the Group's objectives over the duration of the strategic plan and continued to embed improvements into the Group's RMF.

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

Shawbrook Bank Limited (the principal operating subsidiary of the Group) is subject to regulation by the Prudential Regulation Authority (PRA) and the FCA and as such undertakes an ILAAP and ICAAP on an annual basis. The ICAAP process benefited from ongoing improvements during 2020; the process involves an assessment of all the risks that the Group faces in its operating environment, the likelihood of those risks crystallising and their potential materiality and the effectiveness of the control framework in mitigating each risk. This includes a thorough evaluation of how the Group would be impacted by severe, but plausible, periods of stress in its stress testing programme.

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

Corporate Governance Report

Cyber resilience

The Group recognises the importance of cyber resilience. The Board oversees the Group's cyber resilience approach and the level of investment into cyber security, providing robust challenge and scrutiny to ensure that the Group is adequately mitigating the threats it faces. The Board recognises that specialist knowledge is required in this area and therefore seeks relevant advice from third parties where appropriate. The cyber resilience strategy is routinely monitored by the Risk Committee and reviewed by the Board on an annual basis. The review considers the latest cyber threat intelligence assessment, the specialist nature of cyber threats and any outsourcing risks faced by the Group in this area. This ensures that the strategy remains fit for purpose to combat the potential cyber threats the Group may face.

Remuneration

The Board has delegated responsibility to the Remuneration Committee for the remuneration arrangements of the Group's Executive Directors, certain individuals considered to be 'material risk takers' and the Group's Chairman. You can find out more about this in the Directors' Remuneration Report which starts on page 78.

Relationship with Marlin Bidco Limited (the 'Shareholder')

The Group is committed to maintaining a constructive relationship with the Shareholder whilst not compromising the independence of the Board.

The Chief Executive Officer, Chief Financial Officer and other members of the Executive Committee meet with the Shareholder and their representatives on a regular basis outside of Board and Committee meetings. The Shareholder also meets with the Chairman and has the option to meet with other Non-Executive Directors on request.

To ensure that governance arrangements with the Shareholder are formalised, a Framework Agreement and Memorandum of Understanding outlining the responsibilities of each party was established following the change in ownership. The Framework Agreement ensures that information flows are clear, that the independent judgement of the Board is not impacted and that the Board retains its oversight of the business in respect of strategy, performance, risk appetite and assessment of the control framework and governance arrangements. The Memorandum of Understanding seeks to support and protect the independence of the Board, particularly in relation to the appointment of Non-Executive Directors to the Board and its Committees. As set out in the Framework Agreement, the Shareholder has appointed two Directors to the Board, both of whom are considered Institutional Directors.

The Group recognises the importance of ensuring effective communication with all of its stakeholders. This report, together with a wide range of other information, including financial reports and regulatory announcements are made available on the Investor section of the Group's website at **shawbrook.co.uk/investors/**

Other Committees

The Board has delegated authority to its principal committees to carry out certain tasks as defined in each Committee's respective terms of reference. The written terms of reference in respect of the Audit, Risk, Remuneration and Nomination and Governance Committees are available on the Group's website. In addition to the principal Committees, the Board is supported by the work of the Disclosure Committee and the Acquisitions and Divestments Committee, which meet on an as-needed basis.

Annual General Meeting

Shawbrook Group plc's Annual General Meeting will be held on 25 May 2021.

Audit Committee Report

Membership, attendance and responsibilities of the Committee can be found on pages 56 and 58.

The terms of reference for the Committee can be found on the Group's website at: **shawbrook.co.uk/investors/**

I am pleased to present the Audit Committee Report which describes the work undertaken by the Committee to discharge its responsibilities. The Committee and its members bring together a diverse range of experience across disciplines including finance, audit, risk and business with many years of experience operating across the financial services sector.

The Committee undertakes an annual review of its terms of reference to ensure that they remain relevant and apply any changes or updates in respect of appropriate regulatory requirements.

The Committee's annual work plan is framed around the Group's financial reporting cycle which ensures that the Committee considers all matters delegated to it by the Board.

In discharging these responsibilities, the Committee has spent significant time considering the impacts of COVID-19 on the critical accounting and auditing judgements, particularly IFRS 9, including reviewing all new guidance issued this year in relation to reporting the impacts transparently in the financial statements.

The Committee continues to focus on the issues relevant to the Group's financial reporting and considers emerging trends and best practice. This includes overseeing the effectiveness of the Group's internal control framework to ensure it remains robust and fit for purpose and involved assessing the impact as the Group moved to remote working in 2020 in response to COVID-19.

Having successfully transitioned to a co-source model the internal audit function led by the Chief Internal Auditor has worked closely with Deloitte LLP to deliver the internal audit plan, progressed with building an independent and effective in-house function and refreshed the Internal Audit Charter to reflect these changes.

We received 20 audit reports from the internal audit function, which have covered, amongst other things, audits on operational resilience and outsourcing, implementation of the Coronavirus Business Interruption Loan Scheme, collections and recoveries and complaints handling.

The Committee also reviewed and approved the policy for non-audit services and risk-weighted asset framework policy.

Andrew Didham
Chair of the Audit Committee

15 April 2021

Main activities during the year

Throughout the year, the Committee discussed a range of topics including financial reporting, internal controls and risk management, internal audit, external audit and whistleblowing. You can find out more about this in the following sections.

Financial reporting

The Committee considered the integrity of the Group financial statements and all external announcements in relation to its financial performance. In 2020, this included the Group's 2019 Annual Report and Accounts and the interim 2020 report. Significant financial reporting issues and judgements were considered together with any significant accounting policies and proposed changes to them.

Audit Committee Report

Significant areas of judgement

During 2020, the key judgement areas were largely unchanged from the previous year. This reflects the consistency of the Group's approach to financial reporting and that there were no significant changes to the business model. The main areas of focus were as follows:

Significant financial and reporting issue	How the Committee addressed the issue
Impairment of loans and advances	During the year and as the COVID-19 impact became clearer, the Committee met and challenged the IFRS 9 judgements and models used to calculate the underlying expected credit losses and impairment recognition. This included reviewing the IFRS 9 judgements and macroeconomic assumptions used in the model alongside the regulatory guidance issued to ensure that all government support measures were included, where relevant, to ensure that the modelled outcomes were reasonable and in line with guidance. The Committee specifically considered the macroeconomic scenarios, the calibration of model parameters in light of economic indicators and underlying book performance. The regulatory and accounting guidance issued also extends to transparency for external reporting and the Committee reviewed all external disclosure notes. The Committee also discussed reporting disclosures and best practice with the external auditor. The Committee also reviewed the movements in impairment coverage ratios and non-performing loan ratios throughout the year and concluded that these had been appropriately monitored during the year. The Committee concluded that the impairment provisions, including Management's judgements, were appropriate. Refer to Note 11 of the Financial Statements for further details.
Revenue recognition - effective interest rate	The Committee considered and challenged the effective interest rate methodology applied by Management, including expected future customer behaviours, redemption profiles and changes to existing redemption profiles and concluded that the effective interest rate methodology was appropriate as at 31 December 2020. Refer to Note 1.9(c) of the Financial Statements for further details.
Impairment assessment of goodwill	The Committee reviewed a paper from Executive Management supporting the carrying value of goodwill. After reviewing the forecasts which included the COVID-19 impacts, cash flows, sensitivity modelling and discount rates the Committee agreed with Executive Management's conclusion that the Group's carrying value of goodwill as at 31 December 2020 was reasonably stated. Refer to Note 1.9(d) of the Financial Statements for details of impairment testing of goodwill.

Significant financial and reporting issue	How the Committee addressed the issue
Conduct risk	The Group's Consumer Lending division is exposed to risk under Section 75 of the Consumer Credit Act, in relation to any misrepresentations or breaches of contract by suppliers of goods and services to customers where the purchase of those goods and services is financed by the Group. The Committee considered and reviewed papers from Executive Management at each meeting which detailed actual complaints received on the sale of solar panels financed by the Group. The Committee reviewed the key judgements that could impact the provision including whether the original supplier remained solvent, the uphold rate of complaints made, the current complaint rate against a final expected complaint rate taking into consideration the residual exposure of the portfolio and the average cost of redress. Additionally, the Committee considered the latest communications and publications by the Financial Ombudsman. The Committee concluded that the provision was appropriate as at 31 December 2020. Refer to Note 1.9(b) of the Financial Statements for further details.
Risk-weighted asset assurance	During 2019 the Committee engaged a third party to provide assurance to the Board with regards to the completeness and accuracy of the risk-weighted asset balances reported to the Group's regulators. This review was completed in 2020 and the report was reviewed by the Committee and all findings have been actioned satisfactorily. The Committee continues to monitor developments in this regard across the UK banking sector.

In addition to the matters described above, the Committee considered papers on provision for contingent liabilities, hedge accounting, the accounting impacts of refinancing Tier 2 capital, the accounting impacts of securitising part of the mortgage book, review of fixed asset values and external audit performance.

Going concern and long-term viability

The Committee reviewed a paper from Executive Management setting out the assumptions underlying the going concern and viability statement as detailed in the statement on page 164. The Committee considered this information and further noted the operational resiliency and speed of the Group in adapting to the COVID-19 pandemic, that the Group is strongly capitalised with adequate liquidity and the results from the internal stress testing on the financial strength of the Group. The Committee considered the Group's principal risks including its lending exposures, impact of economic factors on its business model (including COVID-19) and operational risks that could impact the Group's financial position.

Based on the work performed and having regard for the additional work performed by Management concerning the COVID-19 pandemic, the Committee concluded that it remained appropriate to prepare the accounts on a going concern basis. The Committee reported accordingly to the Board and recommended the viability statement for approval as set out on page 164.

Audit Committee Report

Fair, balanced and understandable

The Committee reviewed and concluded that the Annual Report and Accounts taken as a whole is fair, balanced and understandable, and provides enough information to enable the reader to assess the Group's position and performance, business model and strategy. When considering the Annual Report and Accounts, the Committee focused on the significant judgements and issues that could be material to the financial statements. This included the matters set out in the table on pages 69 to 70. The Committee challenged the judgements being made and also discussed these matters with the external auditor.

Internal controls and risk management

The Committee annually assesses principal risks and uncertainties on a financial control basis. Details of the risk management systems in place and principal risks and uncertainties are provided within the Risk Report which starts on page 92. The Group's system of internal control has been designed to manage risk and whilst risk cannot be eliminated, the systems assist with the provision of reasonable assurance against material misstatement or loss.

The 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.

Internal audit

The Committee reviews, challenges and approves the annual audit plan and audit methodology for internal audit and monitors progress against the plan during the year. The Chief Internal Auditor agrees the programme of work and reports directly to the Committee on the outcomes. The Committee also oversees that internal audit has unrestricted access to all Group documentation, premises, functions and employees as required to enable it to perform its functions.

On behalf of the Board, the Committee undertakes regular reviews of the effectiveness of the Group's systems of internal control. Additional project assurance reviews are undertaken, which include follow up audits to test internal controls as required and requested by the Committee. Due to the move to a co-sourced model, the Internal Audit Charter was updated and approved by the Committee.

The Committee reviewed, challenged and approved the internal audit plan for the year and supported the transition to a co-source model with Deloitte LLP to ensure that the specialist nature of the Group's activities could be fully assessed.

Internal audit delivered 20 audits from the 2020 internal audit plan of varying size and complexity, with a flexible approach adopted to enable the review of areas pertinent to COVID-19. Internal audit reports are circulated to the Committee members, with the Chief Internal Auditor reporting at each Committee and the Committee monitors progress against actions identified in these reports. The Committee meets at least annually with the Chief Internal Auditor without Executive Management being present.

The Committee monitors and reviews internal audit's effectiveness and independence using feedback from the Board and other stakeholders. Due to the transition to a co-sourced model, the decision has been made to evaluate the internal audit function once the Chief Internal Auditor's in-house team has been fully established.

Additionally, the Committee ensures that there are sufficient resources available to internal audit to complete its remit. The appointment and removal of the Chief Internal Auditor is the responsibility of the Audit Committee.

External audit

The Committee oversees the relationship with its external auditor and this includes the engagement terms, remuneration, the audit effectiveness and auditor independence and objectivity. The Committee also considers the audit plan and audit strategy (including the planned levels of materiality). The external auditor attends Committee meetings as appropriate and meets at least annually with the Committee without Executive Management being present. The Committee members have the opportunity to meet privately with the external auditor upon request.

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 auditor's 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 Executive Management's response to issues raised and progress is monitored against actions identified in these reports. The Committee monitors the provision of non-audit services by the external auditor throughout the year to ensure compliance with the non-audit services policy.

The Committee is responsible for reviewing the independence of the Group's external auditor 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 Group's lead audit partner is Simon Ryder who was appointed in 2017. In line with audit standards, he is due to rotate off after five years at which point KPMG LLP will appoint a new audit partner in consultation with the Group. The Committee monitors the latest ethical guidance regarding rotation of audit partners.

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 services. It ensures that work is only awarded when permissible and if the auditor's knowledge, skills or experience are a decisive factor and therefore clearly preferred over alternative suppliers.

Each year, the Committee receives and reviews an analysis of all non-audit work and reviews the level of audit and non-audit fees paid to KPMG LLP and ensures that significant assignments are not awarded without first being subject to the scrutiny of the Committee. The fees paid to KPMG LLP for audit and non-audit services are set out in Note 7 of the Financial Statements.

The Committee assessed the effectiveness of the external auditor during the reporting period. The review included seeking the views of Committee members and Executive Management. The review concluded that the external audit process was effective.

The Committee is satisfied with the performance of the external auditor in 2020 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.

Whistleblowing

The Committee annually reviews the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters (whistleblowing) and the whistleblowing policy. Where appropriate the Committee also reviews reports relating to whistleblowing including anonymised cases to ensure arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action. The Committee considered the whistleblowing awareness of employees and the plans to continue to drive a 'speak-up' culture. The Committee probed Executive Management and was satisfied that the whistleblowing process met the necessary standards and that it was adequately designed, operated effectively and adhered to regulatory requirements.

Priorities for 2021

The key priorities in 2021 include:

- reviewing the effectiveness of the co-source internal audit model;
- oversight and review of the 2021 internal audit plan including IT effectiveness and third party audits;
- ongoing review and monitoring of all conduct issues and provision adequacy;
- continued monitoring of COVID-19 impacts on financial reporting and provisions as government support is withdrawn; and
- ensuring that the Group's financial reporting complies with all legislative changes.

Additional information

The Committee has unrestricted access to Executive Management and external advisors to help discharge its duties. It is satisfied that in 2020 it received sufficient, reliable and timely information to perform its responsibilities effectively.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 15 April 2021.

Andrew Didham
Chair of the Audit Committee

Risk Committee Report

Membership, attendance and responsibilities of the Committee can be found on pages 56 and 58.

The terms of reference for the Committee can be found on the Group's website at **shawbrook.co.uk/investors/**

I am pleased to present the Risk Committee Report for the financial year ended 31 December 2020. The Committee's key role is to provide oversight of and advice to the Board on the management of risk across the Group, balancing the agenda between risk exposure and the future risk strategy of the Group. The Committee has provided ongoing oversight of the continual development and embedding of the Group's Risk Management Framework and in 2020 oversaw a Group-wide risk management attestation process to confirm that the framework was embedded across the first and second lines of defence, accompanied by an increased attendance over the year at the Committee from representatives of the first line risk management teams and updates on the 2020 Group and first line risk plans.

Additionally, as part of its standing agenda the Committee undertakes an annual review of its terms of reference to ensure that they remain relevant and apply any changes or updates in respect of appropriate regulatory requirements.

During the year, the Committee continued to focus on the oversight of current areas of risk management whilst ensuring emerging risks are appropriately addressed. We have continued to evolve and embed an appropriate risk culture across the Group providing consistent challenge to the suitability of scenarios and stress testing in light of the changing macroeconomic environment and its impact on the Group's wider risk profile and appetite. The Committee, as part of its oversight of the evolving COVID-19 pandemic, recommended a tightening of credit risk appetites following the emergence of COVID-19 and provided the Board with recommendations, where appropriate, to remove or adjust the recommended restrictions through 2020. The Committee also provided additional oversight over the operational responses to COVID-19, including the performance of material third party service providers and monitored the performance of the Asset and Liability Committee to ensure the Group was suitably funded through 2020. The Committee reviewed and approved the Group's Vulnerable Customers Policy and noted the additional measures taken in line with regulatory guidance, to support the needs of customers suffering financial hardship and other vulnerabilities during the COVID-19 pandemic.

The Committee reviewed and recommended to the Board for approval the annual review of the Risk Management Framework, and considered the 2020 Risk Plan which includes, collectively, the Group Risk and Compliance Plan and the Divisional Risk Plans and regularly reviewed progress against the key deliverables during the year. The Committee regularly considered external challenges including uncertainty in relation to COVID-19 and the direction of the UK's future relationship with the European Union. The Committee reviewed and recommended to Board the annual Money Laundering Reporting Officer report and a report from the Group's Data Protection Officer.

The Committee reviewed and recommended to the Board the annual review of Risk Appetite, and subsequent amendments as a result of COVID-19, as well as the ICAAP. The Committee reviewed, challenged and recommended the Recovery Plan and Resolution Pack to the Board for approval during the year and oversaw a fire drill of the Recovery Plan. The Committee considered the Liquidity Contingency Plan and the review and recommendation to the Board for approval of the ILAAP.

The Committee has focused on the oversight and continued development of its financial crime controls and the performance of and reporting from the Money Laundering Reporting Officer who oversees the Group's financial crime controls requirements. The Committee also regularly received updates on the operational resiliency framework with additional meetings arranged to challenge the delivery of the requirements of the consultation papers published in December 2019. Additionally, as part of the oversight of operational resilience, the Committee reviewed and recommended to Board for approval the Incident Management Policy and Framework and initial impact tolerances for its important business services. During 2020, the Committee also monitored the readiness of the Group for the end of the Brexit transition period.

The Risk Committee is mindful of the economic uncertainty that continues to exist, primarily in relation to the COVID-19 pandemic and trading conditions following the UK's Brexit deal with the European Union. The Committee continues to keep under review the more immediate risks of COVID-19 and Brexit, whilst also reviewing other risks on the horizon which could have a material impact on the Group. During 2020, these included consideration of the Group's plans in relation to operational readiness for LIBOR transition, the potential for negative or zero interest rates and oversight of the implementation of the Group's Climate Change Plan. Moving into 2021, the Committee will continue to monitor and assess the risks facing the Group and provide guidance in what continues to be a challenging operating environment.

Paul Lawrence
Chair of the Risk Committee

15 April 2021

Main activities during the year

Risk monitoring and oversight

During 2020, the Committee considered a wide range of risks facing the Group both existing and emerging, across all areas of risk management. At each scheduled meeting, the Committee received regular reports from the Chief Risk Officer detailing the key activities undertaken by the Group risk function to oversee the embedding of risk management across the Group, was provided with outputs of regular risk monitoring and details of specific risk issues, received details of the Group's current and forward-looking capital solvency position and monitored performance against the Group's risk appetite statement.

Risk management and controls

Throughout the year, the Committee monitored the effectiveness of the Group's risk management and internal control systems and reviewed their effectiveness through the RMF. The RMF sits across the business with a particular focus on quality assurance and control. The Committee received and reviewed an attestation of compliance with the RMF from the Chief Risk Officer, divisions and functions.

Top and emerging risks

The Group's top and emerging risks are considered regularly by the Committee. Further information about the Group's top and emerging risks can be seen in the Risk Report starting on page 100.

Risk Committee Report

Significant risks and primary areas of focus

During 2020, the following significant risks and primary areas of focus were considered by the Committee:

Significant risks and primary areas of focus	Risk Committee review
Enterprise risk management	■ The Committee reviewed the 2020 Annual Risk Plan which included the key areas of focus for the risk function and the divisions. ■ The Committee received regular summaries of the enterprise risk profile of the Group through the Chief Risk Officer's Report. ■ The Committee reviewed the top and emerging risks for the Group prior to the Interim Financial Report and the Annual Report and Accounts. ■ The Committee reviewed the effectiveness of the RMF throughout the year through the Chief Risk Officer's Report. ■ The Committee oversaw progress with the Climate Risk Implementation Plan.
Board risk appetite	■ The Committee reviewed progress on the annual review of the Board's risk appetite including material risk appetite limits. ■ The Committee received regular updates on the evolving risk appetite framework, including the provision of a monthly risk appetite dashboard which accompanies the Chief Risk Officer's Report at each meeting.
Credit risk	■ The Committee reviewed updates to Credit Risk Appetite to balance the needs of existing customers and the safety of colleagues during the COVID-19 pandemic. ■ The Committee oversaw the implementation of a revised credit risk organisation structure and the associated re-alignment of credit approval mandates. ■ The Committee reviewed and recommended for the Board's approval a number of new asset class policies as part of the annual policy review cycle.
Operational risk	■ The Committee received regular reports across the spectrum of operational risks and information security. ■ The Committee reviewed and recommended to Board a new incident management framework and framework for managing material outsourcing that were developed as part of the Group's operational resiliency programme. The Committee also reviewed recommendations for the Group's material outsourcers, key business services and associated impact tolerances. ■ Although incidents were raised during 2020, the Committee was satisfied that the action taken was appropriate and that the control of operational incidents continued to improve. ■ The Committee also received updated policies in relation to the risk management approach to third parties.

Significant risks and primary areas of focus	Risk Committee review
Conduct, legal and compliance risk	■ The Committee continually reviews the Group's risk management approach to reflect the regulatory and legal environment in which the Group operates. ■ The Committee received updates on various conduct risk and legal liability risk matters. ■ The Committee received regular updates on the Group's investment in financial crime controls and received the annual Money Laundering Reporting Officer's report and the annual Data Protection Officer's report.
Liquidity and market risk	■ The Committee reviewed and recommended to the Board approval of the ILAAP. ■ The Committee reviewed and recommended to the Board approval of the Liquidity Contingency Plan. ■ The Committee received regular updates on the Group's programme to support the transition from LIBOR.
Stress testing and capital	■ The Committee reviewed and recommended to the Board approval of the ICAAP. The ICAAP included the impact of updated Policy Statements during 2019 and 2020 and included the implementation of a revised approach to stress testing.
Recovery and resolution plan	■ The Committee oversaw the development and delivery of the Recovery Plan and Resolution Pack during 2020. A 'fire drill' test of the Recovery Plan took place in July 2020.

Risk Committee Report

Priorities for 2021

The key projects which the Group risk function are accountable for delivering in 2021 include:

- delivery of a programme to implement updated financial crime controls;
- delivery of the 2021 Value Creation Roadmap initiatives to reimagine risk in the Group;
- further embedding of outsourcing controls and resiliency;
- deliver operational resiliency enhancements; and
- delivery of the Climate Risk Implementation Plan.

Other matters considered in detail by the Committee in 2020

- Brexit.
- LIBOR transition.
- Operational readiness for negative rates.
- PRA fast growing firms thematic review associated actions.
- Top and emerging risks.
- Managing and assessing the key risks to the business and our customers from COVID-19.

Additional information

The Committee has unrestricted access to Executive Management and external advisors to help discharge its duties. It is satisfied that in 2020 it received sufficient, reliable and timely information to perform its responsibilities effectively.

During the year, the Chair had scheduled meetings with the Chief Risk Officer without Executive Management being present.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 15 April 2021.

Paul Lawrence
Chair of the Risk Committee

Directors' Remuneration Report

Membership, attendance and responsibilities of the Committee can be found on pages 56 and 58.

The terms of reference for the Committee can be found on the Group's website at: **shawbrook.co.uk/investors/**

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the 2020 financial year.

In 2020, the global COVID-19 pandemic presented new challenges for the business. Throughout this period of uncertainty, we prioritised the soundness of the Group and the safety and well-being of our people. These factors were carefully considered by the Committee when reviewing remuneration outcomes.

During the course of the year, in line with normal practice, the Committee undertook a review of the bonus arrangements and ensured that the financial and non-financial performance measures were fully aligned with the Group's ongoing strategy. In keeping with its terms of reference, the Committee continued to oversee Shawbrook's approach to reward for senior executives, material risk takers, and the wider workforce. This included a review of the compensation arrangements of material risk takers who had joined or departed during the year.

The Group also published its 2020 gender pay gap outcomes alongside its commitments set out under the Women in Finance Charter. Whilst our gender pay outcomes have remained broadly consistent year on year, we are pleased to note progress towards our target of 30% female senior management representation by December 2022, increasing from 16.9% in 2019 to 23.3% in 2020. In addition, we are pleased to see the Group maintain its commitment to broader diversity, for example, becoming a signatory of the Business in the Community Race at Work Charter.

Following the end of the financial year, the Committee reviewed performance against the Group's 2020 financial and non-financial objectives, as well as divisional performance and risk alignment, in order to determine the overall bonus pool for 2020. Despite the external environment, the Group showed strong operational and financial resilience and demonstrated positive progress from a non-financial perspective, particularly in relation to customer and people metrics as well as risk management. However, in light of the wider environment and the impact of the COVID-19 pandemic on the financial performance, the Committee approved a bonus pool at a level which was below target and prior year. This, as well as the individual's contribution to the business during the year, were taken into consideration when determining awards at an individual level.

The Committee is comfortable that the remuneration policy has operated as intended during the year. However, in order to align with the upcoming regulatory changes under the Capital Requirements Directive (CRD V), the Group has reviewed and updated its remuneration framework for 2021. Most notably, this includes the introduction of a formal maximum variable remuneration ratio of 200% of fixed remuneration, as well as the enhancement of clawback provisions over a longer period. The new variable pay ratio is subject to approval at the Group's Annual General Meeting in May 2021.

In March 2021, the Group announced that Ian Cowie would step down from the Chief Executive Officer role with Marcelino Castrillo appointed as his successor, subject to regulatory approval. The remuneration terms associated with this change will be included in the Directors Remuneration Report for the 2021 financial year and will be managed in line with the Group's remuneration policy.

Robin Ashton
Chair of the Remuneration Committee

15 April 2021

Directors' Remuneration Report

Main activities during the year

The Committee met on five occasions during 2020. In addition to cyclical agenda items, the Committee was updated on the upcoming changes to the remuneration rules under the amended Capital Requirements Directive (CRD V) and approved the Group's approach to enhancing engagement with the wider workforce and recognising employee views at Board level in line with the UK Corporate Governance Code.

Deloitte LLP provided independent advice to the Committee on all executive remuneration matters. 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.

In line with the Framework Agreement and Memorandum of Understanding, the Shareholder has representation on the Committee. Where applicable decisions are escalated through the Board to the Shareholder for approval.

Guiding reward principles

The Group seeks to reward its employees fairly for their contribution and motivate them to deliver the best outcomes for all stakeholders. This is underpinned by the following principles:

- Remuneration arrangements are designed to attract, retain and motivate high calibre individuals who will assist the Group in meeting its strategy.
- Reward structures will be developed in alignment with the Group's strategy and will seek to promote long-term sustainable success, while meeting appropriate regulatory requirements.
- Remuneration will be determined within the Group's stated risk appetite defined as 'maintaining a balanced strategy to reward our employees for appropriate conduct and performance'. Safeguarding the right outcomes for customers is at the heart of this.
- There will be an appropriate mix of long term and short-term variable pay arrangements in place, which will assist in driving the long-term security, soundness and success of the Group.
- The long-term and short-term variable pay plans will be subject to appropriate performance measures, ensuring the right balance between these elements of the reward package.
- Remuneration outcomes will be determined with reference to total reward principles. For example, when making bonus decisions, the Group will consider an employee's total aggregate remuneration.
- Eligibility for, and payment of, any remuneration will be communicated in a clear and transparent way for all colleagues and in a timely manner.
- Reward structures will be designed to avoid any conflicts of interests as set out in the Group's conflicts of interest policy. In this regard, employees in control functions will be remunerated independently from the performance of the business areas that they oversee. Furthermore, the Committee will be constituted in a way that avoids conflicts of interest and provides independent oversight of remuneration matters within the Group. No individual will be permitted to be present at the Committee when decisions are taken which concern their own remuneration.

The Group keeps its reward strategy, including the guiding reward principles, under regular review to ensure it continues to support the delivery of its strategic priorities. The Committee considers that the current framework appropriately addresses the following factors as set out in the UK Corporate Governance Code.

Clarity and simplicity	As a private company, Shawbrook is not required to produce a full Directors' Remuneration Report aligned to that of a UK-listed company. However, in the interests of transparency, the Committee provides voluntary disclosure of our remuneration policy and how this applies to Executive Directors.
Risk	As a financial institution, one of our guiding reward principles ensures that remuneration is determined within the Group's stated risk appetite defined as 'maintaining a balanced strategy to reward our employees for appropriate conduct and performance'. Safeguarding the right outcomes for customers is at the heart of this. Deferral under the annual bonus and participation in the Management Incentive Scheme encourage a long-term focus. All incentive arrangements for material risk takers, including Executive Directors, are subject to malus and clawback provisions.
Predictability	The remuneration policy table contains details of maximum annual bonus opportunity levels for Executive Directors, with actual bonus outcomes varying depending on the level of performance achieved. In terms of the Management Incentive Plan (MIP), value will only be delivered to participants if the value of the Group grows by reference to the achievement of stretching hurdles set relative to the Group's business plan. Payment under our incentive arrangements will be subject to the Committee's discretion.
Proportionality and alignment to culture	All eligible permanent and fixed-term employees are considered for an annual bonus, aligning reward to the overall financial and non-financial performance of the Group. Under the annual bonus, the Committee assesses performance against a range of objectives, including ones related to our customers, risk and our people. This ensures that reward is not determined solely on financial performance but also drives behaviours consistent with Shawbrook's culture. From 2021, the maximum ratio of total variable remuneration to fixed remuneration for all material risk takers, including Executive Directors, will be capped at 200% in line with regulatory requirements. The Committee has the discretion in circumstances of poor financial performance to reduce the bonus outcome, including potentially to zero.

Directors' Remuneration Report

Directors' Remuneration Policy

Shawbrook is not required to produce a Directors' Remuneration Report in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). However, for transparency the Board has produced the table below which summarises the key components of the Group's reward package and how these apply to the Executive Directors.

As mentioned in the Chair's letter, a number of changes have been made to the remuneration framework for 2021 to ensure it fully aligns to revised regulatory requirements under CRD V. This includes, from 2021, that the maximum ratio of total variable remuneration to fixed remuneration for all material risk takers, including Executive Directors, will be capped at 200%.

Element	Purpose and link to strategy	Operation
Fixed elements of remuneration		
Salary	To provide a competitive level of base pay to attract and retain talent.	Base salaries are set with reference to the size and scope of the role, the external market as well as the skills and experience of the individual. Salaries are normally reviewed on an annual basis, with any changes effective 1 March each year. Where salary increases are awarded to Executive Directors, these are typically in line with the wider workforce.
Pension	To provide a competitive post-retirement benefit supporting the long-term financial wellbeing of employees.	Executive Directors may participate in the Group's workplace pension arrangement or receive a cash allowance in lieu of pension contributions. Executive Directors currently receive an allowance of 15% of salary per annum.
Benefits	To provide a suite of competitive benefits to support the wellbeing of employees.	The Group offers a wide range of benefits to support our employees' health, financial and lifestyle needs. Benefits provided to our Executive Directors include (but are not limited to) private medical cover, life assurance and permanent health insurance. Additional benefits may be provided as reasonably required.

Element	Purpose and link to strategy	Operation
Variable elements of remuneration		
Annual discretionary bonus	To incentivise and reward the achievement of short- term financial and non- financial objectives which are closely linked to the Group's strategy. Deferral encourages long-term focus and risk alignment.	Annual bonus awards are determined with reference to financial, non-financial and individual objectives. Specific performance measures and objectives are reviewed on an annual basis to ensure they appropriately align to the Group's ongoing strategy. When finalising individual award levels, consideration is given to the overall performance of the Group, divisional performance and individual performance against agreed objectives, including alignment with corporate values, as well as the outcome of the independent risk adjustment process. Poor financial performance can result in the bonus being reduced, including potentially to zero. The on-target opportunity for Executive Directors will be 60% of salary per annum with a normal maximum opportunity of 100% of salary per annum. Awards over a threshold level (set by the Committee each year) are subject to deferral. Deferred awards will normally be released in equal tranches after one, two and three years, subject to continued employment. Annual bonus awards are subject to the Group's malus and clawback provisions.
Long-term incentives	To incentivise and reward the delivery of the Group's long-term strategy and growth over a sustained period.	Executive Directors are eligible to participate in the MIP, which has been designed to appropriately incentivise senior management to deliver and execute the Group's long-term strategy as well as aligning their interests with those of our shareholder. Any awards granted under the MIP from 2021 will be subject to an assessment of prior performance at both an individual and Group level. This assessment of performance will be typically no less than 12 months pre-grant of award. The MIP will deliver value to participants for growth in the value of the Group by reference to the achievement of stretching hurdles set relative to the Group's business plan. The value accrued under the MIP will ordinarily be released to participants at an exit event, i.e. the sale of the Group, the majority of its assets or an Initial Public Offering. While the hurdles are financial in nature, the value of the Group, and therefore any value delivered under the MIP, will depend not only on financial performance but also on the overall health of the business which will consider other non-financial factors. Awards will be subject to the Group's malus and clawback provisions. Separately, participants in the MIP, which includes the current Executive Directors, also had the opportunity to co-invest in the Group using their own funds. Any shares acquired via this co-investment will also be released at an exit event and will enable participants to share in the growth in value of the Group on a similar basis to the Shareholder.

Directors' Remuneration Report

Non-Executive Director Fees

The Chairman of the Board and Non-Executive Directors are entitled to an annual fee, with additional fees payable to the Senior Independent Director, the Chairs and members of the respective Committees of the Board. Fee levels are reviewed periodically and are set out within this report.

Reasonable expenses incurred in the performance of Non-Executive duties may also be reimbursed or paid directly by the Group, as appropriate.

Directors' remuneration in 2020

The tables below set out the remuneration received by Executive and Non-Executive Directors during 2020. The numbers included in the table below have been audited.

	2020		2019	
Executive Directors[1]	**All Executive Directors £000**	**Highest paid Executive Director £000**	All Executive Directors £000	Highest paid Executive Director £000
Salary	**785**	**450**	738	403
Taxable benefits	**4**	**2**	4	2
Pension	**118**	**68**	111	60
Annual bonus	**278**	**158**	430	250
Total	**1,185**	**678**	1,283	715

Non-Executive Directors[2]	**2020 £000**	2019 £000
Fees	**555**	561

Notes to the tables

Pension: all Executive Directors received their pension contributions during 2020 by way of a cash allowance.

Annual bonus: all Executive Directors were eligible to participate in the annual bonus in 2020, with an on-target opportunity of 60% of salary and a maximum opportunity of 100% of salary.

The bonus pool outcome for the Group was determined through a rounded assessment of performance against a range of the Group's objectives for 2020. This included objectives relating to:

- Financial performance
- Customer
- Risk
- People
- Strategy and culture

1 Ian Cowie was formally appointed to the Board of the Company in February 2019. For 2019, table above only includes remuneration receivable by Ian Cowie during the period he was a Board Director, with the exception of his 2019 Annual Bonus which is reflected in full, given that this related to his role as Chief Executive Officer over the full year.

2 Whilst not paid directly to the individual, the Group incurs fees of £50,000 plus VAT per annum in relation to each Institutional Director appointed to the Board by the ultimate parent company, as set out and agreed within the Framework Agreement. The Institutional Directors are not employed by the Group and their fees are not included in the above table.

When determining the bonus pool outcome, the Committee carefully reviewed performance for each of the relevant objectives, whilst also taking into account broader considerations relating to overall Group and divisional performance. The Committee also considered the outcomes of the Chief Risk Officer's independent report.

Overall, the Committee considered that the Group had demonstrated strong operational and financial resilience and had successfully achieved its non-financial objectives over the course of 2020, particularly in relation to customer and people metrics. The Committee also recognised that significant progress had been made with regards to risk management. However, in light of the wider environment and the impact of the COVID-19 pandemic on the financial performance, the Committee approved a bonus pool at a level which was below target and prior year.

The overall value of awards for the Executive Directors, which also took into account their strong individual performance during the year, are included in aggregate in the emoluments table. In line with policy, 50% of any amount in excess of £100,000 payable to an individual will be subject to deferral in cash and released in three equal tranches after one, two and three years.

Share related benefits: no share related benefits were exercised during 2020.

Payments for loss of office: no payments for loss of office were made during 2020.

Wider workforce remuneration

In line with our guiding reward principles, the Group seeks to reward all its employees fairly for their contribution and motivate them to deliver the best outcomes for all our stakeholders.

During the COVID-19 pandemic, one of the Group's key priorities was the safety and well-being of our workforce. The Group, during 2020, did not furlough any staff, have access to any of the UK Government's employee support schemes nor make any permanent role redundancies as a direct result of the pandemic. In response to the pandemic, the Group also implemented a number of initiatives to support the physical and mental wellbeing of our employees and their families during these challenging times.

The remuneration approach applied for our Executive Directors is closely aligned to how we reward all employees. All employees receive a salary, pension contribution and benefits set at a level considered appropriate for their role and experience. Fixed pay is set at a competitive level to attract and retain talent.

In terms of variable pay, all permanent and fixed-term employees are eligible to be considered for an annual bonus as appropriate to their role. We also operate a long-term incentive plan, which was introduced in 2019, to reward other selected senior individuals who do not participate in the MIP for their contribution to the delivery of our long-term strategy.

The Committee receives and considers internal and external information as appropriate to guide decisions on remuneration, including but not limited to, the results of employee engagement surveys and feedback sought from internal (such as the Group Human Resources Director and Group Head of Reward) and external stakeholders. The Committee also considers the Group's gender pay gap outcomes for the year, details of which can be found on our website, as well as the Group's progress towards its commitments made in line with the Women in Finance Charter.

As a private company, Shawbrook is not required to disclose the Chief Executive Officer pay ratio. However, in line with the Board's commitment to give due consideration to the spirit of the UK Corporate Governance Code and in the interests of transparency, the Committee has chosen to voluntarily disclose the ratio of the Chief Executive Officer's total remuneration to the median total remuneration of our employees.

Total remuneration[1]	Median ratio
2020	**11:1**
2019	13:1

1 Includes fixed remuneration, taxable benefits, pension and annual bonus awards earned in respect of the financial year ended 2020. It does not include any awards granted under the MIP and long-term incentive plan. In reaching the median total remuneration of our employees, the Group has considered the full time equivalent total remuneration of all individuals employed by the Group for the entirety of 2020 where such earnings have not been impacted by notable periods of absence.

Directors' Remuneration Report

Directors' remuneration in 2021

The Committee has determined that, for 2021, the remuneration policy will be implemented as follows for Executive Directors.

Executive Director salaries: the Committee reviewed Executive Director salaries on an individual basis in line with the normal annual salary review and determined that no increases would be awarded at this time.

Pension and benefits will continue to operate in line with the remuneration policy.

Annual bonus: the normal maximum annual bonus opportunity for Executive Directors will be 100% of salary. When determining the annual bonus outcomes for 2021, the Committee will give consideration to performance based on a range of key financial and non-financial measures, as well as the individual's overall performance and the outcome of the Chief Risk Officer's independent risk review.

Long-term incentive: Executive Directors participate in the MIP, as detailed in the remuneration policy. This is the only long-term incentive arrangement in which the Executive Directors participate.

Non-Executive Director fees

There will be no changes to Non-Executive Director fees for 2021.

	Fee from 1 January 2021
Chairman fee	£200,000
Non-Executive Director base fee[1]	£65,000
Senior Independent Director fee	£10,000
Audit and Risk Committee Chair fee	£20,000
Remuneration Committee Chair fee	£5,000
Audit and Risk Committee membership fee	£5,000
Remuneration and Nomination and Governance Committee membership fee	£2,500

Additional information

The Committee has unrestricted access to Executive Management and external advisors to help discharge its duties. It is satisfied that in 2020 it received sufficient, reliable and timely information to perform its responsibilities effectively.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 15 April 2021.

Robin Ashton
Chair of the Remuneration Committee

1 Whilst not paid directly to the individual, the Group incurs fees of £50,000 plus VAT per annum in relation to each Institutional Director appointed to the Board by the ultimate parent company, as set out and agreed within the Framework Agreement.

Nomination and Governance Committee Report

Membership, attendance and responsibilities of the Committee can be found on pages 56 and 58.

The terms of reference for the Committee can be found on the Group's website at: **shawbrook.co.uk/investors/**

I am pleased to present the 2020 report as Chair of the Nomination and Governance Committee. The Committee played a central role during the year in ensuring adequate succession planning to help contribute to the delivery of the Group's strategy by ensuring the desired mix of skills and expertise of the Board, its Committees, the Executive and the Senior Management.

At the Board's request, the Committee oversaw the review of the skills and attributes required in the Group Chief Executive Officer role to meet our strategic ambitions. This resulted in the appointment of Marcelino Castrillo as the new Group Chief Executive Officer. In addition, the Committee oversaw the re-appointment of myself, Robin Ashton and Paul Lawrence. The appointment and re-appointment process involved a rigorous review of our respective skills, knowledge and expertise (and where appropriate independence) helping to ensure that these complemented those of the rest of the Board and the strategic aims of the Group.

The Committee undertakes an annual review of its terms of reference to ensure that they remain relevant and apply any changes or updates in respect of appropriate regulatory requirements. During the year, the remit of the Committee was extended to include overseeing and monitoring the Group's Corporate Governance arrangements. The Committee subsequently became the Nomination and Governance Committee.

The Committee remains committed to Diversity and Inclusion and is pleased to announce that the Group has now adopted a Board Diversity Policy. The Board also remains a committed member of the Women in Finance Charter and continues its work to improve female representation in the senior leadership team. Further information about the Group's progress in this area has been provided in this report.

Looking forward to 2021, the Committee will continue to keep under review the structure, size and composition of the Board and its Committees, as well as overseeing succession of the Executive and senior leadership team and the Group's Corporate Governance arrangements. Work will also continue to embed the learnings from the 2020 Board effectiveness review.

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

John Callender
Chair of the Nomination and Governance Committee

15 April 2021

Nomination and Governance Committee Report

Main activities during the year

Throughout the year, the Committee considered the composition of the Board and its Committees, Board appointments, Board re-election processes, Succession planning and Diversity and Inclusion. Further information about these areas can be found below.

Chief Executive Officer succession

In late 2020, the Board asked the Committee to review and refresh the role profile of the Chief Executive Officer taking into account the Group's medium and long-term strategic and cultural leadership requirements.

The Committee appointed Russell Reynolds Associates, who have no other connection with the Group and who are a signatory to the Voluntary Code of Conduct for Executive Search firms to assist them. The Committee considered a diverse long list prepared by Russell Reynolds Associates and having agreed a shortlist, interviewed a number of internal and external candidates. Following a thorough interview and assessment programme, and subject to regulatory approval, the Committee recommended Marcelino Castrillo as its preferred candidate. The Board accepted the recommendation and agreed to appoint Marcelino as Chief Executive Officer. The decision was announced on 10 March 2021 and it is expected that Marcelino will join the Group later in the year.

Board composition and succession planning

During the year, the Committee considered the Board's balance of skills and expertise, structure, size and composition 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.

A review of the Non-Executive Directors' letters of appointment setting out the terms of appointment and time commitment was also undertaken. The letters of appointment for the Chairman and Non-Executive Directors set out the time that the Group anticipates they will commit to their roles. This is at least four days per month depending on business needs.

Board and Committee changes

The Committee monitors the membership of the Board and its Committees to ensure that there is a suitable balance of diversity, skills and experience. Consideration to the length of service of the members is also given. Except for the recommended change in Chief Executive Officer there were no further changes to the membership of the Board or its Committees.

Board and Senior Management Function appointment process

During the year, a key focus for the Committee was the review of the size, structure and composition of the Board and consideration of appointments of Senior Management Function (SMF) holders (pursuant to the Senior Managers and Certification Regime). Prior to any Board or SMF appointment, the Committee evaluates the balance of skills, knowledge and experience and, in light of this evaluation, prepares a description of the role and capabilities required for a particular appointment (including a statement of responsibilities for SMF holders).

Additionally, work has been undertaken to identify internal candidates (who were ready for promotion) and recruit external candidates into the senior leadership team to help fulfil the strategy of the Group. The Committee is pleased to report that there were several internal promotions and external hires made in 2020, which will help the Group to achieve its strategic aims.

Electing and re-electing Directors

Before recommending the proposed election or re-election of Directors at the 2020 Annual General Meeting, the Committee reviewed the independence of the Non-Executive Directors and concluded that Robin Ashton, Andrew Didham, Paul Lawrence and Michele Turmore met the criteria for independence. John Callender was independent when he was appointed as Chairman. Lindsey McMurray and Cédric Dubourdieu's re-election as Investor Non-Executive Directors was made in line with the Framework Agreement.

In November 2020, Robin Ashton had served 9 years with the Group (having been appointed as a Non-Executive Director of Shawbrook Bank Limited on 1 December 2011). Having carefully considered the matter, the Committee believes that the current mix of tenure is in the best interests of the Group's stakeholders, and that Robin continues to challenge appropriately, act independently and provides the Board and Executive Management with a wealth of experience to avail themselves of in respect of the Group's business.

Consequently, we recommended to the Board that Robin remain on the Board. In May 2020, the Board agreed with the Committee's recommendation and Robin's re-appointment will now be reviewed annually.

Diversity and inclusion

In December 2020, the Committee recommended to the Board a Board Diversity Policy, which formalised the Group's commitment to improving diversity at Board level. Appointments to the Board and Group continue to be based on skill, experience and knowledge, with a focus on the right person being recruited for the role. Careful consideration is given to diversity of gender, race, skills, experience, as well as regional, socio-economic, educational and professional background among other differences. The Board Diversity Policy was approved by the Board in December 2020.

The Group also reconfirmed its commitment to the Women in Finance Charter. As part of this commitment and with the support of our main external resourcing partner, Cielo, balanced candidate shortlists and diverse interview panels for management roles, are used wherever possible.

These changes have meant that over the past 12 months, the Company has made progress moving its female representation in our Senior Management team from 17% in 2019 to 23% in 2020 through both external female appointments and internal promotions. The Company remains on track to reach its interim target of increasing female representation in its Senior Management team to 25% by year end 2021 and to 30% by year end 2022.

Executive and Non-Executive Director induction

All new Directors are required to undertake an induction programme, which includes comprehensive training on their Senior Managers and Certification Regime responsibilities. In addition, Directors are required to undertake training in the regulatory and compliance frameworks and are also required to gain an understanding of relevant legal requirements such as money laundering legislation. Inductions include sessions with the Chairman, Directors, Executive Management and external advisors to gain insight into the Group. Training is tailored to the requirements of each Director's role, knowledge and experience.

A comprehensive induction programme is planned for the new Chief Executive Officer and the further details will be reported in the Committee Report for the 2021 financial year and will be managed in line with Group's induction programme.

Additional information

The Committee has unrestricted access to the Executive, Senior Leadership and external advisors to help discharge its duties. It is satisfied that in 2020 it received sufficient, reliable and timely information to perform its responsibilities effectively.

The Chair reports on matters dealt with at each Committee meeting to the subsequent Board meeting.

The Board reviewed and approved this report on 15 April 2021.

John Callender
Chair of the Nomination and Governance Committee

Directors' Report

Corporate governance statement
The Directors of the Company present their report together with the audited financial statements for the year ended 31 December 2020. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

Section 414 of the Companies Act 2006 requires the Directors to present a Strategic Report in the Annual Report and Accounts. The information can be found on pages 1 to 49.

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

Dividends
The Directors are not recommending a final dividend in respect of the year ended 31 December 2020 (2019: £nil).

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

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

Powers of Directors
The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association. Changes to the Company's Articles of Association must be approved by the Shareholder passing a special resolution and must comply with the provisions of the Companies Act 2006. The Company's Articles of Association can be viewed here: **shawbrook.co.uk/investors/**

Directors' interests
None of the Directors hold shares in the Company. Lindsey McMurray and Cédric Dubourdieu are directors of Marlin Bidco Limited, the Group's sole Shareholder.

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

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

The Group has maintained appropriate Directors' and Officers' liability insurance in place throughout 2020.

Company Secretary
All Directors have access to the services of the Company Secretary in relation to the discharge of their duties. Daniel Rushbrook is the Company Secretary of Shawbrook Group plc. He can be contacted at the Company's registered office, details of which are on page 184.

Going concern
The financial statements are prepared on a going concern basis, as the Directors believe that the Group has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of the financial statements and the Group has sufficient capital and liquidity to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (PRA).

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 statement of financial position, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business. The Group's capital and liquidity plans have been stress tested under a range of stressed scenarios and have been reviewed by the Directors.

The uncertainties surrounding the potential outcomes of COVID-19 on the economy and the potential ongoing impact it will have on how the Group and customers will operate, means forecasting continues to be a more complex task than normal. Particular attention was paid to reviewing the Group's operations, customers, funding, impairments and profitability, both in the short and long-term, which included consideration of different scenarios and stress events.

The Directors assessed the financial implications of the risks associated with COVID-19, including the expected effect of the Group's actions taken in response, against the most severe but plausible scenario used in the Board's assessment of the ICAAP. This scenario was the 'Rates Down' scenario specified by the Bank of England for use in preparing ICAAP stress tests. Having regard for the severe financial outcomes from this scenario and the reverse stress tests also conducted, the Board concluded that both capital and liquidity forecasts remained within present regulatory requirements, including use of capital buffers, over the going concern period.

Political and charitable donations
The Group did not make any political donations during the year (2019: £nil). Further information on charitable donations made by the Group can be found on page 49.

Share capital
Shawbrook Group plc is a non-listed public company limited by shares.

Details of the Company's issued share capital, together with details of any movements in the Company's issued share capital during the year, are shown in Note 32 of the Financial Statements.

The Company's share capital comprises one class of ordinary share with a nominal value of £0.01 each. At 31 December 2020, 253,086,879 ordinary shares were in issue. There were no share allotments in 2020.

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

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

New issues of share capital
Subject to the Framework Agreement and under Section 551 of the Companies Act 2006, the Directors may allot equity securities only with the express authorisation of the Shareholder. Under Section 561 of the Companies Act 2006, the Board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to the Shareholder to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the Shareholder.

Purchase of own shares by the Company
Subject to the Framework Agreement and under Section 701 of the Companies Act 2006, the Group may make a purchase of its own shares if the purchase has first been authorised by a resolution of the Shareholder.

Substantial shareholdings
The Group is 100% owned by Marlin Bidco Limited.

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

Directors' Report

Disclosure of information to the auditor
The Directors confirm that:

1. So far as each of the Directors is aware, there is no relevant audit information of which the auditor is unaware; and
2. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors must prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Parent Company financial statements on the same basis.

Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period.

In preparing the Group's financial statements, the Directors are required to: properly select and apply accounting policies, present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable an understanding of the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Finally, the Directors must assess the Group's ability to continue as a going concern.

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

Each of the Directors, whose names and functions are listed on pages 53 to 54, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report (on pages 1 to 49) and the Directors' Report (on pages 89 to 91) include a fair review of: (i) the business's development and performance and (ii) 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;
- the Annual Report and financial statements comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for the Shareholder to assess the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 15 April 2021.

By order of the Board.

Daniel Rushbrook
Company Secretary

Risk Report

Risk Report.

Approach to risk management

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 then 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 continued to evolve in 2020 with further investment in key areas such as climate change, financial crime controls, information security, non-performing loans and technology.

The Group appointed a Chief Internal Audit Officer in April 2020 as part of its plans to in-source the internal audit function. For technical audits, the Group will continue to engage with Deloitte LLP as part of a co-source arrangement. In the Group's risk function, the Group appointed a new Director of Financial Crime/Money Laundering Officer (subject to regulatory approval) and additional resources to support activities associated with non-performing loans, in anticipation of potential challenges arising from COVID-19. There has also been further investment in the Group's key operating divisions and functions including the appointment of a new Director of Risk and Operational Resilience within the Chief Operating Office.

The Group's Risk Management Framework (RMF) was further enhanced in 2020, reflecting the annual review of risk appetite and recommendations arising from the Group's Climate Change Working Group, including the embedding of climate risk within each of the Group's key risk categories. The Climate Risk Working Group also completed a climate risk assessment and developed a Climate Risk Implementation Plan for 2021. In support of the Climate Risk Implementation Plan, the Group arranged external training for the Board on the financial and transitional impacts arising from climate change. The Group has further embedded its approach to stress testing in both its Internal Capital Adequacy Assessment Process (ICAAP), Group risk appetite and its Recovery Plan.

The Group has completed the implementation of a number of requirements arising from the consultation papers on operational resiliency and has set up a team within the Chief Operating Office to oversee the implementation and embedding of operational resiliency under the oversight of the Operations Committee. Key developments include the identification of the important business services, the development and implementation of a new Incident Management Framework, an updated framework for the management of material outsourcers and the initial assessment of impact tolerances. The new Incident Management Framework has supported the central oversight of the seamless transition to new working arrangements following COVID-19.

Effective risk management is a key pillar in the execution of the Group's strategy with the Group's approach to enterprise risk management being underpinned by five key elements:

Risk strategy	**Risk appetite**	**Risk Management Framework**
Governance	**Culture**	**Further details of these key elements are provided in the following sections.**

Risk strategy

The risk strategy sets out the strategic risk management objectives that support the achievement of the Group's commercial goals and the operation of the business activities that seek to deliver those aims. The risk strategy sets out which risks are to be acquired or incurred and how they will be managed by the Group. This is summarised in the Group's Risk Plan, which is approved annually by the Board in February of each year. The Group's Risk Plan includes the risk priorities for the Group's risk function, together with the risk plans for the key operating divisions and functions.

The strategic risk management objectives are to:

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

Risk appetite

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

During the year ended 31 December 2020, the Group completed the annual review of the Group and divisional risk appetites and enhanced the methodology for promoting the visibility of emerging risks to the Board. The Group also decided to embed climate risk within each key risk category to promote further embedding and in line with industry practice.

The Risk Appetite Statement is not static and evolves to support the Group's business objectives, the operating environment and risk outlook. Whilst the Group Risk Appetite Report provides an aggregated measure of performance against risk appetite, it is not just a reporting tool. Just as importantly, it also provides a framework that is used dynamically to inform strategic and operational management decisions, as well as supporting the business planning process. In March 2020, the Group made strategic business decisions to balance risk appetite, whilst balancing the needs of its existing customers and protecting the safety of its colleagues during the onset of COVID-19.

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

As set out in the following illustration, the Risk Appetite Statement identifies five risk appetite objectives that are further subdivided into 23 appetite dimensions. The objective assessment of each risk appetite dimension is supported by qualitative statements and a series of quantitative measures that are weighted by their importance to the overall appetite. Climate risk is a cross-cutting risk appetite that is embedded in each of the risk appetite objectives in order to promote greater embedding in each key risk category in line with industry best practice.

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

Approach to risk management

Risk Management Framework

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

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

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

The RMF also incorporates the organisational arrangements for managing risk with specific responsibilities distributed to certain functions. This ensures that there is clear accountability, responsibility and engagement at appropriate levels within the Group, which can provide robust review and challenge, as well as be challenged. Operationally, the RMF is organised around the key risk categories (see page 115).

Governance

All of the Group's risk activities are subject to detailed and comprehensive governance arrangements that set out how risk-based authority is delegated from the Board to the Executive Committee and the various risk management committees and individuals. Risk governance and oversight is detailed on page 96.

Culture

The Group is led by an experienced management 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 behaviour where the customer is at the heart of the decision-making process and business areas are held fully accountable for risk performance. At the individual level, this process begins with the induction programme and job descriptions, is carried into the setting of individual objectives and performance reviews and is ultimately reflected in the compensation and reward structure. The Group conducts regular surveys for all of its employees, to help identify any emerging risks and to promote engagement.

Risk governance and oversight

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

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

Accountability, responsibility and authority for risk management is delegated to the Chief Executive Officer and Chief Risk Officer, who in turn allocate responsibility for oversight and certain approvals across a number of management committees. During 2020, the Group assigned the designated role of SMF18 ('other overall responsibility function') to each of its divisional Managing Directors.

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

The Group's key risk categories are detailed on page 115. Oversight of these key risk categories is illustrated below. Climate risk is embedded in each of the key risk categories and is overseen by the Chief Risk Officer.

Oversight / Risk category	Board			
	Risk Committee			Audit Committee
	First line	Second line		Third line
Creditworthiness risk	Credit management in business divisions	Credit risk	Enterprise Risk Management Committee	Internal audit
Liquidity and market risk	Treasury	Market and liquidity risk	Asset and Liability Committee	Internal audit
Operational risk	All business divisions, functions, Chief Operating Office and Chief Technology Office	Operational risk	Enterprise Risk Management Committee	Internal audit
Compliance, conduct and financial crime risk	All business divisions	Compliance	Enterprise Risk Management Committee	Internal audit
Strategic risk	Executive Directors and Senior Management	Finance	Executive Committee	Internal audit
Systems and change risk	Chief Technology Office	Operational risk	Operations Committee	Internal audit

These bodies and senior officers are accountable and responsible for ensuring that the day-to-day risks are appropriately managed within the agreed risk appetite and in accordance with the requirements of the RMF.

Individuals are encouraged to adopt an open and independent culture of challenge, which is important in ensuring risk issues are fully surfaced and debated, with views and decisions recorded. Risk governance and culture is reinforced by the provisions of the Senior Managers and Certification Regime.

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

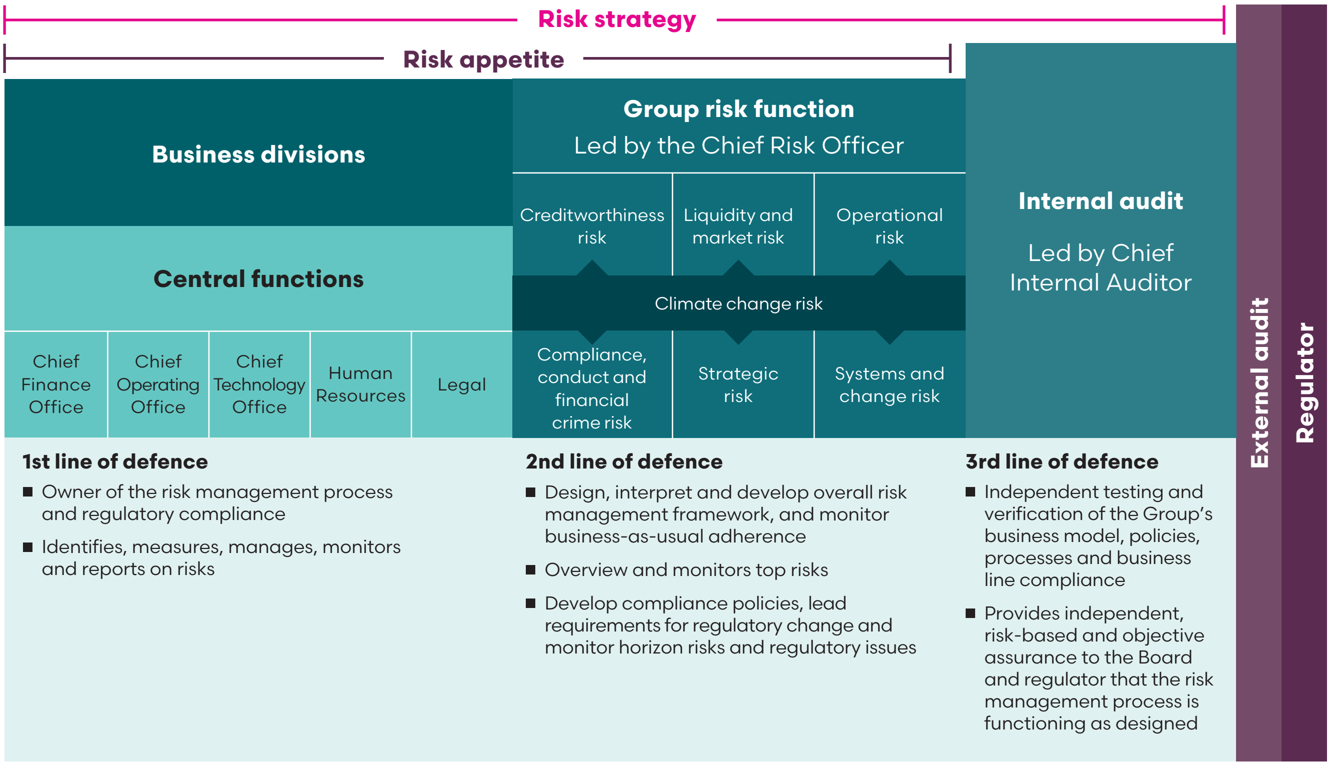
Committee structure and risk responsibilities

An abbreviated Board and Executive Committee structure is set out in the Corporate Governance Report on pages 58 to 61. The monitoring and control 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 Group.

Risk governance and oversight

Three lines of defence model

The Group's RMF is underpinned by the 'Three Lines of Defence' model, which is summarised in the diagram below:



First line of defence

Responsibility for risk management resides in the frontline business divisions and central functions. Line management is directly accountable for identifying and managing the risks that arise in their business or functional area. They are required to establish effective controls in line with 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, the operations function led by the Chief Operating Officer, the technology and change function led by the Chief Technology Officer, the human resources function led by the Group Human Resources Director and the legal function led by General Counsel and Company Secretary. Operational resiliency and outsourcing oversight is performed by the Chief Operating Officer and the Chief Technology Officer. Whilst the human resources and legal functions are not customer facing themselves, they provide support and backup to the customer facing divisions and have insight into many operational factors that could ultimately impact on Group's exposure to risk.

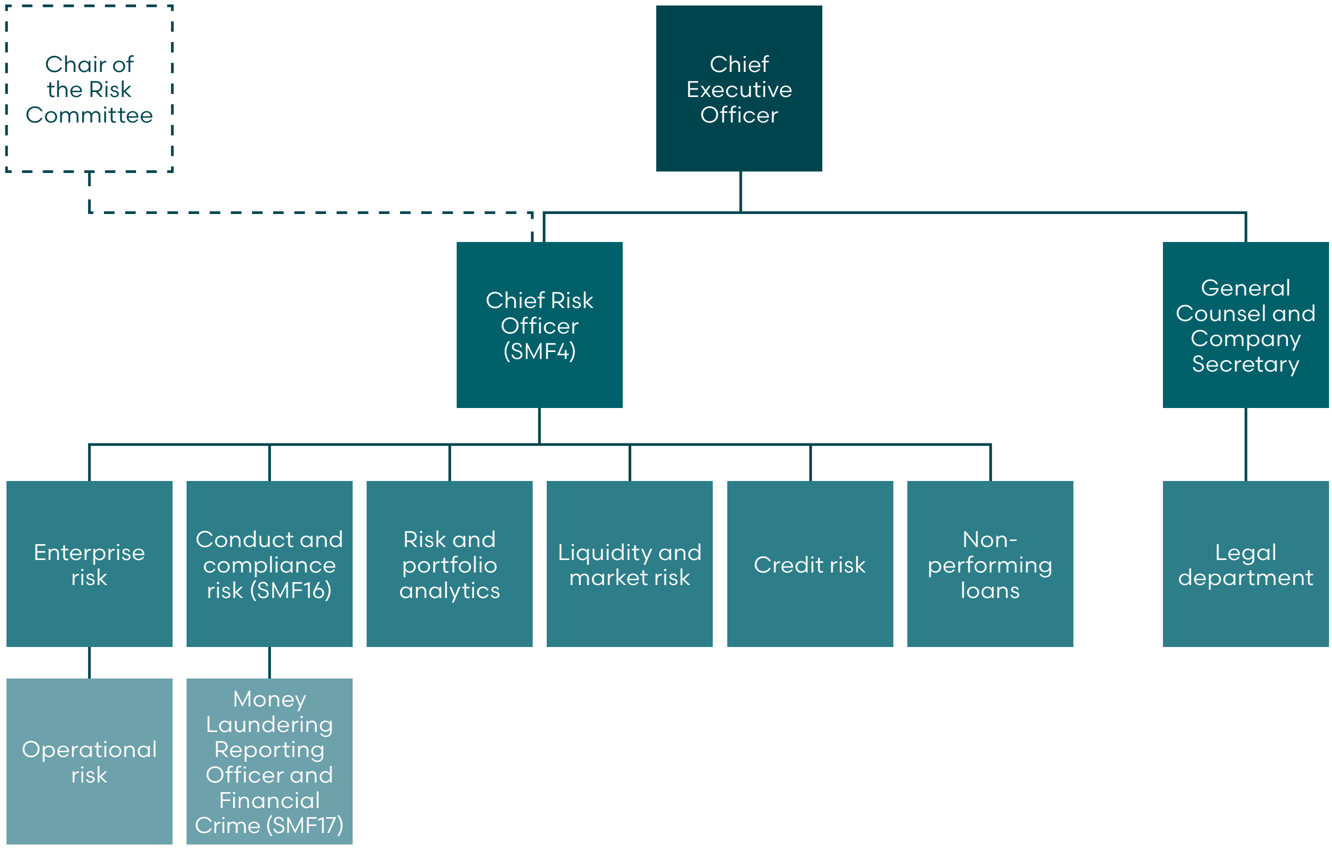
Each division and functional area operates to set risk policies to ensure that activities remain within the Board's stated risk appetite for that area of the Group. The risk policies are approved by the appropriate committee in accordance with their terms of reference and are reviewed annually, with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

The first line of defence has its own operational policy, process and procedure manuals to demonstrate and document how it conforms to the approved policies and controls. Likewise, it develops quality control programmes to monitor and measure adherence to and effectiveness of procedures. All employees within a customer facing unit are considered first line of defence. Each employee is aware of the risks to the Group of 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 employees 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 Chief Executive Officer and laterally to the Chair of the Risk Committee. The Chief Risk Officer is also provided with unfettered access to the Chairman of the Board. The second line of defence also includes the General Counsel and Company Secretary who report to the Chief Executive Officer.

The high-level risk structure is shown below. This includes Senior Management Function (SMF) references per the Senior Managers and Certification Regime where applicable:



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

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

Risk governance and oversight

Third line of defence

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

The third line of defence has access to the activities and records of both the first and second lines of defence. It can inspect and review adherence to policies and controls in the first line, the monitoring of activity in the second line and the setting of policies and controls in the second line. The third line of defence does not independently establish policies or controls itself, outside of those necessary to implement its recommendations with respect to the other two lines of defence. The third line may in some cases use 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 Audit Committee to provide an independent assessment of the adequacy and effectiveness of 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 continues to engage Deloitte LLP to provide resources as part of the co-source model led by the Chief Internal Auditor.

Risk policies and controls

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

The Group's high-level control documents and risk policies are overseen by the Group's risk function, headed by the Chief Risk Officer and are approved by the Board or, where delegated, the appropriate Risk Committee. The suite of policies is grouped according to importance and key risk categories within a Board approved policy hierarchy and framework.

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 procedure manuals provide employees at all levels with day-to-day direction and guidance in the execution of their duties.

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

Asset class policies

The Group controls its lending activities through 21 asset class policies and a further 14 lending policies. These have been arranged to operate on a Group-wide basis rather than being 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 (PD), loss given default (LGD) and expected credit loss (ECL) metrics, which facilitates risk reporting, risk adjusted profitability analysis and modelling for stress testing and capital adequacy purposes. During 2020, the Group developed a matrix to sit above the asset class policies that highlight the key criteria that are reserved for Board approval.

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

Top and emerging risks

The Group's top and emerging risks are identified through the process outlined in the RMF (see page 95) and are considered regularly by the Enterprise Risk Management Committee and subsequently by the Risk Committee.

Top risks

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

The Group sees eight themes as its top risks:

- Global pandemic risk
- Credit impairment
- Geopolitical risk
- Economic and competitive environment
- Pace of regulatory change
- Intermediary, outsourcing and operational resiliency
- Pace, scale of change and people risk
- Information risk

These themes are considered on the following pages.

Key to change in risk environment:

↔ No change

↓ Risk decreased

↑ Risk increased

Top and emerging risks

Global pandemic risk

Overview
COVID-19 continues to impact on the Group's employees, operations, third parties and customers. The ultimate impact will depend on the length of any lockdowns, virus recurrence, the nature and extent of any government interventions, the timing and effectiveness of vaccines and how prolonged the economic recovery is.

The UK Government introduced the Coronavirus Business Interruption Loan Scheme (CBILS), which enables banks to lend up to £5 million in the form of term loans, overdrafts, invoice finance and asset finance to SMEs with turnover under £45 million.

Further assessment regarding COVID-19 can be found on page 109 and within the Strategic Report on page 11.

Link to strategy and business model
- SME
- Landlords
- Homeowners
- Consumers

Link to KPIs
- Loan book
- Customers
- CET1/total capital ratio
- Cost of risk

How this could impact our strategy or business model
- Reduced customer spending and business investment, lowering demand for the Group's loan products and decreasing originations.
- Increased unemployment, particularly amongst the self-employed.
- Increased impairments from higher unemployment, insolvencies and reduced income impacting customer's ability to service debt and increased numbers of customers requesting forbearance.
- Impact on impairment arising from other economic variables such as residential and commercial property prices.
- Increased pressure on operations resulting from increased numbers of customers seeking support and the potential for colleagues to be exposed to the virus generating increased absenteeism.

How we manage this risk
- The Executive Committee meet regularly to identify emerging issues and agree upon actions as required. This process is supported by an Incident Management Working Group.
- Following government advice to stay at home, almost all employees were moved to work from home and existing robust IT systems were supported by additional measures such as enhanced VPN lines and video conferencing.
- Introduction of measures to support the safety and wellbeing of all employees, including the provision of membership to a wellbeing and meditation app, licenses to a video conferencing provider to allow employees to connect with families and the business and access to an online GP service.
- The Group obtained accreditation from the British Business Bank in May 2020 to provide CBILS loans to its existing customers.
- Provision of temporary payment holidays and forbearance arrangements, adhering to and complying with regulatory guidance. Whilst many customers have returned to making full repayments the Group expects that some customers will require longer term forbearance.
- Increased consideration of COVID-19 related hardship, such as access to fixed rate savings accounts.

Focus areas for 2021
- As government help and temporary COVID-19 related measures expire, the Group will continue to focus on supporting its customers appropriately and meeting regulatory obligations.
- Continued modelling of COVID-19 scenarios to identify and evaluate financial impacts on the business, the Group's third parties, operations and its staff.
- Conduct risk assessments to identify potential strategic, operational and regulatory exposures.

Credit impairment

Overview
As at 31 December 2020, the Group's loan book is £7.1 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 whom it places surplus funding.

Link to strategy and business model
- SME
- Landlords
- Homeowners
- Consumers

Link to KPIs
- Cost of risk
- CET1/total capital ratio

How this could impact our strategy or business model
- Increases in credit impairment could lead to a material reduction in profitability and retained earnings that may impact on the Group's ability to meet its objectives.
- Ineffective in-life management may lead to missed opportunities to support customers leading to increased impairment and customer harm.
- The economic and impairment models, together with forward-looking assumptions, have had to be developed at pace and, given that COVID-19 is unprecedented, the models are untested in this environment. This increases the uncertainty in impairment estimates and the impact on risk appetite.

How we manage this risk
- Investment in non-performing loan resources in advance of any COVID-19 related potential problem loans during 2020 has managed the number of watch list cases per non-performing loan resource.
- The Group has modified its risk appetite during COVID-19 to reflect the uncertainty of the environment.
- The Group has enhanced underwriting guidelines and requirements to provide increased focus on sustainability of income, including some non-contractual income sources, within the affordability calculation.
- Development of operational plans for payment holidays aligned to the Group's forbearance strategies.
- The impact on models is regularly monitored and reported to internal committees and post-model adjustments reviewed by the Model Management Sub-Committee and approved by the Group Impairment Committee.

Focus areas for 2021
- Continue to develop the granularity and accuracy of the Group's stress testing capability.
- Regular review of the supportable evidence used in support of the model based ECL.

Top and emerging risks

Geopolitical risk

Overview

Geopolitical risk, such as an unprecedented political risk e.g. Brexit, could present a risk to the business, its financials and earnings volatility.

The UK left the European Union (EU) on 31 January 2020. The EU and UK agreed a trade agreement with effect from the end of the transition period on 1 January 2021, reducing the impact on economic conditions in the UK and EU. The UK's trading arrangements with the rest of the world could take a number of years to resolve, which may lead to a further period of uncertainty. Further assessment regarding the UK withdrawal from the EU can be found on page 109.

Link to strategy and business model

- SME
- Landlords
- Homeowners
- Consumers

Link to KPIs

- Loan book
- Customers
- Cost of risk
- CET1/total capital ratio

How this could impact our strategy or business model

- A UK recession with negative/lower growth could impact on the level of investment in the UK and impact on the Group's customers' demand for the loans, funding, and deposits that it provides.
- Higher unemployment and falling UK property prices could lead to increased impairments on the Group's loan portfolios including Consumer Lending, residential and commercial real estate exposures and lending to SMEs.
- Credit spreads could widen leading to reduced investor appetite for the Group's debt securities, which could impact the Group's cost of and/or access to funding and the ability to grow the loan portfolios.
- The Group's operational resiliency may be impacted by the need to transition activities from non-UK firms.

How we manage this risk

- The Group undertakes a comprehensive assessment of its risk appetite and stress tests its lending and deposit portfolios to ensure that it can meet its objectives in severe but plausible economic conditions and which contain the Group's assessment of Brexit.
- The Group established Brexit trackers and engaged with its critical suppliers through a Brexit survey and, of those that responded, all declared minimal or no impact on services provided to the Group.
- The Group refinanced £75 million of its Tier 2 capital. The Group has £125 million of Additional Tier 1 capital and £95 million of Tier 2 capital resources in addition to its CET1 resources. The Group completed an inaugural securitisation of a portfolio of mortgages originated through The Mortgage Lender Limited.
- The Group has reviewed its register of outsource providers and has no gaps in EU General Data Protection Regulation Article 28 clauses. The Group has identified one non-UK-based cloud outsource provider that it considers to be easily substitutable.

Focus areas for 2021

- Ensure that all outsourcers and third parties are operationally resilient in the event of geopolitical uncertainty.
- Continue to develop a range of mitigating actions, including the use of robust stress tests that contain the risk of geopolitical risk by comparing the economic scenarios assessed in IFRS 9 with those used in the ICAAP.

Economic and competitive environment

Overview

A downturn 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 in the market;
- rising competition compressing Group margins below sustainable levels; and
- higher impairments through increased defaults and/or reductions in collateral values.

Link to strategy and business model

- SME
- Landlords
- Homeowners
- Consumers
- Savers

Link to KPIs

- Loan book
- Customers
- Cost of risk
- CET1/total capital ratio
- Gross asset yield

How this could impact our strategy or business model

- Reduced gross lending from lower demand as customers defer major purchases and investment. This may be partly offset by lower early settlement of loans.
- Increased impairments if a significant number of SMEs experience financial distress or insolvency and if consumers experience a large increase in unemployment.
- A prolonged economic downturn may impact on the Group's ability to fund strategic investment to meet the needs of customers and improve operations.

How we manage this risk

- The Group has continued to simplify the business and its products to become easier to do business with.
- The UK entered recession in Q2 2020 and, consequently, the Group carefully considered its risk appetite in its selected markets and prioritised the needs of its existing customers over new originations following COVID-19 and prioritised investment in meeting the Group's longer term needs through the creation of a 'Value Creation Roadmap'.
- The Group recruited additional resources in the first and second line of defence during 2020 in advance of any potential increase in problem loans following the onset of COVID-19.
- The Group became an accredited CBILS lender in May 2020 to support its existing customers. As at 31 December 2020, the loan book included £31.9 million of CBILS loans.
- The Group continues to consider inorganic growth that is consistent with its strategy and completed the acquisition of the team and a portfolio of development finance loans from RateSetter in December 2020 and completed the acquisition of The Mortgage Lender Limited in February 2021.
- The Group undertakes a comprehensive assessment of its risk appetite to ensure that it can meet its objectives in severe but plausible economic conditions.

Focus areas for 2021

- The targeted expansion of risk appetite in carefully selected sectors to align with the economic outlook as it emerges.
- Scaling the business through the implementation of automated lending decisions.
- Utilisation of third parties and technology to increase capacity in originations, servicing and collections activities to position the Group to meet the needs of its customers.
- Continue to invest in its outsourcing controls and oversight to manage any additional risk that it may be exposed to.

Top and emerging risks

Pace of regulatory change

Overview

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 Financial Policy Committee reduced the countercyclical capital buffer from 1% to 0% with effect from March 2020 as part of a number of special measures in response to COVID-19 and announced that it would not expect to increase the countercyclical capital buffer until March 2022.

The EU 'Quick Fix' package has re-phased the IFRS 9 transitional factors and accelerated the extension of the SME scalar.

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have undertaken a number of thematic reviews during 2020.

Link to strategy and business model

- SME
- Landlords
- Homeowners
- Consumers
- Savers

Link to KPIs

- Loan book
- Cost of risk
- CET1/total capital ratio

How this could impact our strategy or business model

- An increase in minimum regulatory capital requirements may directly impact on the Group's risk appetite and its ability to support its current and potential future customers.
- Changes in regulatory capital requirements may lead the Group to change its business mix, or to exit certain business activities altogether, or not to expand in areas despite otherwise attractive potential.
- An increase in minimum regulatory capital requirements may restrict distributions on capital instruments that may have an impact on the Group's ability to issue new or refinance existing capital instruments.
- The Group adopts the standardised approach to credit risk. The Basel Committee on Banking Supervision announced changes to the risk-weightings under the standardised approach in December 2017 that will lead to an increase in capital requirements on 1 January 2023. The Group currently believes that the primary impact will be in Property Finance and the impact could be an increase in total risk-weighted assets of c.8%, thereby reducing the level of surplus capital available for further originations.

How we manage this risk

- The Group actively engages with regulators, industry bodies and advisors to actively engage in consultation processes. The Group actively reviews regulatory publications to assess their implications for the business and oversees the impact analysis through its Regulatory Change Working Group.
- The Group has completed its ICAAP in Q1 2020 and, in advance of the Capital Supervisory Review and Evaluation Process, has considered the conclusions in the regular business planning processes that have taken place during 2020.
- During 2020, the Group completed the refinance of £75 million of Tier 2 capital to optimise capital resources.
- During 2020, the Group completed the securitisation of a portfolio of buy-to-let mortgages with gross carrying amount (before loss allowance) of £330.6 million in order to increase the CET1 and total capital ratio by derecognising the loans.

Focus areas for 2021

- Ongoing stress testing of the Group's lending portfolios to quantify the impact of any changes on the strategy and business model.
- Complete an annual review of the ICAAP.
- Continue to develop the Group's stress testing capability in a post COVID-19 environment.

Intermediary, outsourcing, and operational resiliency

Overview

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. This may include things that the Group is accountable for in terms of meeting Mortgage Conduct of Business regulation, Consumer Credit sourcebook and other regulation and areas where the Group is accountable for the oversight of third parties where it may be exposed to Section 75 risk. For the Group, this could also lead to increased conduct related redress, additional fraud, or credit risk impairments.

The Group uses a number of third parties to support the delivery of its objectives. The availability and resiliency of its core customer facing systems play a key role in supporting the Group's reputation in its chosen markets.

Link to strategy and business model

- SME
- Landlords
- Homeowners
- Consumers
- Savers

Link to KPIs

- Loan book
- Customers

How this could impact our strategy or business model

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

How we manage this risk

- The Group has continued to simplify the business and focus on relationships where oversight is consistent with the Group's conduct risk appetite.
- The Group has continued to invest in its relationship with its key third parties, particularly during COVID-19, to ensure that the Group was able to complete payment holiday requests. This included increased reporting of the performance of material third parties at Executive Committee, Risk Committee and Board as appropriate.
- The Group has identified all of its important business services and has invested resources in developing policy, process and procedures to support the effective operation of each. The Group has also implemented additional governance arrangements to oversee its material outsourcing arrangements including compliance with the PRA requirements on outsourcing and third party risk management guidance, including the European Banking Authority (EBA) 'Guidelines on outsourcing arrangements'.
- The Group has developed and implemented an operational resiliency roadmap and heatmap of its key business services, including an initial view of impact tolerances (the maximum tolerable level of disruption to an important business service) to promote greater operational resiliency.
- The Group has invested in cloud technology to increase the resiliency of its core systems and back-up for its core information.
- The Group has updated its crisis management processes and tested these during COVID-19.

Focus areas for 2021

- Scenario testing to further refine the Group's impact tolerances in both assessing customer harm and the safety and soundness of the Group.

Top and emerging risks

Pace, scale of change and people risk

↑

Overview
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 is a diverse specialist lending and savings bank and needs to deliver a significant number of projects over the plan to deliver its objectives. Failure to deliver the required change may lead to a disruption in the delivery of its objectives.

Link to strategy and business model
- SME
- Landlords
- Homeowners
- Consumers

Link to KPIs
- Loan book
- Customers
- Cost of risk
- CET1/total capital ratio
- Gross asset yield

How this could impact our strategy or business model
- Delivering what customers need and in the way that they want to engage with the Group is essential to building the Group and failure to do this may impact on originations, customer retention and profitability.
- People risk has increased because of COVID-19, with almost all the Group's workforce working from home and many having to adjust to home schooling during the lockdown period. Failure to protect employees and promote mental health and wellbeing could lead to higher absence and impacts on the Group's ability to look after its existing customers.

How we manage this risk
- The Group has focused on supporting employees during the lockdown period with the implementation of new technologies, including video conferencing, to ensure that the Group's operations remain resilient.
- Strategic change has been focused on supporting existing customers through COVID-19 and investments in technology to improve customer service for when normal business returns.
- The Group has actively considered the wellbeing of its employees by offering membership to a wellbeing and meditation app, access to an online GP service and a comprehensive workplace assessment process that has been followed with the provision of additional support where reasonable adjustments are required.
- The Group has regularly completed its engagement survey and, despite the COVID-19 situation, has increased its employee engagement score from 7.2 in November 2019 to 8.0 in November 2020.

Focus areas for 2021
- The Group has organised its strategic priorities into a roadmap through which to prioritise its resources. Delivery of the roadmap is key to the Group's objectives.
- The targeted return of risk appetite, which was tightened during COVID-19, to support existing and new customer needs.
- The safe return of colleagues to the Group's key operational sites.

Information risk

Overview

The cyber threat remains significant and high profile across all industries. Cyber security and information risk continues to be a focus area for regulators and is increasingly assessed as an integral part of operational resilience. This is coupled with an increase in public awareness and regulatory focus specifically on cyber resilience in the face of increasingly targeted, destructive ransomware attacks experienced over the last 12 months in the market.

Link to strategy and business model

- SME
- Landlords
- Homeowners
- Consumers
- Savings

Link to KPIs

- Loan book
- Customers
- CET1/total capital ratio

How this could impact our strategy or business model

- Increasing customer demand could exceed the Group's ability to provide highly reliable and widely available systems and services, leading to a fall in confidence and increased risk that customer information could be compromised.
- The evolving nature and scale of criminal activity could increase the likelihood and severity of attacks on the Group's systems.
- 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.

How we manage this risk

- The Group continually reviews its control environment for information security to reflect the evolving nature of the threats to which the Group is exposed.
- The Group's strategy for mitigating information security risk is comprehensive, including: a documented cyber strategy, ongoing threat assessments, regular penetration testing, the wide deployment of detective controls and a programme of education and training.
- The Group continues to invest in its technology layer including the use of cloud computing resources to improve resiliency and the implementation of additional controls to support the security of its core systems. This includes investment in asset management and investment in additional external resources to support systems that are approaching the end of their support.
- Development of divisional application and data heatmaps to manage legacy system risk, resiliency and the build-up of technical debt.

Focus areas for 2021

- The Group has continued to invest in its capabilities to reduce its exposure to a cyber-attack and plans to further embed ISO 27001 to further refine its risk appetite and controls with respect to information security.
- Delivery of actions from the application and data heat maps to mitigate legacy system risks, improve resiliency and manage the risks arising from technical debt.
- Review of the security posture of its outsourcers and third parties.

Top and emerging risks

UK withdrawal from the EU

The UK left the EU on 31 January 2020 and the transition period ended on 31 December 2020. The risks associated with the UK's withdrawal from the EU are primarily captured by the 'geopolitical risk' category, however due to its prevalence it is specifically addressed in further detail below.

The Group's operations are all based in the UK. Whilst this mitigates many potential impacts of the UK leaving the EU, there are still impacts upon the Group. Upon the transition period ending, onshore legislation and regulatory requirements will apply. The onshoring process (amending legislation and regulatory requirements so they work in a UK-only context) means there will be some areas where requirements on firms will have changed. The UK financial regulators have activated their Temporary Transitional Power and given firms until 31 March 2022 to prepare for full compliance with the onshore UK regime (with the exception of some areas which must be complied with by 31 December 2020). The Group continues to manage its Brexit tracker and monitor progress on any outstanding items, including ensuring compliance with the Temporary Transitional Power exceptions by the 2020 year-end. The EU and the UK agreed a trade agreement prior to the end of the transition period, with effect from 1 January 2021. The Group continues to consider that the impact of Brexit falls within its current stress testing scenarios considered through its ICAAP and Recovery Plan. This assessment is based on the Group's view of the macroeconomic environment in a number of scenarios.

COVID-19

The risks associated with the COVID-19 pandemic are primarily captured by the 'global pandemic risk' category, however due to its prevalence it is specifically addressed in further detail below.

The COVID-19 pandemic continues to have a material impact on businesses around the world and the economic environments in which they operate. Following a reduction in the severity of the restrictions on movement and the UK starting to reopen the majority of sectors of the economy, the risk of a second wave materialised with levels of COVID-19 increasing during September and October 2020. This resulted in a further national lockdown. With extensions of the furlough scheme and self-employed support, the length of the economic downturn and its overall impact to the economy continues to remain uncertain.

The priorities of the Group in managing the challenges faced as part of the COVID-19 pandemic continue to be ensuring the needs of its customers are met, protecting employees and securing business continuity.

The Group has taken a number of actions in response to the pandemic, including:

- managing the ongoing situation via the Group's incident management teams to ensure the needs of customers and employees continue to be met;
- updating the capital and funding plans to reflect the prudential support provided through the Capital Requirements Regulation (CRR) 'Quick Fix' package of initiatives including the revised IFRS 9 transitional factors, the extension of the SME scalar and the publication of PRA Policy PS15/20 in addition to the reduction in the UK Countercyclical Buffer to 0%;
- updating the Group's Risk Appetite Statement. In March 2020, strategic decisions were made to balance risk appetite with meeting the needs of its existing customers and protecting its colleagues. In August 2020, the Group implemented a targeted approach to restoring some of its pre-COVID-19 risk appetite;

- continuing to support customers through the provision of payment holidays and the CBILS;
- enhancing operational and technical infrastructure to continue supporting employees working from home in line with the UK Government's guidelines without detriment to the expected levels of customer support;
- strengthening the non-performing loans support team to ensure the Group is prepared for any increase in potential problem loans and increased levels of forbearance, impairment, and default; and
- continuing to monitor COVID-19 related risks, including regular reporting to the Executive Committee and the Board.

In addition to those captured by the 'global pandemic risk' category, significant risks to the Group that may arise from the economic shock are:

- increased credit risk as customers are unable to meet their obligations as they fall due. The primary risks relate to the impacts of the end of the furlough scheme in September 2021 and the extent that some jobs may have been permanently lost in some sectors, together with the end of the payment holidays. CBILS loans, which include government guarantees, provided additional support to customers and a grace period which potentially reduced some of this risk to the Group. As a result, there may be increased levels of forbearance, impairment, and default together with other forms of customer support. There is also the risk that the increased government support may mask underlying credit risk that is difficult to identify through traditional credit reference agency records and the potential for model risk as impairment models are not trained on a pandemic scenario;
- a lengthy reduction in business activity may impact the Group's ability to generate new business opportunities and the associated growth of the portfolio. The Group continues to carefully consider macroeconomic data to inform its strategy and risk appetite;
- whilst the stamp duty holiday has supported the housing market during 2020, this is due to cease in June 2021. This may lead to a fall in the collateral values of the security held to support the Group's lending, which may have an impact on impairment and the Group's risk-weighted assets. The consensus forecasts point to only a modest fall in house prices and, due to the Group's limited appetite for lending over 75% loan-to-value, the fall in collateral values would need to be severe and prolonged to have a material impact on the Group; and
- heightened levels of fraud as fraudsters take advantage of vulnerabilities created by the current situation.

Top and emerging risks

Emerging risks

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

The Group has identified four emerging risks:

- Financial crime
- Climate risk
- LIBOR transition
- Negative rates

Each of these risks are considered further below:

Financial crime

Emerging

Overview

The risk of a downturn in the UK economy or COVID-19 could result in an increased risk of financial crime activity.

Link to strategy and business model

- SME
- Landlords
- Homeowners
- Consumers
- Savings

Link to KPIs

- Loan book
- Customers

How this could impact our strategy or business model

- An inadequate control environment for financial crime could lead to increased operational losses, increased manual reviews, and potentially regulatory censure.
- The current working environment and the transition of resources to new work activities may impact on the effectiveness of existing controls and increase fraud opportunities.

How we manage this risk

- The Group continues to enhance its control environment with respect to financial crime, which is closely monitored by the Executive Committee.
- The Group is implementing its preferred solution to support automated customer due diligence processes.
- The Group has appointed a new Money Laundering Reporting Officer, subject to regulatory approval. This role (SMF17) currently sits with the Chief Compliance Officer.

Focus areas for 2021

- Implementation of the Group's new financial crime control environment, supported by the programme developed by the Group in 2020.

Climate risk

Emerging

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

Link to strategy and business model
- SME
- Landlords
- Homeowners
- Consumers
- Savings

Link to KPIs
- Loan book
- Customers
- Cost of risk
- CET1/total capital ratio
- Gross asset yield

How this could impact our strategy or business model
- Physical risks could lead to real impacts on the economy through business disruption, asset destruction and migration, which may drive market and credit losses to the Group through lower property and corporate asset values, lower household wealth and lower corporate profits and more litigation.
- The transition to a lower carbon economy could lead to lower growth and productivity and the potential for operational risks and underwriting losses.

How we manage this risk
- The Group submitted its Climate Change Plan to the PRA in October 2019 and has selected a leading supplier to support the development of its Climate Risk Implementation Plan. The Group has a working group that meets monthly to oversee progress on the Climate Risk Implementation Plan and conducted Board training in November 2020.
- The Group has decided that it will embed the management of climate risk proportionately within its key risk categories with high materiality areas including strategic risk and creditworthiness risk.
- The Group considers the embedding of climate related matters to be a key initiative and, as such, has appointed the Chief Risk Officer as the responsible executive to oversee delivery of the Climate Change Plan.

Focus areas for 2021
- Delivery of the Climate Risk Implementation Plan through the development of target capabilities across four workstreams including: governance, RMF, scenario analysis and disclosures.

Top and emerging risks

LIBOR transition

Emerging

Overview
The Group, like other firms supervised in the UK, are required to transition away from London Inter-bank Offered Rate (LIBOR) to alternative interest rate benchmarks ahead of the end of 2021. The Group must make sure that its customers are managed through the transition in good time to manage good customer outcomes and that new contracts are linked to alternative rates in good time.

Link to strategy and business model
- SME
- Landlords
- Homeowners

Link to KPIs
- Loan book
- Customers
- Gross asset yield

How this could impact our strategy or business model
- Impact on the provision of new loan contracts on the cessation of LIBOR.
- Potential for complaints/litigation risk as existing loan contracts are migrated to new reference rates.
- Impact on existing swaps not covered under the International Swaps and Derivatives Association protocol.

How we manage this risk
- The Group has formed a LIBOR Working Group, which manages the Group's assessment and recommendation of the alternative rates for its lending divisions and the transition plan for both new and existing customers in advance of the end of 2021.
- Given the importance of LIBOR transition, the Group has appointed the Chief Financial Officer as the responsible executive.

Focus areas for 2021
- Continue to remain on track for transition across all divisions.

Negative rates

Emerging

Overview

Since the financial crisis in 2008, interest rates in the UK have reached historically low levels and some central banks have implemented negative rates as a monetary policy tool. To be an effective policy tool the financial sector needs to be operationally ready to implement negative rates. The Bank of England and PRA are consulting on the technical challenges and to consider how best to prepare and prevent any unintended operational disruption should the Monetary Policy Committee decide a zero or negative Bank Rate was appropriate.

Link to strategy and business model

- SME
- Landlords
- Homeowners
- Savers

Link to KPIs

- Loan book
- Customers
- Gross asset yield

How this could impact our strategy or business model

- Business lending disruption through infrastructure that may not support negative rates and businesses with products that are not floored.
- Conduct risks attached to misrepresenting products with floors, litigation and regulatory risks.
- Operational risks including model risk and systems that may require material work to operationalise negative rates.
- Net interest margin impact through movements in lending and funding rates.

How we manage this risk

- The Group has engaged with the market and participated in external surveys to ensure that its assessment of the impact of negative rates is proportionate to the size and complexity of the Group. The Group has undertaken some impact assessment of its core products and their key characteristics in relation to interest rate floors and impact on customer systems regarding their ability to accommodate negative rates.
- The Group considers its readiness for negative rates to be a key initiative and, as such, has appointed the Chief Operating Officer and the Chief Technology Officer as the responsible executives, with oversight provided through the Operations Committee and the Executive Committee.
- Maintain and maximise profitability through composition of balance sheet, shifting income from interest to non-interest income and pass through opportunities.

Focus areas for 2021

- The PRA published a 'Dear CEO' letter in February 2021, which has requested firms to progress tactical solutions to implement negative rates within six months.
- Impact assessment on the implications for key products and the provision of important business services.
- Testing of core systems to understand the technical and operational challenges of zero or negative rates.
- Assessment of impact on models and end-user computing controls that may rely on interest rates.

Key risk categories

The key risk categories faced by the Group are set out in the table below. Oversight of the Group's key risk categories is outlined on page 96. Climate risk is embedded within each key risk category.

Certain information in the key risk categories section is audited. Sections that are specifically marked as 'audited' are covered by the Independent Auditor's Report on page 167. All other sections are unaudited.

Risk category	Definition	Principal sources of exposure	Additional information
Creditworthiness risk *(Audited)*	Creditworthiness 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, due to lack of willingness to pay (credit risk) and/or lack of ability to pay (affordability). The creditworthiness risk category also includes credit concentration risk, which is the risk of exposure to particular groups of customers, sectors or geographies that, uncontrolled, may lead to additional losses that the shareholder or the market may not expect. Creditworthiness risk can be further divided into customer credit risk (from core lending activity) and treasury credit risk (from treasury activity).	The principal source of customer credit risk is the Group's loans and advances to customers. Treasury credit risk exposure is limited to short-term deposits placed with leading UK banks and high-quality liquid assets purchased for inclusion in the Group's liquidity buffer.	See page 117
Liquidity risk *(Partially audited)*	Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.	The principal source of liquidity risk is retail and wholesale deposits, as well as affinity partnerships and bilateral/public securitisations.	See page 145
Market risk *(Partially audited)*	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.	Exposure to market risk arises from the Group's core activities of offering loans and deposits to customers. All financial assets held by the Group are non-trading.	See page 151
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.	The principal sources of operational risk as per the year-end assessment are information, model, third party suppliers and process execution.	See page 156

Risk category	Definition	Principal sources of exposure	Additional information
Compliance, conduct and financial crime risk	Conduct risk is the risk that the Group's behaviour will result in poor customer outcomes and that the Group's people fail to behave with integrity. Compliance and financial crime risk is the risk of regulatory enforcement and sanction, material financial loss, or loss of reputation the Group may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice, or that the Group's processes may be used to commit financial crime.	The principal sources of compliance, conduct and financial crime risk are when customers suffer harm due to the Group, or its third party suppliers and intermediaries, failure to meet expectations, or treat customers fairly, particularly when servicing the needs of customers with vulnerabilities. Compliance risk arises where the Group fails to identify or comply with applicable law and regulation. Financial crime risk arises where the Group's systems and controls are circumvented for the purposes of perpetrating financial crime, including fraud, bribery, money laundering and the financing of terrorist activity.	See page 156
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 within the Group's risk appetite.	The principal sources of strategic risk are lending growth, financial strength and profit volatility.	See page 156
Systems and change risk	Systems risk is the risk that new threats are introduced to the Group's critical systems resulting in them becoming unavailable during core operational times. Change risk is the risk that transition changes in the business will not be supported by appropriate change capability and be improperly implemented. It is also the risk that too many in-flight changes cause disruption to business operations.	The principal sources of systems and change risk are sufficient and up to date technology, together with appropriate innovation and delivery capacity.	See page 156

Key risk categories

Creditworthiness risk

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

The following sections provide additional information regarding the management of credit risk, the impairment of financial assets, exposure to credit risk and concentrations of credit risk, the use of collateral to mitigate credit risk and forbearance.

(a) Managing credit risk *(audited)*

Key to the management of credit risk is the implementation of credit risk approval processes and credit monitoring processes, as detailed below.

Credit risk approval process

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

In December 2019, the Board approved a change to the credit approval process resulting in existing credit approval authorities transferring out of the lending divisions through Q1 2020. The delegations within Property Finance and Consumer Lending were transferred to the underwriting team within the Chief Operating Office with the Business Finance delegation being transferred to the credit risk team in the Group's risk function.

The underwriting team in the Chief Operating Office maintained the maximum mandates for Property Finance of £1.25 million and Consumer Lending of £75,000. Exposures beyond these limits up to £5 million continue to be approved by an approver in the second line of defence and exposures up to the Group single name concentration limit of £30 million must be approved by the Credit Approval Committee. The Group has a nominal appetite of £35 million for exposures originated in Business Finance and Property Finance (£30 million for Development Finance). In addition, where transactions involve financing portfolios of lending assets in excess of £15 million, or where an individual loan is required in excess of appetite, Board approval is also required.

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

The Group is a responsible lender and consumer affordability has remained a key area of focus for the Group. The Group's approach to affordability is set out in a Board approved responsible lending policy and is supported by the Group's affordability policy that is embedded within each lending division's lending guides.

Managing credit risk in relation to the Coronavirus Business Interruption Loan Scheme

The Group became an accredited CBILS lender in May 2020. To manage the credit risk in relation to CBILS loans, the Group only offers CBILS loans to existing customers with existing debt facilities. Under the terms of the scheme, the UK Government provides the option to customers to make a Business Interruption Payment on their behalf to cover the first 12 months of interest payments and some upfront fees. The UK Government also provides the Group with a guarantee to protect 80% of any post recovery loss in the event of default. Credit risk on all CBILS transactions is individually assessed and then approved by the second line of defence.

Credit monitoring

Approval and ongoing monitoring control is exercised both within the divisions and through oversight by the Group's credit risk function. This applies to both individual transactions, as well as at the portfolio level, by way of monthly credit information reporting, measurement against risk appetite limits and testing via risk quality assurance reviews.

The divisions oversee collections and arrears management processes that are managed by the Chief Operating Office and selected third parties. In 2020, the Group further invested in the development of new late stage collections strategies for Consumer Lending from termination through to written-off debt to ensure that the Group is well positioned for a more challenging environment.

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

To reflect the potential losses that the Group might experience due to creditworthiness risk, the Group recognises impairments on its financial assets in the financial statements. In accordance with the Group's accounting policy (Note 1.7(x) of the Financial Statements), impairment of financial assets is calculated using a forward-looking ECL model. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes.

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

The following sections provide details regarding the measurement and calculation of ECLs, analysis of the Group's loss allowance and an assessment of the critical accounting judgements and estimates associated with the impairment of financial assets.

Measurement of expected credit losses *(audited)*

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

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

In relation to the above:

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

Determining whether an asset shows a SICR, is considered to be in default, or otherwise credit impaired, or is considered to be 'cured' are all identified as involving critical judgements. Additional details regarding these areas of critical judgements are provided on page 128.

For financial guarantee contracts, the Group assigns a stage using the definitions described above.

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

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

Calculation of expected credit losses *(audited)*

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

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

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

Creditworthiness risk continued

Probability of default

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

In relation to loans and advances to customers and loan commitments, the PD is based on internal and external individual customer information that is updated for each reporting period. The Group operates both a model-based PD and a slotting approach. The model-based PD is used for high volume portfolios such as those in Consumer Lending and residential mortgages within Property Finance. Statistical modelling techniques are used to determine which borrower and account performance characteristics are predictive of default behaviour based on supportable evidence observed in historical data that is related to the group of accounts to which the model will be applied. The slotting approach has been developed and implemented for the low volume and high value obligors in Business Finance and large ticket commercial property loans. Both processes deliver a point-in-time measure of default.

For the model-based portfolios, the measure of PD is based on information available to the Group from credit reference agencies and includes information from a broad range of financial services firms and internal product performance data.

For the slotted portfolios, the measure of PD relates to attributes relating to financial strength, political and legal environment, asset/transaction characteristics, strength of sponsor and security.

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

Exposure at default

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

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

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

Loss given default

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

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

- **Property Finance:** the LGD is generally broken down into two parts. These include the Group's estimate of the probability of possession given default, combined with the loss given possession. The Group has continued to focus on the proportion of accounts that have not cured over an emergence period, rather than the proportion of accounts that enter possession to be appropriately conservative. The LGD is based on the Group's estimate of a shortfall, based on the difference between the property value after the impact of a forced sale discount plus a scenario specific market value decline and sale costs, and the loan balance with the addition of unpaid interest and fees and first charge claims with regards to second charge residential mortgages.
- **Business Finance:** the LGD is based on experience of losses on repossessed assets where the Group has collateral, or management judgement in situations where the Group has minimal experience of actual losses.
- **Consumer Lending:** the Group has updated its approach for 2020 to reflect a revised late stage collection process for terminated loans. The LGD uses an estimate of the expected write-off based on an established contractual debt sale agreement supplemented by liquidation analysis for loans terminated or charged-off and the expected write-off for loans held for deceased and vulnerable customers or customers where there are outstanding complaints. There is no recovery portfolio.

Basis of calculation

ECLs are calculated on an individual or collective basis depending on the nature of the underlying portfolio and financial instruments.

Asset classes where the Group calculates ECLs on an individual basis include:

- Stage 3 and POCI assets where individual impairments are reviewed and approved by the divisional impairment committees and Group Impairment Committee;
- large and unique Stage 1 and Stage 2 loans in Business Finance and Property Finance; and
- treasury and interbank relationships (such as cash and balances at central banks, loans and advances to banks and investment securities).

Asset classes where the Group calculates ECLs on a collective basis include:

- Stage 1 and Stage 2 loans within Business Finance (except as identified above);
- Stage 1, Stage 2 and certain Stage 3 exposures within Property Finance (except as identified above); and
- all loans within Consumer Lending.

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

Property Finance

- Product asset class (residential lending and commercial/semi-commercial lending);
- time on file; and
- exposure value.

Business Finance

- Business unit (i.e. asset finance, structured finance, corporate lending and development finance);
- time on file; and
- collateral type.

Consumer Lending

- Product type (personal loans and home improvement/holiday ownership loans); and
- time on file.

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

Post-model adjustments

Limitations in the Group's impairment models may be identified through the ongoing assessment and validation of the outputs from the models. In certain circumstances, the Group makes post-model adjustments (PMAs) to ensure the loss allowance adequately reflects the expected outcome. These adjustments are generally modelled taking into account the particular attributes of the account that have not been adequately captured by the models. All PMAs are monitored, reviewed and where applicable incorporated into future model development. PMAs are reviewed and approved every six months at the Group Impairment Committee and the Audit Committee with other key impairment judgements.

During the year ended 31 December 2020, PMAs have been applied in the economic response models as these models have not been trained over a period that is comparable to a COVID-19 environment. PMAs have also been used in semi-commercial property where the property value is mainly residential property but the index used is commercial property. In addition, some overrides have been used to reflect data quality issues and are reviewed monthly by the divisions.

Specific PMAs applied as at 31 December 2020 are:

- a COVID-19 PMA of £2.9 million. This PMA is applied to customers that have taken a payment holiday in relation to COVID-19 to account for the additional risk of default once the payment holiday has expired. The PMA has been calculated on the assumption that they will ultimately behave like loans in Stage 2;
- a high-risk sector PMA of £4.1 million. This PMA is applied to individual customers that are non-performing where recovery is linked to COVID-19 and sectors assessed by the Group as being most impacted by COVID-19 to account for the additional risk of default; and
- a PMA, which is embedded into the ECL calculation, to reflect model translation risk where the economic response models have not been trained on a COVID-19 environment.

Key risk categories

Creditworthiness risk continued

Using forward-looking information in the calculation of expected credit losses

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

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

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

Analysis of the Group's loss allowance *(audited)*

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

Financial asset categories for which a loss allowance is recognised are: cash and balances at central banks, loans and advances to banks, loans and advances to customers and investment securities.

In both reported years, a loss allowance is also recognised in respect of assets held for sale. Assets held for sale comprise customer loans that meet the criteria to be classified as held for sale and have therefore been transferred from loans and advances to customers to assets held for sale in the statement of financial position. These loans continue to be measured at amortised cost.

A summary of the loss allowance recognised in the Group's statement of financial position is as follows:

As at 31 December	2020 £m	2019 £m
Cash and balances at central banks	<0.1	<0.1
Loans and advances to banks	<0.1	<0.1
Loans and advances to customers	92.3	61.1
Investment securities	<0.1	<0.1
Assets held for sale	<0.1	8.5
Financial guarantee contracts	–	–
Loan commitments	3.2	1.0

Further analysis of the loss allowance recognised in respect of the Group's financial assets, financial guarantee contracts and loan commitments is provided in the following sections.

Cash and balances at central banks, loans and advances to banks and investment securities

The loss allowances for cash and balances at central banks, loans and advances to banks and investment securities are immaterial, totalling less than £0.1 million in both reported years. All assets within these asset classes are in Stage 1.

Loans and advances to customers

The loss allowance for loans and advances to customers is £92.3 million (2019: £61.1 million). The loss allowance is recognised as a deduction from the gross carrying amount of the asset (see Note 14 of the Financial Statements).

The following tables provide an analysis of loans and advances to customers by reportable segment and the year-end stage classification:

As at 31 December 2020	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Total £m**
Stage 1	3,526.6	1,489.9	394.4	5,410.9
Stage 2	1,220.0	266.2	66.1	1,552.3
Stage 3[1]	110.1	41.0	5.2	156.3
Gross carrying amount	4,856.7	1,797.1	465.7	7,119.5
Stage 1	(7.4)	(11.5)	(10.1)	(29.0)
Stage 2	(10.9)	(13.6)	(9.9)	(34.4)
Stage 3	(13.0)	(11.9)	(4.0)	(28.9)
Loss allowance	(31.3)	(37.0)	(24.0)	(92.3)
Carrying amount[2]	4,825.4	1,760.1	441.7	7,027.2
Loss allowance coverage				
Stage 1	0.2%	0.8%	2.6%	0.5%
Stage 2	0.9%	5.1%	15.0%	2.2%
Stage 3	11.8%	29.0%	76.9%	18.5%
Total loss allowance coverage	0.6%	2.1%	5.2%	1.3%

As at 31 December 2019	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Stage 1	3,813.9	1,486.6	547.3	5,847.8
Stage 2	538.3	134.7	43.6	716.6
Stage 3	89.0	29.1	7.5	125.6
Gross carrying amount	4,441.2	1,650.4	598.4	6,690.0
Stage 1	(3.7)	(8.8)	(8.1)	(20.6)
Stage 2	(2.7)	(3.8)	(7.7)	(14.2)
Stage 3	(8.1)	(12.9)	(5.3)	(26.3)
Loss allowance	(14.5)	(25.5)	(21.1)	(61.1)
Carrying amount[2]	4,426.7	1,624.9	577.3	6,628.9
Loss allowance coverage				
Stage 1	0.1%	0.6%	1.5%	0.4%
Stage 2	0.5%	2.8%	17.7%	2.0%
Stage 3	9.1%	44.3%	70.7%	20.9%
Total loss allowance coverage	0.3%	1.5%	3.5%	0.9%

1 As at 31 December 2020, Stage 3 loans in the Business Finance segment include POCI loans with a gross carrying amount of £3.8 million and loss allowance of £nil. There were no POCI assets as at 31 December 2019.

2 Excludes fair value adjustments for hedged risk.

Creditworthiness risk continued

The following tables provide an analysis of loans and advances to customers by agreement type and the year-end stage classification:

As at 31 December 2020	**Loan receivables £m**	**Finance lease receivables £m**	**Instalment credit receivables £m**	**Total £m**
Stage 1	**5,055.9**	**53.0**	**302.0**	**5,410.9**
Stage 2	**1,489.1**	**11.9**	**51.3**	**1,552.3**
Stage 3[1]	**140.1**	**7.2**	**9.0**	**156.3**
Gross carrying amount	**6,685.1**	**72.1**	**362.3**	**7,119.5**
Stage 1	**(25.9)**	**(0.4)**	**(2.7)**	**(29.0)**
Stage 2	**(29.8)**	**(0.6)**	**(4.0)**	**(34.4)**
Stage 3	**(20.9)**	**(4.0)**	**(4.0)**	**(28.9)**
Loss allowance	**(76.6)**	**(5.0)**	**(10.7)**	**(92.3)**
Carrying amount[2]	**6,608.5**	**67.1**	**351.6**	**7,027.2**
Loss allowance coverage				
Stage 1	**0.5%**	**0.8%**	**0.9%**	**0.5%**
Stage 2	**2.0%**	**5.0%**	**7.8%**	**2.2%**
Stage 3	**14.9%**	**55.6%**	**44.4%**	**18.5%**
Total loss allowance coverage	**1.1%**	**6.9%**	**3.0%**	**1.3%**

As at 31 December 2019	Loan receivables £m	Finance lease receivables £m	Instalment credit receivables £m	Total £m
Stage 1	5,437.2	66.4	344.2	5,847.8
Stage 2	680.7	5.5	30.4	716.6
Stage 3	108.7	9.1	7.8	125.6
Gross carrying amount	6,226.6	81.0	382.4	6,690.0
Stage 1	(16.8)	(1.0)	(2.8)	(20.6)
Stage 2	(12.1)	(0.3)	(1.8)	(14.2)
Stage 3	(18.5)	(5.1)	(2.7)	(26.3)
Loss allowance	(47.4)	(6.4)	(7.3)	(61.1)
Carrying amount[2]	6,179.2	74.6	375.1	6,628.9
Loss allowance coverage				
Stage 1	0.3%	1.5%	0.8%	0.4%
Stage 2	1.8%	5.5%	5.9%	2.0%
Stage 3	17.0%	56.0%	34.6%	20.9%
Total loss allowance coverage	0.8%	7.9%	1.9%	0.9%

1 As at 31 December 2020, Stage 3 loans in loan receivables include POCI loans with a gross carrying amount of £3.8 million and loss allowance of £nil. There were no POCI assets as at 31 December 2019.

2 Excludes fair value adjustments for hedged risk.

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

	2020				2019			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**20.6**	**14.2**	**26.3**	**61.1**	23.5	20.7	23.6	67.8
ECL charge for the year								
Transfer from Stage 1	**(4.2)**	**3.2**	**1.0**	**–**	(3.7)	1.6	2.1	–
Transfer from Stage 2	**4.0**	**(7.8)**	**3.8**	**–**	6.3	(12.3)	6.0	–
Transfer from Stage 3	**5.3**	**1.4**	**(6.7)**	**–**	0.9	0.3	(1.2)	–
New financial assets originated or purchased	**10.9**	**6.5**	**0.7**	**18.1**	8.4	0.3	0.2	8.9
Financial assets that have been derecognised	**(9.8)**	**0.2**	**(9.0)**	**(18.6)**	(0.6)	(0.7)	(2.3)	(3.6)
Changes in credit risk[1]	**2.8**	**16.8**	**12.8**	**32.4**	(8.6)	6.2	(0.3)	(2.7)
Total ECL charge for the year	**9.0**	**20.3**	**2.6**	**31.9**	2.7	(4.6)	4.5	2.6
Other movements								
Financial assets derecognised on disposal of subsidiary	**(0.6)**	**(0.1)**	**–**	**(0.7)**	(0.3)	(0.3)	(0.2)	(0.8)
Financial assets transferred to assets held for sale	**–**	**–**	**–**	**–**	(5.3)	(1.6)	(1.6)	(8.5)
Total other movements	**(0.6)**	**(0.1)**	**–**	**(0.7)**	(5.6)	(1.9)	(1.8)	(9.3)
Total movement in loss allowance	**8.4**	**20.2**	**2.6**	**31.2**	(2.9)	(6.5)	2.7	(6.7)
As at 31 December	**29.0**	**34.4**	**28.9**	**92.3**	20.6	14.2	26.3	61.1

The total ECL charge for the year is the amount recognised in the statement of profit and loss within impairment losses on financial instruments (see Note 11 of the Financial Statements). The increased ECL charge in the year is predominantly attributable to the update to the economic scenarios and their weightings following the COVID-19 pandemic. An analysis of this charge by reportable segment is as follows:

For the year ended 31 December	**2020 £m**	2019 £m
Property Finance	**17.5**	0.8
Business Finance	**11.5**	3.4
Consumer Lending	**2.9**	(1.6)
Total expected credit loss charge for the year	**31.9**	2.6

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

Creditworthiness risk continued

Other movements in the loss allowance are as follows:

- **Financial assets derecognised on disposal:** in the year ended 31 December 2020, this represents the loss allowance derecognised upon the securitisation of a loan portfolio. This amount forms part of the net gain on derecognition of financial assets measured at amortised cost in the statement of profit and loss (see Note 6 of the Financial Statements). In the comparative year ended 31 December 2019, this represents the loss allowance derecognised upon the disposal of a subsidiary, Shawbrook International Limited. This amount forms part of the net gain on disposal of subsidiary recognised in the statement of profit and loss (see Note 12 of the Financial Statements).
- **Financial assets transferred to assets held for sale:** this represents the transfer of loss allowance from loans and advances to customers to assets held for sale. This transfer has no impact on the statement of profit and loss.

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

	2020				2019			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	5,847.8	716.6	125.6	6,690.0	4,922.0	871.6	121.2	5,914.8
Movements in gross carrying amount								
Transfer from Stage 1	(983.3)	916.8	66.5	–	(466.0)	415.0	51.0	–
Transfer from Stage 2	178.4	(214.6)	36.2	–	507.5	(565.3)	57.8	–
Transfer from Stage 3	33.2	15.4	(48.6)	–	42.8	3.8	(46.6)	–
New financial assets originated or purchased[1]	2,144.6	205.6	13.2	2,363.4	2,112.4	42.9	3.6	2,158.9
Financial assets that have been derecognised	(1,541.9)	(19.4)	(22.5)	(1,583.8)	(1,223.9)	(12.9)	(41.9)	(1,278.7)
Net changes in lending[2]	(265.8)	(68.0)	(14.0)	(347.8)	85.7	(33.2)	(16.3)	36.2
Financial assets derecognised on disposal of subsidiary	–	–	–	–	(26.1)	(2.2)	(0.3)	(28.6)
Financial assets transferred to assets held for sale	(2.1)	(0.1)	(0.1)	(2.3)	(106.6)	(3.1)	(2.9)	(112.6)
Total movement in gross carrying amount	(436.9)	835.7	30.7	429.5	925.8	(155.0)	4.4	775.2
As at 31 December	5,410.9	1,552.3	156.3	7,119.5	5,847.8	716.6	125.6	6,690.0

1 For the year ended 31 December 2020, Stage 3 includes POCI loans totalling £3.8 million. There were no POCI assets in the year ended 31 December 2019.

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

Assets held for sale

Customer loans classified as assets held for sale continue to be measured at amortised cost. The loss allowance for customer loans classified as assets held for sale is <£0.1 million (2019: £8.5 million). The loss allowance is recognised as a deduction from the gross carrying amount of the asset (see Note 23 of the Financial Statements).

As at 31 December 2020, assets held for sale comprise a portfolio of loans from Business Finance. As at 31 December 2019, assets held for sale comprised a portfolio of loans from Consumer Lending, which were subsequently sold in January 2020.

The following table provides an analysis of customer loans classified as held for sale by year-end stage classification:

				2020				2019
As at 31 December	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount	**2.1**	**0.1**	**0.1**	**2.3**	106.6	3.1	2.9	112.6
Loss allowance	**–**	**–**	**–**	**–**	(5.3)	(1.6)	(1.6)	(8.5)
Carrying amount	**2.1**	**0.1**	**0.1**	**2.3**	101.3	1.5	1.3	104.1
Loss allowance coverage	**–**	**–**	**–**	**–**	5.0%	51.6%	55.2%	7.5%

The £8.5 million loss allowance attributable to the loan portfolio held for sale as at 31 December 2019 was derecognised upon the sale of the loan portfolio in January 2020. This amount forms part of the net gain on derecognition of financial assets measured at amortised cost in the statement of profit and loss (see Note 6 of the Financial Statements). Loans transferred to assets held for sale in the year ended 31 December 2020 had a loss allowance of <£0.1 million. Collectively, these movements resulted in a closing loss allowance as at 31 December 2020 of £nil.

Financial guarantee contracts

As at 31 December 2020, the Group has no financial guarantee contracts. As at 31 December 2019, the Group had one financial guarantee contract for which the loss allowance was £nil because the contract was fully collateralised through a first fixed charge over a blocked deposit account. As such, the amount the Group would have had to pay should the guarantee have been called upon was £nil.

Creditworthiness risk continued

Loan commitments

The loss allowance for loan commitments is £3.2 million (2019: £1.0 million). The loss allowance is recognised as a provision (see Note 27 of the Financial Statements).

The following tables provide an analysis of loan commitments by reportable segment and the year-end stage classification:

As at 31 December 2020	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Total £m**
Stage 1	**257.0**	**743.1**	**20.0**	**1,020.1**
Stage 2	**–**	**58.9**	**–**	**58.9**
Stage 3	**–**	**9.7**	**–**	**9.7**
Gross loan commitments	**257.0**	**811.7**	**20.0**	**1,088.7**
Stage 1	**–**	**(2.4)**	**–**	**(2.4)**
Stage 2	**–**	**(0.7)**	**–**	**(0.7)**
Stage 3	**–**	**(0.1)**	**–**	**(0.1)**
Loss allowance	**–**	**(3.2)**	**–**	**(3.2)**
Total loan commitments	**257.0**	**808.5**	**20.0**	**1,085.5**
Loss allowance coverage				
Stage 1	**–**	**0.3%**	**–**	**0.2%**
Stage 2	**–**	**1.2%**	**–**	**1.2%**
Stage 3	**–**	**1.0%**	**–**	**1.0%**
Total loss allowance coverage	**–**	**0.4%**	**–**	**0.3%**

As at 31 December 2019	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Stage 1	213.7	341.8	30.4	585.9
Stage 2	–	5.6	–	5.6
Gross loan commitments	213.7	347.4	30.4	591.5
Stage 1	–	(1.0)	–	(1.0)
Loss allowance	–	(1.0)	–	(1.0)
Total loan commitments	213.7	346.4	30.4	590.5
Loss allowance coverage				
Stage 1	–	0.3%	–	0.2%
Total loss allowance coverage	–	0.3%	–	0.2%

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

				2020		2019
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Total £m
As at 1 January	1.0	–	–	1.0	1.0	1.0
ECL charge for the year						
Transfer from Stage 1	(0.1)	0.1	–	–	–	–
New loan commitments	1.5	0.3	0.1	1.9	0.3	0.3
Financial assets that have been derecognised	(0.2)	–	–	(0.2)	–	–
Changes in credit risk[1]	0.2	0.3	–	0.5	(0.3)	(0.3)
Total ECL charge for the year	1.4	0.7	0.1	2.2	–	–
As at 31 December	2.4	0.7	0.1	3.2	1.0	1.0

The total ECL charge for the year is the amount recognised in the statement of profit and loss within impairment losses on financial instruments (see Note 11 of the Financial Statements).

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

The measurement of ECLs requires the Group to make a number of judgements. The judgements that are considered to have the most significant effect on the amounts in the financial statements are set out below. These judgements have an impact upon the stage the financial asset is allocated to and therefore whether a 12-month or lifetime ECL is recognised in the financial statements.

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

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

Significant increase in credit risk assessment

If a financial asset shows a SICR, it is transferred to Stage 2 and the ECL recognised changes from a 12-month ECL to a lifetime ECL. The assessment of whether there has been a SICR requires a high level of judgement as detailed below. The assessment of whether there has been a SICR also incorporates forward-looking information. The use of forward-looking information is detailed on page 131.

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

- **Quantitative criteria:** this considers the increase in an account's remaining lifetime PD at the reporting date compared to the expected residual lifetime PD when the account was originated. The Group segments its credit portfolios into PD bands and has determined a relevant threshold for each PD band, where a movement in excess of threshold is considered to be significant. These thresholds have been determined separately for each portfolio based on historical evidence of delinquency.

1 Changes in credit risk includes changes resulting from net changes in the committed amount and changes resulting from adjustments to the models used in the calculation of ECLs, including model inputs and underlying assumptions.

Creditworthiness risk continued

- **Qualitative criteria:** this includes the observation of specific events such as short-term forbearance, payment cancellation, historical arrears or extension to customer terms (see following table for further details).
- **Backstop criteria:** IFRS 9 'Financial Instruments' includes a rebuttable presumption that 30 days past due is an indicator of a SICR. The Group considers 30 days past due to be an appropriate backstop measure and does not rebut this presumption.

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

Sector	Criteria
Property Finance	**Commercial:** ■ External mortgage payments in arrears from the credit reference agencies. The external arrears information is statistically a lead indicator of financial difficulties and potential arrears on the loan book; ■ for short-term loans with a modelled PD, where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than four times the estimate at origination; ■ for term loans with a modelled PD, where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than two times the estimate at origination; ■ for all portfolios with a slotted PD, where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than three times the estimate at origination; ■ loan account is forborne; or ■ entry on to watch list amber. **Residential:** ■ All exposures are graded under the modelled approach. Where the modelled PD > 0.38% and the absolute movement in remaining lifetime PD is more than 5.1 times the estimate at origination; ■ where the customer has ever been six or more payments in arrears on any fixed term account at the credit reference agency; ■ where the customer has missed a mortgage payment in the last six months at the credit reference agency; or ■ loan account is forborne.
Business Finance	■ For accounts with a modelled PD, where the absolute movement in the remaining lifetime PD is more than 4.6 times the estimate at origination; ■ for accounts with a slotted PD, where the absolute movement in the remaining lifetime PD is more than three times the estimate at origination; or ■ loan account is forborne; or ■ entry on to watch list amber.
Consumer Lending	■ Non-personal loans where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than 2.0 times the estimate at origination; ■ personal loans where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than 2.0 times the estimate at origination; ■ county court judgements registered at the credit reference agencies of > £150 or > £1,000 in last three years; or ■ loan account is forborne.

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

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

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

Loan commitments relating to the undrawn component of a facility are assigned to the same stage as the drawn component of the facility. Therefore, if the drawn component of the facility shows a SICR and is transferred to Stage 2, the undrawn component will also be transferred.

The extension of short-term concessions in response to COVID-19, may indicate a SICR under the Group's normal assessment criteria outlined above. However, the Group has adopted advice from UK regulatory bodies that the granting of COVID-19 related concessions does not automatically indicate a SICR for the majority of cases, with these interim measures not considered to be forbearance given the customer was not in financial difficulty when the concession was granted. As such, the accounts with COVID-19 related concessions have predominantly been removed from the SICR assessment. The Group has however, carefully considered internal credit and customer data to determine whether there might be any other accounts with SICR not otherwise identified by the process.

Definition of default and credit-impaired assets

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

The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default and should therefore be transferred to Stage 3. These criteria include:

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

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

Approach to curing

The Group considers a financial asset to be cured, and therefore reclassifies back to a lower stage, when none of the assessed criteria that caused movement into the higher stage is currently present.

For Stage 3 loans with forbearance arrangements in place, the loan must first successfully complete its 12-month curing period to be transferred to Stage 2. Following this, the loan must then successfully complete its 24-month forbearance probation period before the forbearance classification can be discontinued. For Stage 3 loans that have cured without forbearance, they need to have completed a 12-month probation in Stage 2 prior to returning to Stage 1.

During the year ended 31 December 2020, the Group has enhanced its forbearance data and has further enhanced the implementation of probation periods for loans. For amortising loans in Stage 2 as a result of arrears, the arrears must be cured for a period of 180 days prior to returning to Stage 1. If the Stage 2 criteria was driven by an increase in PD, the loan PD must have returned back within threshold for 180 days prior to returning to Stage 1. Where the loan is in Stage 2 and cures through probation, the loan must remain up to date for a period of 24 months prior to returning to Stage 1. For loan products such as revolving credit facilities, the loan must be in 'watch list amber' (monitoring) for 180-days prior to returning to Stage 1 and, if it cured through the granting of forbearance, then the loan must remain in 'watch list amber' for 24 months prior to returning to Stage 1.

Key risk categories

Creditworthiness risk continued

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

The calculation of ECLs requires the Group to make a number of assumptions and estimates. The accuracy of the ECL calculation would be impacted by movements in the forward-looking economic scenarios used, or the probability weightings applied to these scenarios and by unanticipated changes to model assumptions that differ from actual outcomes. The key assumptions and estimates that, depending on a range of factors, could result in a material adjustment in the next financial year are set out in the following sections.

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

Forward-looking information

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

In the comparative year ended 31 December 2019, the Group used three forward-looking economic scenarios: a base case (central view), an alternative upside scenario and an alternative downside scenario. The two alternative scenarios are chosen to be plausible alternative base cases and are not stress testing scenarios.

In the year ended 31 December 2020, the Group moved to four forward-looking economic scenarios: a base case (central view), an alternative upside scenario, an alternative moderate downside scenario and an alternative severe downside scenario. The additional alternative severe downside view reflects the risk of further and prolonged lockdowns associated with COVID-19 and further disruption to sectors that were not covered in detail as part of the UK-EU Trade Agreement, and reflects the remaining risk arising from the nature of any future relationship with the EU. This additional alternative severe downside view reflects the latest information available and is still considered as contained inside the Group's stress testing scenarios.

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

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

For the year ended 31 December 2020, the economic scenarios reflect that, despite the further lockdown in November 2020, the outlook for the UK economy has improved following the extension of the furlough scheme and the news on the approval and roll-out of the vaccine. The risk is to the downside with the potential for additional unemployment following the expiry of the furlough schemes and the uncertainty of how effective it will have been in protecting jobs. History has shown that it is likely to take some time for people displaced from sectors that are scarred and in decline as a result of COVID-19 to find jobs in the sectors that emerge.

A summary of the economic assumptions used are detailed in the following tables:

As at 31 December 2020		**2021**	**2022**	**2023**	**2024**	**2025**
GDP – % average change year-on-year	Base	**7.1%**	**4.3%**	**3.6%**	**2.8%**	**1.9%**
	Upside	**12.9%**	**4.1%**	**1.8%**	**1.8%**	**1.8%**
	Downside	**1.6%**	**8.1%**	**3.7%**	**2.8%**	**1.9%**
	Severe downside	**(4.5%)**	**11.5%**	**4.7%**	**3.0%**	**2.2%**
Bank Rate (%)	Base	**0.10%**	**0.10%**	**0.50%**	**0.75%**	**1.00%**
	Upside	**0.10%**	**0.25%**	**0.75%**	**1.00%**	**1.25%**
	Downside	**0.10%**	**0.10%**	**0.50%**	**0.75%**	**1.00%**
	Severe downside	**0.50%**	**0.50%**	**0.50%**	**0.75%**	**1.00%**
UK Unemployment (%)	Base	**6.5%**	**5.3%**	**5.1%**	**5.1%**	**5.1%**
	Upside	**5.0%**	**4.1%**	**4.1%**	**4.1%**	**4.1%**
	Downside	**8.5%**	**6.7%**	**5.7%**	**5.6%**	**5.6%**
	Severe downside	**10.5%**	**7.5%**	**6.8%**	**6.1%**	**6.1%**
Consumer Prices Index – % change year-on-year	Base	**1.9%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
	Upside	**0.9%**	**0.9%**	**0.9%**	**0.9%**	**0.9%**
	Downside	**0.6%**	**2.0%**	**1.9%**	**1.9%**	**1.9%**
	Severe downside	**5.0%**	**2.1%**	**2.1%**	**2.0%**	**2.0%**
UK Residential House Price Index – % change year-on-year	Base	**(6.6%)**	**3.7%**	**3.6%**	**3.2%**	**3.2%**
	Upside	**2.9%**	**3.7%**	**3.7%**	**3.7%**	**3.2%**
	Downside	**(11.2%)**	**1.4%**	**2.6%**	**4.3%**	**4.3%**
	Severe downside	**(15.7%)**	**2.1%**	**4.4%**	**4.7%**	**3.3%**

As at 31 December 2019		2020	2021	2022	2023	2024
GDP – % average change year-on-year	Base	1.2%	1.8%	1.6%	1.7%	1.7%
	Upside	1.9%	2.7%	1.9%	1.5%	1.3%
	Downside	(0.1%)	0.8%	1.6%	2.1%	2.2%
Bank Rate (%)	Base	0.85%	1.08%	1.25%	1.44%	1.90%
	Upside	1.02%	1.60%	2.01%	2.17%	2.44%
	Downside	0.46%	0.20%	0.26%	0.64%	1.39%
UK Unemployment (%)	Base	3.9%	4.0%	4.0%	4.0%	4.0%
	Upside	3.7%	3.4%	3.2%	3.1%	3.2%
	Downside	4.3%	5.0%	5.2%	5.1%	4.8%
Consumer Prices Index – % change year-on-year	Base	1.9%	2.0%	2.0%	2.0%	2.0%
	Upside	1.7%	1.9%	2.2%	2.1%	2.3%
	Downside	1.3%	1.4%	1.9%	2.0%	2.0%
UK Residential House Price Index – % change year-on-year	Base	1.3%	2.7%	2.8%	2.3%	2.7%
	Upside	3.0%	5.4%	5.1%	2.7%	1.8%
	Downside	(3.0%)	(2.0%)	1.3%	3.0%	4.2%

Creditworthiness risk continued

The probability weightings applied to the above scenarios are another area of judgement. They are generally set to ensure that there is an asymmetry in the ECL. The probability weightings applied to each scenario are as follows:

	2020	2019
Base	40%	40%
Upside	10%	20%
Downside	35%	40%
Severe downside	15%	–

In determining the probability weightings, the Group has regularly considered the nature and probability of the alternative downside scenario/s.

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

The calculation of ECLs is sensitive to the judgements and assumptions made regarding the forward-looking scenarios used and the probability weightings applied. Sensitivity analysis was performed by the Group to determine the impact on the recognised loss allowance.

The following table shows the loss allowance for loans and advances to customers and loan commitments based on the probability-weighted multiple economic scenarios, as recognised in the statement of financial position (see Note 14 and Note 41 of the Financial Statements respectively), and the impact on this loss allowance if each individual forward-looking scenario were weighted at 100%:

		Increase/(decrease) in loss allowance if scenario weighted at 100%			
As at 31 December 2020	**Probability – weighted loss allowance per statement of financial position £m**	**Base £m**	**Upside £m**	**Downside £m**	**Severe downside £m**
Loans and advances to customers					
Property Finance	31.3	(3.0)	(8.5)	2.0	9.0
Business Finance	37.0	(2.1)	(3.6)	1.3	4.9
Consumer Lending	24.0	(0.9)	(1.6)	0.8	1.6
Total	92.3	(6.0)	(13.7)	4.1	15.5
Loan commitments					
Business Finance	3.2	(0.8)	(1.4)	0.6	1.8
Total	3.2	(0.8)	(1.4)	0.6	1.8

Model estimations

ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The assumptions applied involve judgement and represent a key source of estimation uncertainty.

The Group considers the key assumptions impacting the ECL calculation to be within the PD and LGD. Sensitivity analysis was performed to assess the impact of changes in these key assumptions on the loss allowance associated with the Group's loans and advances to customers and loan commitments. A summary of the key assumptions and sensitivity analysis is provided in the following table:

Assumption	Sensitivity analysis
PD	■ A 10% increase in the PD for each customer would increase the total loss allowance on loans and advances to customers and loan commitments by £3.3 million.
LGD: Property Finance	
■ **Property value**	■ A 10-percentage point reduction in property prices would increase the loss allowance on loans and advances to customers in Property Finance by £10.2 million.
■ **Forced sale discount**	■ A 5% absolute increase in the forced sale discount would increase the loss allowance on loans and advances to customers in Property Finance by £8.9 million.
LGD: Business Finance	
■ **Absolute LGD value**	■ A 5% absolute increase in the LGD applied would increase the loss allowance on loans and advances to customers and loan commitments in Business Finance by £4.9 million.
LGD: Consumer Lending	
■ **Loss given charge-off**	■ A 10-percentage point increase in the loss given charge-off would increase the loss allowance on loans and advances to customers in Consumer Lending by £2.3 million.

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

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

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

Key risk categories

Creditworthiness risk continued

Financial instruments subject to impairment

The following section sets out information about the exposure to credit risk associated with the Group's financial assets, financial guarantee contracts and loan commitments for which a loss allowance is recognised.

The following tables analyse the Group's exposure by credit risk grade and year-end stage classification. The credit risk grades are based on the grades defined in the preceding table. It should be noted that the credit risk grading assessment is a point-in-time assessment, whereas the stage classification is determined based on the change in credit risk from initial recognition. As such, for non-credit impaired financial assets, there is not a direct relationship between the credit risk assessment and stage classification.

The following tables also provide the Group's maximum exposure to credit risk. For financial assets, the Group's maximum exposure to credit risk is the gross carrying amount net of any loss allowance recognised. Where the loss allowance is less than £0.1 million, the Group's maximum exposure to credit risk is equal to the gross carrying amount and only this amount is presented in the table. For financial guarantee contracts, the Group's maximum exposure to credit risk is the maximum amount the Group could have to pay should the guarantee be called upon. For loan commitments, the Group's maximum exposure to credit risk is the gross amount committed.

	2020		2019	
Cash and balances at central banks	**Stage 1 £m**	**Total £m**	Stage 1 £m	Total £m
Low risk	**1,273.2**	**1,273.2**	1,064.6	1,064.6
Gross carrying amount	**1,273.2**	**1,273.2**	1,064.6	1,064.6

	2020		2019	
Loans and advances to banks	**Stage 1 £m**	**Total £m**	Stage 1 £m	Total £m
Low risk	**91.0**	**91.0**	59.1	59.1
Gross carrying amount	**91.0**	**91.0**	59.1	59.1

	2020				2019			
Loans and advances to customers	**Stage 1 £m**	**Stage 2 £m**	**Stage 3[1] £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Low risk	**1,779.9**	**76.2**	**3.4**	**1,859.5**	1,583.0	11.3	1.1	1,595.4
Medium risk	**2,202.8**	**791.6**	**1.9**	**2,996.3**	2,863.1	264.5	1.6	3,129.2
High risk	**1,428.2**	**684.5**	**151.0**	**2,263.7**	1,401.7	440.8	122.9	1,965.4
Gross carrying amount	**5,410.9**	**1,552.3**	**156.3**	**7,119.5**	5,847.8	716.6	125.6	6,690.0
Loss allowance	**(29.0)**	**(34.4)**	**(28.9)**	**(92.3)**	(20.6)	(14.2)	(26.3)	(61.1)
Carrying amount[2,3]	**5,381.9**	**1,517.9**	**127.4**	**7,027.2**	5,827.2	702.4	99.3	6,628.9

1 As at 31 December 2020, Stage 3 loans include POCI loans with a gross carrying amount of £3.8 million and loss allowance of £nil, these are included in the high risk grade. There were no POCI assets as at 31 December 2019.

2 Excludes fair value adjustments for hedged risk.

3 Loans and advances to customers include CBILS loans with a carrying amount of £31.9 million. The UK Government provides the Group with a guarantee to protect 80% of any post recovery loss in the event of default. This guarantee would act to reduce the Group's maximum exposure to credit risk on these loans.

Investment securities	2020 Stage 1 £m	2020 Total £m	2019 Stage 1 £m	2019 Total £m
Low risk	358.2	358.2	200.0	200.0
Gross carrying amount	358.2	358.2	200.0	200.0

Financial guarantee contracts	2020 Stage 1 £m	2020 Total £m	2019 Stage 1 £m	2019 Total £m
Low risk	–	–	2.5	2.5
Gross amount guaranteed	–	–	2.5	2.5

As at 31 December 2020, the Group had no financial guarantee contracts. As at 31 December 2019, the Group had one financial guarantee contract that was fully collateralised through a first fixed charge over a blocked deposit account. As such, the amount the Group would have had to pay should the guarantee have been called upon (i.e. the Group's maximum exposure to credit risk) was £nil.

Loan commitments	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m	2019 Stage 1 £m	2019 Stage 2 £m	2019 Total £m
Low risk	531.7	3.2	0.6	535.5	403.7	–	403.7
Medium risk	114.6	2.5	–	117.1	84.3	–	84.3
High risk	373.8	53.2	9.1	436.1	97.9	5.6	103.5
Gross amount committed	1,020.1	58.9	9.7	1,088.7	585.9	5.6	591.5

Financial assets not subject to impairment

The following table provides an analysis of the Group's maximum exposure to credit risk from its financial assets not subject to impairment (i.e. those held at fair value through profit or loss).

	2020 £m	2019 £m
Derivative financial assets	4.1	4.4

Key risk categories

Creditworthiness risk continued

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

The Group monitors concentrations of credit risk from its loans and advances to customers by geographic location, loan size and, in response to COVID-19, by industry.

Concentrations of credit risk by geographic location

An analysis of the Group's loans and advances to customers by geographic location is shown below:

As at 31 December 2020	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
East Anglia	147.1	60.6	19.1	226.8
East Midlands	199.9	87.2	34.2	321.3
Greater London	1,809.8	465.8	52.5	2,328.1
Guernsey/Jersey/Isle of Man	31.6	16.1	0.1	47.8
North East	86.3	26.7	20.7	133.7
North West	398.8	188.3	52.4	639.5
Northern Ireland	6.9	–	1.0	7.9
Scotland	283.4	67.2	58.3	408.9
South East	967.5	282.6	85.8	1,335.9
South West	335.6	193.9	38.0	567.5
Wales	110.2	71.2	20.1	201.5
West Midlands	232.2	210.5	43.1	485.8
Yorkshire/Humberside	247.4	127.0	40.4	414.8
Gross loans and advances to customers	**4,856.7**	**1,797.1**	**465.7**	**7,119.5**

As at 31 December 2019	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
East Anglia	134.9	77.1	24.4	236.4
East Midlands	156.0	70.2	45.2	271.4
Greater London	1,714.9	419.1	67.7	2,201.7
Guernsey/Jersey/Isle of Man	34.5	21.5	0.1	56.1
North East	74.8	42.9	24.6	142.3
North West	357.1	191.9	67.5	616.5
Northern Ireland	10.5	–	1.6	12.1
Scotland	280.2	80.4	73.4	434.0
South East	867.9	253.0	111.3	1,232.2
South West	318.8	150.3	47.6	516.7
Wales	91.9	61.5	24.0	177.4
West Midlands	179.0	171.2	56.7	406.9
Yorkshire/Humberside	220.7	111.3	54.3	386.3
Gross loans and advances to customers	4,441.2	1,650.4	598.4	6,690.0

Concentrations of credit risk by loan size

An analysis of the Group's loans and advances to customers by loan size is shown below:

As at 31 December 2020	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Total £m**
0 – £50k	**189.5**	**73.9**	**465.3**	**728.7**
£50k – £100k	**442.5**	**50.0**	**0.4**	**492.9**
£100k – £250k	**1,257.0**	**103.0**	**–**	**1,360.0**
£250k – £500k	**1,121.1**	**111.1**	**–**	**1,232.2**
£500k – £1.0 million	**713.8**	**172.8**	**–**	**886.6**
£1.0 million – £2.5 million	**606.1**	**350.1**	**–**	**956.2**
£2.5 million – £5.0 million	**293.5**	**299.6**	**–**	**593.1**
£5.0 million – £10.0 million	**133.2**	**320.3**	**–**	**453.5**
£10.0 million – £25.0 million	**100.0**	**281.4**	**–**	**381.4**
> £25.0 million	**–**	**34.9**	**–**	**34.9**
Gross loans and advances to customers	**4,856.7**	**1,797.1**	**465.7**	**7,119.5**

As at 31 December 2019	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
0 – £50k	258.6	101.9	598.0	958.5
£50k – £100k	458.2	64.8	0.4	523.4
£100k – £250k	1,058.1	121.7	–	1,179.8
£250k – £500k	990.5	112.5	–	1,103.0
£500k – £1.0 million	697.5	135.1	–	832.6
£1.0 million – £2.5 million	561.6	237.9	–	799.5
£2.5 million – £5.0 million	249.4	242.2	–	491.6
£5.0 million – £10.0 million	101.9	211.4	–	313.3
£10.0 million – £25.0 million	65.4	422.9	–	488.3
Gross loans and advances to customers	4,441.2	1,650.4	598.4	6,690.0

Key risk categories

Creditworthiness risk continued

Concentrations of credit risk by industry

Particular industries have been impacted more than others as a result of the COVID-19 pandemic. To provide an illustration of the Group's exposure to particular industries, the following tables provide an analysis of the Group's loans and advances to customers by industry:

As at 31 December 2020	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Total £m**
Agriculture, forestry and fishing	**0.6**	**24.3**	**–**	**24.9**
Mining and quarrying	**0.1**	**0.3**	**–**	**0.4**
Manufacturing	**3.2**	**156.5**	**–**	**159.7**
Transport, storage and utilities	**6.4**	**221.4**	**–**	**227.8**
Construction	**307.5**	**300.1**	**–**	**607.6**
Wholesale and retail trade	**15.2**	**108.3**	**–**	**123.5**
Services and other	**2,273.0**	**155.4**	**465.7**	**2,894.1**
Real estate (commercial)	**2,241.4**	**422.6**	**–**	**2,664.0**
Financial industry (bank and non-bank)	**9.3**	**408.2**	**–**	**417.5**
Gross loans and advances to customers	**4,856.7**	**1,797.1**	**465.7**	**7,119.5**

As at 31 December 2019	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Agriculture, forestry and fishing	0.7	22.4	–	23.1
Mining and quarrying	0.1	0.7	–	0.8
Manufacturing	3.9	126.9	–	130.8
Transport, storage and utilities	5.7	196.6	–	202.3
Construction	251.8	315.5	–	567.3
Wholesale and retail trade	23.0	106.7	–	129.7
Services and other	2,130.2	125.8	598.4	2,854.4
Real estate (commercial)	2,009.4	207.3	–	2,216.7
Financial industry (bank and non-bank)	16.4	548.5	–	564.9
Gross loans and advances to customers	4,441.2	1,650.4	598.4	6,690.0

The Group's exposure is predominantly to customers operating in the 'services and other' and 'real estate (commercial)' sectors. The Group's exposure to sub-sectors that are currently considered 'at risk' due to the COVID-19 pandemic, such as 'accommodation and food services' (within the 'services and other' sector) and 'transport and storage' (within the 'transport, storage and utilities' sector), is limited and has remained relatively stable through the pandemic, with exposures for these sub-sectors decreasing from £54.2 million and £121.2 million respectively as at 31 December 2019 to £45.5 million and £106.8 million respectively as at 31 December 2020. The risk of exposure to these sectors has been managed by updating the Group's Risk Appetite Statement and implementation of a number of government, regulatory and central bank support initiatives.

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

As a key method of mitigating credit risk, the Group holds collateral and other credit enhancements against certain of its financial assets. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Group's policies regarding obtaining collateral have not significantly changed during the year and there has been no significant change in the overall quality of the collateral held by the Group since the prior year.

Derivative financial assets

Credit risk derived from derivative transactions is mitigated by entering into master netting agreements and holding collateral. Such collateral is subject to the standard industry Credit Support Annex and is paid or received on a regular basis.

Non-derivative financial assets

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

For loans and advances to customers, the Group obtains collateral for certain of its exposures in Property Finance and Business Finance. Types of collateral obtained is dependent upon the loan type, as follows:

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

The following tables set out the security profile of the Group's loans and advances to customers by reportable segment. Amounts in the tables represent gross carrying amounts:

As at 31 December 2020	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Secured on commercial and residential property	4,856.7	534.4	–	5,391.1
Secured on debt receivables	–	595.4	–	595.4
CBILS	–	32.2	–	32.2
Secured on other assets	–	178.8	–	178.8
Total secured loan receivables	4,856.7	1,340.8	–	6,197.5
Secured by finance lease assets	–	72.1	–	72.1
Secured by instalment credit assets	–	362.3	–	362.3
Total secured loans and advances to customers	4,856.7	1,775.2	–	6,631.9
Unsecured loan receivables	–	21.9	465.7	487.6
Gross loans and advances to customers	4,856.7	1,797.1	465.7	7,119.5

Creditworthiness risk continued

As at 31 December 2019	Property Finance £m	Business Finance £m	Consumer Lending £m	Total £m
Secured on commercial and residential property	4,441.2	339.5	–	4,780.7
Secured on debt receivables	–	618.5	–	618.5
Secured on other assets	–	91.3	–	91.3
Total secured loan receivables	4,441.2	1,049.3	–	5,490.5
Secured by finance lease assets	–	81.0	–	81.0
Secured by instalment credit assets	–	382.4	–	382.4
Total secured loans and advances to customers	4,441.2	1,512.7	–	5,953.9
Unsecured loan receivables	–	137.7	598.4	736.1
Gross loans and advances to customers	4,441.2	1,650.4	598.4	6,690.0

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.

Credit-impaired financial assets

The Group closely monitors collateral held for financial assets considered to be credit-impaired (Stage 3 and POCI), as it becomes more likely that the Group will take possession of such collateral to mitigate potential credit losses.

The only asset category with credit-impaired assets is loans and advances to customers. The below tables provide further information about these credit-impaired assets and the related collateral held by reportable segment:

	Gross carrying amount		**Loss allowance**		**Carrying amount**		**Fair value of collateral held**
As at 31 December 2020	**Secured £m**	**Unsecured £m**	**Secured £m**	**Unsecured £m**	**Secured £m**	**Unsecured £m**	**£m**
Property Finance	**110.1**	**–**	**(13.0)**	**–**	**97.1**	**–**	**97.1**
Business Finance[1]	**41.0**	**–**	**(11.9)**	**–**	**29.1**	**–**	**29.1**
Consumer Lending	**–**	**5.2**	**–**	**(4.0)**	**–**	**1.2**	**N/A**
Total credit-impaired loans and advances to customers	**151.1**	**5.2**	**(24.9)**	**(4.0)**	**126.2**	**1.2**	**126.2**

1 As at 31 December 2020, Business Finance includes POCI loans with a gross carrying amount of £3.8 million and loss allowance of £nil. The POCI loans are secured assets and the fair value of collateral held is £3.8 million. There were no POCI assets as at 31 December 2019.

As at 31 December 2019	Gross carrying amount Secured £m	Gross carrying amount Unsecured £m	Loss allowance Secured £m	Loss allowance Unsecured £m	Carrying amount Secured £m	Carrying amount Unsecured £m	Fair value of collateral held £m
Property Finance	89.0	–	(8.1)	–	80.9	–	80.9
Business Finance	29.1	–	(12.9)	–	16.2	–	16.2
Consumer Lending	–	7.5	–	(5.3)	–	2.2	N/A
Total credit-impaired loans and advances to customers	118.1	7.5	(21.0)	(5.3)	97.1	2.2	97.1

The following table shows the distribution of loan-to-value ratios for the Group's credit-impaired Property Finance portfolio. Loan-to-value is calculated as the ratio of the current gross carrying amount of the loan to the value of the collateral at origination.

	Gross carrying amount 2020 £m	Gross carrying amount 2019 £m
Loan-to-value ratio		
Less than 50%	**20.1**	5.8
50-70%	**45.5**	28.8
71-90%	**42.2**	33.3
91-100%	**1.6**	20.2
More than 100%	**0.7**	0.9
Total Property Finance credit-impaired assets	**110.1**	89.0

Repossessions

The Group's policy is to pursue the realisation of collateral in an orderly manner.

During the year, the Group took possession of some properties held as security against loans. However, in line with the FCA requirement, the Group implemented a moratorium on repossessions from March 2020. The moratorium ends on 31 March 2021, however the UK Government has imposed further restrictions on repossessions until 31 May 2021 and 30 June 2021 in England and Wales, respectively. The Scottish Government has committed to regularly review its existing ban on repossessions. The Group will continue to comply with government guidelines.

As at 31 December 2020, the Group held four repossessed properties with a carrying amount of £3.0 million (2019: 17 repossessed properties with carrying amount of £3.5 million).

(f) Forbearance and COVID-19 concessions *(audited)*

Forbearance

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

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

Forbearance in relation to an exposure can be temporary or permanent depending on the circumstances, progress on financial rehabilitation and the detail of the concession(s) agreed.

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

Key risk categories

Creditworthiness risk continued

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

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

- the exposure is considered to be performing, including where it has been reclassified from the non-performing category, after an analysis of the financial condition of the debtor showed that it no longer met the conditions to be considered as non-performing;
- a minimum two year probation period has passed from the date the forborne exposure was considered to be performing;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- none of the exposures to the debtor is more than 30 days past due at the end of the probation period.

The following tables provide a summary of the Group's forborne loans and advances to customers by reportable segment and year-end stage classification:

		Gross amount of forborne loans			Loss allowance on forborne loans			
As at 31 December 2020	**Number**	**Performing £m**	**Non-Performing £m**	**Total £m**	**Performing £m**	**Non-Performing £m**	**Total £m**	**Coverage %**
Property Finance								
Stage 1	–	–	–	–	–	–	–	–
Stage 2	189	9.6	1.3	10.9	(0.2)	–	(0.2)	1.8
Stage 3	502	-	35.0	35.0	–	(4.5)	(4.5)	12.9
Total	691	9.6	36.3	45.9	(0.2)	(4.5)	(4.7)	10.2
Business Finance								
Stage 1	4	–	–	–	–	–	–	–
Stage 2	385	57.6	11.2	68.8	(4.4)	(0.4)	(4.8)	7.0
Stage 3	185	-	6.7	6.7	–	(3.1)	(3.1)	46.3
Total	574	57.6	17.9	75.5	(4.4)	(3.5)	(7.9)	10.5
Consumer Lending								
Stage 1	3	–	–	–	–	–	–	–
Stage 2	327	0.6	1.2	1.8	(0.1)	(0.9)	(1.0)	55.6
Stage 3	2,467	–	2.6	2.6	–	(1.9)	(1.9)	73.1
Total	2,797	0.6	3.8	4.4	(0.1)	(2.8)	(2.9)	65.9
Total								
Stage 1	7	–	–	–	–	–	–	–
Stage 2	901	67.8	13.7	81.5	(4.7)	(1.3)	(6.0)	7.4
Stage 3	3,154	–	44.3	44.3	–	(9.5)	(9.5)	21.4
Total	4,062	67.8	58.0	125.8	(4.7)	(10.8)	(15.5)	12.3

As at 31 December 2019	Number	Gross amount of forborne loans Performing £m	Gross amount of forborne loans Non-Performing[1] £m	Gross amount of forborne loans Total £m	Loss allowance on forborne loans Performing £m	Loss allowance on forborne loans Non-Performing[1] £m	Loss allowance on forborne loans Total £m	Coverage %
Property Finance								
Stage 1	20	0.6	0.1	0.7	–	–	–	–
Stage 2	158	3.6	3.4	7.0	–	–	–	–
Stage 3	525	–	38.1	38.1	–	(4.1)	(4.1)	10.8
Total	703	4.2	41.6	45.8	–	(4.1)	(4.1)	9.0
Business Finance								
Stage 1	53	–	0.1	0.1	–	–	–	–
Stage 2	53	10.6	3.8	14.4	(0.2)	(0.1)	(0.3)	2.1
Stage 3	204	–	10.6	10.6	–	(4.1)	(4.1)	38.7
Total	310	10.6	14.5	25.1	(0.2)	(4.2)	(4.4)	17.5
Consumer Lending								
Stage 1	256	0.1	–	0.1	–	–	–	–
Stage 2	222	0.4	0.5	0.9	(0.1)	(0.3)	(0.4)	44.4
Stage 3	3,086	–	4.8	4.8	–	(3.1)	(3.1)	64.6
Total	3,564	0.5	5.3	5.8	(0.1)	(3.4)	(3.5)	60.3
Total								
Stage 1	329	0.7	0.2	0.9	–	–	–	–
Stage 2	433	14.6	7.7	22.3	(0.3)	(0.4)	(0.7)	3.1
Stage 3	3,815	–	53.5	53.5	–	(11.3)	(11.3)	21.1
Total	4,577	15.3	61.4	76.7	(0.3)	(11.7)	(12.0)	15.6

COVID-19 concessions

During the year ended 31 December 2020, to address the exceptional challenges posed by COVID-19 and to provide support for customers, the Group granted short-term concessions to customers (payment holidays). This allowed customers to take a temporary break from making loan repayments if they were experiencing, or were reasonably expected to experience payment difficulties, due solely to the impact of COVID-19. Concessions were for a period of three months, however customers were extended a second concession for a further three month period where they required further support. During the period of these concessions, no further arrears are reported on the customer's records, but interest on the deferred payments continue to accrue.

In line with regulatory guidance and the Group's forbearance policy, these short-term measures are not considered to be forbearance and are not included in the Group's forbearance disclosures shown above. On expiry of these COVID-19 related concessions, where underlying longer-term financial difficulties are evident, the Group's normal forbearance assessment applies.

In calculating the loss allowance, a COVID-19 PMA was applied to customers that had taken a payment holiday to account for the additional risk of default once the concession has expired (see page 120).

As at 31 December 2020, 1,557 loans with a gross carrying amount of £86.0 million and a loss allowance of £3.1 million are still on payment holidays.

1 Loans that are classified as non-performing and Stage 1 are where the latest forbearance measure was extended more than a year ago and the number of days past due at the current reporting period is more than zero but less than 30.

Key risk categories

Liquidity risk

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

The following sections provide additional information relating to the management of liquidity risk and additional analysis and metrics used in assessing, monitoring and managing liquidity risk.

Managing liquidity risk

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

The Group's treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding. The Board sets limits over the level, composition and maturity of liquidity and deposit funding balances, which are reviewed at least annually. Compliance with these limits is monitored on a daily basis by finance and risk personnel that are independent of the treasury function.

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

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

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

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

In the following tables, the 'less than 1 month' maturity group includes amounts repayable on demand. For undated instruments, the principal amount is included in the 'more than 5 years' maturity group. For loans and advances to customers and customer deposits, the 'more than 5 years' maturity group also includes the fair value adjustment for hedged risk.

As at 31 December 2020	Less than 1 month £m	1-3 months £m	3 months – 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial assets							
Cash and balances at central banks	1,255.2	–	–	–	–	18.0	1,273.2
Loans and advances to banks	91.0	-	–	–	–	–	91.0
Loans and advances to customers	496.9	188.1	830.3	630.0	1,148.1	3,767.9	7,061.3
Investment securities	–	–	37.7	28.4	202.7	89.4	358.2
Derivative financial assets	0.4	–	–	3.5	0.1	0.1	4.1
Assets held for sale	–	2.3	–	–	–	–	2.3
Total financial assets	1,843.5	190.4	868.0	661.9	1,350.9	3,875.4	8,790.1
Financial liabilities							
Amounts due to banks	(0.7)	(16.3)	(41.5)	–	(757.0)	–	(815.5)
Customer deposits	(2,478.1)	(759.6)	(1,745.2)	(1,098.7)	(748.5)	(64.0)	(6,894.1)
Derivative financial liabilities	(0.4)	(0.8)	(0.8)	(5.8)	(30.7)	(3.5)	(42.0)
Debt securities in issue	–	(0.1)	(8.9)	(1.0)	(15.4)	(179.4)	(204.8)
Lease liabilities	(0.2)	(0.3)	(1.4)	(1.9)	(4.8)	(2.5)	(11.1)
Subordinated debt liability	–	(0.3)	(1.5)	–	–	(95.0)	(96.8)
Total financial liabilities	(2,479.4)	(777.4)	(1,799.3)	(1,107.4)	(1,556.4)	(344.4)	(8,064.3)
Cumulative gap	(635.9)	(1,222.9)	(2,154.2)	(2,599.7)	(2,805.2)	725.8	725.8

Key risk categories

Liquidity risk continued

As at 31 December 2019	Less than 1 month £m	1-3 months £m	3 months – 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial assets							
Cash and balances at central banks	1,052.1	–	–	–	–	12.5	1,064.6
Loans and advances to banks	59.1	–	–	–	–	–	59.1
Loans and advances to customers	304.9	258.8	865.0	733.0	1,223.5	3,252.5	6,637.7
Investment securities	–	–	–	37.7	162.0	0.3	200.0
Derivative financial assets	0.8	–	0.5	–	2.9	0.2	4.4
Assets held for sale[1]	104.1	–	–	–	–	–	104.1
Total financial assets	1,521.0	258.8	865.5	770.7	1,388.4	3,265.5	8,069.9
Financial liabilities							
Amounts due to banks	(1.3)	–	(123.3)	(487.0)	(270.0)	–	(881.6)
Customer deposits	(2,187.2)	(518.3)	(2,035.5)	(701.3)	(646.5)	(20.6)	(6,109.4)
Derivative financial liabilities	–	–	(0.6)	(0.8)	(12.0)	(1.5)	(14.9)
Debt securities in issue	–	(0.2)	(0.2)	(11.6)	(14.9)	(213.8)	(240.7)
Lease liabilities	(0.1)	(0.2)	(1.2)	(1.8)	(5.2)	(3.9)	(12.4)
Subordinated debt liability	–	(0.3)	(0.6)	–	–	(95.0)	(95.9)
Total financial liabilities	(2,188.6)	(519.0)	(2,161.4)	(1,202.5)	(948.6)	(334.8)	(7,354.9)
Cumulative gap	(667.6)	(927.8)	(2,223.7)	(2,655.5)	(2,215.7)	715.0	715.0

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

As at 31 December 2020	**Less than 1 month £m**	**1-3 months £m**	**3 months – 1 year £m**	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total £m**
Financial liabilities							
Amounts due to banks	**0.9**	**16.4**	**42.2**	**0.8**	**758.5**	**–**	**818.8**
Customer deposits	**2,479.7**	**761.0**	**1,760.8**	**1,119.7**	**821.2**	**72.6**	**7,015.0**
Derivative financial liabilities	**0.4**	**0.8**	**0.8**	**5.8**	**30.7**	**3.5**	**42.0**
Debt securities in issue	**0.3**	**0.7**	**11.5**	**4.7**	**28.1**	**204.3**	**249.6**
Lease liabilities	**0.2**	**0.3**	**1.4**	**2.0**	**5.1**	**2.8**	**11.8**
Subordinated debt liability	**–**	**0.7**	**7.5**	**8.1**	**24.1**	**130.5**	**170.9**
Total financial liabilities	**2,481.5**	**779.9**	**1,824.2**	**1,141.1**	**1,667.7**	**413.7**	**8,308.1**

1 Of the £104.1 million assets held for sale, £48.9 million had been received as a deposit as at 31 December 2019 and was included in other liabilities (see Note 30 of the Financial Statements). This amount has been included in the 'less than 1 month' maturity grouping.

As at 31 December 2019	Less than 1 month £m	1-3 months £m	3 months – 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial liabilities							
Amounts due to banks	4.2	7.4	116.8	488.8	270.2	–	887.4
Customer deposits	2,189.6	519.7	2,060.1	722.8	715.2	23.8	6,231.2
Derivative financial liabilities	–	–	0.6	0.8	12.0	1.5	14.9
Debt securities in issue	–	1.3	3.5	15.9	29.9	252.2	302.8
Lease liabilities	0.1	0.3	1.3	1.9	5.6	4.2	13.4
Subordinated debt liability	–	0.7	7.1	7.7	23.0	107.9	146.4
Total financial liabilities	2,193.9	529.4	2,189.4	1,237.9	1,055.9	389.6	7,596.1

Liquidity buffer

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

The average monthly liquidity buffer throughout the year was £1,665.0 million (2019: £1,016.0 million).

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

	2020 £m	2019 £m
Cash and withdrawable central bank reserves (LCR level 1 assets)	**1,255.1**	1,051.8
Central government assets (LCR level 1 assets)	**22.8**	22.8
Extremely high-quality covered bonds (LCR level 1 assets)	**97.1**	93.6
High-quality covered bonds (LCR level 2A assets)	**9.1**	–
Total liquidity buffer	**1,384.1**	1,168.2

Central government assets are off-balance sheet UK gilts acquired as part of an off-balance sheet security swap. See Note 15 of the Financial Statements for further details.

Key risk categories

Liquidity risk continued

Liquidity coverage ratio and net stable funding ratio

The LCR is a regulatory metric that measures a set of standardised liquidity inflows and outflows over a period of 30 days. The Group calculates the LCR in accordance with the EBA's LCR standards.

The following table sets out the Group's LCR:

	2020	2019
Liquidity buffer (£m)	1,384.1	1,168.2
Total net cash outflows (£m)	602.6	425.6
Liquidity coverage ratio (%)	**229.7**	274.5

The net stable funding ratio (NSFR) is a regulatory metric, which measures the amount of stable funding available compared to the amount of stable funding required. Based on current interpretations of regulatory requirements and guidance, the Group's NSFR as at 31 December 2020 is 136.7% (2019: 131.9%). This is in excess of the minimum level of 100% proposed[1].

Assets available to support future funding *(audited)*

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

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

The tables and additional narrative below set out the availability of the Group's assets to support future funding:

	Encumbered		Unencumbered		
As at 31 December 2020	**Pledged as collateral £m**	**Other £m**	**Available as collateral £m**	**Other £m**	**Total £m**
Cash and balances at central banks	–	18.0	–	1,255.2	1,273.2
Loans and advances to banks	48.6	–	42.4	–	91.0
Loans and advances to customers	1,279.9	–	5,781.4	–	7,061.3
Investment securities	165.0	–	193.2	–	358.2
Derivative financial assets	–	–	–	4.1	4.1
Assets held for sale	–	–	–	2.3	2.3
Non-financial assets	–	–	39.2	108.2	147.4
Total assets	1,493.5	18.0	6,056.2	1,369.8	8,937.5

1 The NSFR will be implemented in the EU through the CRR2 in June 2021. The timing of a binding NSFR in the UK remains subject to uncertainty and how and when it will be implemented depends in part on the terms and timings of the UK's withdrawal from the EU. The Basel Committee on Banking Supervision issued its final recommendations for the implementation of the NSFR in October 2016, proposing a minimum ratio of 100%. The European Commission also proposed a NSFR of at least 100% as part of the CRR2 in November 2016.

As at 31 December 2019	Encumbered		Unencumbered		
	Pledged as collateral £m	Other £m	Available as collateral £m	Other £m	Total £m
Cash and balances at central banks	–	12.5	–	1,052.1	1,064.6
Loans and advances to banks	14.4	–	44.7	–	59.1
Loans and advances to customers	1,424.0	–	5,213.7	–	6,637.7
Investment securities	100.0	–	100.0	–	200.0
Derivative financial assets	–	–	–	4.4	4.4
Assets held for sale	–	–	–	104.1	104.1
Non-financial assets	–	–	39.9	113.2	153.1
Total assets	1,538.4	12.5	5,398.3	1,273.8	8,223.0

Encumbered assets 'pledged as collateral' comprise:

Loans and advances to banks totalling £48.6 million (2019: £14.4 million), of which:

- £48.6 million (2019: £14.4 million) is pledged as collateral against derivative contracts.

Loans and advances to customers totalling £1,279.9 million (2019: £1,424.0 million), of which:

- £956.2 million (2019: £974.2 million) is positioned with the Bank of England for use as collateral against amounts drawn under its funding schemes. Of this amount, £nil (2019: £974.2 million) relates to the Term Funding Scheme and £956.2 million (2019: £nil) to the new Term Funding Scheme with additional incentives for SMEs.
- £55.5 million (2019: £163.6 million) is pledged as collateral against secured bank borrowings.
- £268.2 million (2019: £286.2 million) is pledged to securitisation programmes.

Investment securities totalling £165.0 million (2019: £100.0 million), of which:

- £150.0 million (2019: £100.0 million) is positioned with the Bank of England for use as collateral against amounts drawn under its funding schemes. Of this amount, £nil (2019: £100.0 million) relates to the Term Funding Scheme and £150.0 million (2019: £nil) to the new Term Funding Scheme with additional incentives for SMEs.
- £15.0 million (2019: £nil) is pledged as collateral for repurchase agreements.

'Other' encumbered assets (assets that cannot be used for secured funding for legal or other reasons) comprise cash and balances at central banks totalling £18.0 million (2019: £12.5 million), which are mandatory deposits with central banks.

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

Key risk categories

Market risk

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

The following sections provide additional information relating to the management of market risk and specific details regarding foreign exchange risk, basis risk and interest rate risk. An update regarding the Group's transition to new benchmark interest rates is also provided.

Managing market risk

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

Foreign exchange risk *(audited)*

Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Group has low levels of foreign exchange risk that is managed by appropriate financial instruments including derivatives.

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

As at 31 December 2020	**Euros £m**	**US Dollars £m**	**Australian Dollars £m**
Loans and advances to banks	4.1	5.0	0.6
Loans and advances to customers	7.0	10.5	–
Total exposure	11.1	15.5	0.6

As at 31 December 2019	Euros £m	US Dollars £m	Australian Dollars £m
Loans and advances to banks	4.4	6.0	0.4
Loans and advances to customers	12.6	17.3	–
Total exposure	17.0	23.3	0.4

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

Basis risk *(audited)*

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

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

Information regarding the Group's transition from LIBOR to new benchmark interest rates in advance of 2021 can be found on page 154.

Interest rate risk *(audited)*

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

The following is a summary of the Group's interest rate gap position. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

As at 31 December 2020	Within 3 months £m	3 months but <6 months £m	6 months but <1 year £m	1 year but <5 years £m	>5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash and balances at central banks	1,255.2	–	–	–	–	18.0	1,273.2
Loans and advances to banks	91.0	–	–	–	–	–	91.0
Loans and advances to customers	3,205.7	303.9	561.8	2,857.4	197.2	(64.7)	7,061.3
Investment securities	358.2	–	–	–	–	–	358.2
Derivative financial assets	–	–	–	–	–	4.1	4.1
Assets held for sale	–	–	–	–	–	2.3	2.3
Non-financial assets	3.8	2.3	4.2	18.3	1.3	117.5	147.4
Total assets	4,913.9	306.2	566.0	2,875.7	198.5	77.2	8,937.5
Equity and liabilities							
Amounts due to banks	(815.5)	–	–	–	–	–	(815.5)
Customer deposits	(3,195.3)	(955.7)	(811.2)	(1,829.5)	(63.6)	(38.8)	(6,894.1)
Derivative financial liabilities	–	–	–	–	–	(42.0)	(42.0)
Debt securities in issue	(205.6)	–	–	–	–	0.8	(204.8)
Lease liabilities	–	–	–	–	–	(11.1)	(11.1)
Subordinated debt liability	(0.3)	(1.5)	–	(95.0)	–	–	(96.8)
Non-financial liabilities	–	–	–	–	–	(58.7)	(58.7)
Equity	–	–	–	(125.0)	–	(689.5)	(814.5)
Total equity and liabilities	(4,216.7)	(957.2)	(811.2)	(2,049.5)	(63.6)	(839.3)	(8,937.5)
Notional values of derivatives	1,305.8	(20.0)	(59.0)	(1,132.2)	(94.6)	–	–
Cumulative gap	2,003.0	1,332.0	1,027.8	721.8	762.1	–	–

Key risk categories

Market risk continued

As at 31 December 2019	Within 3 months £m	3 months but <6 months £m	6 months but <1 year £m	1 year but <5 years £m	>5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash and balances at central banks	1,052.1	–	–	–	–	12.5	1,064.6
Loans and advances to banks	59.1	–	–	–	–	–	59.1
Loans and advances to customers	3,194.2	265.7	530.9	2,536.6	177.4	(67.1)	6,637.7
Investment securities	200.0	–	–	–	–	–	200.0
Derivative financial assets	–	–	–	–	–	4.4	4.4
Assets held for sale	–	–	-	–	–	104.1	104.1
Non-financial assets	1.7	2.3	4.4	26.1	5.4	113.2	153.1
Total assets	4,507.1	268.0	535.3	2,562.7	182.8	167.1	8,223.0
Equity and liabilities							
Amounts due to banks	(881.8)	–	–	–	–	0.2	(881.6)
Customer deposits	(2,747.9)	(875.8)	(1,092.6)	(1,332.4)	(20.0)	(40.7)	(6,109.4)
Derivative financial liabilities	–	–	–	–	–	(14.9)	(14.9)
Debt securities in issue	(242.0)	–	–	–	–	1.3	(240.7)
Lease liabilities	–	–	–	–	–	(12.4)	(12.4)
Subordinated debt liability	(0.3)	(1.1)	–	(95.0)	–	0.5	(95.9)
Non-financial liabilities	–	–	–	–	–	(102.4)	(102.4)
Equity	–	–	–	–	–	(765.7)	(765.7)
Total equity and liabilities	(3,872.0)	(876.9)	(1,092.6)	(1,427.4)	(20.0)	(934.1)	(8,223.0)
Notional values of derivatives	972.5	(60.0)	152.0	(1,019.8)	(44.7)	–	–
Cumulative gap	1,607.6	938.7	533.4	648.9	767.0	–	–

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

The Group estimates that a +/ – 250 bps movement in interest rates paid/received would impact the economic value of equity as follows:

- **+ 250 bps:** £14.2 million negative (2019: £12.9 million negative)
- **– 250 bps:** £7.3 million positive (2019: £28.4 million positive)

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

- **+ 250 bps:** £62.0 million positive (2019: £76.7 million positive)
- **– 250 bps:** £8.9 million positive (2019: £3.9 million positive)

In preparing the above, the Group makes certain assumptions consistent with expected and contractual repricing behaviour as well as behavioural repayment profiles of the underlying statement of financial position items in relation to the specific scenarios. The results also include the impact of hedge transactions.

Interest rate benchmark reform *(audited)*

International regulators have determined that the IBOR benchmarks should be replaced. The FCA has stated that at the end of 2021 it will no longer seek to persuade or compel banks to submit to LIBOR and that the rate may therefore cease to be a fair representative benchmark or may cease to be published.

In response to the announcements, the Group has established a LIBOR transition programme under the governance of the Chief Financial Officer who reports to the Board. The aim of the programme is to identify LIBOR exposures within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. LIBOR transition is identified by the Group as an emerging risk as detailed on page 113.

The LIBOR transition programme has established a plan, which involves active transition of all the Group's LIBOR exposures to new benchmark rates by the end of 2021, with minimum reliance on a tough legacy legislative solution. A priority of the LIBOR transition strategy is to ensure that transition is undertaken in a way that is fair to customers and is communicated in a clear and transparent way.

Considerable progress has been made in the implementation of this plan during the year ended 31 December 2020. Significant milestones that have been achieved include:

- communication to all customers whose contract has reliance on LIBOR, informing them of LIBOR's expected demise;
- enhancing all new customer products with terms that facilitate clearer transition to an alternative benchmark;
- agreement of a new benchmark rate 'Shawbrook Base Rate' in H1 2020, which commenced being used in July 2020;
- changing all new Property Finance loan products to remove any reliance on LIBOR from June 2020;
- performing the necessary action to enable the majority of legacy Property Finance loan products to be transferred to Shawbrook Base Rate on 1 January 2021; and
- ensuring that all of the Group's interest rate hedging undertaken during the year ended 31 December 2020 was based on alternative benchmark rates.

The following tables provide a summary of the Group's exposures which have a LIBOR dependency as at 31 December 2020:[1]

Derivative financial instruments

Instrument type	Maturing in	Nominal amount £m	Hedged item
Receive 3-month sterling LIBOR, pay sterling fixed interest rate swaps	2021	93.6	Sterling fixed rate mortgage lending assets and consumer loan assets of the same maturity and nominal as the swaps
	2022	143.9	
	2023	308.3	
	2024	29.4	
	2025	3.0	
	2026	5.9	
	2027	5.6	
	2028	13.2	
Put option with a floor of 0.75%	2021	50.0	Sterling 3-month sterling LIBOR mortgage lending assets with an embedded floor of 0.75%
	2022	350.0	
	2023	350.0	
	2024	200.0	
	2025	100.0	
Total exposures		**1,652.9**	

1 Exposures include those based on LIBOR as at 31 December 2020 and those that will revert to LIBOR in the future.

Market risk continued

Non-derivative financial assets

Index	Maturing in	Gross carrying amount: Loans and advances to customers £m	Gross carrying amount: Investment securities £m
1-month sterling LIBOR	2021	152.9	–
	2022	167.9	–
	2023	90.0	–
	2024	62.1	–
	2025	78.8	–
	2026	28.0	–
	2027	12.3	–
	2028	4.5	–
	>2028	36.4	–
3-month sterling LIBOR	2021	506.2	–
	2022	219.0	23.0
	2023	93.5	30.6
	2024	89.8	–
	2025	127.6	–
	2026	139.1	–
	2027	340.4	–
	2028	433.1	–
	>2028	1,750.0	–
Total exposures		**4,331.6**	**53.6**

In line with the Group's LIBOR Transition Plan, on 1 January 2021, loans and advances to customers with a gross carrying amount of £2,685.4 million from Property Finance, with an underlying LIBOR reference rate, were migrated to Shawbrook Base Rate.

Non-derivative financial liabilities

Index	Maturing in	Amounts due to banks £m
1-month sterling LIBOR	2021	43.3
Total exposures		**43.3**

Operational risk

The Risk Committee receives regular reports across the spectrum of operational risks. These reports cover incidents that have arisen and allow the Risk Committee to assess the Group's response and proposed remedial actions.

During the year ended 31 December 2020, operational resilience has been demonstrated in a number of ways, particularly during the COVID-19 lockdown periods. There have been no significant system failures or errors, which has demonstrated the resilience of the Group's IT infrastructure and associated controls. All key business services have continued to operate under the remote working structure, ensuring ongoing support for the Group's customers and employees. Throughout the COVID-19 lockdown periods, the governance structure of the Group has been maintained through video conferencing technology. This allowed the incident management team to fully address all key risks, as well as drive a forward-looking strategy in line with government guidelines. Prior to re-opening the Group's offices, a full COVID-19 accreditation will be obtained to ensure the protection of all employees.

Compliance, conduct and financial crime risk

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

During the year ended 31 December 2020, conduct risks were raised by each business area for consideration by the Risk Committee. The Risk Committee reviewed the risks raised and considered whether the Group's proposed actions were appropriate to mitigate the risks effectively and ensured that all complaints were being fairly addressed. A project was incepted to review the comprehensiveness and effectiveness of the Group's financial crime controls, alongside the commencement of a programme of work to automate the customer due diligence process for new and existing customers in all divisions. Each of these important financial crime initiatives is making satisfactory progress with completion scheduled for the second half of 2021.

During the year, the Group has continued to incur costs in relation to litigation and complaints. Costs include customer redress and remediation, specifically in relation to Section 75 of the Consumer Credit Act within the Consumer Lending division, with key accounting judgements considered by the Audit Committee. Resolution of these matters remains a necessary and important part of delivering the Group's risk appetite.

Risk appetite is assessed by the business areas through key indicators which are aggregated and provide an overall rating which is reported to the Risk Committee as part of the Group's Risk Appetite Dashboard. This is supported by additional tools, such as the conduct risk and control self-assessment. As a result of this analysis, the Group has reconsidered its appetite for lending with Section 75 exposure.

Strategic risk

Strategic risk focuses on large, long-term risks that could become a material issue for the delivery of the Group's goals and objectives. Management of strategic risk is primarily the responsibility of the Group's senior management team. The management of strategic risk is intrinsically linked to the corporate planning and stress testing processes and is further supported by the regular provision of consolidated business performance and risk reporting to the Executive Committee and the Board. During the year ended 31 December 2020, the Group made strategic decisions to balance risk appetite with meeting customer needs and protecting colleagues during COVID-19.

During the year ended 31 December 2020, the Board received and approved a number of reports, including the strategy update. It has also been engaged actively in the formation of the Group's risk appetite, ICAAP, ILAAP, Recovery Plan and Resolution Pack, which are critical tools to managing strategic risk.

Systems and change risk

Customer expectations for service availability continue to rise with the rapid pace of new technologies, leading to a significantly lower tolerance for service disruption, despite disruption due to the COVID-19 pandemic. The Group recognises that, in order to continue to be recognised for very high levels of customer satisfaction, it needs to continually monitor systems risk and ensure that change is delivered with minimum disruption to customers. The Group has continued to invest in its digital capability to improve customer experience and has invested in cloud technologies to increase the scale, stability and resiliency of its systems.

During the year ended 31 December 2020, the Chief Operating Officer led the implementation of the operational resiliency roadmap, including the identification of the Group's important business services and the documentation of the processes supporting them and measurement of key operational resiliency metrics. As part of the roadmap, initial impact tolerances have been created and are now being monitored in parallel to the development of scenario testing.

Capital risk and management

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

Managing capital risk

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

The Group recognises the importance of allocating the correct risk-weighting to its assets and during the year ended 31 December 2020 formed a steering committee to oversee the documentation and testing of its risk-weighted assets. The Group sought an independent assurance opinion on its risk-weighted assets during the year ended 31 December 2020.

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

The 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. Shawbrook Bank Limited is the only subsidiary that is regulated by the PRA and the FCA.

Regulatory requirements

The Group applies the regulatory framework defined by the CRR and the Capital Requirements Directive (CRD V). Directive requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook.

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

Pillar 1 defines the minimum capital requirements that firms are required to hold for credit, market and operational risks.

Pillar 2 builds on Pillar 1 and incorporates the Group's own assessment of additional capital required in order to cover specific risks that are not covered by the minimum regulatory capital requirement set out under Pillar 1. Under Pillar 2, the Group completes an annual self-assessment of these risks as part of its ICAAP. The ICAAP is reviewed by the PRA every two years (or earlier if required), which culminates in the PRA setting a firm-specific requirement on the level of capital the Group, and its regulated subsidiary, Shawbrook Bank Limited, are required to hold, known as the Total Capital Requirement.

Pillar 3 requires the Group to publish a set of disclosures that allow market participants to assess information on the Group's capital, risk exposures and risk assessment process. The Group's Pillar 3 disclosures can be found on the Group's website **www.shawbrook.co.uk/investors/**

The minimum capital and leverage requirements set out by the regulatory framework are summarised below.

The regulatory minimum for the Common Equity Tier 1 capital ratio, total Tier 1 capital ratio and total capital ratio are set at 4.5%, 6% and 8% of risk-weighted assets, respectively. These do not include the Common Equity Tier 1 capital required for the capital conservation buffer of 2.5% of risk-weighted assets and countercyclical capital buffer of 0% of risk-weighted assets (reduced from 1% in March 2020 as detailed in the following section).

The regulatory minimum for the leverage ratio is set at 3%. The Group is not required to comply with the PRA's UK Leverage Ratio Framework until its retail deposits exceed the £50 billion threshold.

The Total Capital Requirement of the Group set by the PRA is 9.78% (2019: 10.27%).

The Group and its regulated subsidiary, Shawbrook Bank Limited, maintains an adequate capital base and have complied with all externally imposed capital requirements. The Total Capital Requirement has been met at all times and capital adequacy and leverage ratios are well in excess of the minimum regulatory requirements.

Regulatory developments

On 11 March 2020, as part of a package of special measures to support the economy from the impact of the COVID-19 pandemic, the Financial Policy Committee announced a reduction in the UK countercyclical capital buffer from 1% to 0% with immediate effect. The Financial Policy Committee does not expect an increase in the countercyclical capital buffer until March 2022 at the earliest.

One of the CRR amendments being brought forward from their original implementation dates by the European Parliament is the revised SME supporting factor. This was originally due to become applicable on 28 June 2021 but has been accelerated to incentivise banks to prudently increase lending to SME's during the COVID-19 pandemic. The Group plans to implement this change within its regulatory reporting.

Following the Basel Committee on Banking Supervision's press release on 27 March 2020, the proposed implementation of the new Standardised Approach for credit risk-weighted assets has been delayed until 1 January 2023.

IFRS 9 transitional arrangements

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

Per the transitional factors set out in Regulation (EU) 2017/2395, the proportion that the Group may add back in 2020 is 70% (2019: 85%). However, in response to the COVID-19 pandemic, the EU has reviewed the transitional arrangements and reached agreement to reset the proportions for relevant ECLs raised from 1 January 2020, as set out in the CRR 'Quick Fix', a change that has been accepted by the PRA. As a result, for non-credit impaired ECLs raised from 1 January 2020, the revised add-back percentages will be set at 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024. Provisions raised prior to 2020 will continue to follow the original transitional factors set out in Regulation (EU) 2017/2395. The revised approach is designed to assist firms to navigate through the COVID-19 pandemic and any following economic impacts that may arise.

Capital risk disclosures

The following disclosures are for the Group and Shawbrook Bank Limited, the Group's principal subsidiary and only regulated subsidiary. Shawbrook Bank Limited is referred to as 'Bank' throughout the following disclosures.

Regulatory capital

Regulatory capital consists of the sum of the following elements:

- **Common Equity Tier 1 capital:** includes ordinary share capital, related share premiums, retained earnings, reserves and deductions for intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- **Additional Tier 1 capital:** includes instruments classified as equity.
- **Tier 2 capital:** includes qualifying subordinated liabilities.

Capital risk and management

The following table sets out the regulatory capital managed by the Group and the Bank:

	Group 2020 £m	**Bank 2020 £m**	Group 2019 £m	Bank 2019 £m
Share capital	**2.5**	**175.5**	2.5	175.5
Share premium account	**87.3**	**81.0**	87.3	81.0
Capital redemption reserve	**–**	**17.7**	–	17.2
Merger reserve	**–**	**1.6**	–	1.6
Retained earnings	**600.7**	**392.1**	551.9	343.6
Intangible assets	**(65.1)**	**(45.1)**	(66.6)	(46.6)
Transitional adjustment for IFRS 9	**40.9**	**41.0**	22.1	22.1
Common Equity Tier 1 capital	**666.3**	**663.8**	597.2	594.4
Capital securities	**124.0**	**125.0**	124.0	125.0
Additional Tier 1 capital	**124.0**	**125.0**	124.0	125.0
Total Tier 1 capital	**790.3**	**788.8**	721.2	719.4
Subordinated debt liability[1]	**94.1**	**95.0**	94.4	94.9
Tier 2 capital	**94.1**	**95.0**	94.4	94.9
Total regulatory capital	**884.4**	**883.8**	815.6	814.3

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

	Group 2020 £m	**Bank 2020 £m**	Group 2019 £m	Bank 2019 £m
Total regulatory capital	**884.4**	**883.8**	815.6	814.3
Subordinated debt liability[1]	**(94.1)**	**(95.0)**	(94.4)	(94.9)
Intangible assets	**65.1**	**45.1**	66.6	46.6
Transitional adjustment for IFRS 9	**(40.9)**	**(41.0)**	(22.1)	(22.1)
Total equity	**814.5**	**792.9**	765.7	743.9

1 For the purpose of regulatory capital calculations, capitalised interest and other accounting adjustments of £2.7 million are excluded for both Group and Bank (2019: £1.5 million).

Movement in regulatory capital during the year is as follows:

	Group 2020 £m	Bank 2020 £m	Group 2019 £m	Bank 2019 £m
Total regulatory capital as at 1 January	815.6	814.3	714.8	714.4
Movement in Common Equity Tier 1 capital				
Increase in capital redemption reserve	–	0.5	–	0.8
Movement in retained earnings:				
Profit for the year	58.1	58.3	93.6	92.6
Share-based payments	0.5	–	0.8	–
Coupon paid on capital securities	(9.8)	(9.8)	(9.8)	(9.8)
Decrease/(increase) in intangible assets	1.5	1.5	(0.2)	(0.2)
Increase/(decrease) in transitional adjustment for IFRS 9	18.8	18.9	(3.6)	(3.4)
Total movement in Common Equity Tier 1 capital	69.1	69.4	80.8	80.0
Movement in Tier 2 capital				
Issuances of subordinated debt	75.0	75.0	20.0	20.0
Repurchases and redemption of subordinated debt	(75.0)	(75.0)	–	–
Other movements	(0.3)	0.1	–	(0.1)
Total movement in Tier 2 capital	(0.3)	0.1	20.0	19.9
Total regulatory capital as at 31 December	884.4	883.8	815.6	814.3

Risk-weighted assets

	Group 2020 £m	Bank 2020 £m	Group 2019 £m	Bank 2019 £m
Credit risk				
Property Finance	2,059.6	2,059.6	2,097.0	2,097.0
Business Finance	2,234.0	2,234.0	1,749.2	1,749.2
Consumer Lending	341.2	341.2	517.4	517.4
Other	113.3	113.2	155.5	155.4
Total credit risk	4,748.1	4,748.0	4,519.1	4,519.0
Credit valuation adjustment	2.6	2.6	3.8	3.8
Securitisation exposures in the banking book	15.9	15.9	–	–
Operational risk	505.1	501.9	451.6	449.7
Total risk-weighted assets	5,271.7	5,268.4	4,974.5	4,972.5

Capital risk and management

Capital ratios

	Group 2020 %	Bank 2020 %	Group 2019 %	Bank 2019 %
Common Equity Tier 1 capital ratio	12.6	12.6	12.0	12.0
Total Tier 1 capital ratio	15.0	15.0	14.5	14.5
Total capital ratio	16.8	16.8	16.4	16.4

Leverage

	Group 2020 £m	Bank 2020 £m	Group 2019 £m	Bank 2019 £m
Total Tier 1 capital	790.3	788.8	721.2	719.4
Exposure measure				
Total statutory assets (excluding derivatives)	8,933.4	8,980.0	8,218.6	8,244.9
Off-balance sheet items	200.3	200.3	150.8	150.8
Exposure value for derivatives	25.5	22.0	12.8	11.5
Transitional adjustment for IFRS 9	40.9	41.0	22.1	22.1
Other regulatory adjustments	(65.1)	(45.1)	(66.6)	(46.6)
Total exposures	9,135.0	9,198.2	8,337.7	8,382.7
Leverage ratio	8.7%	8.6%	8.6%	8.6%

Off-balance sheet items comprise pipeline and committed facilities balances that have a credit conversion factor of medium risk attached to them.

Exposure value for derivatives has been reported in compliance with CRD V rules. 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.

Other regulatory adjustments comprise asset amounts deducted in determining Tier 1 capital (i.e. intangible assets).

IFRS 9 transitional arrangements impact analysis

As detailed on page 158, the Group has elected to use a transitional approach when recognising the impact of adopting IFRS 9. To illustrate the impact of using this transitional approach, the following tables provide an overview of the Group's reported capital metrics (including transitional adjustments), compared to the capital metrics if IFRS 9 transitional arrangements had not been applied (i.e. full adoption):

	2020		2019	
Group	**Including transitional adjustments**	**Transitional adjustments not applied**	Including transitional adjustments	Transitional adjustments not applied
Capital resources				
Common Equity Tier 1 capital (£m)	**666.3**	**625.4**	597.2	575.1
Total Tier 1 capital (£m)	**790.3**	**749.4**	721.2	699.1
Total regulatory capital (£m)	**884.4**	**843.5**	815.6	793.5
Risk-weighted assets				
Total risk-weighted assets (£m)	**5,271.7**	**5,238.7**	4,974.5	4,955.5
Capital ratios				
Common Equity Tier 1 capital ratio (%)	**12.6**	**11.9**	12.0	11.6
Total Tier 1 Capital Ratio (%)	**15.0**	**14.3**	14.5	14.1
Total capital ratio (%)	**16.8**	**16.1**	16.4	16.0
Leverage				
Leverage ratio total exposures (£m)	**9,135.0**	**9,094.1**	8,337.7	8,315.6
Leverage ratio (%)	**8.7**	**8.2**	8.6	8.4

	2020		2019	
Bank	**Including transitional adjustments**	**Transitional adjustments not applied**	Including transitional adjustments	Transitional adjustments not applied
Capital resources				
Common Equity Tier 1 capital (£m)	**663.8**	**622.8**	594.4	572.3
Total Tier 1 capital (£m)	**788.8**	**747.8**	719.4	697.3
Total regulatory capital (£m)	**883.8**	**842.8**	814.3	792.2
Risk-weighted assets				
Total risk-weighted assets (£m)	**5,268.4**	**5,235.4**	4,972.5	4,953.5
Capital ratios				
Common Equity Tier 1 capital ratio (%)	**12.6**	**11.9**	12.0	11.6
Total Tier 1 Capital Ratio (%)	**15.0**	**14.3**	14.5	14.1
Total capital ratio (%)	**16.8**	**16.1**	16.4	16.0
Leverage				
Leverage ratio total exposures (£m)	**9,198.2**	**9,157.2**	8,382.7	8,360.6
Leverage ratio (%)	**8.6**	**8.2**	8.6	8.3

ICAAP, ILAAP and stress testing

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

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

The Board, Enterprise Risk Management Committee and the Asset and Liability Committee have engaged in a number of exercises that have considered and developed stress test scenarios. The analysis enables the Group to evaluate its capital and funding resilience in the face of severe but plausible risk shocks. In addition to the UK Annual Cyclical Scenario and the Rates Down scenario prescribed by the PRA, the stress tests have included a range of market-wide, and idiosyncratic stress tests as well as operational risk scenario analyses. Stress testing is an integral part of the adequacy assessment processes for liquidity and capital and the setting of tolerances under the annual review of Group risk appetite.

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

Recovery Plan and Resolution Pack

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

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

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

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

Group viability statement

The Directors have assessed the outlook for the Group over a longer period than the 12 months required by the going concern statement in line with good governance practice and reporting.

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.

The assessment included the following:

- the Board considered updates to the business plans at various times during the year ended 31 December 2020 given the impacts of COVID-19 and considered strategic decisions to balance risk appetite with meeting customer needs and protecting colleagues;
- the Board considered the strategy and five-year plan at various times during the year ended 31 December 2020 and approved the strategic update in December 2020 that outlined the business plans and financial projections from 31 December 2020 to 31 December 2025;
- the Board considered the quantity and quality of capital resources available to support the delivery of the Group's objectives, including consideration of the effects of a changing regulatory landscape on the Total Capital Requirement, Pillar 2B and the CRD V combined buffer requirements, together with the effect of the Group's Capital Contingency Plan to restore the capital position in scenarios of capital headwinds;
- the Board considered the Group's current and forecast liquidity and funding plans supporting the strategic objectives;
- the Board reviewed and evaluated the top and emerging risks for the business. This included a review of the cyber intelligence threat and the annual information risk assessment, together with the technology roadmap for improvements in the technology control environment in 2020 and 2021; and
- the Board reviewed and approved the ICAAP, ILAAP and Recovery Plan. 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. The stress tests were derived through discussions with the Enterprise Risk Management Committee and the Board, after considering the Group's top risks. The Group also considered its funding and liquidity adequacy in the context of the reverse stress testing. The Group considered the risks associated with the UK leaving the EU during 2020 and the Board believes these risks were captured within its stress testing scenarios. 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 also reviewed and evaluated the possible impacts of COVID-19 against the original financial and business plans, which included the following actions:

- the Board considered the Group's operational resilience in relation to the UK Government's mandated social distancing rules and noted that the Group has been operating successfully since March 2020, with the majority of employees working from home and the Group's material outsourced suppliers providing their critical services successfully under current conditions. The Board believe that this could operate for an extended period;
- the existing financial plans were stress tested by assessing the Group's customer and sector exposure to highlight any sectors at risk of impairment but also including the unprecedented fiscal and monetary response from the UK Government and the Bank of England to support the UK economy and provide both capital and impairment relief from payment holidays;
- the risk that there could be an increased likelihood of an extended period of disruption in the debt financial markets preventing the Group from raising additional hybrid debt capital over the plan period was assessed; and

Group viability statement

- the Board assessed the financial implications of the risks associated with COVID-19, including the expected effect of management actions taken in response, against the most severe but plausible scenario used in the Board's assessment of the ICAAP approved in 2020. This scenario was the Rates Down[1] scenario specified by the Bank of England for use in preparing ICAAP stress tests. Having regard for the severe financial outcomes from this scenario and the reverse stress tests also conducted, the Board concluded that both capital and liquidity remained within present regulatory requirements over the period. It is the Board's view that the four scenarios used in the calculation of ECLs are contained within the Rates Down scenario, particularly having regard for the significant government and Bank of England support for the economy, but provides a helpful baseline for the Board's consideration of the viability of the business over the period under review.

Based on the results of these 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.

1 The Bank of England publishes annual stress test scenarios with the 'Rates Down' scenario (an extension of the Annual Cyclical Scenario) being the most severe for the Group's forecast capital position. This scenario shows a peak-to-trough fall in UK GDP of 4.7%, unemployment peaking at 9.2%, UK residential property price falls of 33% and Bank of England base rate falling to 0% for the duration of the stress.

Financial Statements

Financial Statements.

Independent Auditor's Report to the members of Shawbrook Group plc

1. Our opinion is unmodified

We have audited the financial statements of Shawbrook Group plc ("the Company") for the year ended 31 December 2020, which comprise the Consolidated statement of profit and loss and other comprehensive income, Consolidated and Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated and Company statement of cash flows, and the related notes, including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Overview		
Materiality: Group financial statements as a whole	£4.5 million (2019: £5.0 million) 4.4% of three-year average of Group profit before tax (2019: 4.5% of Group profit before tax)	
Coverage	100% (2019:100%) of Group profit before tax	
Key audit matters		**vs 2019**
Recurring risks	Expected credit loss provisioning	▲
	Provisions for conduct matters	▲
	Going concern	◀▶
	Effective interest rate accounting	◀▶
	Valuation of goodwill – Business Finance	◀▶
	IT control environment	**NEW**
	Recoverability of parent Company's investment in subsidiaries	◀▶

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Expected credit loss provisioning

£92.3 million; 2019: £61.1 million

Refer to page 69 (Audit Committee Report), pages 102, 117-144 (Risk Report), pages 196-197 (accounting policies) and page 208 (financial disclosures)

Risk vs 2019: ▲

The risk

Subjective estimate

The estimation of expected credit losses ("ECL") on financial assets involves significant judgement with a high degree of estimation uncertainty. The areas where we identified heightened levels of estimation uncertainty in the Group's estimation of ECL, and therefore increased our audit focus, are:

- **Economic scenarios:** IFRS 9 requires the Group to measure ECL on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them, particularly in the context of COVID-19.
- **Significant increase in credit risk:** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12-month or lifetime provision is recorded. In the current year, COVID-19 related payment holidays granted to customers heightens the level of subjectivity in this judgement.
- **Model estimations:** Inherently judgemental modelling is used to estimate ECL, particularly in determining probability of default and loss given default. These models utilise both the Group's historical data and external data inputs.
- **Post-model adjustments:** Management make adjustments to the model-driven ECL results to address known model limitations or emerging trends not captured by the models, including the impact of COVID-19. Management judgement is involved in estimating these amounts especially in relation to development finance loans and acquired portfolios.
- **Assumptions applied to non-modelled portfolios:** For certain loan portfolios, management assess the ECL by taking a coverage ratio approach. Additionally, management take a slotting approach to estimate probability of default for larger individual customer exposures. The determination of assumptions applied to these portfolios is subjective, resulting in a high level of estimation uncertainty.

The effect of these matters is that, as part of our risk assessment, we determined that ECL provisioning has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

Disclosure quality

The disclosures regarding the Group's application of IFRS 9 are important in explaining the key judgements and material inputs to the IFRS 9 ECL estimate.

Our response

Our audit procedures included:

- **Our financial risk modelling expertise:** We involved our own financial risk modelling specialists in evaluating the Group's ECL models. We used our knowledge of the Group and our experience of the industry in which the Group operates to independently challenge the appropriateness of the Group's ECL models.
- **Our economic scenario expertise:** We engaged our own economic specialists to assist us in assessing the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them. This includes assessing the Group's consideration of COVID-19 in its forecasts and the appropriateness of the assumptions made.
- **Our sector experience:** We challenged the Group's key assumptions on significant increase in credit risk; the definition of default; likely recoverable collateral value, including timing of recovery; probability of default; probability of possession given default based on our knowledge of the Group and experience of the industry in which it operates.
- **Test of details:** For a sample of loans and advances, we performed credit file reviews to assess the appropriateness of the stage allocation and associated ECL estimate.
- **Benchmarking assumptions:** Compared the Group's key assumptions including significant increase in credit risk to a comparable peer group.
- **Independent evaluation:** We critically evaluated management's assumptions which are applied to determine the basis of post-model adjustments.
- **Assessing transparency:** We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the expected credit losses, including the sensitivities reported. In addition, we assessed whether the disclosure of the key judgements and assumptions made is sufficiently clear.

Our results:

We found the resulting estimate of the ECL recognised and the associated disclosures made to be acceptable (2019: acceptable).

Independent Auditor's Report to the members of Shawbrook Group plc

Provisions for conduct matters

£14.8 million; 2019: £7.3 million

Refer to page 70 (Audit Committee Report), pages 192, 199 (accounting policies) and page 225 (financial disclosures)

Risk vs 2019: ▲

The risk

Subjective estimate
Due to the uncertainties that can arise in measuring potential obligations resulting from operational, legal and regulatory matters, the Directors apply judgement in estimating the value of any associated provisions.

In particular, the Group continues to receive an inflow of customer complaints relating to its financing of solar lending products where the original supplier is no longer solvent.

The key elements of judgement are the estimation of future customer complaints rate, the uphold rate of complaints received and the estimated redress cost per upheld complaint. These judgements are informed by the Group's past complaint and claim experience. Given the limited historical information, there is a risk that the actual experience may differ from the Group's expectation.

The effect of these matters is that, as part of our risk assessment, we determined that the provision related to conduct matters has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Disclosure quality
The disclosures relating to the provision for conduct matters are important in explaining the Group's key judgements and material inputs to the subjective estimate.

Our response

Our audit procedures included:

- **Historical comparison:** We assessed the reasonableness of the key assumptions against historical experience of customer complaints levels, complaint uphold rates and redress paid.
- **Sensitivity analysis:** We assessed and challenged the reasonableness of the solar provisioning model's key assumptions, by performing stress tests on the number of expected future complaints, the uphold level of complaints and the redress paid per complaint.
- **Assessing transparency:** We evaluated whether the Group's disclosures detailing significant conduct related matters adequately disclose the potential liabilities of the Group.

Our results:
We found the resulting estimate of the conduct provisions recognised and related disclosures made to be acceptable (2019: acceptable).

Going concern

Refer to page 70 (Audit Committee Report), page 90 (Directors' Report), pages 109-110 (Risk Report), page 184 (basis of preparation)

Risk vs 2019: ◀▶

The risk	Our response
Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Group's and Company's available financial resources over the year is insufficient regulatory capital to meet minimum regulatory capital levels over the going concern period. There are also less predictable but realistic impacts, such as the impact of COVID-19, which could result in a rapid increase in the level of impairment in loans and advances to customers. The risk for our audit is whether or not those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If they are as such, then that fact is required to be disclosed.	Our audit procedures included: ■ **Our sector experience:** We considered the Directors' assessment of COVID-19 related sources of risk for the Group's and Company's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. ■ **Challenge of assumptions:** We inspected the Group's and Company's forecasting and liquidity plans to identify the key assumptions within these. We challenged the reasonableness of assumptions underpinning the Group's and Company's forecasts. We compared the accuracy of management prior projections versus actuals. ■ **Sensitivity analysis:** We assessed sensitivities over the level of available financial resources indicated by the Group's and Company's financial forecasts taking account of severe plausible adverse effects that could arise from these risks collectively. We challenged the assumptions underpinning the stress testing undertaken by the Directors of the identified critical factors in their financial forecasts. ■ **Assessing transparency:** We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the financial statements using our knowledge of the relevant facts and circumstances developed during our audit work, considering the economic outlook, key areas of estimation uncertainty, including in particular the level of expected credit losses for loans to customers and mitigating actions available to the Group and Parent Company to respond to these risks. **Our results:** We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable).

Independent Auditor's Report to the members of Shawbrook Group plc

Effective interest rate accounting

£394.6 million; 2019: £396.9 million

Refer to page 69 (Audit Committee Report), pages 185-186, 199-200 (accounting policies) and page 203 (financial disclosures)

Risk vs 2019: ◀▶

The risk	Our response
Subjective estimate Interest and related fee income on originated and acquired loans are recognised in line with the effective interest rate (EIR) method, which spreads the income over the expected lives of the loans. The Directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid. The effect of these matters is that, as part of our risk assessment, we determined that EIR income has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. **Disclosure quality** The disclosures relating to EIR are important in explaining the Group's key judgements and material inputs to the subjective estimate.	Our audit procedures included: ■ **Our sector experience:** We assessed the key assumptions behind the expected lives and profiles of significant loan products against our own knowledge of industry experience and trends, including any evidence of impact from payment holidays. ■ **Benchmarking assumptions:** We performed benchmarking of the redemption profiles of each loan portfolio with comparable lenders. ■ **Historical comparison:** We compared the EIR model expected repayment profile assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance. ■ **Sensitivity analysis:** We assessed the EIR models for their sensitivities to changes in the key assumptions by considering alternative redemption profiles to identify areas of potential additional focus. ■ **Assessing transparency:** We critically assessed the adequacy of the Group's disclosures on the degree of estimation involved in arriving at the income recognised. **Our results:** We found the amount of EIR income recognised in the year and the related disclosures to be acceptable. (2019: acceptable).

Valuation of goodwill – Business Finance

£34.7 million; 2019: £34.7 million

Refer to page 69 (Audit Committee Report), pages 191, 200 (accounting policies) and page 220 (financial disclosures)

Risk vs 2019: ◀▶

The risk	Our response
Forecast-based evaluation The Business Finance Cash Generating Unit("CGU") comprises £34.7 million of the total goodwill balance of £43.7 million. This element of the goodwill balance involves the most significant judgement in light of the size of the balance. The estimated recoverable amount after capital requirements is subjective due to the inherent uncertainty involved in forecasting future cash flows and growth in the division, particularly in light of COVID-19. Further, the Directors apply judgement in selecting an appropriate discount rate and terminal growth rate to determine present value of the cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Disclosure quality** The disclosures relating to goodwill are important in explaining the Group's key judgements and material inputs to the subjective estimate.	Our audit procedures included: ■ **Our sector experience:** We assessed the appropriateness of assumptions used based on market trends and events, in particular those relating to forecast revenue growth as the key driver of net operating income, discount rate and incremental capital requirements in the Business Finance CGU. ■ **Benchmarking assumptions:** We compared the Group's assumptions to external comparable data in relation to key inputs such as projected economic growth and discount rates. ■ **Sensitivity analysis:** Using our data analytic capabilities, we independently performed a breakeven analysis on the assumptions noted above. ■ **Assessing transparency:** We critically assessed whether the Group's disclosures of the sensitivity of the goodwill impairment test to changes in key assumptions reflected the risks inherent in the valuation of goodwill. **Our results:** We found the resulting estimate of the carrying value of goodwill and the related disclosures to be acceptable (2019: acceptable).

IT control environment

Refer to page 108 (Risk Report)

Risk vs 2019: **NEW**

The risk	Our response
Control Performance The Group's accounting and reporting processes are dependent on automated controls enabled by IT systems. User access management controls are an important component of the general IT control environment assuring that unauthorised access to systems does not impact the effective operation of the automated controls in the financial reporting processes. Certain user access management controls were not consistently implemented and effectively operated across the Group, including at third party service providers. Ineffective controls included privileged access management and monitoring of privileged database activities on certain systems related to management of loans. A remediation programme was put in place during the year to address previously identified control deficiencies, which remains ongoing. If the above controls for user access management are deficient and not remediated or adequately mitigated, the pervasive nature of these controls may undermine our ability to place reliance on automated and IT dependent controls in our audit.	Our audit procedures included: ■ **Control testing:** Using our own IT audit specialists, we tested the design and operating effectiveness of the relevant controls over user access management including: – Authorising access rights for new joiners; – Authorising modified access; – Timely removal of user access rights; – Logging and monitoring of user activities; – Privileged user and developer access to production systems, the procedures to assess granting, potential use, and the removal of these access rights; and – Segregation of duties including access to multiple systems that could circumvent segregation controls. ■ **Test of details:** For the loan portfolios where user access control deficiencies were identified, on a sample basis, we tested the relevant data elements in relation to loan balance, interest income and attributes supporting the ECL provision to underlying loan documentation. **Our results:** Our audit response to the identified control deficiencies was to expand the extent of our planned detailed testing. Based on the risk identified and our procedures performed, we did not identify unauthorised user activities in the systems relevant to financial reporting.

Recoverability of parent Company's investment in subsidiaries	
£410.5 million; 2019: £410.0 million Refer to page 224 (financial disclosures) Risk vs 2019: ◀▶	
The risk	**Our response**
Low risk, high value The carrying amount of the parent Company's investment in subsidiary represents 81% (2019: 81%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement or estimate. However, due to their materiality in the context of the parent Company's financial statements, this is considered to be the area that has the greatest effect on our overall parent Company audit.	Our audit procedures included: ■ **Tests of detail:** Comparing the carrying amount of the investment with the subsidiary's financial statements to identify whether its net assets, being an approximation of its minimum recoverable amount, were in excess of the carrying amount and assessing whether the subsidiary has historically been profit-making. **Our results:** We found the parent Company's assessment of the recoverability of the investment in subsidiary to be acceptable (2019: acceptable).

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern and in expected credit losses provisioning, however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

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

Materiality for the Group financial statements as a whole was set at £4.5 million (2019: £5.0 million), determined with reference to a benchmark of Group profit before tax, normalised by averaging over the last three years due to fluctuations in the business cycle, of £102.0 million, of which it represents 4.4% (2019: 4.5% of Group profit before tax).

Materiality for the parent Company financial statements as a whole was set at £4.1 million (2019: £4.0 million), determined with reference to a benchmark of Company total assets, of which it represents 1.0% (2019: 1.0%).

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

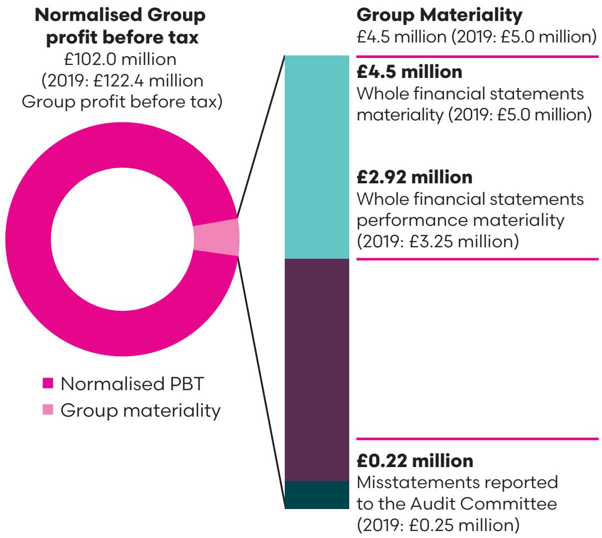
Performance materiality for the Group financial statements was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £2.92 million (2019: £3.25 million) for the Group. Performance materiality for the parent Company financial statements was set at 75% (2019: 65%) which equates to £3.0 million (2019: £2.6 million) for the parent Company.

We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.22 million (2019: £0.25 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Independent Auditor's Report to the members of Shawbrook Group plc

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality set out below.



4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the key audit matter in relation to Going concern in section 2 of this report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in Note 1.2 to be acceptable.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

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

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

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition in relation to EIR accounting and the risk that Group and parent Company management may be in a position to make inappropriate accounting entries.

We also identified fraud risks relating to ECL provisioning and provision for conduct matters due to the fact these involve significant estimation and subjective judgements that are difficult to corroborate. Further detail in respect of ECL provisioning and provision for conduct matters is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts;

- evaluating the business purpose of significant unusual transactions; and
- assessing significant accounting estimates for bias.

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the members of Shawbrook Group plc

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 91, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Simon Ryder (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
15 April 2021

Consolidated statement of profit and loss and other comprehensive income

for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Interest income calculated using the effective interest rate method	3	**399.9**	406.0
Other interest and similar income	3	**(8.7)**	(0.3)
Interest expense and similar charges	4	**(115.6)**	(113.2)
Net interest income		**275.6**	292.5
Operating lease rental income		**10.9**	10.3
Depreciation on operating leases	18	**(9.1)**	(8.6)
Net other operating lease (expense)/income		**(0.1)**	0.2
Net income from operating leases		**1.7**	1.9
Fee and commission income	5	**8.6**	9.7
Fee and commission expense	5	**(8.3)**	(8.7)
Net fee and commission income	5	**0.3**	1.0
Net gains on derecognition of financial assets measured at amortised cost	6	**9.4**	–
Net (losses)/gains on derivative financial instruments and hedge accounting	17	**(5.0)**	2.3
Net other operating income/(expense)		**0.6**	(2.6)
Net operating income		**282.6**	295.1
Administrative expenses	7	**(131.3)**	(138.5)
Impairment losses on financial instruments	11	**(54.9)**	(29.9)
Provisions for liabilities and charges	27	**(20.3)**	(4.5)
Total operating expenses		**(206.5)**	(172.9)
Share of results of associate	21	**0.1**	(0.1)
Impairment of investment in associate	21	**(2.7)**	–
Net gain on disposal of subsidiary	12	**–**	0.3
Profit before tax		**73.5**	122.4
Tax	13	**(15.4)**	(28.8)
Profit after tax, being total comprehensive income, attributable to owners		**58.1**	93.6

The notes on pages 183 to 243 are an integral part of these financial statements.

Consolidated and Company statement of financial position

as at 31 December 2020

	Note	**Group 2020 £m**	**Company 2020 £m**	Group 2019 £m	Company 2019 £m
Assets					
Cash and balances at central banks		**1,273.2**	**–**	1,064.6	–
Loans and advances to banks		**91.0**	**–**	59.1	–
Loans and advances to customers	14	**7,061.3**	**–**	6,637.7	–
Investment securities	16	**358.2**	**–**	200.0	–
Derivative financial assets	17	**4.1**	**–**	4.4	–
Property, plant and equipment	18	**53.6**	**–**	57.2	–
Intangible assets	19	**65.1**	**–**	66.6	–
Current tax receivable		**3.0**	**–**	–	–
Deferred tax assets	20	**12.3**	**–**	14.9	–
Investment in associate	21	**2.8**	**–**	5.4	–
Other assets	22	**10.6**	**0.7**	9.0	1.4
Assets held for sale	23	**2.3**	**–**	104.1	–
Investment in subsidiaries	24	**–**	**410.5**	–	410.0
Subordinated debt receivable	31	**–**	**97.7**	–	96.4
Total assets		**8,937.5**	**508.9**	8,223.0	507.8
Liabilities					
Amounts due to banks	25	**815.5**	**–**	881.6	–
Customer deposits	26	**6,894.1**	**–**	6,109.4	–
Provisions for liabilities and charges	27	**18.0**	**–**	8.3	–
Derivative financial liabilities	17	**42.0**	**–**	14.9	–
Debt securities in issue	28	**204.8**	**–**	240.7	–
Current tax liabilities		**–**	**–**	1.0	–
Lease liabilities	29	**11.1**	**–**	12.4	–
Other liabilities	30	**40.7**	**–**	93.1	0.1
Subordinated debt liability	31	**96.8**	**96.8**	95.9	95.9
Total liabilities		**8,123.0**	**96.8**	7,457.3	96.0
Equity					
Share capital	32	**2.5**	**2.5**	2.5	2.5
Share premium account		**87.3**	**87.3**	87.3	87.3
Capital securities	33	**124.0**	**124.0**	124.0	124.0
Retained earnings		**600.7**	**198.3**	551.9	198.0
Total equity		**814.5**	**412.1**	765.7	411.8
Total equity and liabilities		**8,937.5**	**508.9**	8,223.0	507.8

The notes on pages 183 to 243 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 15 April 2021 and were signed on its behalf by:

Ian Cowie
Chief Executive Officer

Dylan Minto
Chief Financial Officer

Registered number 07240248

Consolidated statement of changes in equity

for the year ended 31 December 2020

Year ended 31 December 2020	**Share capital £m**	**Share premium account £m**	**Capital securities £m**	**Retained earnings £m**	**Total equity £m**
As at 1 January 2020	**2.5**	**87.3**	**124.0**	**551.9**	**765.7**
Profit for the year	**–**	**–**	**–**	**58.1**	**58.1**
Share-based payments	**–**	**–**	**–**	**0.5**	**0.5**
Coupon paid on capital securities	**–**	**–**	**–**	**(9.8)**	**(9.8)**
As at 31 December 2020	**2.5**	**87.3**	**124.0**	**600.7**	**814.5**

Year ended 31 December 2019	Share capital £m	Share premium account £m	Capital securities £m	Retained earnings £m	Total equity £m
As at 1 January 2019	2.5	87.3	124.0	467.3	681.1
Profit for the year	–	–	–	93.6	93.6
Share-based payments	–	–	–	0.8	0.8
Coupon paid on capital securities	–	–	–	(9.8)	(9.8)
As at 31 December 2019	2.5	87.3	124.0	551.9	765.7

The notes on pages 183 to 243 are an integral part of these financial statements.

Company statement of changes in equity

for the year ended 31 December 2020

Year ended 31 December 2020	**Share capital £m**	**Share premium account £m**	**Capital securities £m**	**Retained earnings £m**	**Total equity £m**
As at 1 January 2020	**2.5**	**87.3**	**124.0**	**198.0**	**411.8**
Profit for the year	**–**	**–**	**–**	**9.6**	**9.6**
Share-based payments	**–**	**–**	**–**	**0.5**	**0.5**
Coupon paid on capital securities	**–**	**–**	**–**	**(9.8)**	**(9.8)**
As at 31 December 2020	**2.5**	**87.3**	**124.0**	**198.3**	**412.1**

Year ended 31 December 2019	Share capital £m	Share premium account £m	Capital securities £m	Retained earnings £m	Total equity £m
As at 1 January 2019	2.5	87.3	124.0	197.5	411.3
Profit for the year	–	–	–	9.5	9.5
Share-based payments	–	–	–	0.8	0.8
Coupon paid on capital securities	–	–	–	(9.8)	(9.8)
As at 31 December 2019	2.5	87.3	124.0	198.0	411.8

The notes on pages 183 to 243 are an integral part of these financial statements.

Consolidated and Company statement of cash flows

for the year ended 31 December 2020

	Note	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Cash flows from operating activities					
Profit before tax		**73.5**	**9.6**	122.4	9.5
Adjustments for non-cash items and other adjustments included in the statement of profit and loss	34	**59.4**	**0.5**	23.9	0.1
(Increase)/decrease in operating assets	34	**(368.9)**	**0.7**	(943.4)	0.4
Increase/(decrease) in operating liabilities	34	**769.1**	**(0.1)**	1,191.4	(0.2)
Tax paid		**(16.8)**	**–**	(28.7)	–
Net cash generated from operating activities		**516.3**	**10.7**	365.6	9.8
Cash flows from investing activities					
Purchase of investment securities		**(158.2)**	**–**	(60.0)	–
Purchase of property, plant and equipment		**(0.8)**	**–**	(3.4)	–
Purchase and development of intangible assets		**(7.5)**	**–**	(8.0)	–
Redemption of subordinated debt		**–**	**75.0**	–	–
Purchase of subordinated debt		**–**	**(75.0)**	–	(20.0)
Disposal of subsidiary, net of cash disposed		**–**	**–**	28.4	–
Net cash used by investing activities		**(166.5)**	**–**	(43.0)	(20.0)
Cash flows from financing activities					
Decrease in amounts due to banks		**(66.1)**	**–**	(147.8)	–
Issue of debt securities		**–**	**–**	250.0	–
Redemption of debt securities		**(36.8)**	**–**	(8.2)	–
Costs arising on issue of debt securities		**–**	**–**	(1.7)	–
Payment of principal portion of lease liabilities		**(1.2)**	**–**	(0.8)	–
Issue of subordinated debt		**75.0**	**75.0**	20.0	20.0
Repurchases and redemption of subordinated debt		**(75.0)**	**(75.0)**	–	–
Costs arising on issue of subordinated debt		**(0.9)**	**(0.9)**	–	–
Coupon paid to holders of capital securities		**(9.8)**	**(9.8)**	(9.8)	(9.8)
Net cash (used by)/generated from financing activities		**(114.8)**	**(10.7)**	101.7	10.2
Net increase in cash and cash equivalents		**235.0**	**–**	424.3	–
Cash and cash equivalents as at 1 January		**1,111.2**	**–**	686.9	–
Cash and cash equivalents as at 31 December	34	**1,346.2**	**–**	1,111.2	–

The notes on pages 183 to 243 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2020

1. Basis of preparation and significant accounting policies

1.1 Reporting entity

Shawbrook Group plc (the 'Company') is a public limited company incorporated and domiciled in the UK. The registered office is 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 2020, comprise the results of the Company and its subsidiaries (together, the 'Group'), including its principal subsidiary, Shawbrook Bank Limited.

Subsidiary companies are set out in Note 37. The ultimate parent company is detailed in Note 36.

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

1.2 Basis of accounting and measurement

Both the consolidated and Company financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. No individual statement of profit and loss or related notes are presented for the Company as permitted by Section 408 of the Companies Act 2006.

The financial statements are prepared on a historical cost basis, except as required in the valuation of certain financial instruments, namely derivative financial instruments, which are carried at fair value.

The financial statements are prepared on a going concern basis, as the Directors believe that the Group has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of the financial statements and the Group has sufficient capital and liquidity to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (PRA).

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 statement of financial position, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business. The Group's capital and liquidity plans have been stress tested under a range of stressed scenarios and have been reviewed by the Directors.

The uncertainties surrounding the potential outcomes of COVID-19 on the economy and the potential ongoing impact it will have on how the Group and customers will operate, means forecasting continues to be a more complex task than normal. Particular attention was paid to reviewing the Group's operations, customers, funding, impairments and profitability, both in the short and long-term, which included consideration of different scenarios and stress events.

The Directors assessed the financial implications of the risks associated with COVID-19, including the expected effect of the Group's actions taken in response, against the most severe but plausible scenario used in the Board's assessment of the ICAAP. This scenario was the 'Rates Down' scenario specified by the Bank of England for use in preparing ICAAP stress tests. Having regard for the severe financial outcomes from this scenario and the reverse stress tests also conducted, the Board concluded that both capital and liquidity forecasts remained within present regulatory requirements, including use of capital buffers, over the going concern period.

1.3 Functional and presentation currency

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2020

1. Basis of preparation and significant accounting policies continued

1.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

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

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

The Group's interests in associates are accounted for using the equity method of accounting (see Note 1.7(n)).

1.5 Presentation of risk and capital management disclosures

Disclosures required under IFRS 7 'Financial Instruments: Disclosures' concerning the nature and extent of risks relating to financial instruments are included within the key risk categories section of the Risk Report (refer to page 115). Disclosures required under IAS 1 'Presentation of Financial Statements' concerning objectives, policies and processes for managing capital are included within the capital risk and management section of the Risk Report (refer to page 157). Where information in the Risk Report is marked as 'audited', it is covered by the Independent Auditor's Report.

1.6 Adoption of new and revised standards and interpretations

A number of revised standards issued by the International Accounting Standards Board came into effect during the year ended 31 December 2020. None of these have a material effect on the Group's financial statements and, as such, are not further disclosed.

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

1.7 Significant accounting policies

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

(a) Operating segments

See disclosures at Note 2

Operating segments are identified based on internal reports and components of the Group that are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Executive Committee has been determined to be the Chief Operating Decision Maker for the Group.

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

(b) Interest income and expense

See disclosures at Note 3 and Note 4

Financial instruments measured at amortised cost

For all interest-bearing financial instruments measured at amortised cost, interest income and expense are recognised using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the gross carrying amount of a financial asset, or the amortised cost of a financial liability.

In relation to the above, amortised cost is the amount at which the financial instrument is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

With the exception of credit-impaired financial assets, when calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but does not consider the loss allowance recognised on financial assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial instrument.

In calculating interest income and expense, the calculated effective interest rate is applied to the gross carrying amount of the financial asset, or to the amortised cost of the financial liability, respectively.

For financial assets that become credit-impaired after initial recognition (i.e. a 'Stage 3' asset, as detailed on page 118 of the Risk Report), interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition (I.e. a 'POCI' asset, as detailed on page 118 of the Risk Report), interest income is calculated by applying a credit-adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to the gross basis, even if the credit risk of the asset improves.

Derivative financial instruments

For derivative financial instruments forming part of hedging relationships and economic hedging relationships, the Group recognises net interest income or expense based on the underlying hedged items. For derivative financial instruments hedging assets, the net interest income or expense is recognised in interest income. For derivative financial instruments hedging liabilities, the net interest income or expense is recognised in interest expense.

(c) Fee and commission income and expense

See disclosures at Note 5

Fee and commission income include amounts from contracts with customers that are not included in the effective interest rate calculation detailed in Note 1.7(b). These amounts are recognised when performance obligations attached to the fee or commission have been satisfied. The income streams included in fee and commission income all have a single performance obligation attached to them. Where income is earned from the provision of a service, such as an account maintenance fee, the performance obligation is deemed to have been satisfied when the service is delivered. Where income is earned upon the execution of a significant act, such as fees for executing a payment, the performance obligation is deemed to have been satisfied when the act is completed.

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

(d) Administrative expenses

See disclosures at Note 7

Administrative expenses are recognised on an accruals basis. Accounting policies for expenses relating to property, plant and equipment and intangible assets are set out in Note 1.7(l) and Note 1.7(m), respectively.

Accounting policies for payroll costs are as follows:

Salaries and social security costs are recognised over the period in which the employees provide the services to 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 that employees are required to provide services.

The Group operates a long-term incentive plan for a set of individuals. These benefits are recognised at the present value of the obligation at the reporting date, reflecting the Group's best estimate of the effect of the associated performance conditions. Costs are recognised over the period until which the Group considers all vesting conditions to have been reasonably achieved, which takes into account the period that employees are required to provide services.

Notes to the financial statements

for the year ended 31 December 2020

1. Basis of preparation and significant accounting policies continued

1.7 Significant accounting policies continued

The Group operates defined contribution pension schemes for eligible employees and does not operate any defined benefit pension schemes. Under the defined contribution pension arrangements, the Group pays fixed contributions into employees' personal pension plans, with no further payment obligations once the contributions have been paid. The Group's contributions to such arrangements are recognised as an expense when they fall due.

Employee share-based payment charges, which form part of payroll costs, are detailed in Note 1.7(e).

(e) Employee share-based payments

See disclosures at Note 9

The Group operates equity-settled share-based payment schemes in respect of services received from certain employees. The Group does not operate any cash-settled share-based payment schemes.

Equity-settled share-based payment schemes

The grant date fair value of a share-based payment transaction is recognised as a payroll cost in administrative expenses in the statement of profit and loss, with a corresponding increase in retained earnings in equity, on a straight-line basis over the period that the employees become unconditionally entitled to the awards (the vesting period). In the absence of market prices, the grant date fair value is estimated using an appropriate valuation technique.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service 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 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.

Tax on the amount recognised as an expense is recognised in the statement of profit and loss. Tax benefits that exceed the tax effected cumulative remuneration expenses are considered to relate to an equity item and are recognised directly in equity.

(f) Tax

See disclosures at Note 13 and Note 20

Tax comprises current tax and deferred tax. Tax is recognised in the statement of profit and loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax

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

Deferred tax

Deferred tax is 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 tax 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 reporting date.

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

(g) Loans and advances

See disclosures at Note 14

Both loans and advances to banks and loans and advances to customers are classified as financial assets measured at amortised cost (see Note 1.7(w)).

Loans and advances to customers include assets acquired in exchange for loans, instalment credit and finance lease receivables as part of an orderly realisation. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Further details of finance lease receivables are included in Note 1.7(s).

Certain loans and advances to customers are used as collateral against bank borrowings and amounts drawn under the Bank of England's funding schemes. Certain loans and advances to banks are used as collateral against derivative contracts. In these instances, the Group does not transfer substantially all the risks and rewards associated with the assets and as such, the derecognition criteria outlined in Note 1.7(w) are not met and the assets continue to be recognised in their entirety.

Certain loans and advances to customers are also pledged to securitisation programmes (see Note 1.7(h)).

(h) Securitisation transactions and debt securities in issue

See disclosures at Note 15 and Note 28

The Group securitises certain loans included within loans and advances to customers, by transferring the beneficial interest in such loans to a bankruptcy remote structured entity.

A structured entity is an entity designed so that its activities are not governed by way of voting rights.

The Group performs an assessment to determine whether, for accounting purposes, it controls such structured entities, in accordance with the criteria set out in Note 1.4. In performing this assessment, the Group considers factors such as: the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity. Where the Group is assessed to control the structured entity, it is treated as a subsidiary and is fully consolidated.

When the Group completes a securitisation, the Group considers whether the assets securitised meet the derecognition criteria outlined in Note 1.7(w). If the derecognition criteria are met, the transferred loans are treated as sales and a gain or loss on derecognition is recognised in the statement of profit and loss. If the derecognition criteria are not met, the transfer of loans is not treated as a sale and the loans continue to be recognised in their entirety in the statement of financial position.

Securitisations involve the simultaneous issue of mortgage backed debt securities by the associated structured entity to investors. In securitisation transactions where the structured entity is consolidated, the issued debt securities are classified on initial recognition as either financial liabilities or equity instruments, in accordance with the substance of the contractual arrangements. Typically, the Group has an obligation to deliver the cash flows generated from the underlying securitised loans to the debt security holder and accordingly, the debt securities are classified as financial liabilities measured at amortised cost (see Note 1.7(w)).

Certain debt securities issued by structured entities may be retained by the Group. Where retained debt securities are issued by consolidated structured entities, they are eliminated in full on consolidation.

Where retained debt securities are issued by unconsolidated structured entities, they are recognised in investment securities in the statement of financial position. Retained debt securities may be used as collateral against amounts drawn under the Bank of England's funding schemes or in repurchase agreements.

(i) Investment securities

See disclosures at Note 16

Investment securities are classified as financial assets measured at amortised cost (see Note 1.7(w)).

Investment securities include both covered bonds and debt securities issued by unconsolidated structured entities, as part of the securitisation transactions, that are retained by the Group (see Note 1.7(h)).

Certain investment securities are used as collateral against amounts drawn under the Bank of England's funding schemes or in repurchase agreements. In these instances, the Group does not transfer substantially all the risks and rewards associated with the assets and as such, the derecognition criteria outlined in Note 1.7(w) are not met and the assets continue to be recognised in their entirety.

(j) Derivative financial instruments

See disclosures at Note 17

Derivative financial instruments are mandatorily classified as fair value through profit or loss (see Note 1.7(w)). Derivatives are classified as financial assets where their fair value is positive and financial liabilities where their fair value is negative. Where there is the legal right and intention to settle net, the derivative is classified as a net asset or net liability, as appropriate.

To calculate fair values, the Group typically uses discounted cash flow models using yield curves that are based on observable market data. For collateralised positions, the Group uses discount curves based on overnight indexed swap rates. For non-collateralised positions, the Group uses discount curves based on term London Inter-bank Offered Rate (LIBOR) for derivatives referencing LIBOR and Sterling Overnight Index Average rate (SONIA) for derivatives referencing SONIA.

For measuring derivatives that might change the classification from being an asset to a liability or vice versa, fair values do not take into consideration either the credit valuation adjustment or the debit valuation adjustment, as the Group's portfolio is fully collateralised and it is deemed to be immaterial.

1. Basis of preparation and significant accounting policies continued

1.7 Significant accounting policies continued

Where derivatives are not designated as part of an accounting hedge relationship, gains and losses arising from changes in fair value are recognised in net gains/(losses) on derivative financial instruments and hedge accounting in the statement of profit and loss. Where derivatives are designated within an accounting hedge relationship, the treatment of the changes in fair value are as described in Note 1.7(k).

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

Under margining agreements where 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.

Since October 2019, the Group has cleared its standardised over-the-counter derivatives.

(k) Hedge accounting

See disclosures at Note 17

The Group has elected, as a policy choice permitted under IFRS 9 'Financial Instruments', to continue to apply the hedge accounting rules set out in IAS 39 'Financial Instruments: Recognition and Measurement'. However, the Group does provide the additional and more detailed hedge accounting disclosures introduced by IFRS 9's consequential amendments to IFRS 7 'Financial Instruments: Disclosures'.

Hedge accounting is permitted when documentation, eligibility and testing criteria are met. As such, at the inception of the hedge relationship, the Group formally designates and documents the hedge relationship (the link between the hedging instrument and the hedged item) to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the method that will be used to assess the effectiveness of the hedging relationship. Hedge effectiveness testing was previously performed by the Group exclusively using the dollar-offset method. In the current year, the dollar-offset method continues to be used, however certain trades designated in dynamic hedge accounting relationships now use the regression method.

The Group makes an assessment, both at inception and on a monthly basis, as to whether the derivatives used in hedging transactions are highly effective in offsetting the exposure to changes in the hedged item's fair value. The hedge is deemed to be highly effective where the actual results of the hedge are within a range of 80-125%. If the Group concludes that the hedge is no longer highly effective, hedge accounting is discontinued.

In accordance with reliefs set out in 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7', (the Phase 1 amendments adopted in the year ended 31 December 2019), for the prospective assessment of hedge effectiveness, the Group assumes that the benchmark interest rate is not altered as a result of interest rate benchmark reform. For the retrospective assessment of hedge effectiveness, if the hedging relationship is subject to interest rate benchmark reforms, the Group will not discontinue hedge accounting solely because the actual effectiveness falls outside of the 80-125% range. The Group will cease to apply the amendments to its hedge effectiveness assessment when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued.

The Group designates certain derivatives as fair value hedges. The Group does not designate any derivatives as cash flow hedges or net investment hedges.

Fair value hedges

The Group applies fair value hedge accounting for portfolio hedges of interest rate risk. The hedged items are portfolios that are identified as part of the risk management process. These comprise either fixed rate assets only, or fixed rate liabilities only, in respect of the designated benchmark interest rate, such as LIBOR or SONIA.

Each portfolio is grouped into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Interest rate swaps are used as the hedging instruments to manage this interest rate risk to swap the fixed rate interest flows to floating.

Changes in the fair value of derivatives designated as fair value hedges and changes in the fair value of the hedged asset or liability attributable to the hedged risk are recognised in net gains/(losses) on derivative financial instruments and hedge accounting in the statement of profit and loss.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. The cumulative fair value adjustment to the carrying amount of the hedged item is amortised to the statement of profit and loss over the remaining period to maturity. If the hedged item is derecognised, the cumulative fair value adjustment to the carrying amount of the hedged item is recognised immediately in the statement of profit and loss.

(l) Property, plant and equipment and depreciation

See disclosures at Note 18

Assets on operating leases represent assets that are leased to customers under operating lease agreements. Right-of-use leasehold property represent assets that are leased by the Group. Further details of these asset categories are set out in Note 1.7(s).

Accounting policies for all other asset categories are as follows:

Assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset and any directly attributable costs of bringing the asset to the location and condition necessary for its intended use.

Subsequent expenditure is only capitalised when it improves the expected future economic benefits of the asset. All other costs, including ongoing repairs and maintenance, are expensed to administrative expenses in the statement of profit and loss as incurred.

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over its estimated useful life and is charged to administrative expenses in the statement of profit and loss. For leasehold property, the estimated useful life is the life of the lease. For fixtures and fittings, the estimated life is 10 years, or is aligned to the length of the lease of the property it relates to. For office equipment, the estimated useful life is 3-5 years. The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

On the disposal of an asset, the net disposal proceeds are compared with the carrying amount of the asset and any gain or loss included in administrative expenses in the statement of profit and loss.

(m) Intangible assets and amortisation

See disclosures at Note 19

Computer software

Externally acquired computer software is measured at cost less accumulated amortisation and any accumulated impairment losses. Cost includes the original purchase price of the asset and any directly attributable costs of preparing the asset for its intended use.

Internally developed computer software is recognised as an asset only when the Group is able to demonstrate that the expenditure can be reliably measured, the product or process is technically and commercially feasible, future economic benefits are probable and the Group has the intention and ability to complete development and subsequently use or sell the asset. If these conditions are not met, expenditure is recognised in administrative expenses in the statement of profit and loss as incurred.

Internally developed computer software is measured at capitalised cost less accumulated amortisation and any accumulated impairment losses. Capitalised costs include all costs directly attributable in preparing the asset so that it is capable of operating in its intended manner.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in administrative expenses in the statement of profit and loss as incurred.

Assets are amortised on a straight-line basis over its estimated useful life of between three and seven years. Amortisation is recognised in administrative expenses in the statement of profit and loss. The amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the financial statements

for the year ended 31 December 2020

1. Basis of preparation and significant accounting policies continued

1.7 Significant accounting policies continued

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

On the disposal of an asset, the net disposal proceeds are compared with the carrying amount of the asset and any gain or loss included in administrative expenses in the statement of profit and loss.

Goodwill

Goodwill may arise on the acquisition of subsidiaries and represents the excess of the aggregate of the fair value of consideration transferred and the fair value of any non-controlling interest over the fair value of identifiable net assets at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is not amortised but is tested annually for impairment and additionally whenever there is an indication that impairment may exist. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the carrying amount of a CGU exceeds its recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

(n) Investment in associates

See disclosures at Note 21

An associate is an entity over which the Group has significant influence and that is neither a subsidiary undertaking nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Investments are initially measured at cost, including transaction costs.

After initial recognition, the Group includes its share of the post-acquisition profit or loss and other comprehensive income of the associate. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

Investments are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in the statement of profit and loss.

The Group continues to use the equity method of accounting until the date on which significant influence ceases.

(o) Assets and disposal groups held for sale

See disclosures at Note 23

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the plan to sell the asset or disposal group and the sale expected to be completed within one year from the date of the classification.

Non-current assets and disposal groups classified as held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell with any adjustments recognised in the statement of profit and loss. Depreciation and amortisation cease once classified as held for sale.

An exception to this is financial assets within the scope of IFRS 9 'Financial Instruments', for example loans, which continue to be measured in accordance with this standard by applying the accounting policies set out in Note 1.7(w).

Assets classified as held for sale are presented on a separate line in the statement of financial position. Prior periods are not restated.

(p) Amounts due to banks

See disclosures at Note 25

Amounts due to banks are classified as financial liabilities measured at amortised cost (see Note 1.7(w)).

Amounts due to banks may include liabilities recognised as part of repurchase agreements (see Note 1.7(aa)).

(q) Customer deposits

See disclosures at Note 26

Customer deposits are classified as financial liabilities measured at amortised cost (see Note 1.7(w)).

(r) Provisions for liabilities and charges

See disclosures at Note 27

Provisions are recognised when there is a present obligation arising as a result of a past event, it is probable (more likely than not) that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions for levies are recognised when the conditions that trigger the payment of the levy are met.

Provisions for liabilities and charges include financial guarantee contracts and the loss allowance for loan commitments (see Note 1.7(z)).

(s) Leases

See disclosures at Note 29

Group as a lessor: finance leases

Lease agreements in which the Group transfers substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases.

A finance lease receivable equal to the net investment in the lease is recognised and is presented within loans and advances to customers in the statement of financial position. This represents the future lease payments less profit and costs allocated to future periods.

Lease payments are apportioned between interest income in the statement of profit and loss and a reduction of the finance lease receivable to achieve a constant rate of interest on the remaining balance of the receivable.

Group as a lessor: operating leases

Lease agreements in which the Group does not transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as operating leases.

The leased asset is included in property, plant and equipment in the statement of financial position. The asset is recognised at the lower of its fair value less costs to sell and the carrying amount of the lease (net of impairment allowance) at the date of exchange.

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over the life of the lease and is charged to depreciation on operating leases in the statement of profit and loss.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in net other operating lease income/(expense) in the statement of profit and loss.

Operating lease rental income is recognised in the statement of profit and loss on a straight-line basis over the lease term. Where an operating lease is terminated before the lease period has expired, any payment required to be made by the lessee in compensation is charged to net other operating lease income/(expense) in the statement of profit and loss in the period in which the termination is made.

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

Group as a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability.

The right-of-use asset is included in property, plant and equipment in the statement of financial position. The asset is measured at cost less accumulated depreciation and any accumulated impairment losses and is adjusted for any remeasurement of the lease liability. The cost of the asset includes the amount of the lease liability recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received.

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over the life of the lease and is charged to administrative expenses in the statement of profit and loss.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

Notes to the financial statements

for the year ended 31 December 2020

1. Basis of preparation and significant accounting policies continued

1.7 Significant accounting policies continued

The lease liability is measured at the present value of the lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date, unless the interest rate implicit in the lease is readily determinable. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

Lease liabilities are classified as financial liabilities measured at amortised cost (see Note 1.7(w)). Lease liabilities are remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments, or a change in the assessment to purchase the underlying asset. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Group applies the recognition exemption to any short-term leases (i.e. those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option) and any leases that are considered of low value. For these leases, no right-of-use asset is recognised and lease payments continue to be charged to administrative expenses in the statement of profit and loss on a straight-line basis over the lease term.

(t) Subordinated debt

See disclosures at Note 31

The subordinated debt liability is classified as a financial liability measured at amortised cost (see Note 1.7(w)).

The subordinated debt receivable in the Company represents subordinated debt issued from the Group's principal subsidiary, Shawbrook Bank Limited, to the Company. It is classified as a financial asset measured at amortised cost (see Note 1.7(w)).

(u) Capital securities

See disclosures at Note 33

Capital securities are classified as equity instruments, as the substance of the contractual arrangements are such that the Group does not have a present obligation to deliver cash, another financial asset or a variable number of equity instruments. The capital securities are measured at the fair value of the proceeds from the issuance less any costs that are incremental and directly attributable to the issuance (net of applicable tax).

Distributions to holders of the capital securities are recognised when they become irrevocable and are deducted from retained earnings in equity. Income tax relief on distributions to holders of the capital securities is recognised in the statement of profit or loss.

(v) Cash flows

See disclosures at Note 34

For the purposes of the statement of cash flows, cash and cash equivalents is the aggregate of cash and balances at central banks, loans and advances to banks and short-term highly liquid debt securities with less than three months to maturity from the date of acquisition, less mandatory deposits with central banks. Loans and advances to banks comprise cash balances and call deposits. Mandatory deposits with central banks are not available for use in day-to-day operations and are non-interest-bearing.

(w) Financial instruments

See disclosures at Note 35

Recognition

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date.

Classification and measurement of financial assets

To classify financial assets, the Group performs two assessments:

- **The 'business model assessment':** this assessment determines whether the Group's objective is to generate cash flows from collecting contractual cash flows (hold-to-collect), or by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell). The assessment is performed at a portfolio level and is based on expected scenarios. If cash flows are realised in a manner that is different from the original expectation, the classification of the remaining financial assets in that portfolio is not changed but such information is used when assessing new financial assets going forward.

- **The 'SPPI test':** this assessment determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) (i.e. whether the contractual cash flows are consistent with a basic lending arrangement). For the purposes of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin. The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition.

Based on the two assessments, financial assets are classified as amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), as follows:

- **Amortised cost:** when the financial asset is held in a hold-to-collect business model and its contractual terms give rise on specified dates to cash flows that are SPPI.
- **FVOCI:** when the financial asset is held in a hold-to-collect-and-sell business model and its contractual terms give rise on specified dates to cash flows that are SPPI.
- **FVTPL:** when the financial asset does not meet the criteria to be classified as amortised cost or FVOCI.

Derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

For financial assets that meet the requirements to be classified as amortised cost or FVOCI, on initial recognition, the Group may irrevocably designate the financial asset as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investments in equity instruments are normally classified as FVTPL. However, on initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect, on an investment-by-investment basis, to present subsequent changes in fair value in the statement of other comprehensive income.

The Group's financial assets are all classified as amortised cost, except for derivatives which are mandatorily classified as FVTPL. In making this assessment, to determine the applicable business model, amongst other information assessed, the Group considers sales in prior periods, expected sales in future periods and the reasons for such sales. Whilst there may be occasional sales of certain financial assets, such sales are not expected to be more than infrequent and, as such, the Group's assessment is that financial assets are in a hold-to-collect business model.
In performing the SPPI test, terms that could change the contractual cash flows so that they are not SPPI are considered, such as: contingent and leverage features, non-recourse arrangements and features that could modify the time value of money. No such features have been identified and, as such, the Group's assessment is that the contractual cash flows are consistent with a basic lending arrangement.

After initial recognition, financial assets are reclassified only under the rare circumstances that the Group changes its business model for managing financial assets.

Financial assets classified as amortised cost are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method (see Note 1.7(b)). Amortised cost is reduced by impairment losses (see Note 1.7(x)). Interest income, foreign exchange gains and losses and impairment losses are recognised in the statement of profit and loss.

Financial assets classified as FVTPL are initially measured at fair value and are subsequently remeasured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the statement of profit and loss.

Classification and measurement of financial liabilities

Financial instruments are classified as a financial liability when the substance of the contractual arrangements result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments.

Financial liabilities are classified at initial recognition as FVTPL or amortised cost as follows:

- **FVTPL:** when the financial liability meets the definition of held for trading, or when the financial liability is designated as such to eliminate or significantly reduce an accounting mismatch that would otherwise arise. For classification purposes, derivatives are always deemed to be held for trading.
- **Amortised cost:** when the financial liability is not classified as FVTPL.

The Group's financial liabilities are all classified as amortised cost, with the exception of derivatives which are mandatorily classified as FVTPL.

1. Basis of preparation and significant accounting policies continued

1.7 Significant accounting policies continued

Financial liabilities classified as amortised cost are initially measured at fair value minus incremental direct transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method (see Note 1.7(b)). Interest expense is recognised in the statement of profit and loss.

Financial liabilities classified as FVTPL are initially measured at fair value and are subsequently remeasured at fair value. Net gains and losses, including any interest, are recognised in the statement of profit and loss.

Derecognition of financial instruments

Derecognition is the point at which the Group ceases to recognise a financial asset or a financial liability on its statement of financial position.

The Group derecognises a financial asset (or a part of a financial asset) when:

- the contractual rights to the cash flows from the financial asset have expired;
- the Group transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred; or
- the Group transfers the financial asset in a transaction in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the asset. If the Group retains control of the asset it continues to recognise the transferred asset only to the extent of its continuing involvement and derecognises the remainder.

The Group derecognises a financial liability (or a part of a financial liability) when its contractual obligations are extinguished (i.e. discharged, cancelled, or expired).

On derecognition, the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration received/paid (including any new asset obtained less any new liability assumed) is recognised in the statement of profit and loss.

Modification of financial instruments

When a financial instrument is modified, the Group performs quantitative and qualitative evaluation to assess whether or not the new terms are substantially different to the original terms.

For financial assets, the Group considers the specific circumstances including:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that substantially affects the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate; and
- insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

For financial liabilities, the Group specifically, but not exclusively, considers the outcome of the '10% test'. This involves a comparison of the cash flows before and after the modification, discounted at the original effective interest rate, whereby a difference of more than 10% indicates the modification is substantial.

If the terms and cash flows of the modified financial instrument are deemed to be substantially different, the derecognition criteria are met and the original financial instrument is derecognised and a 'new' financial instrument is recognised at fair value. The difference between the carrying amount of the derecognised financial instrument and the new financial instrument with modified terms is recognised in the statement of profit and loss. Fees that are considered in determining the fair value of the new financial instrument and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the new financial instrument. All other fees are included as part of the gain or loss on derecognition.

If the terms and cash flows of the modified financial instrument are not deemed to be substantially different, the financial instrument is not derecognised and the Group recalculates the 'new' gross carrying amount of the financial instrument based on the revised cash flows of the modified financial instrument discounted at the original effective interest rate and recognises any associated gain or loss in the statement of profit and loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the financial instrument and are amortised over the remaining term of the modified financial instrument by recalculating the effective interest rate on the financial instrument.

In relation to financial assets, where a modification is granted due to the financial difficulty of the borrower, the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. Under such circumstances, the Group first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and usually means the derecognition criteria are not met.

Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Where possible, fair value is determined with reference to quoted prices in an active market or dealer price quotations. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where quoted prices are not available, the Group uses generally accepted valuation techniques to estimate fair value including discounted cash flow models and Black-Scholes option pricing. Wherever possible these valuation techniques use independently sourced market parameters, such as interest rate yield curves, option volatilities and currency rates.

On initial recognition, the best evidence of the fair value of a financial instrument is normally transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value on initial recognition differs from the transaction price, the Group accounts for such differences as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised in the statement of profit and loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability). Subsequently, the deferred gain or loss will be released to the statement of profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets at bid price and liabilities at ask price.

The Group uses a fair value hierarchy that categorises financial instruments into three different levels, as detailed in Note 35. Levels are reviewed at each reporting date and this determines whether transfers between levels are required.

Further details of the fair value calculation of derivative financial instruments are set out in Note 1.7(j).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under international accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(x) Impairment of financial assets

See disclosures at Note 11

Impairment of financial assets is calculated using a forward-looking expected credit loss (ECL) model. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes. They are measured in a manner that reflects the time value of money and uses reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group calculates ECLs and records a loss allowance for all financial assets not held at FVTPL, together with financial guarantee contracts and loan commitments. Assets held at FVTPL and equity instruments are not subject to impairment.

1. Basis of preparation and significant accounting policies continued

1.7 Significant accounting policies continued

Loss allowances are presented in the statement of financial position as follows:

- **financial assets measured at amortised cost:** as a deduction from the gross carrying amount of the financial asset;
- **financial guarantee contracts and loan commitments:** generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the loss allowance on the undrawn loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

The calculation of ECLs is dependent upon the 'stage' the asset is assigned to (Stage 1, 2 or 3), which is based on changes in credit risk when comparing credit risk at initial recognition to credit risk at the reporting date, or whether the asset was purchased or originated credit-impaired (POCI). Details of the 'staging' of assets and POCI assets, the calculation of ECLs and the key judgements and estimates associated with this, are provided in the creditworthiness risk section of the Risk Report on page 117.

A summary of ECL measurement is as follows:

- **Financial assets that are not credit-impaired at the reporting date:** as the present value of all cash shortfalls. Cash shortfalls are the difference between the contractual cash flows due to the Group and the cash flows that the Group expects to receive.
- **Financial assets that are credit-impaired at the reporting date:** as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
- **Financial guarantee contracts:** as the expected payments to reimburse the holder less any amounts that the Group expects to recover.
- **Loan commitments:** as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows the Group expects to receive.

The Group can elect as an accounting policy choice, to use the 'simplified approach' for trade receivables, contract assets and lease receivables. The Group has elected not to use this simplified approach.

Modifications

If a financial asset is modified, an assessment is made to determine whether the asset meets the derecognition criteria outlined in Note 1.7(w). Subsequently ECLs are measured as follows:

- if the modification does not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- if the modification does 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 included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including in determining whether a significant increase in credit risk has occurred and whether the new financial asset is deemed to be a POCI asset.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Write-offs constitute a derecognition event, as detailed in Note 1.7(w).

Financial assets that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Amounts subsequently recovered on assets written off are recognised in impairment losses on financial instruments in the statement of profit and loss.

(y) Contingent liabilities

See disclosures at Note 40

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group. Alternatively, they are present obligations that have arisen from past events where the outflow of resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed, unless the probability of settlement is remote.

(z) Financial guarantee contracts and loan commitments

See disclosures at Note 41

Financial guarantee contracts

Financial guarantee contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantee contracts are included within provisions for liabilities and charges in the statement of financial position. Initially they are measured at their fair value, being the premium received. Subsequently, they are measured at the higher of the amount initially recognised less the cumulative amount of income recognised in the statement of profit and loss and the amount of loss allowance determined in accordance with the policies set out in Note 1.7(x).

Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Group includes certain uncommitted facilities within its reported loan commitments where the terms are such that the Group has an obligation to the customer should the customer get into financial distress.

The Group recognises a loss allowance on loan commitments in accordance with the policies set out in Note 1.7(x). The loss allowance is included within provisions for liabilities and charges in the statement of financial position.

(aa) Repurchase agreements, reverse repurchase agreements and security swaps

Securities may be sold subject to a commitment to repurchase them at a predetermined price (a repurchase agreement). In accordance with Note 1.7(w), the assets are not derecognised as the risks and rewards of ownership remain with the Group. A liability is recognised in respect of the consideration received in amounts due to banks in the statement of financial position, reflecting the Group's obligation to repurchase the assets for a fixed price at a future date. The difference between the sale and repurchase price is treated as interest and is accrued over the life of the agreement using the effective interest rate method.

On occasion, certain securities may be swapped via linked repurchase and reverse repurchase agreements with the same counterparty. In such circumstances, no cash consideration is exchanged. The transferred assets are not derecognised and there is no associated liability as the non-cash collateral received is not recognised in the statement of financial position (i.e. the transaction is off-balance sheet).

1.8 New and revised standards and interpretations not yet adopted

A number of new and revised standards issued by the International Accounting Standards Board have not yet come into effect. With the exception of the amendments detailed below, none of these are expected to have a material impact on the Group's financial statements.[1]

'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' become effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The Phase 2 amendments provide certain practical expedients and temporary reliefs to address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The Group has not early adopted the amendments ahead of the effective date. In line with the Group's LIBOR transition programme, the Group will commence transitioning LIBOR-linked exposures and hedging relationships to alternative benchmark rates in 2021. It is not expected that the transition and application of the Phase 2 amendments will have a material financial impact on the Group. Further details regarding interest rate benchmark reform, including details of the Group's LIBOR transition programme and a summary of the Group's exposures with LIBOR dependency as at 31 December 2020, can be found in the market risk section of the Risk Report on page 154.

1 Following the end of the transition period and the UK's withdrawal from the EU, for all periods commencing on 1 January 2021 and thereafter, the Group will follow UK-adopted international accounting standards and will adopt new and revised standards issued by the International Accounting Standards Board only when endorsed for use by the UK Endorsement Board.

Notes to the financial statements

for the year ended 31 December 2020

1. Basis of preparation and significant accounting policies continued

1.9 Critical accounting estimates and judgements

The preparation of financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported results and financial position. Due to the inherent uncertainty in making estimates, actual results reported in the future may differ from these estimates.

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.

The areas involving the most complex and subjective judgements and areas where assumptions and estimates are considered to have the most significant effect on the financial statements are set out in the following sections.

The COVID-19 pandemic and the UK's withdrawal from the EU give rise to heightened levels of uncertainty. This has required the Group to make particularly complex judgements and estimates in the current period. Where applicable, the Group's consideration of the impacts of COVID-19 and Brexit are set out in the following sections. The Group continues to closely monitor developments and their impact on areas involving judgement and the use of estimates.

(a) Impairment losses on financial instruments

See accounting policies at Note 1.7(x) and disclosures at Note 11

The calculation and measurement of expected credit losses requires significant judgement and represents a key source of estimation uncertainty. Details of the critical judgements and accounting estimates are provided in the creditworthiness risk section of the Risk Report on page 128 and 131, respectively.

(b) Customer remediation and conduct issues

See accounting policies at Note 1.7(r) and disclosures at Note 27

Provisions have been recognised in respect of potential claims for instances of misrepresentation, or breaches of contract by suppliers, where the suppliers have become insolvent and therefore the Group has limited recourse to those suppliers. In determining the amount of the provisions, it is necessary to form a view on matters which are inherently uncertain. As such, this calculation is subject to judgement and represents a source of estimation uncertainty.

Judgement is required to assess whether an event has occurred in the past that would result in a claim, and whether it is probable that such a claim would result in a probable outflow of resources for the Group. Judgement is also required in assessing the statutory limitation period.

The key estimates applied in the calculation of the provisions are the estimated number of upheld complaints and the estimated redress costs.

Key considerations in deriving the estimated number of upheld complaints include:

- complaint volumes, taking into account both the status of current claims and the Group's estimate of potential future claims based on existing complaint data;
- the origin of the claim. For example, if the claim relates to a solvent or insolvent supplier, or if the route of the claim is via a claims management company;
- the statutory limitation period; and
- the Group's estimate of claim uphold rates based on existing complaint data.

Estimated redress costs are the expected average customer compensation, should claims be upheld, based on agreed redress strategies, inclusive of loan balance adjustments and cash payments. This is based on actual claim data.

Sensitivity analysis

Sensitivity analysis was performed to assess the impact of reasonable changes to certain key assumptions used in the provision calculation as follows:

- **Customer initiated complaint volume:** the impact of a +/-5 percentage point change in the number of complaints would result in a £4.9 million increase or decrease in the provisions, respectively.
- **Average uphold rate per complaint:** the impact of a +/-5 percentage point change in the average uphold rate per complaint would result in a £1.2 million increase or decrease in the provisions, respectively.
- **Average redress per valid complaint:** the impact of a £500 increase or decrease in the average redress per complaint would result in a £2.6 million increase or decrease in the provisions, respectively.

(c) Effective interest rate

See accounting policies at Note 1.7(b) and disclosures at Note 3

The main source of revenue for the Group is interest income on loans and advances to customers which is recorded using the effective interest rate method. This calculation is subject to judgement and represents a source of estimation uncertainty.

Judgement is required in determining the fees and costs to be included in the effective interest rate calculation and recognised as interest income.

The key estimate applied in the effective interest rate calculation is the behavioural life of the loan, which considers both the expected life of the loan and the profile of loan payments over this period.

To review expected life behaviours, the Group uses behavioural models that are based on actual loan run-offs. The Group reviews expected lives on a segmental basis, whereby products of a similar nature are grouped into cohorts that exhibit homogenous behavioural attributes. The actual behaviour of the loan portfolios are compared to the modelled behaviour on a quarterly basis. If the modelled behaviour materially deviates from actual behaviour, modelled behaviours are adjusted, with adjustments recognised in net interest income in the statement of profit and loss.

The Group continues to monitor the impact of COVID-19 on expected behavioural life and will update key assumptions and judgements, where appropriate, as new information emerges.

Sensitivity analysis

Sensitivity analysis was performed to assess the impact of a 5% acceleration in the redemption curves used in the behavioural models, in order to determine the impact of a potentially shortened life cycle.

A 5% acceleration in the redemption curves would result in a net expense to the statement of profit and loss of £0.4 million. This is attributable to Consumer Lending and is mainly attributable to the acceleration of the amortisation of broker commissions.

(d) Impairment testing of goodwill

See accounting policies at Note 1.7(m) and disclosures at Note 19

Goodwill is impaired if the carrying amount of a CGU exceeds its recoverable amount. Determining the recoverable amount involves the calculation of the CGU's value in use, which is derived by discounting the forecast cash flows (post-tax profits) to be generated from its continuing use. This calculation is subject to judgement and represents a source of estimation uncertainty.

Judgement is required during the year to determine whether an impairment trigger has occurred that would necessitate an impairment review to be performed, outside of the normal annual impairment test. Judgement is also required in determining the CGUs to ensure the allocation of goodwill is appropriate.

Estimates are applied in the calculation of each CGU's value in use. Estimates used in this calculation include forecast cash flows, a terminal value growth rate and discount rates.

Forecast cash flows are based on the Board approved budget and assumptions regarding the long-term pattern of sustainable cash flows thereafter. Five years of forecast cash flows (post-tax profits) are included in the discounted cash flow model (2019: five years). A terminal value growth rate of 1% is then applied into perpetuity to extrapolate cash flows beyond the cash flow period (2019: 2.0%). The terminal value growth rate is estimated by the Group taking into account rates disclosed by comparable institutions. In the year ended 31 December 2020, forecast cash flows include the expected impact of COVID-19.

To discount the forecast cash flows, the Group derives a CGU specific discount rate. These discount rates are an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amount, timing and risk profile equivalent to those that the entity expects to derive from the CGU. The Group calculates the discount rates using the price-to-book ratio method which incorporates target return on equity, growth rate and the price-to-book ratio. The discount rate for each CGU is adjusted to reflect the risks inherent to the individual CGU.

Discount rates used are as follows:

	2020		2019	
	Post-tax	**Pre-tax[1]**	Post-tax	Pre-tax[1]
Property Finance	**12.5%**	**14.9%**	15.5%	18.1%
Business Finance	**13.5%**	**16.4%**	16.0%	18.9%

Sensitivity analysis

Sensitivity analysis was performed to evaluate the impact of a 10% decrease in cash flows, a decrease in the terminal value growth rate to 0% and an increase in the applied post-tax discount rate of 1%. It was concluded that none of these changes, either individually or in combination, would result in any impairment to goodwill.

1 The Group applies post-tax discount rates to post-tax cash flows when testing the CGU for impairment. The pre-tax discount rate is disclosed in accordance with IAS 36 'Impairment of Assets'.

2. Segmental analysis

See accounting policies in Note 1.7(a)

The Group has four reportable operating segments. These are the Group's three lending divisions (Property Finance, Business Finance and Consumer Lending) and a central segment (Savings and Central), which represents the Savings business, central functions and shared central costs. Further details of the four reportable operating segments are provided in the business review in the Strategic Report (see page 27).

Substantially all of the Group's activities are in the United Kingdom and, as such, segmental analysis on geographical lines is not presented. The Group is not reliant on any single customer.

The following tables provide summarised information regarding the results of each reportable operating segment, which is aligned to the basis that financial information is presented to the Chief Operating Decision Maker.

In the following tables, all revenue for each segment is earned from external customers.

Year ended 31 December 2020	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Savings and Central £m**	**Total £m**
Total interest and similar income	231.8	112.2	50.6	(3.4)	391.2
Interest expense and similar charges	(76.2)	(19.8)	(8.4)	(11.2)	(115.6)
Net interest income/(expense)	155.6	92.4	42.2	(14.6)	275.6
Net income from operating leases	–	1.7	–	–	1.7
Net fee and commission income/(expense)	(3.8)	7.9	(2.7)	(1.1)	0.3
Net gains/(losses) on derecognition of financial assets measured at amortised cost	9.6	–	(0.2)	–	9.4
Net losses on derivative financial instruments and hedge accounting	–	–	–	(5.0)	(5.0)
Net other operating income	–	–	–	0.6	0.6
Net operating income/(expense)	161.4	102.0	39.3	(20.1)	282.6
Administrative expenses	(18.7)	(24.4)	(14.5)	(73.7)	(131.3)
Impairment losses on financial instruments	(17.8)	(20.1)	(17.0)	–	(54.9)
Provisions for liabilities and charges	–	–	(20.3)	–	(20.3)
Total operating expenses	(36.5)	(44.5)	(51.8)	(73.7)	(206.5)
Net share of results and impairment of associate[1]	(2.6)	–	–	–	(2.6)
Profit/(loss) before tax	122.3	57.5	(12.5)	(93.8)	73.5

1 The net share of results and impairment of associate comprises a £0.1 million share of profits and a £2.7 million impairment to the carrying amount of the Group's investment in the associate.

Year ended 31 December 2019	Property Finance £m	Business Finance[1] £m	Consumer Lending £m	Savings and Central[1] £m	Total £m
Total interest and similar income	217.3	109.9	69.9	8.6	405.7
Interest expense and similar charges	(68.2)	(20.7)	(10.8)	(13.5)	(113.2)
Net interest income/(expense)	149.1	89.2	59.1	(4.9)	292.5
Net income from operating leases	–	1.9	–	–	1.9
Net fee and commission income/(expense)	(3.2)	8.6	(3.8)	(0.6)	1.0
Net gains on derivative financial instruments and hedge accounting	–	–	–	2.3	2.3
Net other operating expense	–	–	–	(2.6)	(2.6)
Net operating income/(expense)	145.9	99.7	55.3	(5.8)	295.1
Administrative expenses	(20.7)	(27.3)	(17.4)	(73.1)	(138.5)
Impairment losses on financial instruments	(1.2)	(8.4)	(20.3)	–	(29.9)
Provisions for liabilities and charges	0.2	–	(5.0)	0.3	(4.5)
Total operating expenses	(21.7)	(35.7)	(42.7)	(72.8)	(172.9)
Share of results of associate	(0.1)	–	–	–	(0.1)
Net gain on disposal of subsidiary	–	0.3	–	–	0.3
Profit/(loss) before tax	124.1	64.3	12.6	(78.6)	122.4

The following tables present summarised information about the Group's assets and liabilities by reportable operating segment. Certain assets and liabilities are not allocated to segments as they are managed on a Group basis.

As at 31 December 2020	**Property Finance £m**	**Business Finance £m**	**Consumer Lending £m**	**Savings and Central £m**	**Total £m**
Assets	**4,855.8**	**1,801.6**	**445.4**	**1,834.7**	**8,937.5**
Liabilities	**–**	**–**	**–**	**(8,123.0)**	**(8,123.0)**
Net assets/(liabilities)	**4,855.8**	**1,801.6**	**445.4**	**(6,288.3)**	**814.5**

As at 31 December 2019	Property Finance £m	Business Finance £m	Consumer Lending £m	Savings and Central £m	Total £m
Assets	4,433.7	1,664.8	683.2	1,441.3	8,223.0
Liabilities	–	–	–	(7,457.3)	(7,457.3)
Net assets/(liabilities)	4,433.7	1,664.8	683.2	(6,016.0)	765.7

The average number of persons employed by the Group by reportable operating segment are set out in Note 8.

1 In the year ended 31 December 2020, costs relating to a team of employees previously included within Savings and Central were reallocated to the Business Finance segment to align with a change in internal reporting. Comparative figures for the year ended 31 December 2019 have been restated accordingly, resulting in costs of £3.4 million being reallocated from Savings and Central to Business Finance.

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3. Interest and similar income

See accounting policies in Note 1.7(b)

	2020 £m	2019 £m
Interest income calculated using the effective interest rate method		
On cash and balances at central banks	3.1	6.8
On loans and advances to customers	394.6	396.9
On investment securities	2.2	2.3
Total interest income calculated using the effective interest rate method	399.9	406.0
Other interest and similar income		
On derivative financial instruments	(8.7)	(0.3)
Total other interest and similar income	(8.7)	(0.3)
Total interest and similar income	391.2	405.7

Interest income calculated using the effective interest rate method is all attributable to financial assets measured at amortised cost.

Interest income recognised during the year on credit-impaired (Stage 3) financial assets is £10.1 million (2019: £8.2 million).

Recognition of income using the effective interest rate method is an area identified as involving critical accounting estimates and judgement. Details regarding the key assumptions used and sensitivity analysis are provided in Note 1.9(c).

4. Interest expense and similar charges

See accounting policies in Note 1.7(b)

	2020 £m	2019 £m
On amounts due to banks	3.4	9.4
On customer deposits	99.7	94.4
On derivative financial instruments	(0.9)	(0.7)
On debt securities in issue	3.7	3.1
On lease liabilities	0.4	0.2
On subordinated debt liability	9.3	6.8
Total interest expense and similar charges	115.6	113.2

Except for the amounts attributable to derivative financial instruments, amounts in the above table are calculated using the effective interest rate method and are attributable to financial liabilities not measured at fair value through profit and loss.

In the year ended 31 December 2020, interest expense and similar charges relating to the subordinated debt liability include £1.4 million attributable to the refinancing of subordinated debt instruments. This comprises a modification loss of £0.9 million and the release of £0.5 million of unamortised capitalised costs relating to the refinanced notes (see Note 31).

5. Net fee and commission income

See accounting policies in Note 1.7(c)

	2020 £m	2019 £m
Fee income on loans and advances to customers	5.3	6.4
Credit facility related fees	3.3	3.3
Total fee and commission income	8.6	9.7
Fee and commission expense	(8.3)	(8.7)
Net fee and commission income	0.3	1.0

6. Derecognition of financial assets measured at amortised cost

See accounting policies in Note 1.7(w)

	2020 £m	2019 £m
Net loss on sale of customer loan portfolio classified as held for sale	(0.2)	–
Net gain on structured asset sales	9.6	–
Net gains on derecognition of financial assets measured at amortised cost	9.4	–

Sale of customer loan portfolio classified as held for sale

In the year ended 31 December 2019, a portfolio of unsecured personal loans from Consumer Lending met the criteria to be classified as a disposal group held for sale and were presented as assets held for sale in the statement of financial position (see Note 23).

In January 2020, the sale of the loan portfolio was completed and the loans were derecognised from the statement of financial position. A net loss of £0.2 million arising from the derecognition of these loans is recognised in the statement of profit and loss.

Structured asset sales

In September 2020, the Group entered into a securitisation arrangement for a portfolio of mortgage assets through an unconsolidated structured entity (see Note 15). The Group transferred the beneficial interest in the loans in a manner in which substantially all the risks and rewards of ownership were transferred. Accordingly, the loans were derecognised from the statement of financial position. A net gain of £9.6 million arising from the derecognition of these loans is recognised in the statement of profit and loss.

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7. Administrative expenses

See accounting policies in Note 1.7(d)

	Note	**2020 £m**	2019 £m
Payroll costs	8	**71.1**	71.7
Depreciation[1]	18	**3.4**	3.4
Loss on disposal of property, plant and equipment		**0.2**	–
Amortisation of intangible assets	19	**8.5**	7.8
Loss on disposal of intangible assets		**0.5**	–
Other administrative expenses		**47.6**	55.6
Total administrative expenses		**131.3**	138.5

In the year ended 31 December 2020, other administrative expenses include £0.9 million of legal and professional costs incurred in relation to the acquisition of a subsidiary, which completed in February 2021 (see Note 43).

Other administrative expenses include fees paid to the Group's auditor, KPMG LLP, as follows:

	2020 £000	2019 £000
Audit of these annual accounts	**150**	130
Audit of the annual accounts of the subsidiaries of the Company	**1,257**	695
Other tax advisory services	**7**	23
Audit related assurance services	**110**	185
All other assurance services	**55**	341
All other services	**–**	7
Total auditor's remuneration	**1,579**	1,381

1 Depreciation included within administrative expenses includes depreciation of all asset categories except for assets on operating leases. Depreciation of assets on operating leases is presented as a separate line item in the statement of profit and loss.

8. Employees

See accounting policies in Note 1.7(d)

Aggregate payroll costs included in administrative expenses are as follows:

	Note	**2020 £m**	2019 £m
Wages and salaries		**61.5**	62.5
Social security costs		**5.8**	5.7
Pension costs		**3.8**	3.5
Payroll costs	7	**71.1**	71.7

Wages and salaries include share-based payment charges (see Note 9).

Pension costs represent contributions to defined contribution pension schemes. The Group does not operate any defined benefit pension schemes.

Details of Directors' remuneration are provided in Note 10.

The average number of persons employed by the Group on a full-time equivalent basis by reportable operating segment are as follows:

	2020	2019[1]
Property Finance	**89**	118
Business Finance	**225**	231
Consumer Lending	**47**	56
Savings and Central	**450**	409
Average employees (on a full-time equivalent basis)	**811**	814

Figures in the above tables include contracted employees of the Group only and do not include contractors.

1 In the year ended 31 December 2020, a team of employees previously included within Savings and Central were reallocated to the Business Finance segment to align with a change in internal reporting. Comparative figures for the year ended 31 December 2019 have been restated accordingly, resulting in 30 employees being reallocated from Savings and Central to Business Finance.

9. Employee share-based payment transactions

See accounting policies in Note 1.7(e)

The Group has one share-based scheme in operation, the Management Incentive Plan (MIP). This scheme was originally introduced for a set of individuals in April 2019. The MIP is an equity-settled share-based payment scheme. Individuals selected for inclusion in the MIP were entitled to acquire non-voting 'B' Class ordinary shares in Marlin Bidco Limited, the ultimate parent company (see Note 36). Awards are subject to performance conditions relating to the equity valuation of the Group in the event of a prescribed exit event. The outcome of the performance conditions determines the vesting outcome of the awards. MIP awards were granted in April 2019 and November 2020.

Employee share-based payment charges recognised during the year are as follows:

	2020 £m	2019 £m
MIP	**0.5**	0.8
Total share-based payment charge	**0.5**	0.8

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

	MIP	
Number of share-based awards	**2020**	2019
As at 1 January	**5,650**	–
Granted	**2,900**	5,650
Forfeited	**(375)**	–
As at 31 December	**8,175**	5,650

None of the share-based awards have a contractual maturity date and none were exercisable as at 31 December in either of the reported years.

The grant date fair value of the share-based awards was determined using a Monte Carlo modelling technique. Key assumptions used in the valuation and the resultant grant date fair value are set out in the following table:

	MIP	
	2020 awards	2019 awards
Expected volatility	**35%**	28%
Dividend yield	**0%**	0%
Risk-free rate of return (based on government bonds)	**(0.08%)**	0.90%
Expected life at grant date	**2.2 years**	3.7 years
Grant date fair value (per share)	**£410**	£580

Expected volatility was calculated based on the historical volatility of banks closely aligned to the Group.

10. Directors' remuneration

	2020 £000	2019 £000
Directors' emoluments[1]	1,740	1,844
Total Directors' remuneration	**1,740**	**1,844**

The above table includes both Executive and Non-Executive Directors. Further information is provided in the Directors' Remuneration Report on page 83.

11. Impairment losses on financial instruments

See accounting policies in Note 1.7(x)

Impairment losses on financial instruments are attributable to the Group's loans and advances to customers and loan commitments, as detailed in the table below. Impairment losses on the Group's cash and balances at central banks, loans and advances to banks and investment securities are immaterial in both reported years, totalling less than £0.1 million.

	2020 £m	2019 £m
Impairment losses on loans and advances to customers		
ECL charge for the year	31.9	2.6
Loan balances written-off in the year	25.2	34.0
Amounts recovered in the year in respect of loan balances previously written-off	(4.4)	(6.7)
Total impairment losses on loans and advances to customers	**52.7**	**29.9**
Impairment losses on loan commitments		
ECL charge for the year	2.2	–
Total impairment losses on loan commitments	**2.2**	**–**
Total impairment losses on financial instruments	**54.9**	**29.9**

Further analysis of the ECL charge for the year in respect of loans and advances to customers and loan commitments is provided in the creditworthiness risk section of the Risk Report on page 121 and 127, respectively.

The calculation of ECLs is an area identified as involving critical accounting estimates and judgement. Details of the critical judgements and accounting estimates are provided in the creditworthiness risk section of the Risk Report on page 128 and 131, respectively.

12. Net gain on disposal of subsidiary

In October 2019, the sale of Shawbrook International Limited, a wholly owned subsidiary of the Group, was completed. The subsidiary was not a separate major business line and, as such, is not disclosed as a discontinued operation. A net gain on disposal of £0.3 million is recognised in the statement of profit and loss in the year ended 31 December 2019.

1 Ian Cowie was not formally appointed to the Board of the Company until February 2019. As such, his remuneration is prorated for the year ended 31 December 2019, as set out in the Directors' Remuneration Report.

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13. Tax

See accounting policies in Note 1.7(f)

The tax charge recognised in the statement of profit and loss is as follows:

	Note	**2020 £m**	2019 £m
Current tax			
Current year		**15.2**	28.1
Adjustment in respect of prior years		**(2.4)**	(2.4)
Total current tax		**12.8**	25.7
Deferred tax			
Origination and reversal of temporary differences	20	**1.4**	0.8
Adjustment in respect of prior years	20	**1.2**	2.3
Total deferred tax		**2.6**	3.1
Total tax charge		**15.4**	28.8

A reconciliation of profit before tax to the total tax charge is as follows:

	2020 £m	2019 £m
Profit before tax	**73.5**	122.4
Implied tax charge thereon at 19.00% (2019: 19.00%)	**14.0**	23.3
Adjustments		
Banking surcharge	**3.6**	7.7
Tax relief on coupon paid on capital securities	**(2.3)**	(2.5)
Adjustment in respect of prior years	**(1.2)**	(0.1)
Disallowable expenses and other permanent differences	**1.3**	0.4
Total tax charge	**15.4**	28.8

In March 2020, it was announced in the Budget that the main rate of UK corporation tax will remain at 19%.

14. Loans and advances to customers

See accounting policies in Note 1.7(g)

	2020			2019		
	Gross carrying amount £m	**Loss allowance £m**	**Carrying amount £m**	Gross carrying amount £m	Loss allowance £m	Carrying amount £m
Loan receivables	**6,685.1**	**(76.6)**	**6,608.5**	6,226.6	(47.4)	6,179.2
Finance lease receivables	**72.1**	**(5.0)**	**67.1**	81.0	(6.4)	74.6
Instalment credit receivables	**362.3**	**(10.7)**	**351.6**	382.4	(7.3)	375.1
	7,119.5	**(92.3)**	**7,027.2**	6,690.0	(61.1)	6,628.9
Fair value adjustments for hedged risk			**34.1**			8.8
Total loans and advances to customers			**7,061.3**			6,637.7

Total loans and advances to customers include:

- £956.2 million (2019: £974.2 million) positioned with the Bank of England for use as collateral against amounts drawn under its funding schemes (see Note 25). Of this amount, £nil (2019: £974.2 million) relates to the Term Funding Scheme and £956.2 million (2019: £nil) to the new Term Funding Scheme with additional incentives for SMEs.
- £55.5 million (2019: £163.6 million) pledged as collateral against secured bank borrowings (see Note 25).
- £268.2 million (2019: £286.2 million) pledged to securitisation programmes (see Note 15).

The Group became an accredited Coronavirus Business Interruption Loan Scheme (CBILS) lender in May 2020. As at 31 December 2020, loans and advances to customers include CBILS loans with a carrying amount of £31.9 million. The UK Government provides a guarantee to protect 80% of any post recovery loss in the event of default on these loans. No claims have been made against the government guarantee.

The fair value adjustments for hedged risk represent an offset to the fair value movement on derivatives designated in hedge relationships to manage interest rate risk (see Note 17).

Additional analysis of the Group's loans and advances to customers and the associated loss allowance is provided in the creditworthiness risk section of the Risk Report starting on page 121.

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14. Loans and advances to customers continued

Finance lease and instalment credit receivables

The finance lease receivables and instalment credit receivables relate to agreements issued by the Group to customers for a variety of assets, predominantly including, but not limited to, plant and machinery.

The following table sets out a maturity analysis, showing the undiscounted payments to be received after the reporting date and a reconciliation to the gross carrying amount of the receivable.

	2020		2019	
	Finance lease receivables £m	**Instalment credit receivables £m**	Finance lease receivables £m	Instalment credit receivables £m
Undiscounted payments receivable				
Within one year	**34.0**	**184.5**	38.9	184.8
Between one and two years	**20.4**	**108.2**	21.9	119.1
Between two and three years	**11.7**	**54.5**	13.9	65.6
Between three and four years	**6.0**	**20.6**	7.0	29.5
Between four and five years	**3.2**	**8.2**	3.4	10.0
After five years	**4.3**	**12.0**	4.7	4.1
Total undiscounted payments receivable	**79.6**	**388.0**	89.8	413.1
Unearned finance income	**(7.5)**	**(25.7)**	(8.8)	(30.7)
Gross carrying amount	**72.1**	**362.3**	81.0	382.4

Instalment credit receivables include block discounting facilities of £163.9 million (2019: £173.5 million).

The cost of assets acquired by the Group during the year, for the purpose of letting to customers under finance lease and instalment credit agreements, is as follows:

	2020 £m	2019 £m
Finance lease agreements	**19.8**	29.8
Instalment credit agreements	**78.4**	102.7
Total cost of assets acquired during the year	**98.2**	132.5

Modifications
The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans with a view to maximising recovery.

Modifications occurring due to the customer encountering financial difficulties are referred to as forbearance activities. Details of the Group's forborne loans are provided in the creditworthiness risk section of the Risk Report on page 142.

During the year ended 31 December 2020, in response to the COVID-19 pandemic, the Group extended short-term concessions to customers requiring support. In line with regulatory guidance and the Group's forbearance policy, these interim measures are not considered to be forbearance and are not included in the disclosure of forborne loans referenced above. Details of COVID-19 related concessions are provided in the creditworthiness risk section of the Risk Report on page 144.

No gain or loss is recognised in the statement of profit and loss as a result of loan modifications made during the year (2019: £nil).

Write-offs still under enforcement activity
Loans that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The contractual amount outstanding on loans and advances to customers that were written off during the reporting period, and are still subject to enforcement activity, is £27.7 million (2019: £19.9 million).

15. Securitisations and structured entities
See accounting policies in Note 1.7(h)

Consolidated structured entities
The Group includes consolidated structured entities associated with the Group's 2019 securitisation programme, as detailed below.

In June 2019, the Group securitised certain mortgage loans included within loans and advances to customers. The securitised loans were transferred to a structured entity, Shawbrook Mortgage Funding 2019-1 plc. The Group continues to service the transferred loans in return for an administration fee and is entitled to any residual income from the structured entity after the debt obligations and senior expenses of the securitisation programme have been met.

Based on the structure of the transaction, the Group assessed that, for accounting purposes, it controls the structured entity and, as such, it is treated as a subsidiary of the Group and is fully consolidated. The transfer of loans did not meet the derecognition criteria and, accordingly, the loans continue to be recognised in their entirety in the statement of financial position (see Note 14).

The securitisation provides long-term funding to the Group through the simultaneous issue of mortgage backed debt securities by the structured entity to external investors (see Note 28). The notes are secured on the portfolio of securitised loans, with the final maturity date of the debt securities issued being no later than the final repayment date of any of the underlying securitised loans.

Certain securities issued by the structured entity are held by a subsidiary of the Group, Shawbrook Bank Limited. Certain of these internally held notes are used in a 'security swap', whereby notes are exchanged for UK gilts, with no cash consideration exchanged. The notes sold are not derecognised and the UK gilts purchased are not recognised in the statement of financial position (i.e. it is an off-balance sheet transaction). In addition, certain of these notes are positioned with the Bank of England for use as collateral against amounts drawn under its funding schemes.

15. Securitisations and structured entities continued

The following table summarises the carrying amount of the securitised loans and the associated debt securities in issue:

	Note	**2020 £m**	2019 £m
Loans securitised, included in loans and advances to customers	14	**268.2**	286.2
Debt securities in issue, of which:		**268.2**	286.6
held by external investors	28	**204.8**	240.7
held by the Group (and eliminated on consolidation)		**63.4**	45.9

To allow for the original hedge accounting relationships relating to the securitised loans to be maintained, back-to-back balance guaranteed swaps were entered in to with an external counterparty. The notional amount of these swaps will amortise in their entirety based upon the realised amortisation of the reference pool of performing fixed rate mortgage loans. Details of the nominal amount and carrying amount of these swaps are provided in Note 17.

Unconsolidated structured entities

The Group has an interest in one unconsolidated structured entity, associated with the Group's 2020 securitisation programme, as detailed below:

In September 2020, the Group securitised certain mortgage loans included within loans and advances to customers. The securitised loans were transferred to a structured entity, Lanebrook Mortgage Transaction 2020-1 plc. The residual certificates, representing the rights to receive residual income from the structured entity, were sold as part of the transaction.

Based on the structure of the transaction, the Group assessed that, for accounting purposes, it does not control the structured entity and, as such, it is not consolidated. The transferred loans met the criteria for derecognition and, accordingly, the loans were derecognised from the statement of financial position. At the point of derecognition, the loan portfolio had a gross carrying amount (before loss allowance) of £330.6 million and a carrying amount (after loss allowance) of £329.9 million. A net gain arising from the derecognition of these loans of £9.6 million is recognised in the statement of profit and loss (see Note 6).

The structured entity is financed through the simultaneous issue of mortgage backed debt securities by the structured entity. Certain of these debt securities were purchased by a subsidiary of the Group, Shawbrook Bank Limited. The Group therefore has a direct interest in the structured entity. As at 31 December 2020, the carrying amount of the Group's investment in debt securities issued by the structured entity is £79.4 million (see Note 16). This amount represents the Group's maximum exposure to loss from its interest in the structured entity.

As at 31 December 2020, the total asset value of the structured entity, including the portion in which the Group has no interest, is £327.4 million.

During the year, whilst not contractually obliged to do so, the Group also paid all up-front expenses incurred in forming the structured entity totalling £1.7 million. This includes £12,500 to capitalise the structured entity and all bank and legal expenses. The Group has no intentions to provide any further financial or other support to the structured entity.

16. Investment securities

See accounting policies in Note 1.7(i)

	2020			2019
	Covered bonds £m	**Debt securities £m**	**Total £m**	Covered bonds £m
As at 1 January	200.0	–	200.0	139.9
Additions	78.9	79.3	158.2	60.0
Other movements	(0.1)	0.1	–	0.1
As at 31 December	278.8	79.4	358.2	200.0

Covered bonds include:

- £150.0 million (2019: £100.0 million) positioned with the Bank of England for use as collateral against amounts drawn under its funding schemes (see Note 25). Of this amount, £nil (2019: £100.0 million) relates to the Term Funding Scheme and £150.0 million (2019: £nil) to the new Term Funding Scheme with additional incentives for SMEs.
- £15.0 million (2019: £nil) pledged as collateral for repurchase agreements (see Note 25).

Debt securities represent mortgage backed debt securities issued by an unconsolidated structured entity that were retained by the Group (see Note 15).

The loss allowance for investment securities is immaterial in both reported years, totalling less than £0.1 million.

17. Derivative financial instruments and hedge accounting

See accounting policies in Note 1.7(j) and Note 1.7(k)

Derivative financial instruments

Derivative financial instruments are used by the Group for risk management purposes in order to minimise or eliminate the impact of movements in interest rates and foreign exchange rates. Derivatives are not used for trading or speculative purposes. The Group uses the International Swaps and Derivatives Association Master Agreement to document these transactions in conjunction with a Credit Support Annex.

The following table analyses the Group's derivative financial instruments by instrument type and specifies which instruments are designated as hedging instruments in qualifying hedging relationships.

	Assets		Liabilities	
As at 31 December 2020	**Nominal amount £m**	**Carrying amount £m**	**Nominal amount £m**	**Carrying amount £m**
Interest rate swaps in hedging relationship	62.0	0.2	1,251.1	27.4
Other interest rate swaps (not in hedging relationship)	–	–	27.7	0.4
Interest rate options in hedging relationship	–	–	1,050.0	10.5
Spot and forward foreign exchange	28.4	0.4	0.4	0.2
Balance guaranteed swaps	217.8	3.5	217.8	3.5
Total derivative financial instruments	308.2	4.1	2,547.0	42.0

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17. Derivative financial instruments and hedge accounting continued

As at 31 December 2019	Assets Nominal amount £m	Assets Carrying amount £m	Liabilities Nominal amount £m	Liabilities Carrying amount £m
Interest rate swaps in hedging relationship	546.2	2.3	915.0	9.6
Interest rate options in hedging relationship	–	–	1,150.0	4.0
Spot and forward foreign exchange	29.9	0.5	–	–
Cross-currency swaps	10.1	0.3	–	–
Balance guaranteed swaps	236.2	1.3	236.2	1.3
Total derivative financial instruments	822.4	4.4	2,301.2	14.9

Interest rate swaps are used by the Group to manage interest rate risk associated with the Group's loans and advances to customers and customer deposits.

Interest rate options are used by the Group specifically to manage interest rate risk associated with certain loans in its property loan portfolio. The property loan portfolio includes loans where interest rate terms are referenced to the three-month sterling LIBOR index, but with a minimum reference rate of 0.75%. The Group has sold interest rate options into the wholesale market to hedge the exposure to changes in the fair value due to movements in the reference interest rates. Of these interest rate options, £575 million are forward starting, with an effective date beyond 31 December 2020.

Spot and forward foreign exchange and cross-currency swaps are used by the Group to manage foreign exchange risk associated with the Group's loans and advances to customers and loans and advances to banks.

Balance guaranteed swaps are entered into in relation to the Group's 2019 securitisation programme (see Note 15).

Article 4 of the European Market Infrastructure Regulation requires that standardised over-the-counter (OTC) derivatives are mandatorily cleared through authorised central counterparties. As a result, in October 2019, the Group commenced clearing its standardised OTC derivatives via ABN Amro with London Clearing House. The following tables split out the total nominal amount of derivative financial instruments into cleared and OTC:

As at 31 December 2020	**Assets Cleared £m**	**Assets OTC £m**	**Assets Total £m**	**Liabilities Cleared £m**	**Liabilities OTC £m**	**Liabilities Total £m**
Interest rate swaps in hedging relationship	**62.0**	**–**	**62.0**	**416.8**	**834.3**	**1,251.1**
Other interest rate swaps (not in hedging relationship)	**–**	**–**	**–**	**27.7**	**–**	**27.7**
Interest rate options in hedging relationship	**–**	**–**	**–**	**–**	**1,050.0**	**1,050.0**
Spot and forward foreign exchange	**–**	**28.4**	**28.4**	**–**	**0.4**	**0.4**
Balance guaranteed swaps	**–**	**217.8**	**217.8**	**–**	**217.8**	**217.8**
Total	**62.0**	**246.2**	**308.2**	**444.5**	**2,102.5**	**2,547.0**

As at 31 December 2019	Assets Cleared £m	OTC £m	Total £m	Liabilities Cleared £m	OTC £m	Total £m
Interest rate swaps in hedging relationship	73.1	473.1	546.2	69.6	845.4	915.0
Interest rate options in hedging relationship	–	–	–	–	1,150.0	1,150.0
Spot and forward foreign exchange	–	29.9	29.9	–	–	–
Cross-currency swaps	–	10.1	10.1	–	–	–
Balance guaranteed swaps	–	236.2	236.2	–	236.2	236.2
Total	73.1	749.3	822.4	69.6	2,231.6	2,301.2

Hedge accounting

The Group holds certain interest rate swaps and its interest rate options as hedging instruments in fair value hedges. The Group does not designate any derivatives as cash flow hedges or net investment hedges.

In preparation for interest rate benchmark reform, in March 2019, the Group began transacting in swaps linked to SONIA for all new hedges, rather than LIBOR as previously used. As at 31 December 2020, legacy hedges remain designated against LIBOR. Further information regarding interest rate benchmark reform is provided in the market risk section of the Risk Report on page 154.

Details of the Group's fair value hedges are presented in the following tables:

As at 31 December 2020	**Maturity** Less than 1 month	**1 – 3 months**	**3 months – 1 year**	**1 – 5 years**	**More than 5 years**	**Total**
Interest rate swaps						
Nominal amount (£m)	**–**	**35.0**	**79.0**	**1,120.6**	**78.5**	**1,313.1**
Average fixed interest rate	**–**	**1.10%**	**1.05%**	**0.68%**	**0.67%**	**0.70%**
Interest rate options						
Nominal amount (£m)	**–**	**–**	**50.0**	**1,000.0**	**–**	**1,050.0**
Average fixed interest rate	**–**	**–**	**0.75%**	**0.75%**	**–**	**0.75%**

As at 31 December 2019	Maturity Less than 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	More than 5 years	Total
Interest rate swaps						
Nominal amount (£m)	–	–	407.0	1,002.5	51.7	1,461.2
Average fixed interest rate	–	–	1.03%	0.88%	1.21%	0.93%
Interest rate options						
Nominal amount (£m)	–	–	50.0	1,000.0	100.0	1,150.0
Average fixed interest rate	–	–	0.75%	0.75%	0.75%	0.75%

17. Derivative financial instruments and hedge accounting continued

Amounts relating to items designated as hedging instruments and hedge ineffectiveness are set out in the following tables. The carrying amount of assets and liabilities included in these tables are presented in the statement of financial position on the lines derivative financial assets and derivative financial liabilities, respectively. Ineffectiveness is recognised in the statement of profit and loss on the line net gains/(losses) on derivative financial instruments and hedge accounting. The main sources of ineffectiveness in these hedge relationships relate to the modelled prepayment/repayment behaviour and the assumptions that are used in modelling this behaviour.

As at 31 December 2020	**Nominal amount £m**	**Carrying amount £m**	**Change in fair value used for calculating ineffectiveness £m**	**Ineffectiveness recognised in statement of profit and loss £m**
Interest rate swaps				
Assets	62.0	0.2	(21.5)	–
Liabilities	1,251.1	27.4	(0.6)	–
Interest rate options				
Liabilities	1,050.0	10.5	(6.4)	0.9

As at 31 December 2019	Nominal amount £m	Carrying amount £m	Change in fair value used for calculating ineffectiveness £m	Ineffectiveness recognised in statement of profit and loss £m
Interest rate swaps				
Assets	546.2	2.3	(8.5)	(0.1)
Liabilities	915.0	9.6	0.4	–
Interest rate options				
Liabilities	1,150.0	4.0	0.4	0.1

Amounts relating to items designated as hedged items are as follows:

As at 31 December 2020	**Note[1]**	**Carrying amount £m**	**Accumulated fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item[2] £m**	**Change in fair value used for calculating ineffectiveness £m**
Assets				
Loans and advances to customers	14	2,363.1	34.1	24.0
Liabilities				
Customer deposits	26	–	–	0.5

As at 31 December 2019	Note[1]	Carrying amount £m	Accumulated fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item[2] £m	Change in fair value used for calculating ineffectiveness £m
Assets				
Loans and advances to customers	14	2,371.2	8.8	8.0
Liabilities				
Customer deposits	26	240.0	(0.5)	(0.4)

All hedge accounting relationships remain highly effective. Short-term payment holidays granted to customers in response to COVID-19 did not cause any of the hedge accounting relationships to fail hedge effectiveness testing.

Net gains and losses on derivative financial instruments and hedge accounting

Gains and losses on derivative financial instruments and hedge accounting recognised in the statement of profit and loss are summarised as follows:

	2020 £m	2019 £m
Net fair value losses on derivative financial instruments	**(29.5)**	(5.3)
Net fair value gains on hedged risk	**24.5**	7.6
Net (losses)/gains on derivative financial instruments and hedge accounting	**(5.0)**	2.3

Net fair value losses on derivative financial instruments include foreign exchange gains/(losses).

1 Note number reference signposts to where the accumulated fair value hedge adjustments on the hedged item is included.

2 The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have been de-designated, for which the fair value hedged item adjustment is being amortised into the statement of profit and loss is £1.6 million (2019: £0.5 million).

18. Property, plant and equipment

See accounting policies in Note 1.7(l)

Year ended 31 December 2020	**Right-of-use leasehold property £m**	**Leasehold property £m**	**Fixtures, fittings and equipment £m**	**Assets on operating leases £m**	**Total £m**
Cost					
As at 1 January 2020	12.6	2.4	16.2	60.4	91.6
Additions	2.6	0.5	0.3	11.1	14.5
Disposals	(3.5)	–	(1.0)	(6.6)	(11.1)
Transfer to finance leases	–	–	–	(4.5)	(4.5)
As at 31 December 2020	11.7	2.9	15.5	60.4	90.5
Accumulated depreciation					
As at 1 January 2020	1.5	0.9	11.5	20.5	34.4
Charge for the year	1.6	0.6	1.2	9.1	12.5
Disposals	(0.8)	–	(0.8)	(5.7)	(7.3)
Transfer to finance leases	–	–	–	(2.7)	(2.7)
As at 31 December 2020	2.3	1.5	11.9	21.2	36.9
Carrying amount					
As at 31 December 2020	9.4	1.4	3.6	39.2	53.6

Year ended 31 December 2019	Right-of-use leasehold property £m	Leasehold property £m	Fixtures, fittings and equipment £m	Assets on operating leases £m	Total £m
Cost					
As at 1 January 2019	–	0.7	14.8	58.3	73.8
Impact of adopting IFRS 16	10.3	–	–	–	10.3
As at 1 January 2019 (adjusted)	10.3	0.7	14.8	58.3	84.1
Additions	2.5	1.7	1.7	18.2	24.1
Disposals	(0.2)	–	(0.3)	(8.7)	(9.2)
Transfer to finance leases	–	–	–	(7.4)	(7.4)
As at 31 December 2019	12.6	2.4	16.2	60.4	91.6
Accumulated depreciation					
As at 1 January 2019	–	0.6	9.9	24.2	34.7
Charge for the year	1.5	0.3	1.6	8.6	12.0
Disposals	–	–	–	(7.0)	(7.0)
Transfer to finance leases	–	–	–	(5.3)	(5.3)
As at 31 December 2019	1.5	0.9	11.5	20.5	34.4
Carrying amount					
As at 31 December 2019	11.1	1.5	4.7	39.9	57.2

Further details relating to right-of-use leasehold property and assets on operating leases are provided in Note 29.

19. Intangible assets

See accounting policies in Note 1.7(m)

	2020			2019		
	Goodwill £m	**Computer software £m**	**Total £m**	Goodwill £m	Computer software £m	Total £m
Cost						
As at 1 January	**44.8**	**44.3**	**89.1**	44.8	36.3	81.1
Additions	**–**	**7.5**	**7.5**	–	8.0	8.0
Disposals	**–**	**(2.0)**	**(2.0)**	–	–	–
As at 31 December	**44.8**	**49.8**	**94.6**	44.8	44.3	89.1
Accumulated amortisation and impairment						
As at 1 January	**1.1**	**21.4**	**22.5**	1.1	13.6	14.7
Charge for the year	**–**	**8.5**	**8.5**	–	7.8	7.8
Disposals	**–**	**(1.5)**	**(1.5)**	–	–	–
As at 31 December	**1.1**	**28.4**	**29.5**	1.1	21.4	22.5
Carrying amount						
As at 31 December	**43.7**	**21.4**	**65.1**	43.7	22.9	66.6

Computer software additions include £7.4 million of internally generated assets (2019: £7.6 million).

Impairment testing of goodwill

Impairment testing of goodwill is an area identified as involving critical accounting estimates and judgement. Details regarding the key assumptions used and sensitivity analysis are provided in Note 1.9(d).

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs, which are also the Group's reportable lending divisions (see Note 2).

In both reported years, impairment testing indicated the recoverable amount of each CGU was in excess of its carrying amount and, as such, no impairment losses have been recognised.

The following table sets out the carrying amount of goodwill by CGU:

	2020			2019		
	Property Finance £m	**Business Finance £m**	**Total £m**	Property Finance £m	Business Finance £m	Total £m
As at 1 January and 31 December	**9.0**	**34.7**	**43.7**	9.0	34.7	43.7

20. Deferred tax assets

See accounting policies in Note 1.7(f)

Deferred tax assets are attributable to the following items:

	2020 £m	2019 £m
Decelerated tax depreciation	**9.5**	11.2
IFRS 9 adjustment	**2.5**	2.8
General provisions	**0.3**	0.6
Other	**–**	0.3
Total deferred tax assets	**12.3**	14.9

Movements in deferred tax assets are attributable to the following items:

	Note	**2020 £m**	2019 £m
As at 1 January		**14.9**	18.0
Current period movement	13	**(1.4)**	(0.8)
Adjustment in respect of prior years	13	**(1.2)**	(2.3)
As at 31 December		**12.3**	14.9

The Group's deferred tax assets result primarily from decelerated capital allowances. The Group's business plans project profits in future years sufficient to fully recognise the deferred tax assets. The tax assets will unwind over the remaining life of the underlying assets with which they are associated.

In March 2020, it was announced in the Budget that the main rate of UK corporation tax will remain at 19%.

The deferred tax asset in both reported years has been calculated based on an aggregation rate of 25.5%. This is the estimated rate of recovery based on a rate of 19% substantively enacted at the reporting date and the additional 8% of tax suffered (after the exempt amount) in relation to the banking surcharge, that will unwind over the remaining life of the underlying assets with which they are associated.

21. Investment in associate

See accounting policies in Note 1.7(n)

The Group holds 19.99% of the ordinary shares of The Mortgage Lender Limited (TML). Upon acquisition, despite holding less than 20% of the ordinary shares, the Group was deemed to have significant interest. As such, TML is treated as an associate and is accounted for using the equity method of accounting.

TML's principal activity is mortgage finance and its place of incorporation and principal place of business is the UK. TML is not publicly listed.

For the purposes of applying the equity method of accounting, the Group uses TML's monthly unaudited management accounts. The following information summarises the financial information of TML, as included in its monthly unaudited management accounts, and the financial information presented in the Group's financial statements.

	2020 £m	2019 £m
Revenue	**14.8**	14.5
Profit/(loss) from continuing operations	**0.4**	(0.7)
Total comprehensive profit/(loss) for the year	**0.4**	(0.7)

Based on the information above, the Group's 19.99% share of results recognised in the statement of profit and loss is a profit of £0.1 million (2019: £0.1 million loss).

No dividends were received from TML in either reported year.

A reconciliation of the net assets of TML as at 31 December to the carrying amount of the investment in associate recognised in the statement of financial position is as follows:

	2020	2019
Current assets (£m)	**5.7**	4.4
Non-current assets (£m)	**0.4**	0.5
Current liabilities (£m)	**(2.2)**	(1.5)
Non-current liabilities (£m)	**(0.1)**	(0.1)
Net assets of the associate (£m)	**3.8**	3.3
Proportion of the Group's ownership interest in the associate	**19.99%**	19.99%
Group's share of net assets (£m)	**0.8**	0.7
Goodwill (£m)	**4.7**	4.7
Accumulated impairment losses (£m)	**(2.7)**	–
Total investment in associate (£m)	**2.8**	5.4

Impairment of the investment

As at 31 December 2020, the Group was in advanced stages of acquiring the remaining 80.01% of shares in TML, a transaction which subsequently completed in February 2021 (see Note 43). As such, the Group had current market information pertaining to the valuation of TML. This current valuation indicated impairment to the value of the existing TML investment and accordingly impairment testing was performed.

The recoverable amount, based on the cost of acquiring the remaining 80.01% of equity in TML, was less than the carrying amount of the investment, resulting in an impairment loss of £2.7 million being recognised in the statement of profit and loss.

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22. Other assets

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Other debtors	3.0	–	1.9	–
Prepayments	7.6	0.2	7.1	0.5
Amounts due from Group companies	–	0.5	–	0.9
Total other assets	**10.6**	**0.7**	9.0	1.4

23. Assets held for sale
See accounting policies in Note 1.7(o)

	2020			2019		
	Gross carrying amount £m	Loss allowance £m	Carrying amount £m	Gross carrying amount £m	Loss allowance £m	Carrying amount £m
Customer loans held for sale	2.3	–	2.3	112.6	(8.5)	104.1
Total assets held for sale	**2.3**	**–**	**2.3**	112.6	(8.5)	104.1

As at 31 December 2020, assets held for sale comprise a portfolio of loans from Business Finance, which meet the criteria to be classified as a disposal group held for sale.

As at 31 December 2019, assets held for sale comprised a portfolio of unsecured personal loans from Consumer Lending, which met the criteria to be classified as a disposal group held for sale. In January 2020, the sale of the loan portfolio was completed and the loans were derecognised from the statement of financial position. At the point of derecognition, the loan portfolio had a gross carrying amount (before loss allowance) of £106.3 million and a carrying amount (after loss allowance) of £97.8 million. A net loss arising from the derecognition of these loans of £0.2 million is recognised in the statement of profit and loss (see Note 6).

Further analysis of the Group's assets held for sale and the associated loss allowance can be found in the creditworthiness risk section of the Risk Report on page 126.

24. Investment in subsidiaries

Investment in subsidiaries recognised in the Company statement of financial position is as follows:

	2020 £m	2019 £m
Equity shares in Shawbrook Bank Limited	267.8	267.8
Capital securities in Shawbrook Bank Limited	125.0	125.0
Share-based payments	17.7	17.2
Total investment in subsidiaries	410.5	410.0

Details of subsidiary companies are provided in Note 37. The principal terms of the capital securities in Shawbrook Bank Limited are detailed in Note 33. Details of share-based payments are provided in Note 9.

Movements in the Company's investment in subsidiaries are as follows:

	2020 £m	2019 £m
As at 1 January	410.0	409.2
Share-based payments	0.5	0.8
As at 31 December	410.5	410.0

25. Amounts due to banks

See accounting policies in Note 1.7(p)

	2020 £m	2019 £m
Central bank facilities	757.1	758.5
Secured bank borrowings	43.3	123.1
Repurchase agreements	15.1	–
Total amounts due to banks	815.5	881.6

Total amounts due to banks include:

- £757.0 million (2019: £757.0 million) drawn under the Bank of England's funding schemes which fall due for repayment in 2024. Of this amount, £nil (2019: £757.0 million) relates to the Term Funding Scheme and £757.0 million (2019: £nil) to the new Term Funding Scheme with additional incentives for SMEs. These amounts are collateralised by customer loan assets and investment securities (see Note 14 and Note 16, respectively).
- £43.3 million (2019: £123.1 million) of secured bank borrowings, which fall due for repayment in 2021. These amounts are secured on customer loan assets (see Note 14).
- £15.0 million (2019: £nil) of repurchase agreements that are collateralised by investment securities (see Note 16).

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26. Customer deposits

See accounting policies in Note 1.7(q)

	2020 £m	2019 £m
Instant access	**2,335.7**	2,020.2
Term deposits and notice accounts	**4,558.4**	4,088.7
Fair value adjustments for hedged risk	**–**	0.5
Total customer deposits	**6,894.1**	6,109.4

The fair value adjustments for hedged risk represent an offset to the fair value movement on derivatives designated in hedge relationships to manage interest rate risk (see Note 17).

27. Provisions for liabilities and charges

See accounting policies in Note 1.7(r)

	2020			2019		
	Loss provision £m	**Other provisions £m**	**Total £m**	Loss provision £m	Other provisions £m	Total £m
As at 1 January	**1.0**	**7.3**	**8.3**	1.0	10.6	11.6
Provisions utilised	**–**	**(12.8)**	**(12.8)**	–	(7.8)	(7.8)
Provisions made	**2.2**	**20.3**	**22.5**	–	4.5	4.5
As at 31 December	**3.2**	**14.8**	**18.0**	1.0	7.3	8.3

Loss provision

The loss provision represents the loss allowance on loan commitments (see Note 41). Provisions made represent the ECL charge for the year on loan commitments and is recognised in impairment losses on financial instruments in the statement of profit and loss (see Note 11).

Other provisions

Other provisions represent provisions made in relation to customer remediation and conduct issues. Provisions made are recognised in provisions for liabilities and charges in the statement of profit and loss.

The calculation of provisions relating to customer remediation and conduct issues is an area identified as involving critical accounting estimates and judgements. Details regarding the key assumptions used and sensitivity analysis are provided in Note 1.9(b).

28. Debt securities in issue

See accounting policies in Note 1.7(h)

Debt securities in issue comprise notes issued by consolidated structured entities as part of securitisation transactions (see Note 15). Amounts included in the following table include accrued interest and unamortised capitalised costs.

	Issued	Initial call date	Maturity date	**2020 £m**	2019 £m
Class A mortgage backed floating rate notes	2019	2022	2050	**204.8**	240.7
Total debt securities in issue				**204.8**	240.7

Movements in the year are summarised below:

	2020 £m	2019 £m
As at 1 January	**240.7**	-
Issuances	**–**	250.0
Repurchases and redemptions	**(36.8)**	(8.2)
Costs capitalised	**–**	(1.7)
Other movements	**0.9**	0.6
As at 31 December	**204.8**	240.7

Issuances in the year ended 31 December 2019 comprised £250.0 million Class A mortgage backed floating rate notes due 2050. The notes were issued to external investors in June 2019 by a consolidated structured entity, Shawbrook Mortgage Funding 2019-1 plc, as part of the Group's 2019 securitisation programme. The notes are listed on Euronext Dublin.

Repurchases and redemptions in the year ended 31 December 2020 include the purchase of £20.0 million of the notes originally issued to external investors by a subsidiary of the Group, Shawbrook Bank Limited.

Principal terms of the debt securities in issue are outlined below:

- **Interest:** interest is payable quarterly in arrears. The notes bear interest on the principal amount outstanding at a defined benchmark rate (determined on each interest payment date) plus a fixed margin (which increases following the initial call date).
- **Redemption:** the notes shall be redeemed in part from time to time, based on repayments received in respect of the underlying loans. The notes may also be redeemed in whole on any interest payment date either on or after the initial call date, or when the principal amount outstanding on the notes at that time is less than ten percent of the principal amount outstanding on the notes on the date they were issued, or for certain tax reasons, as set out in their governing terms.
- **Limited recourse:** recourse under the notes is limited to the structured entity only.
- **Ranking:** the notes constitute direct and secured obligations of the structured entity and rank pari passu, without any preference or priority, among themselves. Payments on the notes are subordinate to certain payments and expenses due to other secured creditors in connection with the securitisation and certain third parties.

29. Leases

See accounting policies in Note 1.7(s)

Group as a lessor: finance leases

Assets leased to customers under finance leases are predominantly plant and machinery. The underlying assets provide security against the gross receivables and the Group provides no residual value guarantees in order to mitigate risk.

Details of the Group's finance lease receivables are set out in Note 14. This includes a maturity analysis showing the gross investment in the lease (the undiscounted lease payments receivable) and a reconciliation to the net investment in the lease (the gross carrying amount of the receivable).

Finance income recognised during the year on finance lease receivables is £6.0 million (2019: £7.5 million) and is included in interest income on loans and advances to customers (see Note 3).

Group as a lessor: operating leases

Assets leased to customers under operating leases are predominantly plant and machinery. The carrying amount of the Group's assets on operating leases and the movements during the year are set out in Note 18.

Net income from operating leases is presented on the face of the statement of profit and loss.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2020 £m	2019 £m
Within one year	**10.3**	9.7
Between one and two years	**7.2**	8.0
Between two and three years	**5.7**	5.8
Between three and four years	**3.5**	4.3
Between four and five years	**1.8**	2.1
After five years	**1.3**	1.2
Total future minimum rentals receivable	**29.8**	31.1

Group as a lessee

The Group has lease contracts for several buildings. These leases typically have lease terms of between 5 and 10 years. The Group does not sublease any of these leased assets.

Details of the right-of-use assets recognised in relation to these leases, including the carrying amount and the movements during the year, are set out in Note 18.

The carrying amount of the associated lease liabilities and the movements during the year are as follows:

	2020 £m	2019 £m
As at 1 January	**12.4**	–
Impact of adopting IFRS 16	–	10.9
As at 1 January (adjusted)	**12.4**	10.9
Additions	**2.6**	2.5
Disposals	**(2.7)**	(0.2)
Interest expense	**0.4**	0.2
Payments	**(1.6)**	(1.0)
As at 31 December	**11.1**	12.4

A maturity analysis of these lease liabilities is presented in the liquidity risk section of the Risk Report on page 145.

The Group also has certain leases of office equipment with low value, for which the Group applies the recognition exemption for leases of low value assets. Additionally, in the year ended 31 December 2019, the Group also had several leases for buildings which, at the date of initial application of IFRS 16 'Leases', had a remaining lease term of less than 12 months, for which the Group elected to apply the short-term lease recognition exemption. For such leases, no right-of-use asset is recognised and lease payments are charged to administrative expenses in the statement of profit and loss.

The following table provides a summary of the amounts recognised in the statement of profit and loss:

	2020			2019		
	Administrative expenses £m	**Interest expense £m**	**Total £m**	Administrative expenses £m	Interest expense £m	Total £m
Depreciation expense on right-of-use assets	**1.6**	**–**	**1.6**	1.5	–	1.5
Interest expense on lease liabilities	**–**	**0.4**	**0.4**	–	0.2	0.2
Rental expense on short-term leases	**–**	**–**	**–**	0.3	–	0.3
Rental expense on low value assets	**0.2**	**–**	**0.2**	0.1	–	0.1
Total	**1.8**	**0.4**	**2.2**	1.9	0.2	2.1

In the year ended 31 December 2020, cash outflows for leases included in the statement of cash flows are £1.6 million (2019: £1.0 million). This comprises £0.4 million in cash flows from operating activities for payment of the interest portion of the lease liability (2019: £0.2 million) and £1.2 million in cash flows from financing activities for payment of the principal portion of the lease liability (2019: £0.8 million).

As at 31 December 2020, the Group is not committed to any lease contracts that have not yet commenced (2019: £nil).

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30. Other liabilities

Other liabilities recognised in the Group statement of financial position are as follows:

Group	2020 £m	2019 £m
Other creditors	**14.9**	64.2
Accruals	**25.8**	28.9
Total other liabilities	**40.7**	93.1

Other creditors include amounts relating to sundry creditors and other taxes.

As at 31 December 2019, other creditors included a £48.9 million deposit received in relation to the sale of a portfolio of unsecured personal loans from Consumer Lending that subsequently completed in January 2020 (see Note 23).

31. Subordinated debt

See accounting policies in Note 1.7(t)

Subordinated debt liability

Subordinated debt liabilities issued by the Company are as follows. Amounts included in the following table include accrued interest and unamortised capitalised costs.

	Issued	Call date	Maturity date	2020 £m	2019 £m
8.5% fixed rate reset callable subordinated notes	2015	2020	2025	**–**	75.6
6.5% fixed rate reset callable subordinated notes	2019	2024	2029	**20.3**	20.3
9.0% fixed rate reset callable subordinated notes	2020	2025	2030	**76.5**	–
Total subordinated liabilities				**96.8**	95.9

Movements in the year are summarised below:

	2020 £m	2019 £m
As at 1 January	**95.9**	75.5
Issuances	**75.0**	20.0
Repurchases and redemptions	**(75.0)**	–
Costs capitalised	**(0.9)**	–
Other movements	**1.8**	0.4
As at 31 December	**96.8**	95.9

In the year ended 31 December 2020, the Company refinanced a portion of its subordinated debt liability in order to optimise and extend the debt maturity profile. In July 2020, following a tender offer, the Company repurchased £74.8 million of the £75.0 million 8.5% fixed rate reset callable subordinated notes due 2025 at par. The remaining £0.2 million of these notes were redeemed at par, following due notice, in October 2020.

In conjunction with this, in July 2020, the Company issued £75.0 million 9.0% fixed rate reset callable subordinated notes due 2030. The notes are listed on the Global Exchange Market of Euronext Dublin.

The repurchased notes and corresponding amount of new notes issued were accounted for as a modification without derecognition, as the terms and cash flows of the notes were not deemed to be substantially different. This resulted in a modification loss of £0.9 million being recognised in the statement of profit and loss. Unamortised capitalised costs relating to the refinanced notes of £0.5 million were also released to the statement of profit and loss (see Note 4).

In the year ended 31 December 2019, the Company issued £20.0 million 6.5% fixed rate reset callable subordinated notes due 2029. The notes are listed on the Open Market of the Frankfurt Stock Exchange.

Principal terms of the subordinated debt liabilities are outlined below:

- **Interest:** interest is payable semi-annually in arrears. The notes bear interest on the principal amount at an initial fixed rate until the call date. On the call date, in the event the notes are not redeemed, the interest rate will be reset and fixed based on a set margin above a defined market rate.
- **Redemption:** the notes may be redeemed in whole on the call date, or at other times for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Ranking:** the notes constitute direct, unsecured and subordinated obligations of the Company and rank at least pari passu, without any preference, among themselves as Tier 2 capital. The notes rank behind the claims of depositors and other unsecured and unsubordinated creditors, but rank in priority to holders of Tier 1 capital and of equity in the Company.

Subordinated debt receivable

The subordinated debt receivable in the Company statement of financial position represents subordinated debt issued to the Company by the Group's principal subsidiary, Shawbrook Bank Limited. Notes issued by Shawbrook Bank Limited are on terms consistent with the listed notes issued by the Company, as detailed above. As at 31 December 2020, the subordinated debt receivable in the Company statement of financial position is £97.7 million (2019: £96.4 million).

32. Share capital

Ordinary shares of £0.01 each: issued and fully paid, are as follows:

	2020		2019	
	Number of shares	**£**	Number of shares	£
As at 1 January and 31 December	**253,086,879**	**2,530,869**	253,086,879	2,530,869

Each ordinary share 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.

33. Capital securities

See accounting policies in Note 1.7(u)

Capital securities issued by the Company are as follows:

	Issued	Initial call date	**2020 £m**	2019 £m
7.875% fixed rate reset perpetual Additional Tier 1 write down capital securities	2017	2022	**124.0**	124.0
Total capital securities			**124.0**	124.0

The capital securities are presented net of transaction costs of £1.0 million.

Principal terms of the capital securities are as follows:

- **Interest:** interest is payable semi-annually in arrears and is non-cumulative. Interest is fully discretionary and the Company may elect to, or in certain circumstances is obliged to, cancel (in whole or in part) any interest otherwise scheduled to be paid. Any interest not paid when scheduled is cancelled. The capital securities bear a fixed rate of interest until the initial call date. On the initial call date, and on each fifth anniversary thereafter, the interest rate will be reset and fixed based on a set margin above a defined market rate.
- **Redemption:** the capital securities are perpetual with no fixed redemption date. The Company may elect to redeem all, but not part, of the capital securities on the initial call date, or on any fifth anniversary of the initial call date, or for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Write-down:** in the event of the Group's Common Equity Tier 1 capital ratio falling below 7.0%, an automatic and permanent write down shall occur, resulting in the full reduction and cancellation of all capital securities and the cancellation of any interest which is accrued and unpaid.
- **Ranking:** the capital securities constitute direct, unsecured and subordinated obligations of the Company and rank pari passu, without any preference, among themselves. The capital securities also rank pari passu with the most senior class of issued preference shares in the Company, if any, and rank ahead of the holders of all other classes of issued shares of the Company, but rank junior to the claims of unsubordinated and subordinated creditors, other than those creditors whose claims rank, or are expressed to rank, pari passu with, or junior to, the claims of holders of the capital securities.

In conjunction with the issue of capital securities by the Company, capital securities were issued from Shawbrook Bank Limited to the Company on terms consistent with the listed capital securities. This is recognised in the Company statement of financial position as part of the investment in subsidiaries (see Note 24).

34. Notes to the cash flow statement

See accounting policies in Note 1.7(v)

Adjustments for non-cash items and other adjustments included in the statement of profit and loss

	Group 2020 £m	**Company 2020 £m**	Group 2019 £m	Company 2019 £m
ECL charge for the year	**31.9**	**–**	2.6	–
Other movements on investment securities	**–**	**–**	(0.1)	–
Depreciation of property, plant and equipment	**12.5**	**–**	12.0	–
Loss on disposal of property, plant and equipment	**0.2**	**–**	–	–
Amortisation of intangible assets	**8.5**	**–**	7.8	–
Loss on disposal of intangible assets	**0.5**	**–**	–	–
Share of results of associate	**(0.1)**	**–**	0.1	–
Impairment of investment in associate	**2.7**	**–**	–	–
Other movements on subordinated debt receivable	**–**	**(1.3)**	–	(0.3)
Other movements on debt securities in issue	**0.9**	**–**	0.6	–
Other movements on subordinated debt liability	**1.8**	**1.8**	0.4	0.4
Share-based payments	**0.5**	**–**	0.8	–
Net gain on disposal of subsidiary	**–**	**–**	(0.3)	–
Total non-cash items and other adjustments	59.4	0.5	23.9	0.1

Net change in operating assets

	Group 2020 £m	**Company 2020 £m**	Group 2019 £m	Company 2019 £m
Increase in mandatory deposits with central banks	**(5.5)**	**–**	(3.6)	–
Increase in loans and advances to customers	**(455.5)**	**–**	(822.2)	–
Decrease/(increase) in derivative financial assets	**0.3**	**–**	(2.8)	–
Increase in operating lease assets	**(8.4)**	**–**	(14.4)	–
(Increase)/decrease in other assets	**(1.6)**	**0.7**	3.7	0.4
Decrease/(increase) in assets held for sale	**101.8**	**–**	(104.1)	–
(Increase)/decrease in operating assets	(368.9)	0.7	(943.4)	0.4

Net change in operating liabilities

	Group 2020 £m	**Company 2020 £m**	Group 2019 £m	Company 2019 £m
Increase in customer deposits	**784.7**	**–**	1,131.5	–
Increase/(decrease) in provisions for liabilities and charges	**9.7**	**–**	(3.3)	–
Increase in derivative financial liabilities	**27.1**	**–**	9.2	–
(Decrease)/increase in other liabilities	**(52.4)**	**(0.1)**	54.0	(0.2)
Increase/(decrease) in operating liabilities	769.1	(0.1)	1,191.4	(0.2)

34. Notes to the cash flow statement continued

Cash and cash equivalents

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Cash and balances at central banks	1,273.2	–	1,064.6	–
Loans and advances to banks	91.0	–	59.1	–
Less: mandatory deposits with central banks	(18.0)	–	(12.5)	–
Total cash and cash equivalents	**1,346.2**	–	1,111.2	–

35. Financial instruments

See accounting policies in Note 1.7(w)

Classification of financial instruments

The following table provides a reconciliation of the Group's financial instruments between the line items in the statement of financial position and categories of financial instruments. There were no reclassifications between categories during either of the reported years.

			2020			2019
	Mandatorily at FVTPL £m	Amortised cost £m	Carrying amount £m	Mandatorily at FVTPL £m	Amortised cost £m	Carrying amount £m
Financial assets						
Cash and balances at central banks	–	1,273.2	1,273.2	–	1,064.6	1,064.6
Loans and advances to banks	–	91.0	91.0	–	59.1	59.1
Loans and advances to customers	–	7,061.3	7,061.3	–	6,637.7	6,637.7
Investment securities	–	358.2	358.2	–	200.0	200.0
Derivative financial assets	4.1	–	4.1	4.4	–	4.4
Assets held for sale	–	2.3	2.3	–	104.1	104.1
Total financial assets	**4.1**	**8,786.0**	**8,790.1**	4.4	8,065.5	8,069.9
Financial liabilities						
Amounts due to banks	–	815.5	815.5	–	881.6	881.6
Customer deposits	–	6,894.1	6,894.1	–	6,109.4	6,109.4
Derivative financial liabilities	42.0	–	42.0	14.9	–	14.9
Debt securities in issue	–	204.8	204.8	–	240.7	240.7
Lease liabilities	–	11.1	11.1	–	12.4	12.4
Subordinated debt liability	–	96.8	96.8	–	95.9	95.9
Total financial liabilities	**42.0**	**8,022.3**	**8,064.3**	14.9	7,340.0	7,354.9

Fair value of financial instruments

A summary of the valuation methods used by the Group to calculate the fair value of its financial instruments is as follows:

- **Cash and balances at central banks and loans and advances to banks:** fair value approximates the carrying amount as balances have minimal credit losses and are either short-term in nature or re-price frequently.
- **Loans and advances to customers:** fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date, and adjusted for future credit losses if considered material.
- **Investment securities, debt securities in issue and subordinated debt liability:** fair value is based on quoted prices where available or by discounting cash flows using market rates.
- **Derivative financial instruments:** fair value is obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.
- **Amounts due to banks and customer deposits:** fair value is estimated using discounted cash flows applying either market rates where practicable, or rates offered with similar characteristics by other financial institutions. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is considered to approximate the carrying amount.
- **Assets held for sale:** fair value is calculated using expected or known sales price. Where such data is not available, fair value is calculated in accordance with the type of asset held for sale using the valuation methods detailed above.
- **Lease liabilities:** in accordance with IFRS 7 'Financial Instruments: Disclosures', fair value disclosures are not required for lease liabilities. As such, a fair value is not calculated and lease liabilities are not included in the following fair value disclosures.

The Group uses a fair value hierarchy which reflects the significance of the inputs used in making the measurements. There are three levels to the hierarchy as follows:

- **Level 1:** quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market; and
- **Level 3:** inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

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

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35. Financial instruments continued

The following table analyses the Group's financial instruments measured at amortised cost into the fair value hierarchy. There were no transfers between the levels of the fair value hierarchy during either of the reported years.

	2020			2019		
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets at amortised cost						
Cash and balances at central banks	–	–	1,273.2	–	–	1,064.6
Loans and advances to banks	–	91.0	–	–	59.1	–
Loans and advances to customers	7,061.3	–	–	6,637.7	–	–
Investment securities	–	79.4	278.8	–	–	200.0
Assets held for sale	2.3	–	–	104.1	–	–
Financial liabilities at amortised cost						
Amounts due to banks	–	815.5	–	–	881.6	–
Customer deposits	–	6,894.1	–	–	6,109.4	–
Debt securities in issue	–	204.8	–	–	240.7	–
Subordinated debt liability	–	96.8	–	–	95.9	–

The following table provides a comparison of the carrying amount per the statement of financial position and the calculated fair value for the Group's financial instruments measured at amortised cost.

Cash and balances at central banks, loans and advances to banks and assets held for sale are not included in the table, as the carrying amount is a reasonable approximation of fair value.

	2020		2019	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets at amortised cost				
Loans and advances to customers	7,061.3	7,477.9	6,637.7	6,784.7
Investment securities	358.2	360.7	200.0	200.4
Financial liabilities at amortised cost				
Amounts due to banks	815.5	815.5	881.6	873.3
Customer deposits	6,894.1	6,929.2	6,109.4	6,121.1
Debt securities in issue	204.8	205.3	240.7	241.2
Subordinated debt liability	96.8	96.9	95.9	100.0

The following table analyses the Group's financial instruments measured at fair value into the fair value hierarchy. There were no transfers between the levels of the fair value hierarchy during either of the reported years.

	2020			2019		
	Level 3 £m	**Level 2 £m**	**Level 1 £m**	Level 3 £m	Level 2 £m	Level 1 £m
Financial assets at fair value						
Derivative financial assets	**3.5**	**0.6**	**–**	1.3	3.1	–
Financial liabilities at fair value						
Derivative financial liabilities	**3.5**	**38.5**	**–**	1.3	13.6	–

Financial instruments measured at fair value that are categorised as Level 3 are the Group's balance guaranteed swaps entered into in relation to the Group's 2019 securitisation programme (see Note 15).

Changes in fair value measurement for financial instruments measured at fair value and categorised as Level 3 are as follows:

	2020		2019	
	Derivative financial assets £m	**Derivative financial liabilities £m**	Derivative financial assets £m	Derivative financial liabilities £m
As at 1 January	**1.3**	**(1.3)**	–	–
Net fair value gains/(losses) recognised in the statement of profit and loss	**2.2**	**(2.2)**	1.3	(1.3)
As at 31 December	**3.5**	**(3.5)**	1.3	(1.3)

Net fair value gains/(losses) recognised in the statement of profit and loss are included in net gains/(losses) on derivative financial instruments and hedge accounting. All gains/(losses) recognised in the statement of profit and loss are unrealised.

Notes to the financial statements

for the year ended 31 December 2020

35. Financial instruments continued

Offsetting financial assets and financial liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position.

Financial collateral amounts disclosed in the below tables are limited to the net balance sheet exposure for the instrument in order to exclude any over collateralisation. All collateral amounts disclosed relate to cash collateral.

				Related amounts not offset		
As at 31 December 2020	**Gross amount £m**	**Amount offset £m**	**Net amount presented on statement of financial position £m**	**Subject to master netting arrangements £m**	**Financial collateral received/ pledged £m**	**Net amount £m**
Financial assets						
Derivative financial assets[1]	0.6	–	0.6	(0.6)	–	–
Total financial assets	0.6	–	0.6	(0.6)	–	–
Financial liabilities						
Repurchase agreements[2]	15.1	–	15.1	(15.1)	–	–
Derivative financial liabilities	42.0	–	42.0	(0.6)	(40.8)	0.6
Total financial liabilities	57.1	–	57.1	(15.7)	(40.8)	0.6

				Related amounts not offset		
As at 31 December 2019	Gross amount £m	Amount offset £m	Net amount presented on statement of financial position £m	Subject to master netting arrangements £m	Financial collateral received/ pledged £m	Net amount £m
Financial assets						
Derivative financial assets[1]	3.1	–	3.1	(3.1)	–	–
Total financial assets	3.1	–	3.1	(3.1)	–	–
Financial liabilities						
Derivative financial liabilities	14.9	–	14.9	(3.1)	(11.7)	0.1
Total financial liabilities	14.9	–	14.9	(3.1)	(11.7)	0.1

36. Ultimate parent company

The ultimate parent and controlling party of the Group is Marlin Bidco Limited. Marlin Bidco Limited is a company jointly owned by PSCM Pooling LP and Marlinbass Limited. Both companies are incorporated in Guernsey and are investment vehicles of Pollen Street Capital Limited and BC Partners LLP respectively.

The largest company in which the results of the Group are consolidated is that headed by Shawbrook Group plc (see Note 1.1). No other financial statements include the results of the Group.

1 Derivative financial assets included in the statement of financial position of £3.5 million (2019: £1.3 million) are not in the scope of the offsetting disclosures, as they are not subject to master netting arrangements.

2 Repurchase agreements are included in amounts due to banks in the statement of financial position (see Note 25).

37. Subsidiary companies

See accounting policies in Note 1.4

Wholly owned subsidiary companies

As at 31 December 2020, the Group includes the following subsidiary companies whose results are included in the consolidated financial statements:

Name	Country of incorporation	Class of shares	Ownership %	Principal activity
Shawbrook Bank Limited and its subsidiaries, as follows:	England and Wales	Ordinary	100	Banking
Shawbrook Buildings and Protection Limited	England and Wales	Ordinary	100	Dormant
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	Dormant
Centric SPV 1 Limited	England and Wales	Ordinary	100	Dormant
Resource Partners SPV Limited	England and Wales	Ordinary	100	Dormant

All subsidiaries have the same registered office as the Company, as detailed in Note 1.1, except for Singer & Friedlander Commercial Finance Limited for which the registered office is: 8 Nelson Mandela Place, Glasgow, Scotland, G2 1BT.

Changes to the Group's subsidiaries during the year ended 31 December 2020 are as follows:

- **Centric Group Holdings Limited:** dissolved on 4 February 2020.
- **Link Loans Limited:** company status changed to dormant as of 1 January 2020.

Subsidiaries by virtue of control

As at 31 December 2020, the Group includes the following structured entities relating to securitisation programmes (see Note 15). Shares of these entities are ultimately beneficially owned through an independent trust. However, for accounting purposes, the entities are controlled by the Group and, as such, they are treated as subsidiaries and are fully consolidated.

Name	Country of incorporation	Principal activity
Shawbrook Mortgage Funding 2019-1 plc	England and Wales	Residential mortgages
Shawbrook Mortgage Funding 2019-1 Holdings Limited	England and Wales	Holding company

The registered office for the above entities is: 1 Bartholomew Lane, London, England, EC2N 2AX.

Changes to the Group's controlled structured entities during the year ended 31 December 2020 are as follows:

- In June 2020, Lanebrook Mortgage Transaction 2020-1 plc and Lanebrook Mortgage Transaction 2020-1 Holdings Limited were incorporated in relation to the Group's 2020 securitisation programme. On incorporation, for accounting purposes, the entities were assessed as being controlled by the Group and were reflected as such in the Group's Interim Financial Report. In September 2020, the securitisation transaction completed and the structure of the transaction was such that the Group no longer controlled the entities. Accordingly, they are treated as unconsolidated structured entities from this point (see Note 15).

38. Related party transactions

Transactions with key management personnel

Key management personnel refer to the Executive Management team and the Directors of the Group.

Total compensation for employed key management personnel for the year is as follows:

	2020 £m	2019 £m
Short-term employee benefits	**5.2**	5.8
Other long-term benefits	**0.1**	0.2
Termination benefits	**–**	0.4
Total compensation for employed key management personnel	**5.3**	6.4

In addition to the above, in the year ended 31 December 2020, the Group incurred fees in relation to the Institutional Directors appointed to the Board by the ultimate parent company, as set out and agreed within the Framework Agreement, totalling £0.1 million (2019: £0.1 million). The institutional Directors are not employed by the Group and their fees are not included in the above table.

Further details of compensation paid to the Directors of the Group are provided in the Directors' Remuneration Report on page 83.

The Group provides employee loans to certain key management personnel. These loans are subject to interest in accordance with the beneficial loan arrangements rate set by HMRC. The loans do not involve more than the normal risk of collectability or present other unfavourable features. As at 31 December 2020, the amount outstanding in respect of these loans is £0.7 million (2019: £0.4 million). Interest income recognised in respect of these loans is less than £0.1 million in both reported years. No provisions have been recognised in respect of these loans and no balances have been written off or forgiven during either of the reported years.

The Group also holds savings deposits from certain key management personnel and their close family members. Such deposits are held in the ordinary course of business on normal commercial terms. As at 31 December 2020, the amount held in respect of these deposits is £0.2 million (2019: £0.3 million). Interest expense recognised in respect of these deposits is less than £0.1 million in both reported years.

Transactions with the ultimate parent

The ultimate parent and controlling party of the Group is detailed in Note 36.

As at 31 December 2020, the balance owed to Marlin Bidco Limited is £0.8 million (2019: £0.8 million).

In both reported years, certain employees, including key management personnel, have acquired non-voting 'B' Class ordinary shares in Marlin Bidco Limited as part of an employee share-based payment scheme, as detailed in Note 9.

Transactions with the associate

Details of the Group's associate are provided in Note 21.

As at 31 December 2020, the balance owed to the associate is £0.1 million (2019: £0.1 million).

In the year ended 31 December 2020, the Group incurred £4.3 million of commission and servicing fees in relation to the associate (2019: £4.0 million).

Transactions between the Company and subsidiary companies

Subsidiary companies of the Group are detailed in Note 37.

Amounts due to the Company from its principal subsidiary, Shawbrook Bank Limited, and recognised in the Company statement of financial position, are as follows:

	Note	**2020 £m**	2019 £m
Other amounts receivable	22	**0.5**	0.9
Subordinated debt	31	**96.8**	96.4
Capital securities	33	**125.0**	125.0
Total amounts due from subsidiary		**222.3**	222.3

Transactions during the year between the Company and Shawbrook Bank Limited, recognised in the Company statement of profit and loss, are as follows:

	2020 £m	2019 £m
Coupon on capital securities	**9.8**	9.8
Interest on subordinated debt	**7.8**	6.7
Management fee	**0.9**	0.1
Total income from subsidiary	**18.5**	16.6

39. Capital commitments

The Group's capital commitments as at 31 December 2020 are £nil (2019: £nil).

40. Contingent liabilities

See accounting policies in Note 1.7(y)

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 which 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 of the CCA, in relation to any misrepresentations or breaches of contract 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 that recourse would have limited value.

During the year ended 31 December 2020, the Group's Consumer Lending division has seen an increase in the number of customer complaints relating to the provision of solar panels by certain solvent suppliers. These complaints relate either to the quality of the panels, or to representations allegedly made by suppliers as to the expected financial performance of the panels, and the Group investigates each complaint on its individual merit. However at this time, the Group believes the provision calculated in Note 27 is adequate and considers the appropriate recourse to the solvent suppliers for customer redress.

41. Financial guarantee contracts and loan commitments

See accounting policies in Note 1.7(z)

Financial guarantee contracts

As at 31 December 2020, the Group has no financial guarantee contracts.

As at 31 December 2019, the Group had one financial guarantee contract in place amounting to £2.5 million. The contract was a continuous obligation which could be terminated by the Group on giving three months written notice. The loss allowance for the financial guarantee contract was £nil, because the contract was fully collateralised through a first fixed charge over a blocked deposit account. As such, the amount the Group would have had to pay should the guarantee have been called upon was £nil.

Loan commitments

As at 31 December 2020, the Group has loan commitments, which are not recognised in the statement of financial position, of £1,088.7 million (2019: £591.5 million).

A loss allowance of £3.2 million (2019: £1.0 million) is held against these loan commitments, which is recognised in provisions for liabilities and charges in the statement of financial position (see Note 27).

Additional analysis of the Group's loan commitments and the associated loss allowance is provided in the creditworthiness risk section of the Risk Report on page 127.

42. Country by country reporting

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 Capital Requirements Directive (CRD V). The purpose is to provide increased transparency regarding the source of the Group's income and the locations of its operations.

In the year ended 31 December 2020, Shawbrook Group plc and its subsidiaries are all UK registered entities. In the year ended 31 December 2019, the Group also had one subsidiary, Shawbrook International Limited, that was registered in the Channel Islands. This subsidiary was disposed of in October 2019.

The activities of the Group and its subsidiaries are detailed in the Strategic Report and Note 37.

Required disclosures are summarised below:

	2020	2019
Net operating income (£m)	**282.6**	295.1
Profit before tax (£m)	**73.5**	122.4
Tax charge (£m)	**15.4**	28.8
Tax paid (£m)	**16.8**	28.7
Average number of employees on a full-time equivalent basis	**811**	814

The Group received no public subsidies during the year (2019: £nil).

43. Events after the reporting period

With the exception of the transactions outlined below, there have been no other significant events between 31 December 2020 and the date of approval of the 2020 Annual Report and Accounts that require a change or additional disclosure in the financial statements.

(a) Acquisition of subsidiary

On 26 February 2021, following the receipt of regulatory and legal approval, Shawbrook Bank Limited, the Group's principal subsidiary, completed the acquisition of the remaining 80.01% of shares in The Mortgage Lender Limited (TML). As a result, Shawbrook Bank Limited's equity interest in TML increased from 19.99% to 100%, making TML a wholly owned subsidiary of the Group. For details of the pre-existing investment in TML, see Note 21.

TML's principal activity is mortgage finance. Taking control of TML will strengthen the Group's presence in its core residential and buy-to-let markets, providing the Group with growth opportunities through an extended product range and increased distribution network.

The financial effects of this transaction have not been recognised as at 31 December 2020. TML will commence being consolidated as a subsidiary of the Group from 26 February 2021, the date control transferred to the Group.

The Group has provisionally determined the fair values at the date of acquisition, in accordance with the requirements of IFRS 3 'Business Combinations', for the consideration transferred, the pre-existing interest in TML, the identifiable assets acquired and liabilities assumed and the resulting goodwill arising on acquisition. The Group continues to assess these amounts, in particular the fair value of identifiable net assets acquired, to determine if any additional information existed at the date of acquisition that would alter these provisionally determined amounts. This assessment will be completed no later than 25 February 2022.

Consideration transferred

The acquisition date fair value of each major class of consideration transferred is as follows:

	£m
Cash	5.5
Loan notes	5.6
Total fair value of consideration	**11.1**

There are no contingent consideration arrangements.

Pre-existing interest in TML

The fair value of the 19.99% equity interest in TML previously held is £2.8 million, calculated proportionately based on the total consideration paid for the remaining 80.01% interest. Based on this information, an impairment is recognised in the year ended 31 December 2020 to reduce the carrying amount of the existing investment in TML as at 31 December 2020 (see Note 21).

43. Events after the reporting period continued

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

	£m
Cash and cash equivalents	2.1
Property, plant and equipment	0.7
Intangible assets	1.2
Deferred tax asset	2.4
Trade receivables	0.5
Other assets	0.2
Trade payables and other liabilities	(3.2)
Total identifiable net assets acquired	3.9

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	£m
Consideration transferred	11.1
Fair value of pre-existing 19.99% interest	2.8
Fair value of identifiable net assets	(3.9)
Goodwill recognised	10.0

The goodwill recognised is mainly attributable to the synergies expected to be achieved from integrating TML into the Group.

None of the goodwill recognised is expected to be tax deductible for trading purposes.

Acquisition related costs

Acquisition related costs of £0.9 million are recognised in administrative expenses in the statement of profit or loss in the year ended 31 December 2020 (see Note 7). Additional acquisition related costs in the year ended 31 December 2021 are not expected to be material.

(b) Capital injection from ultimate parent company

Subsequent to the acquisition of TML, TML exchanged the loan notes issued as consideration upon acquisition for shares in Marlin Bidco Limited, the ultimate parent company of the Group. This transaction is reflected as a capital injection to the Group and results in the recognition of a capital contribution reserve in equity.

Other information

Other information.

Abbreviations

bps	Basis point
CBILS	Coronavirus Business Interruption Loan Scheme
CCA	Consumer Credit Act
CET1	Common Equity Tier 1
CGU	Cash generating unit
COVID-19	Coronavirus disease
CRD V	Capital Requirements Directive V
CRR/ CRR 2	Capital Requirements Regulation
EAD	Exposure at default
EBA	European Banking Authority
ECL	Expected credit loss
EU	European Union
FCA	Financial Conduct Authority
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ISA	Individual Savings Accounts
KPI	Key performance indicator
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Inter-bank Offered Rate
MIP	Management Incentive Plan
NSFR	Net stable funding ratio
OTC	Over-the-counter
PD	Probability of default
PET/ rPET	Polyethylene terephthalate / recycled polyethylene terephthalate
PMA	Post-model adjustment
POCI	Purchased or originated credit-impaired
PRA	Prudential Regulation Authority
RMF	Risk Management Framework
SBR	Shawbrook Base Rate
SICR	Significant increase in credit risk from initial recognition
SMF	Senior Management Function
SME	Small and medium-sized enterprise
SONIA	Sterling Overnight Index Average rate
SPPI	Solely payments of principal and interest on the principal amount outstanding
TCO2e	Tonnes of carbon dioxide equivalent
TML	The Mortgage Lender Limited
TFSME	Term Funding Scheme with additional incentives for SMEs
UK	United Kingdom

'Company' refers to: Shawbrook Group plc

'Group' refers to: the Company and its subsidiaries

'Bank' refers to: Shawbrook Bank Limited

'Shareholder' refers to: Marlin Bidco Limited

Key performance indicators

Certain financial measures disclosed in the Annual Report and Accounts do not have a standardised meaning prescribed by IFRS and may not therefore be comparable to similar measures presented by other issuers. These measures are deemed to be 'alternative performance measures'. Definitions of the Group's key performance indicators (in alphabetical order) are set out below:

Average principal employed	The average of monthly closing loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and assets on operating leases included in property, plant and equipment.
Common Equity Tier 1 (CET1) capital ratio	Common Equity Tier 1 capital, divided by, risk-weighted assets.
Cost of risk	Impairment losses on financial instruments, divided by, average principal employed.
Cost to income ratio	The sum of administrative expenses and provisions for liabilities and charges, divided by, net operating income.
Gross asset yield	Net operating income less interest expense and similar charges, divided by, average principal employed.
Leverage ratio	Total Tier 1 capital, divided by, total leverage ratio exposure measure. Total leverage ratio exposure measure is total assets excluding derivatives and intangible assets, and adjusted for off-balance sheet items such as pipeline and undrawn collateral, exposure value for derivatives and transitional adjustments[2].
Liability yield	Interest expense and similar charges, divided by, average principal employed.
Liquidity coverage ratio	Liquidity buffer, divided by, total 30-day net cash outflows in a standardised stress scenario.
Liquidity ratio	The sum of unencumbered cash and balances at central banks and unencumbered investment securities, divided by, customer deposits.
Loan book	The sum of loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and the carrying amount of assets on operating leases included in property, plant and equipment.
Management expenses ratio	The sum of administrative expenses and provisions for liabilities and charges, divided by, average principal employed.
Net interest margin	Net operating income, divided by, average principal employed.
Return on lending assets before tax	Profit before tax, divided by, average principal employed.
Return on tangible equity	Profit after tax (adjusted to deduct distributions made to holders of capital securities), divided by, average tangible equity. Average tangible equity is calculated as, total equity less capital securities and intangible assets at the beginning of the period, plus total equity less capital securities and intangible assets at the end of the period, divided by two.
Risk-weighted assets	A measure of assets adjusted for their associated risks. Risk weightings are established in accordance with Prudential Regulation Authority rules and are used to assess capital requirements and adequacy under Pillar 1.
Stock cost of retail deposits	The weighted average interest rate on the Group's retail deposits at the respective reporting date.
Total capital ratio	Total regulatory capital, divided by, risk-weighted assets.
Total Tier 1 capital ratio	Total Tier 1 capital, divided by, risk-weighted assets.
Wholesale funding	The sum of amounts due to banks and debt securities in issue.

1 For the purpose of this KPI calculation, loans and advances to customers includes loans transferred to assets held for sale, as they are still considered to be part of the Group's overall loan book until derecognised.

2 Transitional adjustments refer to adjustments for phasing in the impact of IFRS 9 'Financial Instruments' adoption in accordance with EU regulatory transitional arrangements.

Shawbrook Bank

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