SHAWBROOK BANK

SHAWBROOK GROUP PLC

PILLAR 3 DISCLOSURES

31 DECEMBER 2015

CONTENTS

1 Introduction 3
1.1 Overview 3
1.2 Disclosure policy 3
1.3 Scope 3
1.4 Relevant Changes 3
1.5 Summary of key capital ratios and risk management 3
2 Risk Governance & Committee Structure 4
2.1 Group Board 5
2.2 Board Remuneration Committee (REMCO) 5
2.3 Board Nomination Committee (NOMCO) 5
2.4 Board Audit Committee (BAC) 6
2.5 Board Risk Committee (BRC) 6
2.6 Disclosure Committee (DISCO) 6
2.7 Group Executive Committee (ExCo) 6
2.8 Asset and Liability Committee (ALCO) 6
2.9 Group Credit Committee (GCC) 6
2.10 Group Product and Pricing Committee (GPPC) 6
2.11 Credit Approval Committee (CAC) 6
2.12 Conduct & Operational Risk Committee (CORC) 6
2.13 Change Management Committee (CMC) 6
2.14 Governance Arrangements 7
3 Risk Management 8
3.1 An overview of risk management in the Group 8
3.2 Risk Management Framework 8
3.3 The Risk Management Strategy 8
3.4 Risk Appetite Statement 9
3.5 Risk Policies 9
3.6 Risk governance 9
3.6.1 First Line of Defence 10
3.6.2 Second Line of Defence 11
3.6.3 Third Line of Defence 12
3.6.4 Stress Testing 12
4 Risk Categories 13
4.1 Credit Risk 13
4.1.1 Commercial Mortgages 13
4.1.2 Secured Lending 13
4.1.3 Asset Finance 14
4.1.4 Business Credit 15
4.1.5 Consumer Lending 15
4.1.6 Credit risk exposures 16
4.1.7 Non-performing Loans and provisioning 17
4.2 Credit risk mitigation 19
4.3 Treasury counterparty credit risk 21
4.4 Liquidity Risk 22
4.4.1 Liquidity Ratios 22
4.4.2 Key Liquidity Risks 22
4.4.3 Asset Encumbrance 23
4.5 Operational Risk 24
4.5.1 Operational risk 24
4.5.2 Regulatory risk 24
4.5.3 Reputational risk 24
4.5.4 Taxation risk 24
4.6 Strategy Risk 24
4.7 Systems and Change Risk 24
4.8 Market Risk 25
4.8.1 Interest rate risk 25
4.8.2 Basis risk 25
4.8.3 Interest rate sensitivity gap 25
4.9 Concentration Risk 25
4.10 Pension obligation risk 25
4.11 Stress Testing 25
5 Capital management 26
5.1 Capital management 26
5.1.1 Capital developments during 2015 26
5.1.2 Capital composition 26
5.1.3 Flow statement for regulatory capital 27
5.1.4 Tier 1 Capital 27
5.1.5 Tier 2 Capital 27
5.1.6 Reconciliation of statutory equity to regulatory capital 27
5.1.7 Minimum capital requirement: Pillar 1 28
5.1.8 Countercyclical Capital Buffer 28
5.2 Leverage ratio 28
6 Remuneration 30
6.1 Approach to remuneration 30
6.2 Remuneration committee (Remco) 30
6.3 Remuneration policy and structure: link between pay and performance 30
6.4 Remuneration for code staff 32
7 Appendices 33
7.1 Appendix 1 – Disclosures for Shawbrook Bank Ltd 33
7.2 Appendix 2 – Main features of regulatory instruments 37
7.3 Appendix 3 – Asset encumbrance based on the requirement in CRD IV and the related guidance issued by the European Banking Authority in June 2014 38
7.4 Appendix 4 – Own funds disclosure 39
8 Glossary of Terms 40

1 INTRODUCTION

1.1 OVERVIEW

This document presents the consolidated Pillar 3 disclosures of the Group, as at 31 December 2015 in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD IV) which came into force on 1st January 2014. In particular, it describes the Group's capital adequacy, its risk assessment methods and information on the management of risks faced by the Group. This document should be read in conjunction with the Group's 2015 Annual Report and Accounts.

The disclosures largely follow the same format as the 2014 disclosures, with the following changes and enhancements:

- Section 5.1.8 shows the disclosure of information in relation to the calculation of the countercyclical Buffer, in accordance with Regulation EU 2015/1555; and
- Section 5.2 shows the calculation of the leverage ratio in the template set out in Implementing Technical Standard EBA/ITS/2014/04/rev1.

1.2 DISCLOSURE POLICY

The Pillar 3 disclosures in this document relate to the Group, with the exception of Appendix 1 which contains the disclosures required for Shawbrook Bank Limited ("the Bank") (PRA firm reference number 204574) the Group's principal subsidiary.

There is a requirement to calculate and maintain regulatory capital ratios on both a Group basis and on an Individual basis for the Bank. There are no differences between the basis of consolidation of the Group for accounting and prudential purposes. All of the Group's subsidiary undertakings are included in the data provided in the Pillar 3 disclosures. Full details of the Group's subsidiaries are provided in Note 31 to the Annual Report and Accounts.

Capital requirements are calculated on both a Group and Bank basis. The Group's capital resources are presented in Section 5 of this document and the Bank's capital resources are presented in Appendix 1 to this document.

The Pillar 3 disclosures are published annually, concurrently with the Annual Report and Accounts. In accordance with regulatory guidelines, the frequency of disclosure will be reviewed should there be any material change in any approach used for the calculation of capital, business structure (e.g. scale of operations, range of activities or involvement in different financial sectors) or regulatory requirements.

The description of the Group's governance, methods and processes reflects the situation at 31 December 2015.

The data contained in the Group's Pillar 3 disclosures are calculated in accordance with CRD IV regulatory capital requirements.

These disclosures have been subject to internal verification and have been reviewed by the Group's Board Audit Committee, and are published on the Group's corporate website www.shawbrook.co.uk.

These disclosures have not been externally audited and do not constitute any part of the Group's financial statements; however some of the information within the disclosures also appears in the Annual Report and Accounts.

1.3 SCOPE

The new Capital Requirements Regulation and amended Capital Requirements Directive have implemented Basel III within the EU (collectively known as CRD IV) with effect from 1 January 2014 and which is enforced in the UK, together with the local implementing rules and guidance, by the PRA. CRD IV sets out a framework of regulatory capital requirements.

The framework categorises the capital and prudential requirements under 3 pillars:

- Pillar 1: defines the minimum capital requirements that firms are required to hold for credit, market and operational risks. The Pillar 1 capital requirement is calculated for the Group using the following approach:
  - Credit Risk – Standardised Approach
  - Operational Risk – Basic Indicator Approach
  - Market Risk – Standardised Approach
- Pillar 2: builds on Pillar 1 and incorporates the Group's own assessment of additional capital resources needed in order to cover specific risks that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its SREP and is used to determine the overall capital resources required by the Group.
- Pillar 3: is to improve market discipline by requiring firms to publish information on their principal risks, capital structure and risk management.

All figures within this document are correct as at 31 December 2015 unless otherwise stated.

This document is applicable to Shawbrook Group plc and the Pillar 3 disclosures comprise all information required under Pillar 3 in the UK, both quantitative and qualitative, and are prepared at the Shawbrook Group plc consolidated level. Where disclosure has been withheld as proprietary or non-material, as the rules permit, we comment as appropriate. The PRA also allows certain Pillar 3 requirements to be met by inclusion within the Group's financial statements. Where disclosure requirements have been met by publication in the Annual Report and Accounts, we have cross-referred to the relevant section in this document.

The scope of consolidation used in this report is that used for statutory accounting reporting for the Group's activities.

1.4 RELEVANT CHANGES

Regulatory Changes

CRD IV introduced disclosure requirements relating to risk management, corporate governance, capital resources, unencumbered assets and leverage. The Group has allocated specific resource to identify future regulatory change and to develop the Group's regulatory compliance framework to meet this change.

The BCBS published revised Pillar 3 disclosure standards in January 2015. These new disclosures are expected to apply to the Group's 31 December 2016 Pillar 3 disclosures.

Shawbrook Listing on the London Stock Exchange

On 8 April 2015 Shawbrook Group plc.'s shares listed on the Main Market of the London Stock Exchange following a successful Initial Public Offering (IPO) raising £90m (£82m post expenses) of gross primary proceeds to support the Group's capital position and future growth.

The Group was admitted to the FTSE 250 on 22 June 2015.

1.5 SUMMARY OF KEY CAPITAL RATIOS AND RISK MANAGEMENT

The key capital ratios under CRD IV for the Group are presented below:

	2015	2014
Common Equity Tier 1 (CET1) ratio	**14.4%**	11.6%
Total capital ratio	**18.0%**	13.9%
Risk weighted assets (£m)	**2,174.6**	1,461.0
Leverage ratio	**7.0%**	6.3%

The monitoring and controlling of risk is a fundamental part of the management process. All senior management are involved in the development and implementation of a Risk Management Framework and in monitoring its application.

An overview of our key financial data can be found on the 'Results and Reports' section of our website www.shawbrook.co.uk.

2 RISK GOVERNANCE & COMMITTEE STRUCTURE

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

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

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

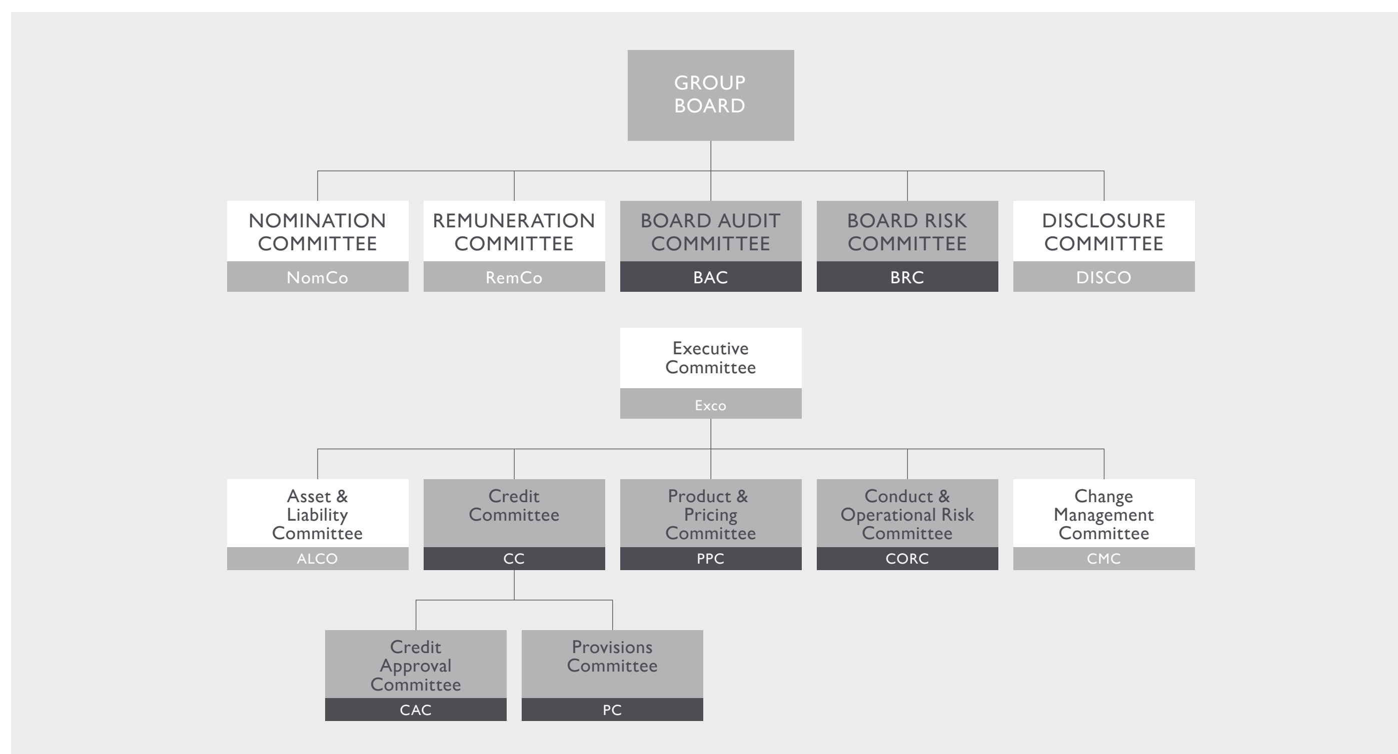
Authority and responsibility for material operational risk management, decision making and risk assurance is vested in the CRO and the Group Risk function. Lesser levels of authority are cascaded to the Senior Management within the support functions and Business Divisions.

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

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

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

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



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

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

2.1 GROUP BOARD

The Board has ultimate responsibility for ensuring the Group is managed effectively and in the best interests of the shareholders, customers and employees and other stakeholders (including regulators). The Board meets regularly and provides direction, oversight and a detailed review and challenge of the Group's businesses.

The Board is responsible for managing the risk strategy of the Group, specifically the following risk management objectives:

- Identify material risks arising in the day to day activities and operations of the Group;
- Quantify the risks attaching to the execution of the Group's business plans;
- Set an appropriate Risk Appetite with calibrated measures and tolerance levels;
- Optimise the risk/reward characteristics of business written;
- Set minimum standards in relation to the acquisition, incurrence and management of risk;
- Secure and organise the required level and capability of risk infrastructure and resources;
- Undertake remedial action where any weaknesses are identified; and
- Scan the external horizon for emerging risks.

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

2.2 BOARD REMUNERATION COMMITTEE (REMCO)

The Remuneration Committee has responsibility for determination of specific remuneration packages for each of the Chairman, the Executive Directors and certain senior executives of the Group, including pension rights and any compensation payments, and recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share option, or other performance-related schemes.

The Remuneration Committee comprises the Chairman of the Board, Iain Cornish and two other independent Non-Executive Directors, Graham Alcock and Robin Ashton. The Remuneration Committee is chaired by Graham Alcock.

2.3 BOARD NOMINATION COMMITTEE (NOMCO)

The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary.

The Nomination Committee comprises the Chairman of the Board and two other independent Non-Executive Directors (Graham Alcock and Robin Ashton).

2.4 BOARD AUDIT COMMITTEE (BAC)

The BAC has responsibility for, among other things, the monitoring of the integrity of the financial statements of the Group and the involvement of the Group's auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. The BAC is responsible for reviewing the adequacy and security of the Group's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters. The Chairman of the BAC is the Group's Whistleblowing Champion.

The BAC comprises four members who are independent Non-Executive Directors (Robin Ashton, Graham Alcock, Paul Lawrence and Roger Lovering). The BAC is chaired by Roger Lovering.

2.5 BOARD RISK COMMITTEE (BRC)

The BRC has responsibility for, among other things, advising the Board on the Group's overall Risk Appetite and strategy. The Risk Committee will review the Bank's risk assessment processes and methodology and its capability for identifying and managing new risk, alongside advising on proposed transactions and reviewing reports on material breaches of risk limits.

The BRC comprises four members who are independent Non-Executive Directors (Robin Ashton, Graham Alcock, Paul Lawrence and Roger Lovering). The BRC is chaired by Paul Lawrence. The Chief Risk Officer (CRO) reports independently to the Non-Executive Chairman of the BRC, as well as to the CEO.

2.6 DISCLOSURE COMMITTEE (DISCO)

The Disclosure Committee is made up of the Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary and the other Senior Managers. The Disclosure Committee will meet at such times as may be necessary or appropriate.

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

2.7 GROUP EXECUTIVE COMMITTEE (EXCO)

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

2.8 ASSET AND LIABILITY COMMITTEE (ALCO)

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

The Asset and Liability Committee meets monthly and is chaired by the Chief Financial Officer or the Chief Executive Officer as his alternate, with the other members comprising the Chief Risk Officer, the divisional Managing Directors, the Group Treasurer, the Managing Director of Savings and Outsourced Services and the Head of Market and Liquidity Risk.

Optional attendees are representatives from the Group's business units who are requested to attend for specific items or to make presentations.

2.9 GROUP CREDIT COMMITTEE (GCC)

The Group Credit Committee reviews arrears management and provisioning policy, as well as detailed portfolio monitoring reports to ensure the performance and quality of credit portfolios across each individual business division remains within agreed Risk Appetite limits.

The Group Credit Committee meets monthly and is chaired by the Chief Risk Officer, with the other members comprising the Chief Executive Officer, Chief Financial Officer, Head of Credit Risk, and divisional Managing Directors (or the division's Head of Risk as an alternate). Optional attendees are the major shareholder, a Non-Executive Director and the divisional Heads of Lending/Credit Directors (only as required to present specific agenda items).

2.10 GROUP PRODUCT AND PRICING COMMITTEE (GPPC)

The Group Product and Pricing Committee is responsible for sanctioning changes to existing lending products together with all new lending products.

The Group Product and Pricing Committee meets monthly and is chaired by the Chief Executive Officer, with the other members comprising the Chief Risk Officer, Chief Financial Officer, and the divisional Managing Directors (or the division's Head of Risk as an alternate). Optional attendees are the major shareholder, a Non-Executive Director, the Head of Credit Risk, the Head of Conduct and Compliance Risk, the Head of Business Planning and Analysis, the General Counsel and the Head of Operations.

2.11 CREDIT APPROVAL COMMITTEE (CAC)

The Credit Approval Committee considers and approves individual credit proposals submitted by the business units of the Group which fall outside their permitted delegated lending authority. As at 31 December 2015 this is a sub-committee of the Group Credit Committee.

The Credit Approval Committee is convened twice weekly, or as required from time to time and is chaired by the Chief Executive Officer, with the other members comprising the Chief Risk Officer, Chief Financial Officer, head of Credit Risk and the divisional Managing Directors (or the division's Head of Risk as an alternate).

2.12 CONDUCT & OPERATIONAL RISK COMMITTEE (CORC)

The Conduct and Operational Risk Committee provides a forum to review, assess and respond to conduct risks affecting the Group, which include all regulatory, compliance and operational risks.

The Conduct and Operational Risk Committee meets monthly and is chaired by the Chief Risk Officer, with the other members comprising any Executive Director of the Group, including but not limited to the Chief Executive Officer and Chief Financial Officer, the Head of Conduct Risk and Compliance, the Legal Director and Company Secretary, the divisional Managing Directors, the Human Resources Director and the IT Director. Optional attendees are a Non-Executive Director, the Head of Operational Risk, the Compliance Manager and the major shareholder.

2.13 CHANGE MANAGEMENT COMMITTEE (CMC)

This is a sub-committee of ExCo which meets monthly. Prioritising and tracking status across all change projects to ensure timely delivery to agreed scope and cost (budget), it is chaired by the Chief Financial Officer and is attended by ExCo members.

2.14 GOVERNANCE ARRANGEMENTS

Details of the governance structure in place for the Group as at 31 December 2015 are provided above and in the Annual Report and Accounts.

Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2015 in addition to their roles within the Group were:

Name	Position	Directorships/ partnerships
Iain Cornish*	Chairman and Non-Executive DIrector, Chairman of the Nomination Committee, Member of the Remuneration Committee	2
Steve Pateman**	Chief Executive Officer	-
Tom Wood***	Chief Financial Officer	-
Stephen Johnson	Deputy Chief Executive Officer and Managing Director Commercial Mortgages	-
Robin Ashton	Senior Independent Director, Member of the Audit Committee, Member of the Nomination Committee, Member of the Risk Committee, Member of the Remuneration Committee	2
Graham Alcock	Independent Non-Executive Director, Chairman of the Remuneration Committee, Member of the Audit Committee, Member of the Nomination Committee, Member of the Risk Committee	-
David Gagie	Independent Non-Executive Director	3
Sally-Ann Hibberd	Independent Non-Executive Director	2
Paul Lawrence	Independent Non-Executive Director, Chairman of the Risk Committee and Member of the Audit Committee	–
Roger Lovering	Independent Non-Executive Director, Chairman of the Audit Committee	3
Lindsey McMurray	Non-Executive Director	6

The number of directorships shown excludes the Group.

* On 6 July 2015 Sir George Matthewson resigned from the Board following the successful IPO and Iain Cornish was appointed as Chairman.

** Richard Pyman resigned from the Board on 2 October 2015 and Steve Pateman was appointed as Chief Executive Officer on 1 January 2016 .

*** Tom Wood was appointed as Interim Chief Executive. This appointment was to cover for Richard Pyman who took absence of leave due to ill health on 21 May and who subsequently resigned on 2 October 2015.

On 1 January 2016 Steve Pateman was appointed Chief Executive and David Gagie was appointed a Non-Executive Director of the Group.

Board Recruitment

The Board has delegated power and authority to the Nomination Committee for considering and making recommendations to the Board in respect of appointments to the Board and Board Committees. The Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

Before appointment is made to the Board, an evaluation is carried out of the balance of skills, knowledge and experience on the Board. The Remuneration Committee will seek to attract candidates from a range of backgrounds, assessing candidates on merit against objective criteria including regulatory standards.

RemCo has responsibility for determining the remuneration (including benefits package) of each of the Executive Directors. No Director or Senior Manager is involved in any decisions as to their own remuneration.

Board Diversity

We are committed to diversity and the Board work hard to ensure that all of our people are offered equal opportunities throughout their careers. We are determined that nobody is discriminated against, directly or indirectly, on the basis of age, ethnic or national origin, religion or beliefs, sexual orientation, gender, marital status or disability. This commitment applies equally to members of the Board.

3 RISK MANAGEMENT

3.1 AN OVERVIEW OF RISK MANAGEMENT IN THE GROUP

The Group's risk management strategy is set independently from but in line with the Board approved business strategy. The Risk Management Framework starts with the overall risk strategy, from which the Risk Appetite Statement ("RAS") is derived. Overarching Group-wide risk policies and controls are put in place to establish the required minimum standards and ensure a consistent approach. In particular, a matrix of approved delegated lending authorities is cascaded across the Group. The various business units and functions develop their individual risk management policies, procedures and controls, which are reviewed and approved through the Risk Committee structure. Compliance with the elements of the Risk Management Framework is monitored and tested periodically via a risk assurance programme undertaken by the Group Risk Function.

Risk culture is fundamental to risk management and as such our culture is open and risk aware. Board and Management decisions are made with risk considerations at the forefront and colleagues are encouraged to highlight and address risk issues promptly. Responsibilities for risk management are articulated in all job descriptions and performance reviews. The whistleblowing process will protect colleagues who bring information to light.

During 2015 the Group continued to invest in its Risk Management Framework. The aim of the investment was to ensure that the Group's Risk Management Framework remains comprehensive, consistent and scalable to support the Group in achieving its objectives. This work is on-going into 2016 with particular emphasis on embedding some of the enhanced capability across the Group's operations.

The management consider that the Group has in place adequate systems and controls with regard to the Group's profile and strategy and continues to invest to ensure that it remains effective to support the Group in the delivery of its objectives.

3.2 RISK MANAGEMENT FRAMEWORK

The Risk Management Framework of the Group is underpinned by the following four principles and is illustrated in the table below:

1. The Board sets the RAS based on business and risk strategy;
2. The operational functions carry out the Board's strategy, operating within the stated RAS;
3. The Group Risk Function identifies, measures, manages, monitors, reports and challenges the risk activities of the business divisions and support functions. It reports to the Board on the Group's compliance with its RAS and overall risk management policy framework; and
4. The Group Risk Function, led by the Chief Risk Officer (CRO), is at all times outside the influence of the operational and support functions, reporting to the Chairman of the Board Risk Committee, and also to the CEO. The CRO carries veto rights in the New Product Approval Process. The CRO also has unfettered access to the Chairman, with regular meetings diarised.

Risks	Credit & Concentration Risk	Market & Liquidity Risk	Operational Risk	Conduct, Legal & Compliance Risk	Strategy Risk	Systems and Change Risk
Policies	• Credit Policy • Lending Policies • Underwriting • Delegated Lending Authorities	• Market Risk Policy • Liquidity Policy • Contingency Funding Plan • Treasury Investment and Hedging Policy • Treasury Counterparty Risk and Large Exposure Policy	• Operational Risk Strategy, Policy, Appetite & Framework • Information Security Policy • Data security	• Compliance Manual & Policy • Conduct Risk Policy	• Strategic Plan • Project Governance	• Project Governance
Monitor	• Group Credit Committee • Credit Approval Committee • Group Product & Pricing Committee • Business Division • Management Meetings	• Asset and Liability Committee • Weekly Liquidity Meeting	• Conduct & Risk Committee	• Conduct & Risk Committee • Business Division • Management Meetings • Compliance Monitoring	• Executive Committee • Business Divisions • Management Meetings	• Change Management Meetings • Project Register
Measurement	• Management Information Packs	• ALCO Reports • Weekly and Daily Reports	• Operational Risk Register (Risk Control Self-Assessment) • Risk Event Logs • Control Self Certification	• Management Information Packs • Conduct Risk Register • Breach Register	• Management Information Packs • Strategic Risk Register	• Change Management Prioritisation

3.3 THE RISK MANAGEMENT STRATEGY

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

The strategic risk management objectives are:
- Identify material risks arising in the day to day activities and operations of the Group;
- Quantify the risks attaching to the execution of the Group's business plans;
- Set an appropriate Risk Appetite with calibrated measures and tolerance levels;
- Optimise the risk/reward characteristics of business written;
- Set minimum standards in relation to the acquisition, incurrence and management of risk;
- Secure and organise the required level and capability of risk infrastructure and resources;
- Undertake remedial action where any weaknesses are identified; and
- Scan the external horizon for emerging risks.

3.4 RISK APPETITE STATEMENT

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

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

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

The Board undertook a detailed review and update of its Risk Appetite Statement during 2015. The RAS identifies 4 groups of risk appetite objectives which are further subdivided into 19 appetite dimensions as set out diagrammatically below. A suite of qualitative statements and quantitative measures have been set for each dimension, with hard risk limits calibrated by reference to absolute capacity, maximum risk tolerance and a threshold trigger level.

Risk Appetite Statement Objectives and Dimensions

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

These statements are supported by specific metrics presented in a Group-level RAS Dashboard. This includes both backward and forward looking metrics. Each metric is calibrated to a Red-Amber-Yellow-Green status within a dashboard indicating how acceptable each outcome is.

The specific thresholds are calibrated with due regard to both the business and the external environment, taking into account stress test and scenario events that may affect each measure. The suitability of the metrics and of the corresponding calibration is subject to regular review by the Risk Function.

The Executive Committee and Board review the Risk Appetite as part of the Group's governance process.

3.5 RISK POLICIES

The Risk Management Framework is enacted through a series of policies, setting out the intent to manage each of the major risks identified. Adherence to policy is monitored by management and through a variety of formal governance processes. Performance is measured and reported to the relevant risk committees, with any material risks reported to the Board on a monthly basis.

The policy framework is aligned to the Risk Appetite Statement for each risk category. Policies are reviewed annually and any gaps identified that require a new or updated policy. Quality assurance and quality control programmes plus comprehensive use of event logs help identify policy or procedure gaps.

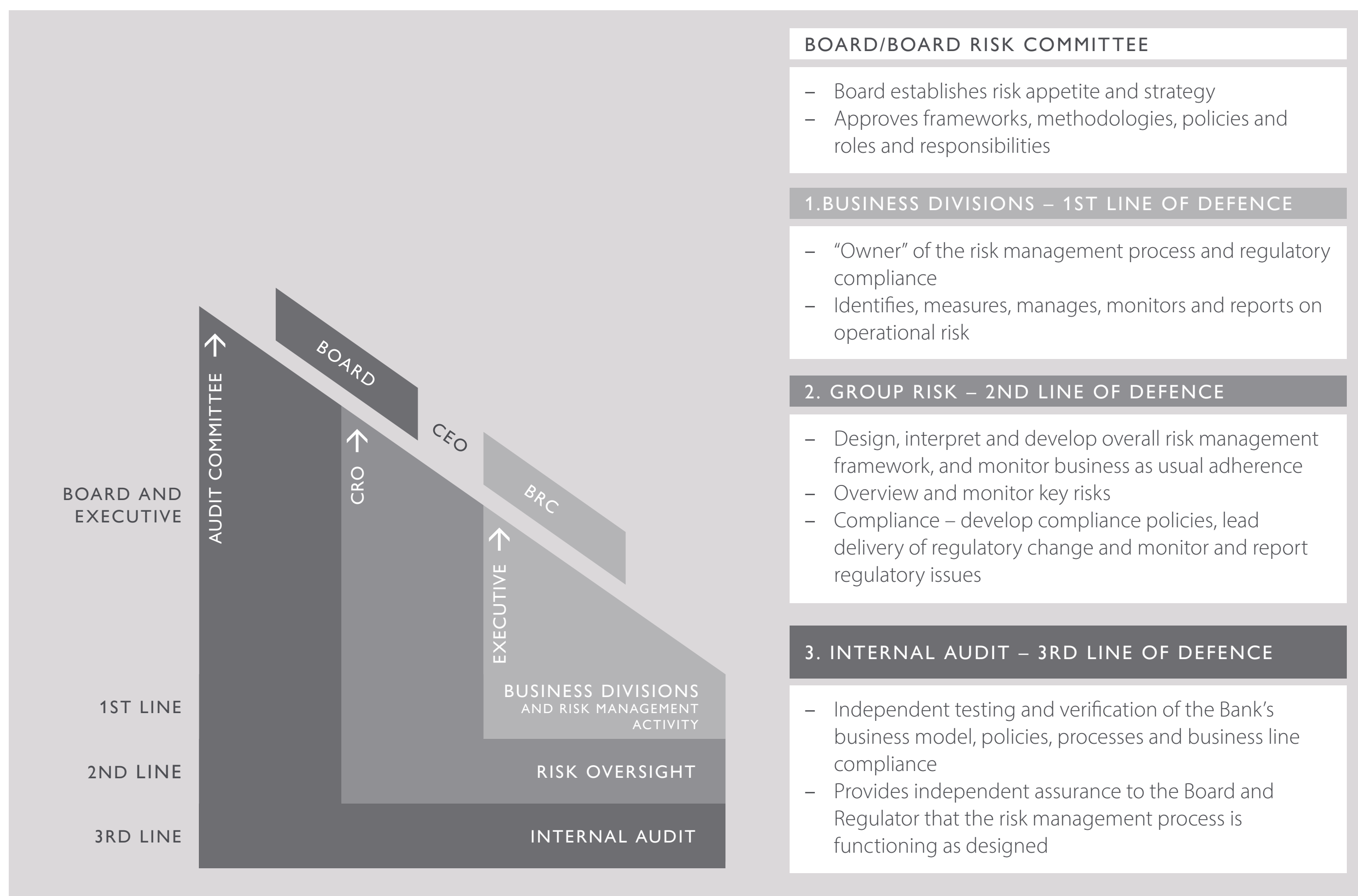
3.6 RISK GOVERNANCE

Risk is governed by the Board, Executive Management and relevant risk committees. The responsibilities of Board committees can be found on pages 5 to 6. The Group's risk management uses a Three Lines of Defence model.

The Three Lines of Defence

The "Three Lines of Defence" risk management model adopted by the Group envisages a purposeful role for each Line of Defence. All three Lines of Defence are responsible for risk management in their own ways. The model is not complete unless all three are functioning and adequately resourced. In ensuring that the Three Lines of Defence model operates effectively the Group recognises the importance of ensuring that the Group's strategy is

integrated within business practice. Governance with regard to this is provided through the Board and the various risk committees, including the Board Risk Committee and the Executive Committee. In these forums all of the risks presented across the Group are considered to ensure that the correct areas of focus are prioritised across the Three Lines of Defence as summarised below.



BOARD/BOARD RISK COMMITTEE

- Board establishes risk appetite and strategy
- Approves frameworks, methodologies, policies and roles and responsibilities

1.BUSINESS DIVISIONS – 1ST LINE OF DEFENCE

- "Owner" of the risk management process and regulatory compliance
- Identifies, measures, manages, monitors and reports on operational risk

2. GROUP RISK – 2ND LINE OF DEFENCE

- Design, interpret and develop overall risk management framework, and monitor business as usual adherence
- Overview and monitor key risks
- Compliance – develop compliance policies, lead delivery of regulatory change and monitor and report regulatory issues

3. INTERNAL AUDIT – 3RD LINE OF DEFENCE

- Independent testing and verification of the Bank's business model, policies, processes and business line compliance
- Provides independent assurance to the Board and Regulator that the risk management process is functioning as designed

3.6.1 First Line of Defence

Responsibility for risk management resides in the front line business Divisions and functions, and line management are directly accountable for identifying and managing the risks that arise in their business or functional area. They are required to establish effective controls in line with 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 5 Lending Divisions and the Retail Savings business. The First Line of Defence also includes the Treasury Function. Elements of the support functions such as Finance, Human Resources and Information Technology are also in the First Line of Defence as, although they are not customer facing themselves, they provide support and back-up to the customer facing divisions and have insight into many operational factors that could ultimately impact on Group's exposure to market, liquidity, credit, regulatory, legal, conduct, compliance and operational risk.

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

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

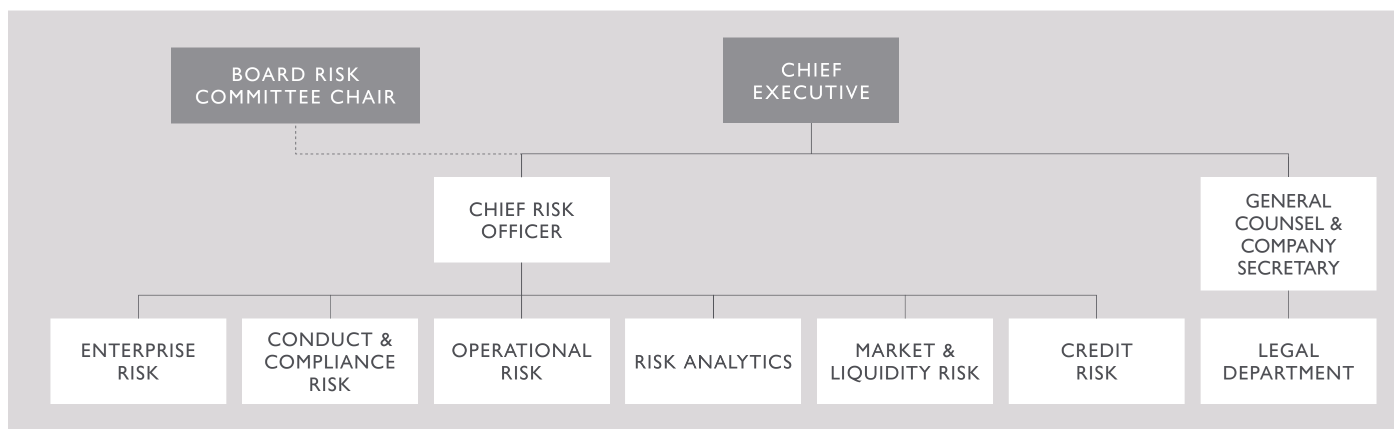
3.6.2 Second Line of Defence

The Second Line of Defence performs the Group's risk management and compliance function. It is responsible for communicating the risk strategy, risk framework and Board's stated RAS to the First Line of Defence and also for defining its relevance and meaning to the customer facing business units. It independently monitors the Group's activities against the Board's Risk Appetite and limits, ensures provision and maintenance of policies, frameworks, principles, training, tools and analysis (in line with industry good practice) and performs stress testing to assess the Group's risk exposures and its contingency arrangements under a range of adverse environments.

The Second Line of Defence is necessarily not customer-facing. The principal functions concerned with the Second Line of Defence are Enterprise Risk, Credit, Market & Liquidity, Legal & Regulatory, Operational and Conduct & Compliance Risk. In conjunction with Group Risk Analytics, these functions measure, monitor and review the activities of the First Line of Defence. They are responsible, together with the First Line of Defence, for preparing reports and analysis of risks associated with each activity.

The Second Line of Defence is led by the Chief Risk Officer, who reports to the Chairman of the Board Risk Committee and to the CEO. The Legal Director & Company Secretary (who is also the MLRO) reports to the CEO.

The Risk function organisation structure is presented below:



Both First and Second Line risk functions perform their own independent analysis of risk, reporting to the Group's Board through the Executive Committees and Board Sub Committees. The CRO and the Legal Director, who is also Company Secretary, attend the Group Executive Committee, Board and other committees and management meetings as appropriate.

The Second Line of Defence does not have volume or sales targets, which are specifically excluded from its objectives. The Second Line has, at any time, the right to review business unit activity at a portfolio or individual account level. The Second Line of Defence also develops quality assurance programmes to review the results of the First Line's quality control programmes and also adherence to and effectiveness of policies and controls. The Second Line of Defence, if so delegated, can approve certain non-material requests for exceptions to policy if recommended by the First Line. Such exceptions are documented and recorded. Any proposals to the Board and BRC, with regard to risk taking activities, are first reviewed by the Second Line of Defence.

The Second Line of Defence fosters a working relationship with the First Line that is founded on mutual trust and engenders both partnership and the ability to challenge. The Group Risk Function works proactively with every other function in order to identify, measure, manage, monitor,report and challenge the risks arising within the business. It does this in a variety of ways. These can be placed into four broad categories:

- Reviewing actual performance against expectations and revising expectations accordingly;
- Analysing portfolio characteristics, loss drivers, assumptions, internal and external factors to determine scale and proximity of potential risks;
- Conducting scenario analysis to determine best and worst outcomes, stressing assumptions for a more than one dimensional view of expectations; and
- Examining events, weaknesses in systems, processes and governance; establishing early warning signals, triggers, limits and controls.

The Risk Management Functions give assurance to the Board that the Group is acting within the Board's stated Risk Appetite by adopting the following practices and processes:

Performance	• Measure performance vs. expectations and budget • Revise expectations and challenge plan
Drivers	• Analyse internal and external Risk Drivers • Test for assumption risk in expectations and plans
Profile	• Review asset and liability profile for strengths and weaknesses • Measure how the profile has changed. Revise expectations and address policy
Stresses	• Conduct standard stress tests, ad hoc stress tests and reverse stress testing • Feed information on outliers back into expectations and policy
Controls	• Set targets, guidance, hard and soft limits, triggers, early warning signals • Establish and implement mitigating action plans
Tests	• Conduct quality assurance, file, system and procedure audits • Review results and feed back into policy
Policy	• Maintain inventory, ensure no gaps; establish regular reviews • Define and redefine based upon data and experience
Governance	• Establish the correct decision making and sign-off structure, including delegation of authorities • Test effectiveness and adherence to rules
Infrastructure	• Review lending platforms, decision engines, telephony etc. • Ensure good governance of change management and monitor events
People	• Review numbers, bottlenecks, attrition rates, staff feedback • Ensure appropriate skill sets and succession policies

The Group continues to make additional investments in its First and Second Line activity. It has invested in additional levels of resource across the First and Second Line, notably in Enterprise Risk, Compliance, Credit Risk and Group Risk Analytics. In order to ensure the development and deployment of an effective framework the Group has engaged external consultants to provide industry best practice where appropriate.

3.6.3 Third Line of Defence

The Third Line of Defence is Deloitte LLP who have been appointed by the Group to act as its independent internal audit function. This provides independent assurance on the activities of the Group directly to the Board and Board Audit Committee. Internal Audit reports directly to the non-executive Chair of the Board Audit Committee as well as the CEO and is independent of the First and Second Lines of Defence. The Third Line has access to the activities of both the First and Second Line. It can inspect and review adherence to policy and controls in the First Line, the monitoring of activity in the Second Line and the setting of policy and controls in the Second Line. The Third Line of Defence does not independently establish policy or controls itself, outside of those necessary to implement its recommendations with respect to the other two Lines of Defence. The Third Line may in some cases use as a starting point the reports and reviews compiled by the Second Line but is not restricted to them or necessarily influenced by their findings.

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

The Group's engagement of Deloitte LLP to carry out the functions of the Third Line of Defence provides the Group with access to specialist capabilities beyond its current scale and insights into best practice.

3.6.4 Stress Testing

Stress and scenario testing is a key component of risk governance and the Group carries out a programme of stress testing activity to inform the planning process.

Corporate planning: Sensitivity analysis/alternative scenarios used to stress corporate plan.

ICAAP: Internal assessment of whether Group has sufficient capital to withstand a severe stress.

ILAAP: Internal assessment of whether Group has sufficient liquidity to withstand a severe stress.

Recovery Plan: Scenario analysis used to inform the development of a suite of capital and liquidity recovery actions, to be used under extreme stresses.

4 RISK CATEGORIES

4.1 CREDIT RISK

Credit Risk is the risk that unexpected losses may arise as a result of borrowers or market counterparties failing to meet their obligations to repay debt owed to the Group.

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

Each Division has a maximum authority level allocated, with all proposals over £5m subject to scrutiny and challenge by Group Risk at the exposures above these levels requiring approval from a Second Line Credit Approver, 'CAC'. Where transactions involving portfolios of lending assets are in excess of £15m, Board approval is also required. From February 2016, transactions or divestments involving portfolios of lending assets that are in excess of £5m, will be managed by the Acquisitions & Divestment Board Working Group whose members shall be appointed by the Board of Directors of the Company on the recommendation of the Chairman. This working group provides guidance to management on opportunities in excess of £5m, and recommendations to Board for opportunities in excess of £15m.

The credit risk exposures of the Group can be broken down into the following divisional portfolios:

4.1.1 Commercial Mortgages

- Investor residential mortgages to buy-to-let professional landlords;
- Semi-commercial investment and owner occupied mortgages;
- Commercial investment and owner occupied mortgages; and
- Short-term mortgage lending for refurbishment.

Commercial Mortgage Credit Risk is the risk that losses (both expected and unexpected) may arise as a result of commercial borrowers failing to meet their financial obligations.

On a portfolio basis, the key risks negatively affecting borrowers' ability to repay arise from reduced market activity in an economic downturn, typically resulting in:

- Increased unemployment affecting the ability of tenants of private landlords to meet rental commitments;
- Higher stress on household and business finances (especially when caused by rising interest rates or falling real incomes); and
- Reduced business cash flows and increased business insolvency levels, potentially reducing occupier demand and the ability to support rents and/or mortgage payments.

When combined, the above factors may also reduce demand in the overall property market, forcing down prices, causing increased levels of borrower default and negatively impacting on loan to value levels making it harder to realise adequate value from a sale as a debtor in possession or alternatively an enforced property sale to repay debt.

Management of Credit Risk

As described in the Governance and Risk Framework sections of this document, the Board, through agreed Lending Policies, prescribes the controls that are required to be in place to manage credit risks. These are primarily summarised as:

- The use of detailed manual underwriting by experienced credit risk professionals within the First Line to assess the potential default risks associated with each borrower;
- An affordability assessment to confirm that the borrower has the financial resources to maintain the commitment, with interest rates stressed; and
- An appropriate valuation instructed by and addressed to the Group to evidence the suitability of collateral placed in support of the loan.

Post approval the Group's Risk function monitors the portfolio quality, which is summarised through monthly reporting to the GCC and is circulated to the Board as part of the monthly board pack. This pack provides a detailed analysis of the portfolio by product and several other KRIs.

Executive Management can act in various ways to limit the impact of Credit Risk events on the portfolio, including:

- Reducing levels of new lending in a stress environment to preserve capital resources;
- Accepting a greater (yet measured) level of forbearance in relation to borrowers with payment difficulties, thus seeking to reduce the level of defaults in order to generate better long term outcomes; and
- The gradual management of the disposal of properties in possession to achieve better sale prices and reduce the level of loss discount.

4.1.2 Secured Lending

Second charge residential mortgages

Secured Lending credit risk is the risk that losses (both expected and unexpected) may arise as a result of residential homeowners failing to meet their financial obligations.

On a portfolio basis, the key risks negatively affecting a borrower's ability to repay are likely to arise from a downturn in the wider economy, resulting in:

- Increased unemployment affecting borrowers' disposable incomes;
- Higher stresses on household finances (especially those driven by rising interest rates or falling real incomes);
- A fall in the value of our security limiting the opportunity for borrowers to trade down to reduce their debt burden or to re-finance with another lender; and
- Fees and interest on first mortgage borrowing, if unpaid, eroding the equity position, or the 1st mortgage holder otherwise forcing the realisation of security at a value that reduces the surplus cash available to meet the subordinated liability to Shawbrook.

When combined, the above factors could both increase the level of borrower defaults and also potentially result in a deterioration of the loan to value position, increasing our risk of loss.

Management of Credit Risk

The Board, through agreed Lending Policies, prescribes the controls that are required to manage the credit risks within the Secured business. These can be summarised as:

- The use of detailed manual underwriting to assess the risk of borrower default; supported by the use of an Equifax scorecard to determine what products may be offered to the borrower and at what return;
- An affordability assessment based on a stressed interest rate to confirm that the borrower has the financial resources to maintain the commitment entered into; and
- An appropriate valuation to evidence the suitability of collateral placed in support of the loan.

All borrowing proposals are approved in accordance with the terms of a clearly defined Delegated Authority and Transaction Approval Policy, with all transactions involving an aggregate exposure in excess of £300k to a single counterparty or group of connected counterparties subject to objective overview from at least one nominated individual who sits outside of the Secured business. All exposures in excess of £300k are

subject to approval at Credit Approval Committee.

Post draw-down, the Group's First Line Risk function monitors individual lending assets, whilst the 2nd Line monitors asset quality at a portfolio level, with monthly MI reporting reviewed at GCC.

4.1.3 Asset Finance

- Hire purchase and finance leases to UK SMEs;
- Healthcare c 75% of the portfolio representing operating leases to NHS Trusts; the rest (c £18m) relating to equipment finance to other medical professionals in the private sector; and
- Specialist Block Discounting and Wholesale Finance.

Asset Finance credit risk is the risk that losses (both expected and unexpected) may arise as a result of commercial borrowers failing to meet their financial obligations, or less likely through a default by the NHS.

The asset finance portfolio is split into 4 sub-portfolios of Regions (finance leases to UK SMEs), Taxi, Block Discounting and Wholesale Finance and Healthcare. The specific credit risk considerations attaching to each of these sub-portfolios are analysed below.

Regions

The main risks faced by the Regions business are:

- Increased business failure of UK SMEs and/or a fall in used equipment prices; and
- Potential fraud risk.

The risk of increased business failure is mitigated by:

- The high degree of diversity within the portfolio;
- Strong credit criteria applied (evidenced by low historic impairment);
- Value in the collateral which has historically yielded 75% of capital on terminated accounts; and
- The standard nature and marketability of the majority of the collateral taken.

The fraud risk is mitigated through the use of:

- Hire Purchase Index to check and monitor asset title;
- Customer visits and checks on suppliers; and
- Audit checks on multi-asset hirers.

Taxi

A key risk in this business would arise from de-regulation of the taxi market in any of the key regions where the business operates (London, Manchester, and Glasgow). This would increase competition for hirers and potentially reduce their income. In Manchester and Glasgow (and some other smaller regions) the business will also occasionally fund the taxi licence itself, bearing in mind that this is an asset currently subject to supply restrictions and which thus retains its value. Any such agreements are funded on an amortising basis over 4 years. Clearly there is some element of risk that deregulation could also impact the value of this asset, as well as the hirer's income.

Principal mitigants are:

- Diversity of the exposure geographically;
- The recent review of the Taxi licensing regime by the Law Commission which did not recommend changing quota systems where they currently exist; and
- Funding is over a short period relative to the current life of a licence plate.

Block Discounting and Wholesale Finance

This segment of the Asset Finance portfolio revolves around the provision of funding to small and medium sized UK finance companies either by:

(i) purchasing a "block" of receivables on a recourse basis for a discounted price with repayment being passed through from the vendor over the average tenor of the purchased receivables, or
(ii) Through the provision of "Wholesale" funding via either a Revolving Credit Facility or amortising loan secured against the underlying receivables originated by a finance company at an agreed advance rate.

In terms of credit risk, whilst great care is taken to monitor for and mitigate any instances of fraud or vendor default, this remains a potential risk to the business. Another potential risk is that the costs to collect out a loan portfolio in default are not fully covered by the recoveries realised. This risk is mitigated by subjecting all new lending proposals to rigorous stress modelling as part of the risk assessment process at the time of origination.

Healthcare

The Healthcare business predominantly provides equipment finance either directly to NHS Trusts or Foundation Trusts, which accounts for c75% of current lending. The remainder relates to equipment finance for private providers of medical services in the UK who are often servicing an NHS contract.

The main risk to the business is considered to be a change in behaviour that would see the NHS extend the lease of fewer assets and return more at the end of primary lease period. This would increase the volume of medical equipment that Healthcare would need to sell to third parties and could lead to an increase in losses against the residual value positions held.

The main mitigants against this are:

- The business has always concentrated on those areas where the risk of technological obsolescence is low;
- The business concentrates on assets which are clinically vital to the Trusts;
- The asset base is well diversified such that a technological advance across a significant proportion is highly improbable; and
- Even in the event of material technological advance, NHS Trusts would be unable financially to replace incumbent equipment rapidly.

Management of Credit Risk

The Board, through the agreed Lending Policies for the Asset Finance business as a whole prescribes the controls that are required to be in place to manage the credit risks faced by the division. These controls can be summarised as:

- The use of detailed manual underwriting by experienced credit professionals to assess default risk;
- The verification of information supplied by the applicant, supported by information from Credit Reference Agencies to support decision making;
- An affordability assessment, to confirm that the borrower has the financial resources to maintain the commitment entered into;
- An appropriate valuation of the underlying assets to be financed to evidence the suitability of collateral placed in support of the loan;
- Regular on-going audits of portfolio assets; and
- For Wholesale and Block Discounting facilities, the extensive use of bespoke models to assess the safe value, under a stress scenario, of the advance rate against a granular pool of finance receivables.

All borrowing proposals are approved in accordance with the terms of a clearly defined Delegated Authority and Transaction Approval Policy, with all transactions involving an aggregate exposure in excess of £5m to a single counterparty or group of connected counterparties are subject to objective overview from at least one nominated individual who sits outside of the Asset Finance business. All exposures in excess of £5m are subject to approval at Credit Approval Committee.
Post draw-down, the Group's Risk function monitors portfolio quality, with monthly MI reporting reviewed at GCC.

4.1.4 Business Credit

- Receivables Finance, to UK based companies with revenues typically between £2m and £100m; and
- Other forms of inventory, stock and asset financing, with limited elements of cash flow lending.

The primary credit risks faced by Business Credit arise from either the failure or financial distress of a large debtor that Business Credit has advanced funds against or, perhaps more likely, the failure of a direct client counterparty, coupled with the inability to fully collect out against the receivables financed or other assets. This could potentially be because:

- Advances have been made against contract or service debtors where the nature of the invoice is for a part completed or on-going activity or project, the debtor thus seeking to set-off any remaining costs to complete against their liability. Typically this is evident in the construction and facilities management sectors. In these instances there is an elevated risk of dispute or counter claim for liquidated damages;
- Cash flow loans where there is no directly attributable collateral to support in the event of default;
- Overpayments (i.e.: drawing in excess of eligible collateral) as this eats into the collateral margin;
- Clients with poor record keeping standard which results in disputed invoices or increased difficulty to collect out in case of need; and
- The failure of other tangible assets that Business Credit has lent against to achieve the expected level of recovery in an enforced sale scenario.

As with any receivables business fraud is a risk. Problems will usually occur when a business is temporarily short of cash and issues tend to relate to invoicing ahead of the related service having been delivered. Everything we do is designed to combat both professional and accidental fraud from daily collateral monitoring, cash collections, potential dilution to trends, audits, debt verification and reconciliations. The risk is monitored on a portfolio basis by the Senior Management of the business units, and further management through monthly meetings by the Conduct & Operational Risk Committee.

Management of Credit Risk

Business Credit manages the credit risk in its business through the operation of a comprehensive Credit Risk Management Framework which details the governance, lending policies and procedures of the business.

Individual transactions are subject to extensive due diligence before any advances are agreed covering both the financial profile of the client and quality of the collateral. Terms and conditions are individually tailored to allow for different identified risk profiles.

Risk is spread across a large number of clients operating in diverse industries with single name exposures monitored closely in relation to the Receivables Finance product, which represents the bulk of portfolio exposure. Risk is further diversified across the range of the client's trading counterparties with single debtor concentrations and other receivable dilution criteria closely considered and factored into the required collateral margin.

The vast majority of exposures are extended on a fully secured basis with a "buffer" built in to the maximum advance rate permitted to protect against non-payment by a certain proportion of end debtors. The exception relates to unsecured "cash flow lending" although in such instances makeweight security is always held arising from over-collateralisation of any related asset backed lending. The Sovereign portfolio benefits from high quality collateral as the ultimate risk effectively rests with UK Local Authorities and NHS Trusts.

Individual client and collateral monitoring is extensive and regularly undertaken. Following the initial survey each client is subject to a regular on site audit, and the frequency is increased in the event of underperformance. Fraud checks will include monthly client ledger vs. Business Credit system reconciliation and periodic random invoice sampling which is confirmed direct with debtor.

Clients provide regular monthly or quarterly management accounts as well as the annual statutory filings. The client's business activity levels can also be closely scrutinised as the sales ledger effectively passes through Business Credit's systems by way of drawdown requests and receivables collected onto segregated accounts. This provides an enhanced early warning capability – notably in relation to any adverse trends on debt turnover.

Individual risk exposures under the Invoice Finance product can be managed actively and immediately by a number of actions e.g. altering the advance rate; increasing reserve requirements; excluding ineligible receivables; limiting counterparty concentration; excluding overseas jurisdictions. These are actioned individually at the outset and can be further adjusted post advance.

Although the Invoice Finance product is undisclosed to the client's customers, Business Credit's collateral is in the form of full ownership of the sales ledger as well as requiring all payments to be received into a charged trust bank account under the Group's control.

Portfolio performance is reported and monitored on a monthly basis by a committee of the Senior Management. The report covers a number of key indicators as well as a line by line review of the material and notable client exposures. As a minimum this includes all cases classified as Red, collect out cases, and the largest single name exposures.

All borrowing proposals are approved in accordance with the terms of a clearly defined Delegated Authority and Transaction Approval Policy, with all transactions involving an aggregate exposure in excess of £1.25m to a single counterparty or group of connected counterparties subject to objective overview from at least one nominated individual who sits outside of the division that the proposal has originated from. All exposures in excess of £5m are subject to approval at Credit Approval Committee.

4.1.5 Consumer Lending

- Unsecured Loans for Home Improvements, Timeshare or other Holiday Home Ownership and other Retail purchases; and
- Other Unsecured personal loans.

Consumer lending credit risk is the risk that expected and unexpected losses may arise as a result of borrowers with unsecured lending failing to meet their financial obligations. The risks ultimately revolve around both the borrowers' ability and willingness to repay their debts.

Management of Credit Risk

Like all forms of credit, the initial underwriting to select the right borrowers is critical. This is especially true for this asset class where there is no security. The underwriting for Consumer Lending is covered in Lending Policies agreed by the Board and follows a twin-track approach utilising an Equifax Scorecard augmented by detailed policy rules for each of the products financed. This provides a detailed automated decision engine, but with manual underwriting and oversight for any exceptions to lending rules. Manual underwriting is also used for larger loans and where a specific lending refer rule is triggered.

In addition, due diligence is undertaken on the introducing supplier or manufacturer of the goods or services to be financed, in order to ensure that these intermediaries will act in accordance with the standards required by the Group.

The Group's Risk function monitors portfolio quality, which is summarised through monthly reporting to the GCC.

4.1.6 Credit risk exposures

Credit risk exposures by sector

The table below represents the total amount of exposures, net of provisions at 31 December 2015, including pipeline commitments of £129m, analysed by sector:

2015	Central Government and Central Bank £m	Lending* £m	Short term claims on Institutions or Corp. £m	Other items £m	Total £m
Construction	-	126.6	-	-	126.6
Financial	521.7	330.2	36.2	-	888.1
Government and Public Admin.	52.0	-	-	-	52.0
Manufacturing	-	94.7	-	-	94.7
Personal	-	1,635.5	-	-	1,635.5
Real Estate, professional Services and support activities	-	798.7	-	-	798.7
Transport, Storage and Comms.	-	151.6	-	-	151.6
Wholesale and Retail	-	149.9	-	-	149.9
Other Commercial	-	145.9	-	-	145.9
Non-Customer assets	-	-	-	86.0	86.0
Total	**573.7**	**3,433.1**	**36.2**	**86.0**	**4,129.0**

2014	Central Government and Central Bank £m	Lending* £m	Short term claims on Institutions or Corp. £m	Other items £m	Total £m
Construction	–	80.2	–	–	80.2
Financial	313.0	172.6	40.3	–	525.9
Government and Public Admin.	33.0	–	–	–	33.0
Manufacturing	–	83.8	–	–	83.8
Personal	–	1,190.1	–	–	1,190.1
Real Estate, professional Services and support activities	–	402.5	–	–	402.5
Transport, Storage and Comms.	–	140.1	–	–	140.1
Wholesale and Retail	–	119.6	–	–	119.6
Other Commercial	–	129.6	–	–	129.6
Non-Customer assets	–	–	–	43.0	43.0
Total	346.0	2,318.5	40.3	43.0	2,747.8

* Lending comprises exposures to Corporates, Retail, and Secured by mortgages on immovable property, and exposures in default.

Credit risk exposures analysed by geographical region

The Group's credit risk exposures are all within the UK, as shown in the geographical analysis in the table below:

2015	UK £m	Other £m	Total £m
Central Government and Central Bank	573.7	-	573.7
Institutions	36.2	-	36.2
Corporates	654.1	-	654.1
Retail	922.7	-	922.7
Secured by mortgages on immovable property	1,849.1	-	1,849.1
Exposure in default	7.2	-	7.2
Other items including deferred taxes	86.0	-	86.0
Total	**4,129.0**	**-**	**4,129.0**

2014	UK £m	Other £m	Total £m
Central Government and Central Bank	346.0	–	346.0
Institutions	40.3	–	40.3
Corporates	497.1	–	497.1
Retail	699.4	–	699.4
Secured by mortgages on immovable property	1,115.7	–	1,115.7
Exposure in default	5.6	–	5.6
Other items including deferred taxes	43.7	–	43.7
Total	**2,747.8**	**–**	**2,747.8**

Credit risk exposures by residual maturity

The table below represents the total amount of exposures, net of provisions at 31 December 2015, including pipeline commitments, by remaining contractual maturity:

2015	**Within 1 Year £m**	**After 1 year but within 5 years £m**	**More than 5 years £m**	**Undated £m**	**Total £m**
Central Government and Central Bank	536.5	12.4	24.8	-	573.7
Lending	583.1	1,389.1	1,460.9	-	3,433.1
Short term claims on Institutions or Corp.	36.2	-	-	-	36.2
Other items	-	-	-	86.0	86.0
Total	**1,155.8**	**1,401.5**	**1,485.7**	**86.0**	**4,129.0**

2014	Within 1 Year £m	After 1 year but within 5 years £m	More than 5 years £m	Undated £m	Total £m
Central Government and Central Bank	323.0	20.5	0.8	1.7	346.0
Lending	416.2	1,109.1	793.2	–	2,318.5
Short term claims on Institutions or Corp.	40.3	–	–	–	40.3
Other items	–	–	–	43.0	43.0
Total	**779.5**	**1,129.6**	**794.0**	**44.7**	**2,747.8**

4.1.7 Non-performing loans & provisioning

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

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

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

The table below provides an analysis of the payment due status of gross loans and advances to customers and allowances for impairment losses.

2015	Commercial Mortgages £m	Asset finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
Neither past due nor impaired	**1,584.3**	**689.5**	**184.2**	**470.9**	**331.8**	**3,260.7**
Past due but not impaired						
Up to 30 days	1.2	19.0	-	1.4	-	21.6
30-60 days	7.7	5.5	-	7.0	-	20.2
60-90 days	1.0	1.5	-	2.6	-	5.1
Over 90 days	1.4	2.4	-	4.1	-	8.1
Total past due but not impaired	**11.3**	**28.4**	**-**	**15.1**	**-**	**54.8**
Total impaired	**1.9**	**4.4**	**1.8**	**3.1**	**5.9**	**17.1**
	1,597.5	**722.3**	**186.0**	**489.1**	**337.5**	**3,332.6**
Less: allowances for impairment losses	(1.6)	(3.0)	(2.7)	(1.9)	(4.3)	(13.5)
Total loans and advances to customers	**1,595.9**	**719.3**	**183.3**	**487.2**	**333.4**	**3,319.1**

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

The group maintains a forbearance policy for the servicing and management of any customers entering into arrears across its lending products. As at 31 December 2015, the number of such forbearance arrangements in place is detailed below:

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

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

Summary Credit Risk Exposure

The Group uses the Standardised Approach in determining the level of capital necessary for regulatory purposes. Under the Standardised Approach the level of capital required against a given level of exposure to credit risk is calculated as:

Credit risk capital requirement = Exposure value x Risk weighting* x 8%.

* The risk weighting applied will vary depending on whether the asset is retail or wholesale. For retail assets, variables such as loan to value and security will impact the risk weighting. Wholesale assets are dependent on counterparty, duration and credit rating.

The tables below show the total exposure by regulatory exposure class as at 31 December 2015 for the Group and Bank respectively.

Group	Exposure Value £m	RWAs £m	Pillar 1 Capital £m
Government & central banks	573.7	10.4	0.8
Financial Institutions	36.2	6.8	0.5
Sub- total : Total Treasury Counterparty Credit Risk	609.9	17.2	**1.3**
Regional government & local government			
Retail *	922.7	596.3	47.7
Mortgages on residential / commercial Real Estate	1,849.1	707.4	56.6
Corporate	654.1	638.1	51.0
Past due items **	7.2	8.5	0.7
Other items ***	86.0	86.1	6.9
Total Lending Credit Risk	**3,519.1**	**2,036.4**	**162.9**
Total Credit Risk	**4,129.0**	**2,053.6**	**164.2**

Group	Exposure Value £m	RWAs £m	Pillar 1 Capital £m
Government & central banks	573.7	10.4	0.8
Financial Institutions	36.2	6.8	0.5
Sub- total : Total Treasury Counterparty Credit Risk	609.9	17.2	**1.3**
Regional government & local government	-	-	-
Retail *	922.7	596.3	47.7
Mortgages on residential / commercial Real Estate	1,849.1	707.4	56.6
Corporate	654.1	638.1	51.0
Past due items **	7.2	8.5	0.7
Other items ***	64.0	85.3	6.8
Total Lending Credit Risk	**3,497.1**	**2,035.6**	**162.8**
Total Credit Risk	**4,107.0**	**2,052.8**	**164.1**

* Retail lending comprises loans that are not secured on residential property where the total exposure to the borrower is less than the GBP equivalent of 1 million Euros.

** Past due items are defined as those agreements that are over 3 months behind their scheduled contractual payment position. RWAs are calculated net of specific provisions.

*** The 'Other items' within the retail credit risk are loans that do not fall into any of the other loan categories. The 'Other items' that are not within the retail credit risk sub category are other balance sheet items such as fixed assets and other debtors and prepayments.

4.2 CREDIT RISK MITIGATION

As illustrated at a high level within the description of each of the divisional portfolios in section 4.1, the Group uses a wide range of techniques to reduce the credit risk associated with its lending.

As an essential starting point, extensive use is made across the whole group of appropriate credit bureau and company search data to verify the historic payment record of the borrower, with full use also made of credit scoring techniques within the higher volume Consumer Finance and Secured divisions.

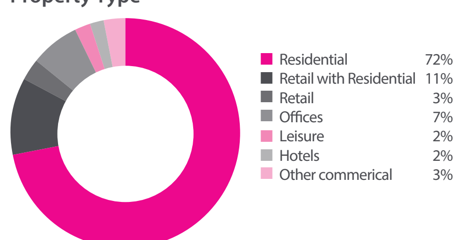
A key feature of group wide underwriting processes is also the detailed assessment of the capacity of the borrower to service the proposed debt without distress.

Beyond this, the risk of loss is further mitigated in all business areas, with the exception of the Consumer Lending Division, by ensuring that collateral is obtained for the funds advanced, as explained further in the sections that follow.

Commercial Mortgages

The Commercial Mortgages division lends against first legal charges over the property assets being financed, subject to a maximum LTV of 75%. The weighted average LTV across the portfolio as at 31 December 2015 was 66%. The nature of the collateral held as at the year-end date is illustrated in the chart below:

Property Type



All Commercial Mortgage lending activities are supported by valuation reports produced by an experienced panel of qualified external valuers.

Where the lending is to a Limited Company, Directors' Guarantees are also provided in all cases to ensure that the Group is able to retain recourse to the principals behind the business.

Asset Finance
The Group will always take first ranking security over the physical assets being financed in the most appropriate form. In all cases, as part of the underwriting process the estimated value of these assets will be assessed over the primary lease term, with any residual exposure at expiry structured to ensure that it is within the expected realisable value of the asset at that time. These assessments are made with the assistance of an experienced panel of specialist asset valuers where appropriate and are reviewed on a regular basis.

In relation to the Block Discounting portfolios, in addition to taking first ranking security over the specific loan agreements being discounted, documentation ensures that full recourse to the originating finance company is always retained. Similarly in the Wholesale Finance business, full recourse is retained to the originating institution by way of Debenture cover. Where necessary an Inter-creditor Agreement is also documented to ensure that the priority rights between funders are absolutely clear and appropriately governed. Moreover, as a matter of course the underwriting process involves the construction of a bespoke funding model to apply high levels of stress to historically experienced loss rates within the portfolio being financed, with advance rates then capped at a level that is judged to be sufficient to ensure that full recovery should be achievable, even in an extreme run off scenario.

Secured Lending
In common with all other parts of the Group, the underwriting process within the Secured Lending division involves detailed affordability assessments being undertaken, with the borrower's declared income and expenditure profile benchmarked against statistical data by way of a sense check; and their overall debt to income profile is also carefully analysed.

All borrowing within this division is secured by way of a second charge over the borrowers' main residence with the property value at origination subject to individual assessment by an approved valuer panel.

The maximum acceptable loan to value varies by product and property type between 50% and 95% in accordance with strictly governed policy rules and loan underwriting guidelines.

Business Credit
The primary form of lending undertaken within this division relates to the discounting of trade receivables. This is usually to incorporated bodies, and is always on a full recourse basis. First ranking security is always taken over the debtors being financed, supplemented by debenture cover, performance warranties and personal guarantees from the principals behind the borrowing entity as appropriate.

Each new lending proposal is subject to a detailed debtor book survey pre-completion with great care taken to limit the concentration of exposure to any single debtor and with "reservations" held against credit notes or other potential factors that could limit collectability. In every case the continuing performance of the debtor ledger is carefully monitored by way of the submission of monthly management accounting information by the borrowing entity, and with physical audits undertaken on a quarterly basis. This is a dynamic process, with the advance rates allowed against individual parts of the ledger amended in response to any changes in performance that are observed.

On occasions this business unit will lend against other classes of physical assets in addition to trade receivables. This is to provide the borrower with a fully integrated funding option. Most commonly this may involve some elements of inventory funding, with great care taken to ensure that advances are capped at a level below the realisable market value of the inventory being financed and with controls put in place to ensure that control over the funded items can be maintained at all times. Some limited funding is additionally allowed in certain instances against buildings, plant and machinery with similar disciplines applied to the management of these assets as already described under the headings for Commercial Mortgages and Asset Finance.

The Business Credit division will also entertain limited levels of cash flow lending from time to time, but only where the Group is already funding trade receivables and a modest level of "gap" funding is required. In all such instances the underwriting process involves careful analysis of the cash generation capabilities of the borrower from its normal trading activities, and once again all such exposures are collateralised by the debenture security referred to above.

4.3 TREASURY COUNTERPARTY CREDIT RISK

Counterparty credit risk arises from the wholesale investments made by the Group's Treasury function in order to meet liquidity requirements. The Treasury function is responsible for managing this aspect of credit risk in line with Board approved Risk Appetite and wholesale credit policies. Wholesale counterparty limits are reviewed monthly by the ALCO based on analyses of counterparties' financial performance, ratings and other market information to ensure that limits remain within the defined Risk Appetite. The wholesale credit risk is analysed by its contractual maturity profile in the table below:

2015 Exposure Category	Under 3 Months £m	3 Months to 1 Year £m	Over 1 Year to 5 Years £m	Over 5 Years £m	Exposure Value £m
Cash & Balances at Central Banks	**519.6**	–	–	**2.3***	**521.9**
A1 Rated UK Banks	**9.1**	–	–	–	**9.1**
A2 Rated UK Banks	**1.1**	–	–	–	**1.1**
A3 Rated UK Banks	**20.7**	–	–	–	**20.7**
Total	**550.5**	–	–	**2.3**	**552.8**

* £2.3m placement as required by the Cash Ratio Deposit Sheme, a requirement for us to place an amount of money with the Bank of England with no repayment date.

2014 Exposure Category	Under 3 Months £m	3 Months to 1 Year £m	Over 1 Year to 5 Years £m	Over 5 Years £m	Exposure Value £m
Cash & Balances at Central Banks	311.4	–	–	1.7	313.1
A1 Rated UK Banks	18.6	–	–	–	18.6
A2 Rated UK Banks	1.1	–	–	–	1.1
A3 Rated UK Banks	–	–	–	–	–
Baa1 Rated UK Banks	16.9	–	–	–	16.9
Total	**348.0**	–	–	**1.7**	**349.7**

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

Under the margining agreements where the Group has a net asset position valued at current market values, in respect of its derivatives with a counterparty, then that counterparty will place collateral, 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. As at 31 December 2015 the Group had a net asset position (inclusive of potential future credit exposure) of £9.6 million (2014: £6.6m) and had received £3.7 million (2014: £3.5m) of cash collateral from derivative counterparties.

As at 31 December 2015, the Group had no public credit rating.

Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. As the Group primarily enters into interest rate and basis swap contracts, it had very limited exposure to wrong way risk as at 31 December 2015.

The following table shows the exposures to counterparty credit risk for derivative contracts as at 31 December 2015 and 31 December 2014:

Net exposures to counterparty credit risk for derivative contracts:

	2015 £m	2014 £m
Interest rate contracts	**9.6**	6.6
Gross positive fair value of contracts	**9.6**	6.6
Less: netting benefits	**-**	–
Netted current credit exposure	**9.6**	6.6
Less: collateral held	**3.7**	3.5
Net derivative credit exposure	**5.9**	**3.1**

The net derivatives credit exposure represents the credit exposure to derivative transactions after taking into account legally enforceable netting agreements and collateral arrangements, and after including potential future credit exposures as required in the calculation of exposure.

4.4 LIQUIDITY RISK

Liquidity Risk is the risk that the Group will have insufficient liquid resources (i.e. cash) to meet current and future financial commitments as they become due.

The Group's liquidity position is managed by Treasury and Finance in accordance with the Group's Liquidity Policy and ILAAP. Liquid resources are invested according to the Group's Treasury Investment and Hedging policy. The ALCO reviews the liquidity risk profile of the Group at least monthly.

The Group maintains appropriate levels of liquidity which is predominantly held at the Bank of England Reserve Account or in UK Treasury Bills.

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

The Group reports its liquidity position against ILG provided by the PRA for regulatory purposes. The Group continues to exceed both the ILG requirement and satisfy its own internal liquidity risk appetite.

In October 2014 the Group's ILAA was approved by the Board, and subsequently reviewed by the PRA under its SLRP with formal feedback received dated 24 December 2014. Under the new Liquidity Regime effective from 1 October 2015 the Group's ILAAP will be updated in Q1 2016.

The Board's liquidity risk appetite is as follows:

- The Group shall have sufficient liquidity resources so as to be able to survive the SBL combined stress outflows (including expected inflows from existing assets) for a period of 90 days; and
- It shall be able to survive this stress by relying on its BIPRU 12.7 eligible assets and call account balances with systemically important UK Banks.

The Group believes that its Risk Appetite is appropriate because:

- A liquidity stress may be temporary, and so the Group should be able to withstand a short, severe liquidity shock through initial Contingency Funding Plan actions, and then recover;
- If the stress persists, the Group must then be able to secure recovery through secondary management actions as described in the Contingency Funding Plan, such as the application of re-pricing to encourage funding/discourage borrowing and make use of available central bank facilities;
- It has been set within the context of the Group's stable deposit business model. 90[1]% of the current deposit book is made up of notice and fixed rate deposit accounts where the balances cannot be withdrawn before their contractual maturity date; and
- The Group has limited exposure to wholesale markets, currently limited to drawings (£307m as at December 2015) from the Funding for Lending Scheme with undrawn capacity of approximately £181m.

1 At 31 Dec 2015 Shawbrook had £602.2 Notice and £2,251.9m Term deposits out of £3,186.4m Retail deposits

4.4.1 Liquidity ratios

CRR provided for two new liquidity safeguards. The LCR aims to improve the resilience of banks to liquidity risks over a 30 day period. The Net Stable Funding Ratio ('NSFR') aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one year period of extended stress.

Liquidity coverage ratio

In January 2014, the BCBS issued its revised draft guidance for calculating the LCR, which came into force from 1 January 2015 on a phased basis. The detailed rules for the calculation of the LCR are set out in the Liquidity Coverage Requirements ("Delegated Act"), which was adopted by the European Union in October 2014 and will be directly applicable in the United Kingdom from 1 October 2015, as well as PRA rules and supervisory statements on CRD IV Liquidity.

Under the finalised rules, the LCR is calculated as:

$$\frac{\text{High Quality Liquid Assets}}{\text{Cash outflows – capped cash inflows}}$$

High Quality Liquid Assets, cash outflows and capped cash inflows are defined in the Delegated Act. Based on these rules, the Group's LCR as at 31 December 2015 was 482 per cent. This is in excess of the minimum standard of 80 per cent set by the PRA from 1 October 2015.

The PRA issued a consultation paper in November 2014 which proposes a minimum LCR requirement of 80 per cent, applicable in the UK from 1 October 2015. This regulatory minimum would then increase to 100 per cent from 1 January 2018 on a phased basis as required by the CRR. The Group's LCR at 31 December 2015 is already in excess of the proposed 1 January 2018 requirements.

Net stable funding ratio

The BCBS published the final standard on the calculation of the NSFR in October 2014 and disclosure standards were published in June 2015. The NSFR is expected to be implemented as a minimum standard by 1 January 2018 and the ratio set to a minimum of 100% on an ongoing basis.

Based on the final standard, the Group's NSFR as at 31 December 2015 was 112 per cent, in excess of the minimum level that will apply from 2018.

4.4.2 Key liquidity risks

The key risks are set out below:

- Retail Funding Risk – the Group is exposed to retail funding risk through its deposit book. A portion of the book is originated from SME type customers but the bulk of the book has been sourced from more traditional retail depositors. The majority of the book, around 95%, has a residual contractual maturity over three months (the calculation takes into account amounts under notice or approaching maturity);
- Wholesale Funding Risk – The Group's exposure to wholesale risk is limited to its drawings from the Government backed Funding for Lending Scheme (FLS). As at December 2015 the Group had drawn £307m from the scheme and had approximately £181m of unutilised capacity;
- Intra-day Funding Risk – to ensure that funds are always available the Group aims to maintain a minimum deposit with its clearing Bank to ensure that payments can be processed even in the event of disruption to the wider payment system. This guidance is included in the Group's liquidity policy. The Group therefore considers it has sufficient liquidity to cover intra-day liquidity risk with a buffer;
- Pipeline Funding Risk – this is the risk that the Group will not be able to pay out loan offers as they are taken up. The Group holds liquidity to

ensure that it can meet this pipeline of new lending offers; and

- Payment systems – the Group does not form part of the UK payment system; however, in the event of problems with one of the Group's banking payment systems, it has access to other bank payment systems to make payments if needed.

4.4.3 Asset encumbrance

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

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

The Group has set internal limits to control overall levels of asset encumbrance. These limits form part of the Group's Liquidity Policy and have been approved by the ALCO.

The table below sets out details of encumbered and unencumbered assets:

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

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

Participation in the Funding for Lending Scheme

During 2014, the Group continued to make use of the FLS, a scheme launched by the Bank of England and HM Treasury in July 2012 which provides loans to banks and building societies with the aim of stimulating lending within the economy. Originally due to end in January 2015, it was extended for another year in December 2014 and extended for a further 2 years in November 2015, with the drawdown window for the FLS extension remaining open until 31 January 2018. Current participants in the FLS extension will remain part of the scheme and will continue to be able to draw against existing unused borrowing allowances beyond 31 January 2016, but will not generate additional allowances from lending beyond the end of 2015. Allowances from the scheme will reduce by 25% after six months, and by the same amount every six months thereafter until the end of January 2018 when the scheme will close

In order to access the facility, the Group pre-positions certain lending assets with the Bank of England in exchange for UK Government treasury bills which are then converted to cash via repurchase agreements with other counterparties.

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the FLS are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The treasury bills that the Group borrows against the transferred assets are not recognised in the statement of financial position, but where they are sold to third parties by the Group under agreements to repurchase, the cash received is recognised as an asset within the statement of financial position together with the corresponding obligation to return it which is recognised as a liability at amortised cost within 'Amounts due to banks'. Interest is accrued over the life of the agreement on an EIR basis.

At 31 December 2015 the Group had pre-positioned £452.0 million of lending assets with the FLS, which are available for use as collateral for participation in the scheme (2014: £535.2 million).

At 31 December 2015 the Group had drawn down securities with a face value of £307 million (2014: £202 million) from the Bank of England under the terms of the FLS.

4.5 OPERATIONAL RISK

The Group has adopted the Basic Indicator Approach to operational risk, and thus will hold, as a minimum, capital against the risk equal to 15% of annual operating income averaged over the preceding 3 years audited results. As at December 2015 this was £9.8m.

4.5.1 Operational risk

Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes or systems, human error or external events.

The Group maintains a system of internal controls commensurate with the characteristics of the business, the markets in which it operates and regulatory considerations.

The role of the Group's operational risk management function is to ensure appropriate strategies are in place to manage, control and mitigate the risks that could impact the ability of the Group to meet its business objectives whilst protecting its reputation, operating within the Board approved operational risk appetite.

Through the operational risk management framework, the Board ensures the management and oversight of the key risk exposures facing the Group in the following risk categories:

- Business Continuity & Disaster Recovery;
- Change Management and Transition;
- Financial Management and other Management Information;
- Financial Crime;
- Information Security and Technology;
- Legal and Regulatory;
- People;
- Premises;
- Process; and
- Third Party Relationships.

The Group's operational risk management framework sets out the strategy for identifying, assessing and managing operational risk. Senior management is responsible for understanding the nature and extent of the impact on each business area and for embedding appropriate controls to mitigate those risks. The framework is updated periodically to take account of changes in business profile, new product development, and the external operating environment. The crystallisation of operational risks is captured through the recording and analysis of operational losses (and near misses) which is used to identify any potential systemic weaknesses in operational processes.

Given the nature of the regulated sectors in which the Group operates one of the key operational risks is the potential failure to maintain on-going compliance with relevant external regulation across the Group. Oversight is provided by a central Group Compliance function which ensures best practice is adhered to and shared across the Group as appropriate.

The Group enhanced its operational risk management framework in 2015 with the addition of Key Risk Scenarios for the first time. The Group reviewed ten key scenarios to assess the Group's total operational risk capital requirement.

4.5.2 Regulatory risk

Regulatory risk is the risk that the Group does not adhere to the fast changing regulatory environment in which it operates.

The regulatory environment continues to evolve and change. The Board monitors these changes and takes steps to ensure that the Group is capable of complying through the impact assessment of changes and making the requisite changes to ensure on-going compliance.

4.5.3 Reputational risk

Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion. Management has considered how this might arise and what the impact could be. The consequences would adversely impact the future prospects of the Group and could expose the Group to litigation and financial loss.

Reputational risk is inherent across the Group. Senior Management manages this risk in the following ways:

- Management of the Group's reputation through marketing and external communications;
- By ensuring compliance with all regulatory requirements; and
- Through the Risk Management Framework which has reputational risk as a key consideration.

4.5.4 Taxation risk

Taxation risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to reputational damage or financial penalties. The Group has effective, well-documented and controlled processes in place to ensure compliance with tax disclosure and filing obligations and employs its own tax professionals who take appropriate advice from reputable professional firms when necessary. The Group has signed up to the Code of Practice on Taxation for Banks.

4.6 STRATEGY RISK

Strategy risk is the risk to earnings or capital arising from changes to the business environment, from adverse business decisions, from improper implementation of business decisions, or from lack of responsiveness to changes in the business environment. This risk is managed through:

- A structured focus upon the areas in which the business operates with a competitive advantage;
- Careful development of business plans;
- Appropriate management oversight; and
- An effective corporate governance framework.

Business risk is the risk of changes in the environment in which the Group operates or the occurrence of events which damage the franchise or operating economics of the Group's businesses. If the Group does not deliver its plans as anticipated, its earnings could grow more slowly or decline. In addition, potential sources of business risk include revenue volatility due to factors such as macroeconomic conditions, inflexible cost structures, uncompetitive products or pricing and structural inefficiencies.

The Group addresses these risks within its corporate strategy and plan which is approved by the Board and the Board is regularly provided with updates on the Group's key strategies and plans to ensure progress is consistent with the Group's Risk Appetite. Group also ensures on-going compliance with the prevailing regulatory framework relating to risk management and corporate governance.

4.7 SYSTEMS AND CHANGE RISK

Systems and change risk is the risk that transition changes in the business will be improperly implemented.

The Change Committee is responsible for managing all anticipated changes by considering, taking appropriate action, allocating resource and documenting changes.

4.8 MARKET RISK

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

The Group has limited exposure to cross currency risk. The Group has a small number of facilities within its Business Credit and Asset Finance business where customers can borrow in currencies other than sterling.. Overall these facilities represented less than 1% of the Group's total assets as at December 2015.

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. ALCO approves the Group's treasury policies and receives regular reports on all aspects of market risk exposure, including interest rate risk.

Derivatives are only used to limit the extent to which the Group will be affected by changes in interest rates or other indices which affect fair values or cash flows. Derivatives are therefore used exclusively to hedge risk exposures. The principal derivatives used by the Group are interest rate exchange contracts, commonly known as interest rate swaps and caps. The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.

4.8.1 Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the loan and savings products that the Group offers. The Group's exposure to interest rate risk is measured as the value of the Group's assets and liabilities at risk due to potential movements in interest rates. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures. Section 4.3 contains information on the current instruments used by the Group.

4.8.2 Basis risk

Basis risk is the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics (for example, the London Interbank Offered Rate ('LIBOR') and Bank of England Base Rate). This is monitored closely and regularly reported to ALCO. This risk is managed where appropriate, through the use of derivatives, with established risk limits and other control procedures. The exposure to basis risk is measured as the earnings at risk due to changes in relationship between interest rates.

4.8.3 Interest rate sensitivity gap

The Group considers a 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. The change in value of equity as a result, based on the present value of future cash flows discounted using LIBOR, would be as follows as at 31 December 2015:

- For +200 bps, an increase of £8.0m (2014: £16.5m)
- For -200 bps , an increase of £24.5m (2014: £14.3m)

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

- +200 bps, £19.9m positive (2014: £19.3m positive)
- -200 bps, an increase of £24.5m (2014: £14.3m)er 2015:

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

4.9 CONCENTRATION RISK

Concentration risk is the additional risk, primarily credit risk, arising from having exposures concentrated in one sector, geographical area or product. Concentrations also can arise from a large individual exposure or a number of exposures to a group of related counterparties.
The Group benefits from product diversity between both personal and corporate customers and strong and diversified collateral and also from geographic diversity throughout the UK.

4.10 PENSION OBLIGATION RISK

The Group operates a defined contribution pension arrangement for staff and has no exposure to defined benefit arrangements.

4.11 STRESS TESTING

Stress Testing and Scenario Analysis is a vital part of the Group's risk measurement process, particularly in business planning and risk assessment processes. Senior Management are an integral part of the stress testing process and are able to identify and articulate the Group's Risk Appetite and understand the implications of stress events within this context.

Stress tests are conducted as part of the ICAAP, ILAAP and business planning cycle. Consideration is given to the potential impact on all portfolios of extreme and plausible events. This analysis complements any extreme event Stress Testing and Scenario Analysis undertaken as part of the Recovery and Resolution Planning activity.

Whilst the general economy remains uncertain, the ability of the Group to maintain and improve profitability and as a consequence generate capital, provides confidence that the Group will withstand the on-going economic uncertainty. Key risk drivers to be examined and considered during stress testing process are chosen to be appropriate to business needs and include inter alia:

- Interest rates;
- House prices;
- Unemployment rates;
- Gross Domestic Product trends; and
- Other economic factors; these may be general or sector specific (for example consumer or business confidence, and relevant stock exchange information).

There is, however, the risk that the Group may need to raise additional capital due to changes in business cycles, deteriorating economic conditions, competitive pressures or regulatory changes. The mitigating actions are considered through stress testing and scenario analysis for key risk events both at a firm wide level and for specific businesses.

The main credit risk stress testing and scenario setting include the prospect for a further slowdown in the UK economy which could lead to higher unemployment, deterioration in household finances and falls in house prices, all of which could increase arrears and defaults.

An analysis of profit and loss impact is made over a period of at least 12 months (or longer if appropriate) in relation to business needs. Analysis is focused on the profit and loss impact of non-performing assets, provisions and write-offs. In addition, material direct operational costs (particularly collection and recovery costs) should also be considered.

Where the projected crystallisation of the event gives rise to a loss, or a lower level of profit than expected under the business plan, when taking into account the impact of management actions, the Group will hold capital in respect of that business risk arising. The Board and Governance structure enables the identification and challenge of suitable management actions to ensure effective responsiveness to changes in the environment.

5 CAPITAL MANAGEMENT

5.1 CAPITAL MANAGEMENT

The Group conducts an ICAAP, at least annually, which is approved by the Board. This is used to assess the Group's capital adequacy and determine the levels of capital required to support the current and future risks in the business derived from the corporate plan. The ICAAP addresses all the Group's material risks and includes Board approved stress scenarios which are intended, as a minimum, to meet regulatory requirements. The ICAAP is used by the PRA to set the Group's Individual Capital Guidance ("ICG") requirements.

The Group's capital resources and requirements use the CRD IV regulatory framework as implemented by the PRA:

- Pillar 1 – based on a Standardised Approach for credit and market risk, and Basic Indicator Approach for operational risk;
- Pillar 2 – set by the PRA via the ICG to address those risks not covered under Pillar 1.

The Board is ultimately responsible for capital management. The Board and Executive Management Committee monitor the capital position of the Group on a monthly basis. The ICAAP is central to the capital management framework and is used to inform the Board of the on-going assessment and quantification of the Group's risks, how the Group mitigates those risks and capital adequacy of the Group. The Group's principal risks are considered in detail in Section 4 of this document.

The Group also includes a Capital Planning Buffer ("CPB") to mitigate the risks of exposures under appropriate stress scenarios as set out within its ICAAP. The CPB forms part of the overall capital requirements for the Group.

At all times the Group's capital position must be aligned with the capital adequacy limits approved by the Board in the Risk Appetite Statement, which is to maintain a robust capital and liquidity management under "normal" and "stressed" conditions. With regard to capital management this means:

- Maintain a level of capital at least equal to the minimum that is set by the PRA in the ICG, and
- Capital will be Common Equity Tier 1 and Tier 2 capital. Any change to this policy must be agreed by the Board.

The Group's capital ratios comprised a Common Equity Tier 1 capital ratio of 14.4% (2014: 11.6%) and a total capital ratio of 18.0% (2014: 13.9%).

5.1.1 Capital developments during 2015

The PRA published its methodologies for the calculation of Pillar 2A requirements in July 2015.
The PRA is consulting on changes to the Standardised Approach for the calculation of Credit Risk Weighted Assets.

5.1.2 Capital composition

The following shows the regulatory capital resources of the Group at 31 December 2015:

	2015 £m	2014 £m
Common Equity Tier 1 (CET 1)		
Share capital	**2.5**	185.3
Retained earnings	**94.7**	32.1
Share premium account	**87.3**	1.3
Capital redemption reserve	**183.1**	–
Regulatory adjustment to CET 1:		
Intangible assets	**(54.7)**	(49.5)
Common Equity Tier 1 capital	**312.9**	**169.2**
Tier 2		
Subordinated debt	**74.0**	30.8
Collective impairment allowance	**4.6**	3.0
Total Tier 2 capital	**78.6**	**33.8**
Total capital	**391.5**	**203.0**

The Pillar 1 requirements against which the Group holds this capital are detailed below:

	2015 £m	2014 £m
Credit Risk	**164.2**	112.4
Operational Risk	**9.8**	4.4
Total Pillar 1 Requirement	**174.0**	**116.8**

Tier 1 capital ratio	14.4%	11.6%
Total capital ratio	18.0%	13.9%

The Group has complied with the externally imposed capital requirements at all times during the year.

5.1.3 Flow statement for regulatory capital

	2015 £m
Common Equity Tier 1 at 1 January 2015	169.2
Issue of additional share capital	2.5
Cancellation of £1 ordinary shares	(183.1)
Converted to £0.01 ordinary shares	(2.2)
Profit for the year	58.5
Share based payments	4.1
Transfer to capital redemption reserve	183.1
Transfer to share premium account	86.0
Increase in intangible assets deduction	(5.2)
Total Tier 1 capital at 31 December 2014	**312.9**
Tier 2 capital at 1 January 2015	33.8
Increase in subordinated debt	43.2
Increase in collective impairment allowance	1.6
Total Tier 2 capital at 31 December 2015	**78.6**
Total capital	**391.5**

5.1.4 Tier 1 capital
The Group's Tier 1 capital comprises of issued share capital and associated premiums, accumulated accounting profits and other reserve balances.

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

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

A regulatory adjustment is required to be made to the Group's Common Equity Tier 1 capital in respect of intangible assets, as set out in CRD IV. For accounting purposes, items including computer software, other intangibles resulting from business combinations and goodwill are capitalised as intangible fixed assets. Intangible assets are therefore deducted from capital under the regulatory rules.

5.1.5 Tier 2 capital
Tier 2 capital comprises:
- Qualifying subordinated debt; and
- Collective impairment allowance.

Subordinated debt is unsecured and ranks behind any claims against the Group from all depositors and creditors. Further details are included in Note 26 in the Annual Report and Accounts.

Collective impairment allowances must not exceed 1.25% of risk weighted assets for banks using the Standardised Approach. The Group did not exceed this limit at 31 December 2015.

The key features of the subordinated debt issued by the Group are detailed in Appendix 2 to these disclosures.

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

	Group 2015 £m	Group 2014 £m
Regulatory capital	**391.5**	**203.0**
Subordinated debt	**(74.0)**	(30.8)
Collective impairment allowance	**(4.6)**	(3.0)
Intangible assets	**54.7**	49.5
Total equity	**367.6**	**218.7**

5.1.7 Minimum capital requirement: Pillar 1

The Group's overall capital resources requirement under Pillar 1 is calculated by adding the capital resources requirements for credit risk and operational risk. The following table shows the Group's capital resources requirement and capital resources surplus under Pillar 1 as at 31 December 2015:

	Group 2015 £m	Group 2014 £m
Capital resources requirement – Pillar 1		
Credit risk	**164.2**	112.4
Operational risk	**9.8**	4.4
Capital resources requirement under Pillar 1	**174.0**	**116.8**
Capital resources (per 5.1.2)	**391.5**	203.0
Capital resources surplus over Pillar 1 requirement	**217.5**	**86.2**

Further detailed information on the capital requirements for credit risk is in section 4.1 of this document.

5.1.8 Countercyclical capital buffer

The Group is required to maintain an institution-specific countercyclical capital buffer. The tables below comprises the geographical distribution of the relevant credit exposure for the Group, as well as the final amount of its institution-specific countercyclical capital buffer.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds: requirement weights	Counter-cyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Breakdown by country												
United Kingdom	2,053.6	-	-	-	-	-	72.3	-	-	72.3	-	0%
	2,053.6	-	-	-	-	-	72.3	-	-	72.3	-	0%

Amount of institution-specific countercyclical capital buffer

Total risk exposure amount	2,176,710
Institution specific countercyclical buffer rate	0%
Institution specific countercyclical buffer requirement	-

5.2 LEVERAGE RATIO

The Basel III reforms include the introduction of a leverage ratio framework designed to reinforce risk based capital requirements with a simple, transparent, non-risk based 'backstop' measure. The leverage ratio is defined as Tier 1 capital divided by the exposure measure. The Basel Committee will test the proposed 3 per cent minimum requirement for the leverage ratio and have proposed that final calibrations and any further adjustments to the definition of the leverage ratio will be completed by 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018.

Summary reconciliation of accounting assets and leverage ratio exposures	2015 CRD IV £m	2014 CRD IV £m
Tier 1 Capital	**312.9**	169.2
Exposures Measure:		
Total statutory assets as per statement of financial position	**4,000.0**	2,754.0
Securities financing transactions	**378.5**	–
Off balance sheet items	**149.4**	39.1
Derivative exposure items	**3.0**	0.8
Other adjustments	**(54.7)**	(49.5)
Leverage ratio exposure	**4,476.2**	2,744.4
Leverage Ratio (%)	**7.0%**	**6.2%**

5 CAPITAL MANAGEMENT CONTINUED

Leverage ratio exposure values for derivatives and securities financing transactions have been calculated in accordance with the methodologies prescribed by the relevant rules.

Off balance sheet items primarily comprise of undrawn credit facilities. The leverage ratio exposure value for off balance sheet items is determined by applying set credit conversion factors to the nominal values of the items, based on the classification of the item. On a CRD IV basis a credit conversion factor of 10 per cent is applied to unconditionally cancellable items, with remaining off balance sheet items predominantly attracting 50 to 100 per cent credit conversion factor as prescribed in Article 429(10) of CRR. Other regulatory adjustments consist of other balance sheet assets that are required under CRD IV to be deducted from tier 1 capital. The removal of these assets from the exposure measure ensures consistency is maintained between the capital and exposure components of the ratio.

The table below shows the Group's leverage ratio based on the final draft 'Implementing Technical Standards' published by the EBA.

Leverage Ratio Common Disclosure	CRR leverage ratio exposures
On balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4,000.0
(Asset amounts deducted in determining Tier 1 capital)	(54.7)
Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	3,945.3
	-
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	3.0
Total derivative exposures (sum of lines 4 to 10)	3.0
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	648.2
(Netted amounts of cash payables and cash receivables of gross SFT assets)	378.5
Total securities financing transaction exposures (sum of lines 12 to 15a)	378.5
Off balance sheet exposures at gross notional amount	298.7
(Adjustments for conversion to credit equivalent amounts)	-149.4
Other off balance sheet exposures (sum of lines 17 to 18)	149.4
	-
Tier 1 capital	312.9
Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	4,475.6
Leverage Ratio	**7.0%**

The table below shows the split of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures).

Split of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures
Total on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	4,000.0
Trading book exposures	-
Banking book exposures, of which:	
Exposures treated as sovereigns	551.5
Institutions	36.2
Secured by mortgages of immovable properties	1,794.9
Retail exposures	864.6
Corporate	633.8
Exposures in default	7.2
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	111.8

At 31 December 2015 the Group had a leverage ratio of 7.0% which is significantly higher than the minimum requirement (3%) that was published in the 2015 Bank of England Policy Statement on the implementation of the UK Leverage ratio. The Group's leverage ratio is monitored monthly against the Group Risk Appetite Statement on a current and forward looking basis. The Group's appetite for excessive leverage risk is low with a Risk Appetite limit that is in excess of its risk capacity.

The following items have impacted the Group's Leverage Ratio in 2015:

- Increase in Tier 1 capital through retained earnings;
- Primary proceeds of £90m (£82m net of costs) from the successful IPO in April 2015;
- Increase in statutory assets to £4,000m through growth in the Group's lending businesses.

6 REMUNERATION

6.1 APPROACH TO REMUNERATION

In accordance with the Remuneration Code (the Code), a firm must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm's activities.

The Code and European regulatory technical standards require the Group to identify Code Staff (being those staff whose activities have a material impact on the firm's risk profile).

During the year, the Group employed a total of 36 individuals who were identified as Code Staff for the year ended 31 December 2015.

6.2 REMUNERATION COMMITTEE (REMCO)

RemCo is a sub-committee of the Board. It reviews levels of remuneration across the Group to ensure that the Group remains competitive in attracting and retaining staff (including variable reward and long term incentive plans) and considers Board and Executive appointments and also ensures that the right behaviours are rewarded.

During 2015 the Committee comprised of the Chairman and two other Non-Executive Directors (following the resignation of Sir George Mathewson). The CEO attends each meeting, by invitation, and the Company Secretary acts as the secretary of Remco. Meetings are scheduled quarterly, with ad hoc meetings where necessary. There have been 8 meetings in 2015. Remco is also supported by Deloitte LLP, in the role of external consultant.

The primary focus of RemCo during the year was as follows:

- In February 2016, the review of the 2015 year-end bonus proposal (any bonuses are awarded annually in March, once the prior year financial position has been finalised);
- The annual review of the Bank's remuneration policy statement, in line with regulatory guidelines; and
- Determining the remuneration of the Chairman, the Executive Directors and Senior Managers

RemCo's terms of reference were last reviewed and updated in March 2015. The full terms of reference are available on the Group's website www.shawbrook.co.uk

6.3 REMUNERATION POLICY AND STRUCTURE: LINK BETWEEN PAY AND PERFORMANCE

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

Element	Purpose and link to strategy	Operation and performance measures	Opportunity
Salary	To recruit, motivate and retain Executive Directors of the required calibre. Reflect the individual's experience, performance and responsibility.	Salaries are normally reviewed annually, with any changes typically taking effect from 1 March. Salaries are reviewed taking into consideration a number of factors, including: – Size and scope of the role; – Skills and experience of the individual; – Performance of the Group and the individual; – Salary increases for the wider employee population; and – Pay levels for similar roles at companies of a similar size and complexity. Salary levels may also be adjusted to take account of any significant regulatory changes. This is not expected during the life of this policy.	There is no maximum salary or fixed pay allowance level or increase that may be given in any year, but any increases will normally not exceed those awarded to the wider employee population.
Pension	To provide a competitive post-retirement benefit in order to retain Executive Directors of the required calibre.	Executive Directors may participate in the Group's Personal Pension Plan. Where an employee does not take up the Group Personal Pension Plan, they are automatically auto-enrolled into the Group's stakeholder pension plan, unless they choose to opt out. Executive Directors may receive a cash allowance in lieu of a pension contribution. Contribution levels depend on individual circumstances.	Up to 35% of salary for the CEO and 15% for other Executive Directors in respect of any financial year. Actual pension levels for the year under review are listed in the table in the Annual Remuneration Report on page 126.

Element	Purpose and link to strategy	Operation and performance measures	Opportunity
Benefits	To provide a competitive and appropriate benefits package in order to motivate and retain Executive Directors of the required calibre.	Executive Directors receive a range of benefits, including private health cover for the Director and his immediate family, life insurance, discounted gym membership and permanent health insurance. Additional benefits may be provided as reasonably required, for example relocation benefits. Executive Directors are eligible to participate in any HMRC approved all-employee share plans operated by the Group on the same basis as other employees. The Group currently operates a SAYE plan and may also provide benefits under a SIP in the future.	There is no maximum value of benefits, as the cost of benefits may vary in accordance with market conditions.
Annual 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 into shares reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and risk alignment.	Annual bonuses are based on Group and individual performance over one year. At least 50% of the bonus will be based on financial performance, with the remainder based on strategic/non-financial and personal objectives. The measures, and their applicable weightings and targets, are set at the beginning of each year. 0% of maximum will pay out for threshold performance. Details of the performance targets set will be provided in the Annual Remuneration Report when deemed no longer commercially sensitive. The award level is determined by the Committee based on actual performance against the targets set. However, the Committee has discretion to reduce the formulaic outcome (including to zero) where the outcome is not reflective of the overall performance of the Group, or as a result of the risk adjustment process. 50% of any bonus paid will be deferred into awards under the Deferred Share Bonus Plan (DSBP). The awards will normally be released in three equal tranches after one, two and three years, subject to continued employment. Deferral levels and any deferral / holding periods may be amended to take account of any regulatory changes during the life of the Policy or such other factors the Committee considers appropriate. Annual bonus awards are subject to the Group's malus and clawback provisions.	The normal maximum bonus opportunity in respect of any financial year is 100% of salary; however the Committee may make awards of up to 100% of fixed pay.
Performance Share Plan (PSP)	To incentivise and reward the delivery of the Group's long-term strategy and growth in shareholder value over a sustained period of time.	PSP awards will normally be made annually, based on a combination of total shareholder return (TSR), internal financial measures and key strategic/non-financial measures. At least 50% of a PSP award will be subject to TSR and/or financial measures. Performance measures will normally be tested over a period of three years (or such other period as the Committee determines otherwise). Typically, 25% of maximum will pay out for threshold performance. The Committee has discretion to reduce the formulaic outcome (including to zero) where the outcome is not reflective of the overall performance of the Group or as a result of the risk adjustment process. Personal performance in the year prior to award may also be taken into account when determining award levels. Any awards that vest, net of tax and NIC liabilities, are subject to a further holding period. There will be a minimum five year period between grant and sale. Performance, vesting and holding periods may be amended to take account of any regulatory changes during the life of the Policy. PSP awards are subject to the Group's malus and clawback provisions..	The normal maximum PSP opportunity in respect of any financial year is 100% of salary. The PSP rules allow for awards of up to 300% of salary to be made in exceptional circumstances. However, any PSP award will comply with the 2:1 variable remuneration cap.
Shareholding guidelines	To align the interests of Executive Directors and shareholders.	Executive Directors are expected to build and maintain a minimum shareholding in the Company within five years of the later of recruitment or the Group's listing. Executives must retain at least 50% of shares acquired on vesting of PSP awards (net of tax) until the guideline is met.	At least 200% of salary.

6.4 REMUNERATION FOR CODE STAFF

The table below shows total fixed and variable remuneration awarded to Code Staff in respect of the performance year 2015. The Code Staff are all members of Senior Management. There are no "Other Code Staff".

Code Staff	Code Staff £k	Total £k
Total fixed remuneration	5,277	5,277
Variable remuneration awarded in cash	1,634	1,634
Deferred remuneration awarded in 2015	-	-
Total variable remuneration	1,634	1,634
Total remuneration	**6,911**	**6,911**
Number of Code Staff	**36**	**36**

Aggregate remuneration expenditure in respect of Code Staff was £6.9m, of which 76% represented fixed remuneration and 24% represented variable remuneration.

The table below shows the total remuneration awarded to Code Staff in 2015 broken down by business area:

	Commercial Mortgages £k	Asset Finance £k	Business Credit £k	Secured Lending £k	Consumer Lending £k	Central £k	Total £k
Total remuneration	518	1,089	633	459	242	3,970	6,911

The table below shows the amount of severance payments made to Code Staff during the financial year ended 31 December 2015, the number of beneficiaries of those payments and the highest individual severance award made during the year.

	Total £k
Severance payments made during 2015	122
Number of beneficiaries	2
Highest individual award	117

The table below shows the remuneration by band:

Remuneration band (Euros)	No. of Code Staff
Less than 1 million	36

7.1 APPENDIX 1 – DISCLOSURES FOR SHAWBROOK BANK LTD

In accordance with Article 13 of the CRR, this Appendix sets out the reduced Pillar 3 disclosures of the Bank, the significant subsidiary of the Group. The differences between the Group and the Bank relate primarily to reserves held by entities that sit outside the scope of the Bank that are included in the Group consolidation.

Capital composition

The following shows the regulatory capital resources managed by the Bank at 31 December 2015:

	Bank 2015 CRD IV £m	Bank 2014 CRD IV £m
Common Equity Tier 1 (CET 1)		
Share capital	**175.5**	174.5
Share premium account	**81.0**	–
Merger reserve	**1.6**	1.6
Capital redemption reserve	**4.4**	0.3
Retained earnings	**79.6**	20.4
Regulatory adjustment to CET 1:		
Intangible assets	**(33.5)**	(28.4)
Common Equity Tier 1 capital	**308.6**	**168.4**
Tier 2		
Subordinated debt	**75.0**	30.8
Collective impairment allowance	**4.6**	3.0
Total Tier 2 capital	**79.6**	33.8
Total capital	**388.2**	**202.2**

The Pillar 1 requirements against which the Bank holds this capital are detailed below:

	Bank 2015 CRD IV £m	Bank 2014 CRD IV £m
Credit Risk	**164.1**	112.4
Operational Risk	**9.8**	4.4
Total Pillar 1 Requirement	**173.9**	**116.8**

Tier 1 capital ratio	14.2%	11.5%
Total capital ratio	17.9%	13.8%

The Bank has complied with the externally imposed capital requirements at all times during the year.

Flow statement for regulatory capital

	Bank 2015 £m
Common equity Tier 1 at 1 January 2015	**168.4**
Issue of additional share capital	**1.0**
Transfer to share premium account	**81.0**
Profit for the year	**63.2**
Changes in reserves	**–**
Share based payments	**4.1**
Dividend to parent	**(4.0)**
Increase in intangible assets deduction	**(5.1)**
Total Tier 1 capital at 31 December 2015	**308.6**
Tier 2 capital at 1 January 2015	**33.8**
Increase in subordinated debt	**44.2**
Increase in collective impairment allowance	**1.6**
Total Tier 2 capital at 31 December 2015	**79.6**
Total capital	**388.2**

Tier 1 capital

The Bank's Tier 1 capital comprises of issued share capital and associated premiums, accumulated accounting profits and other reserve balances.

A regulatory adjustment is required to be made to the Bank's Common Equity Tier 1 capital in respect of intangible assets, as set out in CRD IV. For accounting purposes, items including computer software, other intangibles resulting from business combinations and goodwill are capitalised as intangible fixed assets. Intangible assets are therefore deducted from capital under the regulatory rules.

Tier 2 capital

Tier 2 capital at Bank level is identical to Tier 2 capital for the Group (see section 5.1.5 of this document for further information).

Reconciliation of statutory equity to regulatory capital

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

	Bank 2015 £m	Bank 2014 £m
Regulatory capital	**388.2**	202.2
Subordinated debt	**(75.0)**	(30.8)
Collective impairment allowance	**(4.6)**	(3.0)
Intangible assets	**33.5**	28.4
Total equity	**342.1**	**196.8**

Minimum capital requirement: Pillar 1

The Bank's overall capital resources requirement under Pillar 1 is calculated by adding the capital resources requirements for credit risk and operational risk. The following table shows the Bank's capital resources requirement and capital resources surplus under Pillar 1 as at 31 December 2015:

	Bank 2015 £m	Bank 2014 £m
Capital resources requirement – Pillar 1		
Credit risk	**164.1**	112.4
Operational risk	**9.8**	4.4
Capital resources requirement under Pillar 1	**173.9**	**116.8**
Capital resources	**388.2**	202.2
Capital resources surplus over Pillar 1 requirement	**214.3**	**85.4**

Further detailed information on the capital requirements for credit risk is in section 4.1 of this document.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		**Trading book exposure**		**Securitisation exposure**		**Own funds requirements**					
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds: requirement weights	Counter-cyclical capital buffer rate
Breakdown by country												
United Kingdom	2,052.7	-	-	-	-	-	72.3	-	-	72.3	-	0%
	2,052.7	-	-	-	-	-	72.3	-	-	72.3	-	0%

Amount of institution-specific countercyclical capital buffer	
Total risk exposure amount	2,175,860
Institution specific countercyclical buffer rate	0%
Institution specific countercyclical buffer requirement	-

Leverage ratio

The Basel III reforms include the introduction of a leverage ratio framework designed to reinforce risk based capital requirements with a simple, transparent, non-risk based 'backstop' measure. The leverage ratio is defined as Tier 1 capital divided by the exposure measure. The Basel Committee will test the proposed 3 per cent minimum requirement for the leverage ratio and have proposed that final calibrations and any further adjustments to the definition of the leverage ratio will be completed by 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018.

The Bank's leverage ratio is calculated on a basis consistent with that of the Group, as set out in section 5.2. The table below shows the calculation of the leverage ratio for the Bank as at 31 December 2015.

Summary reconciliation of accounting assets and leverage ratio exposures	Bank 2015 CRD IV £m	Bank 2014 CRD IV £m
Tier 1 Capital	**308.6**	168.4
Exposures Measure:		
Total statutory assets as per statement of financial position	**3,978.1**	2,732.1
Securities financing transactions	**378.5**	–
Off balance sheet items	**149.4**	39.1
Derivative exposure items	**3.0**	0.8
Other adjustments	**(33.5)**	(28.4)
Leverage ratio exposure	**4,475.5**	2,743.6
Leverage Ratio (%)	**6.9%**	**6.1%**

Leverage ratio exposure values for derivatives and securities financing transactions have been calculated in accordance with the methodologies prescribed by the relevant rules.

Off balance sheet items primarily comprise of undrawn credit facilities. The leverage ratio exposure value for off balance sheet items is determined by applying set credit conversion factors to the nominal values of the items, based on the classification of the item. On a CRD IV basis a credit conversion factor of 10 per cent is applied to unconditionally cancellable items, with remaining off balance sheet items predominantly attracting 50 to 100 per cent credit conversion factor as prescribed in Article 429(10) of CRR.

Other regulatory adjustments consist of other balance sheet assets that are required under CRD IV to be deducted from Tier 1 capital. The removal of these assets from the exposure measure ensures consistency is maintained between the capital and exposure components of the ratio.

The table below shows the Bank's leverage ratio based on the final draft 'Implementing Technical Standards' published by the EBA

Leverage Ratio Common Disclosure	CRR leverage ratio exposures
On balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,978.1
(Asset amounts deducted in determining Tier 1 capital)	(33.5)
Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	3,944.6
	-
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	3.0
Total derivative exposures (sum of lines 4 to 10)	3.0
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	648.2
(Netted amounts of cash payables and cash receivables of gross SFT assets)	378.5
Total securities financing transaction exposures (sum of lines 12 to 15a)	378.5
Off balance sheet exposures at gross notional amount	298.7
(Adjustments for conversion to credit equivalent amounts)	(149.4)
Other off balance sheet exposures (sum of lines 17 to 18)	149.4
	-
Tier 1 capital	308.6
Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	4,474.9
	7.0%
Leverage ratio	**6.9%**

Split of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures
Total on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3,978.0
Trading book exposures	-
Banking book exposures, of which:	
Exposures treated as sovereigns	551.5
Institutions	36.2
Secured by mortgages of immovable properties	1,794.9
Retail exposures	864.6
Corporate	633.8
Exposures in default	7.2
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	89.8

At 31 December 2015 the Bank had a leverage ratio of 6.9% which is significantly higher than the minimum requirement (3%) that was published in the 2015 Bank of England Policy Statement on the implementation of the UK Leverage ratio. The Group's leverage ratio is monitored monthly against the Group Risk Appetite Statement on a current and forward looking basis. The Group's appetite for excessive leverage risk is low with a risk appetite limit that is in excess of its risk capacity.

The following items have impacted the Bank's Leverage Ratio in 2015:

- Increase in Tier 1 capital through retained earnings;
- Primary proceeds of £90m from the successful IPO in April 2015;
- Increase in statutory assets to just under £4,000m through growth in the Bank's lending businesses.

Remuneration disclosures

The Bank has the same remuneration policy as the rest of the Group, and so for the individual company disclosures please see section 6.

7.2 APPENDIX 2 – MAIN FEATURES OF REGULATORY INSTRUMENTS

1	Issuer	Shawbrook Group plc
2	ISIN	XS1303933573
3	Governing law	English
	Regulatory treatment	
4	Transitional CRR rules	Tier 2
5	Post-transitional rules	Tier 2
6	Eligible at Group or Bank	Group, Bank
7	Instrument type (type to be specified by each jurisdiction)	Subordinated debt
8	Regulatory capital value	74,000,000
9	Nominal value (£)	75,000,000
10	Accounting classification	Liability – amortised cost
11	Date of issue	28 October 2015
12	Perpetual of dated	Dated
13	Original maturity date	28 October 2025
14	Issuer call	Yes
15	Optional call date, contingent call dates and redemption amount	28 October 2020; par regulatory/tax call
16	Subsequent call dates	None
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	8.5% fixed rate up to (but excluding) the optional call date payable semi-annually in arrears. Reset on the optional call date to the sum of the GBP 5 year swap rate plus the reset margin payable semi-annually in arrears
19	Existence of dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	Yes
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type it converts into	N/A
29	If convertible, specify issuer or instrument it converts into	N/A
30	Write down feature	None contractual, statutory via bail-in.
31-34	If write-down trigger(s), full/partial, permanent/temporary	N/A
35	Instrument type immediately senior	Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

7.3 APPENDIX 3 – ASSET ENCUMBRANCE BASED ON THE REQUIREMENT IN CRD IV AND THE RELATED GUIDANCE ISSUED BY THE EUROPEAN BANKING AUTHORITY IN JUNE 2014

Template A – Assets

	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
010 Assets of the reporting institution	**478.7**	**-**	**3,521.3**	**-**
100 Loans and advances other than loans on demand	478.7	-	3,521.3	-

Template B – Collateral received

	Fair value of encumbered collateral received or own debt securities issued £m	Fair value of collateral received or own debt securities issued available for encumbrance £m
130 Collateral received by the reporting institution	**3.7**	**270.0**
160 Debt securities	-	270.0
230 Other collateral received	3.7	-

Template C – Encumbered assets/collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered £m
010 Carrying amount of selected financial liabilities	**38.7**	**2.8**
020 Derivatives	2.8	2.8
050 Repurchase agreements	35.9	-

D – Information on importance of encumbrance:

The Group reviews all asset types against the criteria of being able to finance them in a secured form (encumbrance) but certain asset types lend themselves more readily to encumbrance. The typical characteristics that support encumbrance are; an ability to pledge those assets to another counterparty or entity through operation of law without necessarily requiring prior notification: homogeneity; predictable and measurable cash flows; and a consistent and uniform underwriting and collection process. Assets such as buy to let residential mortgages and asset finance loans display many of these features.

The Group primarily encumbers assets through pre-positioning loans as collateral to support access to the Bank of England's Funding for Lending Scheme. The Group also holds cash collateral received in relation to derivative transactions.

7.4 APPENDIX 4 – OWN FUNDS DISCLOSURE

	Transitional Rules £m	Fully Loaded £m
Common equity tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	256.5	256.5
Retained earnings	79.6	79.6
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under applicable accounting standards)	6.0	6.0
Minority interests (amount allowed in consolidated CET1)	-	-
Independently reviewed interim net profits net of any foreseeable charge or dividend	-	-
Common equity tier 1 capital before regulatory adjustments	342.1	342.1
Common equity tier 1 capital: regulatory adjustments	-	-
Additional value adjustments	-	-
Intangible assets (net of related deferred tax liability)	(33.5)	(33.5)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	-	-
Fair value reserves related to gains or losses on cash flow hedges	-	-
Negative amounts resulting from the calculation of expected loss amounts	-	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
Debit valuation adjustment	-	-
Defined benefit pension fund assets	-	-
Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment		
Regulatory adjustments relating to unrealised gains and losses	-	-
Total regulatory adjustments to Common equity tier 1 (CET1)	**(33.5)**	**(33.5)**
Common equity tier 1 (CET1) capital	**308.6**	**308.6**
Additional Tier 1 (AT1) capital: instruments		
Capital instruments and the related share premium accounts	-	-
Amount of qualifying items and the related share premium accounts subject to phase out from AT1	-	-
Additional Tier 1 (AT1) capital	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**308.6**	**308.6**
Tier 2 (T2) capital: instruments and provisions		
Capital instruments and the related share premium accounts	75.0	75.0
Amount of qualifying items and the related share premium accounts subject to phase out from T2	-	-
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments) issued by subsidiaries and held by third parties, of which: instruments issued by subsidiaries subject to phase out	-	-
T2 capital before regulatory adjustments	75.0	75.0
Tier 2 (T2) capital: regulatory adjustments		
Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	3.1	3.1
Total regulatory adjustments to Tier 2 (T2) capital	**3.1**	**3.1**
Tier 2 (T2) capital	**78.1**	**78.1**
Total capital (TC = T1 + T2)	**386.7**	**386.7**
Total risk weighted assets	**2,174.6**	**2,174.6**
Capital ratios and buffers		
Common equity Tier 1	14.2%	14.2%
Tier 1	14.2%	14.2%
Total capital	18.0%	18.0%

8 GLOSSARY OF TERMS

Annual Report and Accounts	The Group's 2015 annual report and accounts
Bank	Shawbrook Bank Limited
BCBS	Basel Committee on Banking Supervision
CRD IV Framework	The Basel Committee on Banking Supervision develops minimum standards on bank capital adequacy. These have evolved over time. Following the financial crisis, the Basel Committee has reviewed its capital adequacy standards from previous statements. Basel III (CRD IV) is the outcome of that review, with the number three coming from it being the third configuration of these standards.
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Credit risk	The potential to incur losses from the failure of a borrower or counterparty to meet its obligation to pay interest or repay capital on an outstanding loan.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set off or netting.
Funding for Lending Scheme (FLS)	The Bank of England launched the Funding for Lending scheme in 2012 to allow banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years. This was designed to increase lending to businesses by lowering interest rates and increasing access to credit.
FCA	Financial Conduct Authority.
FLS	Funding for Lending Scheme
FSA	Financial Services Authority. The financial services industry regulator in the UK. In April 2013 the responsibilities of the FSA were split into the Prudential Regulation Authority and the Financial Conduct Authority
Group	Shawbrook Group plc
Guarantee	An agreement by a third party to cover the potential loss to a credit institution should a specified counterparty default on their obligations.
ICA	Internal Capital Assessment – the document produced as a result of the ICAAP.
ICAAP	Internal Capital Adequacy Assessment Process. The process the Group follows to determine capital requirements under Pillar 2.
ICG	Individual Capital Guidance. The minimum amount of capital the Group should hold as set by the PRA under CRD IV Pillar 2.
ILAA	Individual Liquidity Adequacy Assessment. The Group's internal assessment of the levels of liquidity that need to be held by the Group to meet its regulatory liquidity requirements.
ILG	Individual Liquidity Guidance
Interest rate risk	Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates.
LCR	Liquidity Coverage Ratio
LIBOR	London Inter-Bank Offered Rate.
LTV	Loan-To-Value. The ratio of current exposure value as a proportion of the value of the asset held as security (usually residential property) expressed as a percentage.
Maturity	The remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement.
Minimum Capital Requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the CRD IV Pillar 1 requirements for credit and operational risk.
Netting	The ability to reduce credit risk exposures by offsetting the value of deposits against loans to the same counterparty.
Operational risk	Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events; it includes the risk of non-compliance with laws and regulations, and the risk of internal or external fraud.

Operational Risk Basic Indicator Approach	The ORCR under the basic indicator approach is equal to 15% of the relevant indicator defined in this section. The relevant indicator is the three-year average of the sum of: (a) net interest income; and (b) net non-interest income. The three-year average is calculated on the basis of the last three yearly observations at the end of the financial year. When audited figures are not available, business estimates were used. The relevant indicator for the basic indicator approach is calculated before the deduction of any provisions and operating expenses.
Pillar 1	The part of the CRD IV which sets out the regulatory minimum capital requirements for credit and operational risk.
Pillar 2	The part of the CRD IV which sets out the processes by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments. This includes all risks (including Pillar 1 risks) – ICG is an outcome from Pillar 2.
Pillar 3	The part of the CRD IV which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline.
Provisions	Amounts set aside to cover incurred losses associated with credit risks. Collective provisions reflect the estimated amount of losses incurred on a collective basis, but which have yet to be individually identified. The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The evaluation process is subject to a series of estimates and judgements. The calculation of the Collective Provision requires model estimates of probability of default, exposure at default and loss given default. The calculation occurs at account level and is aggregated to portfolio level for reporting purposes. Collective provisions are raised when the probability of default of a counterparty has increased relative to the probability of default at origination. The size of the collective provision is a function of the model estimates. The segmentation of assets into those which are assessed individually and those which are assessed on the portfolio basis in order to identify loss event. Individually significant items are assessed individually. Individually insignificant items are assessed either individually or on the portfolio basis (portfolios built based on similar credit risk characteristics). Assessment of significance should take into account actual management of an exposure (managed on individual basis or group basis). Those which have been identified as impaired during individual assessment are excluded from the collective assessment. Collective assessment is not possible if the number of homogenous transactions is insufficient. Need to compare model results with the actual losses.
PRA	Prudential Regulation Authority.
Retail Exposure Classification	To be eligible for the retail exposure class, an exposure must meet the following conditions: (1) the exposure must be either to an individual person or persons, or to a small or medium sized entity; (2) the exposure must be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced; and (3) the total amount owed to the firm, its parent undertakings and its subsidiary undertakings, including any past due exposure, by the obligor client or group of connected clients, but excluding claims or contingent claims secured on residential real estate collateral, must not, to the knowledge of the firm, exceed €1 million.
RWA	Risk weighted assets. The value of an on- or off balance sheet exposure adjusted under Pillar 1 rules to reflect the degree of risk it presents.

Securitisation	A transaction or scheme where assets are sold to a Special Purpose Vehicle (SPV) in return for immediate cash payment. That vehicle raises the immediate cash payment by issuing debt securities in the form of tradable notes or commercial paper to wholesale investors who receive an income from the underlying assets. Some risk is retained on the balance sheet while the remaining risk is transferred to investors. Securitisations may be purchased or retained.
SLRP	Supervisory Liquidity Review Process
SREP	Supervisory Review and Evaluation Process, the PRA assessment of a firm's own capital assessment (ICA) under Basel II Pillar 2.
Stress testing	Various techniques that are used to gauge the potential vulnerability to exceptional but plausible events.
The Standardised Approach (credit risks)	The standardised approach to credit risk, calculated by applying varying RWA percentages to credit exposures, depending on the underlying risk.
Tier 1 capital	A core measure of financial strength as defined by the PRA.
Value at Risk (VaR)	A statistical technique to estimate the maximum loss that could be made for a given factor of confidence over a set time horizon under normal market conditions.