Banking for the real world.

2021

Annual Report & Accounts

Shawbrook Bank Limited

shawbrook

Shawbrook Bank Limited

Contents

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

Company information

Non-Executive Directors
John Callender
Robin Ashton
Cédric Dubourdieu
Lindsey McMurray
Paul Lawrence
Andrew Didham
Michele Turmore

Executive Directors
Ian Cowie (resigned on 7 June 2021)
Dylan Minto
Marcelino Castrillo (appointed on 7 June 2021)

Company Secretary
Daniel Rushbrook

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

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

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

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

Company number
00388466

Chairman's statement

Continuing to build a stronger business
2021 was a pivotal year for Shawbrook as we continued to evolve our purpose, deploy new innovative digital products for our customers and invest in data and people to enhance our diverse banking proposition. A great deal has been achieved whilst at the same time delivering record financial results.

In the first half of the year, the impact of the COVID-19 pandemic was prevalent, bringing disruption and uncertainty to many of our customers and markets. In response to these challenges, we demonstrated incredible resilience and agility, and focused our efforts on providing our customers and employees with the support they needed, including the introduction of several employee wellbeing initiatives. Looking back on 2021, I am incredibly proud of how we successfully navigated our way into the new normal, all while strengthening our relationships with our customers and exceeding performance targets. Our ability to build a stronger business throughout a difficult year is testament to the hard work of our employees, and I would therefore like to take this opportunity to thank them all.

In June 2021, we welcomed our new Chief Executive Officer, Marcelino Castrillo. Despite leading the Group for only a short period, Marcelino has already paved the way for Shawbrook's next chapter, having rapidly progressed our digital agenda, re-organised the business to ensure an even greater customer focus, and invigorated the organisation with a more aspirational sense of purpose. Ian Cowie, who previously led the business, made an impressive and lasting contribution to Shawbrook, working tirelessly to lay the strong foundations the Group builds upon today.

As the Board continues its natural evolution, Robin Ashton will be retiring from his role as Non-Executive Director in June 2022. Having been with the Group for more than 10 years, Robin has played an integral role in the Group's development as well as being a tremendous support to me during my tenure.

I would like to personally thank both Ian and Robin for their dedicated service and wish them well for the future.

On 10 March 2022, we were delighted to welcome Lan Tu to the Board. Lan brings a wealth of experience and (subject to regulatory approval) will succeed Robin in the role of Senior Independent Director. I am also pleased to announce that Janet Connor will be joining the Board as a Non-Executive Director during Q2 2022. Our new Board members will help to ensure we maintain a strong and robust approach to governance and continue to bring a diverse range of skills, experience and perspectives to the Board.

Driven by a clear purpose
This year, Shawbrook celebrated its 10th anniversary. Launched in 2011, with a founding principle to "serve the underserved", we set out to make a difference in the financial services market. As we continue to establish a unique position in the market, this year we have also stretched the scale and ambition of our purpose which perfectly encapsulates how Shawbrook has been built to respond to the trends currently shaping our society and economy.

Our growing ESG impact
We are an organisation that cares deeply and takes its responsibilities seriously, so a natural extension and by-product of our purpose is an impactful ESG agenda. The Board fully recognises and embraces our role to champion our ESG strategy and I am pleased with the accelerated progress made during 2021, with ESG-related topics featuring prominently on Board agendas throughout the year. Our ambition to encourage and enable equality, diversity and inclusion (EDI) was demonstrated with the launch of the 'Empower Her' project in September 2021. Working in partnership with the Saracens Foundation, the project provides young women playing grassroots and professional sport with opportunities to gain qualifications and experience to develop their leadership potential.

While COVID-19 has been the defining issue of the last two years, climate change is one of the biggest challenges of our time. As a responsible business, we understand we have a critical role to play in tackling climate change and we have made good progress in understanding the risks presented across our portfolio. Important steps have been taken over the last year, however, much more needs to be done. Moving into 2022 and beyond, we are well positioned to support our customers to take advantage of the many opportunities associated with the transition to a sustainable low-carbon future. Demonstrating our commitment to enhanced transparency, the ESG Report included in Shawbrook Group plc's Annual Report and Accounts includes our first alignment to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). This can be found on our website at: *www.shawbrook.co.uk/investors/*. We plan to deliver a standalone set of TCFD disclosures alongside our 2022 Annual Report and Accounts.

Chairman's statement

Evolving customer needs
To keep up with evolving customer needs and expectations, we recognise that our organisation must continue to adapt. As a result, during the year we made several changes to the Group's organisational structure to ensure we remain connected to our customers and to further improve our ability to meet their individual needs.

Open and transparent relationships with stakeholders
Continued dialogue with all of our stakeholders was maintained throughout the year, as we engaged on key topics to bring valuable perspectives into the business. This included open and transparent dialogue with our regulators on areas of strategic and operational importance.

Outlook
The Russian invasion of Ukraine alongside the pre-existing inflationary pressures and reductions in real income levels have created further macroeconomic uncertainty during the early part of 2022, with the return to more normalised conditions uncertain. Supported by our strong capital and liquidity base, diverse business model and the ability to react quickly during uncertain times, I am confident that we are well placed to adapt to these emerging market conditions and support our colleagues and customers.

With a strong sense of purpose running through the DNA of the organisation, we now occupy a unique position within the market. Through technology, data, collaboration with like-minded partners and the expertise of our people, we are well placed to deal with the complex issues of tomorrow and create opportunities for our customers and wider society. The last decade has given us the opportunity to demonstrate how this approach is not only sustainable and resilient, but also capable of delivering consistently impressive financial returns. As we look ahead, I am excited for what the future holds for Shawbrook and I look forward to continuing to build a successful and sustainable business with a differentiated proposition.

John Callender
Chairman

Chief Executive Officer's statement

I'm proud to present Shawbrook's 2021 Annual Report and Accounts, showcasing the outstanding performance the business continued to deliver and the impressive milestones achieved throughout the year.

On joining Shawbrook as Chief Executive Officer in June 2021, it was clear that its proposition, business model and strong sense of purpose have combined to deliver consistently high growth and market-leading returns. The combination of modular technology and best of human expertise in markets powered by data has placed Shawbrook in a class of its own within the UK financial services landscape.

Delivering exceptional performance
Our tech-enabled model continued to provide operational leverage and balance sheet optimisation during 2021. This has enabled us to deliver exceptional performance, including record levels of profitability, with profit before tax increasing to £197.4 million (2020: £73.6 million), record origination levels and loan book growth of 26%[1].

The acquisition of The Mortgage Lender Limited (TML) in February 2021 has provided opportunities in adjacent markets and distribution channels and further extended our originate to distribute model. This continues to give us a sustainable competitive advantage, increasing our non-interest income and creating balance sheet flexibility. The excellent performance contributed by TML to date further demonstrates our ability to identify and integrate bolt on acquisitions and accelerate growth.

Our financial performance was coupled with strong customer and employee satisfaction scores, as we made further improvements to our propositions, achieving a 4.6 out of 5 Trustpilot score and an 80% employee engagement score, respectively. Our ability to provide strong customer service and foster customer loyalty, achieve market-leading growth, along with best-in-class profitability amid the uncertainty of the pandemic is testament to the strength of our model.

Constantly innovating to adapt and deliver for our customers
Societal change increases demand for personalised financial services as the shift towards non-standard forms of employment, the rapid growth of both the green and digital economies, as well as heightened customer expectations and technological advancements continue to reshape the UK banking landscape. Our focus on innovation, along with the scalability of our platform, gives us numerous avenues of growth where we have a proven ability to win and we continue to adapt to the changing world around us.

Reinvigorating our purpose
As the fabric of society and the economy continues to change at pace, we believe the path to success for people and businesses is no longer a straight-line as they become less homogenous and increasingly idiosyncratic. The need for personalised solutions is becoming the new normal and the concept of 'standard' is increasingly redundant. Shawbrook has been built to serve these needs, seeing opportunity where others find challenge and complexity, and for over a decade we have proven our ability to **power up ingenuity to create opportunity, every single day**. As we enter the next decade of our story, this is the purpose that will continue to drive everything we do.

Increasing our customer focus
To set us up for further success, during the year we deployed a series of organisational changes, consolidating our offering into three customer franchises (Enterprise, Consumer and TML) to ensure we remain closely connected to our customers. We also continue to attract and retain exceptional talent, with a specific focus on technology, data and customer experience to enhance our capabilities. This included the appointment of Sue Saville onto the Executive Committee in the newly created role of Customer Service and Experience Director. In February 2022, we also welcomed Arthur Leung, our new Chief Product Officer. These changes will give us the speed and flexibility to maximise our opportunity, further improving our ability to adapt to external trends and changing customer needs.

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[1] When adjusted to add back in the structured asset sale completed in September 2021 of TML buy-to-let loans, which had a carrying amount at the point of derecognition of £342.6 million.

Chief Executive Officer's statement

Disciplined but ambitious roadmap of future opportunities
Realising the significant potential for expansion into new and adjacent markets, throughout the year we further diversified our product offering and multi-channel distribution.

Building on our proven track record of deploying innovative products into adjacent markets, in December 2021 we extended our existing proposition with the launch of the Shawbrook Zero product: a first to market, fully digital and non-advised second charge mortgage.

Modular technology and partnerships
Our proprietary technology and data capabilities are focused on delivering excellent customer outcomes and maximising flexibility through the evolution of our modular architecture, enabling us to grow efficiently and avoid the build-up of expensive legacy.

Throughout the year, we continued to invest in and strengthen our data capabilities and deploy innovative technology solutions across the business to further scale-up capacity and extend distribution.

The roll-out of the My Shawbrook Portal to our buy-to-let property broker network during the year is a great example of this. Featuring application programme interface (API), access to external data sources and instant, integrated valuations led to a material reduction in time to offer and overall completion times for eligible buy-to-let cases, improving both customer experience and efficiency of the Group's operations. We also worked with our partner FundingXchange to co-develop and roll out a proactive portfolio monitoring tool within Business Finance. Embracing data and technology to provide more powerful insights into our loan book risk and performance has enabled us to enrich our customer understanding, offer additional lending where appropriate and identify potential issues sooner.

Accelerating into the future
2021 was a significant year for Shawbrook, as we continued to build on the foundations of our exceptional business and accelerated the next phase of our growth journey, establishing our unique position in the market. We have pioneered an entirely new breed of financial services business by combining the agility, innovation, customer focus and scalability of a FinTech with deep sector expertise to deliver market-leading profitability. We would not stand as the strong business we are today without working together as a powerful team. Therefore, I want to take this opportunity to extend my heartfelt thanks to all our 1,101 talented employees[1]. I would also like to say thank you to our customers and wider stakeholder base for the trust you have placed in us; we will continue to do everything we can to earn your continued support.

Looking forward, we will continue to respond to opportunities created by evolving economic and societal trends by leveraging our multi-channel origination and diversified revenue model to support our customers. I am confident that by building on the foundations we have created over the last decade, including continued investment in technology and data, our market-leading growth is set to continue. We are uniquely placed to deal with the current macroeconomic and geopolitical challenges, creating opportunities for our customers, every single day.

Marcelino Castrillo
Chief Executive Officer

[1] Group-wide total headcount as at 31 December 2021.

About Shawbrook

Our platform in numbers

Deep expertise in a broad range of carefully selected markets which allows us to continue to deliver strong growth

- 26%[1] loan book growth at £8.6 billion (2020: £7.1 billion)

Combining technology and data with human judgement and talent

- 40.7%[2] cost to income ratio (2020 53.6%)
- 40 bps cost of risk (2020: 80 bps)

Continued profitability through growing and engaged customer base

- £197.4 million profit before tax (2020: £73.6 million)
- c.350k customers served
- 4.6/5 Trustpilot score

Track record of superior returns

- 20.2% return on tangible equity (2020: 8.1%)
- 6.0% gross asset yield (2020: 5.8%)
- 93 bps stock cost of retail deposits (2020:120 bps)

Conservative capital management

- 12.6% common equity tier 1 capital ratio (2020: 12.6%)
- 16.2% total capital ratio (2020: 16.8%)

Skilled and experiences colleagues working towards an ambitious vision

- 80% employee engagement score

Our people

- Employees (average on a full-time equivalent basis): 964 (2020: 811)

Group gender metrics

- All employees: 55.6% Male, 44.4% Female (2020: 56% Male, 44% Female)
- Senior Management team: 76% Male, 24% Female (2020: 77% Male, 23% Female)
- Executive Committee: 78% Male, 22% Female (2020: 90% Male, 10% Female)
- Board: 78% Male, 22% Female (2020: 78% Male, 22% Female)

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[1] When adjusted to add back in the structured asset sale completed in September 2021 of The Mortgage Lender Limited (TML) buy-to-let loans, which had a carrying amount at the point of derecognition of £342.6 million.

[2] When adjusted for movement in other provisions, cost to income ratio is 42.5% (2020: 46.4%).

About Shawbrook

Banking for the real world

In the wake of significant societal and economic shifts, the need to understand the unique realities of people and businesses to deliver practical solutions at speed is rapidly becoming the new normal: as the fabric of our world changes, the notion of 'standard' is vanishing.

Over the last decade we have built a new type of bank that is designed to accommodate individuality, diversity and the dynamics of the modern world.

Our ability to provide highly personalised finance solutions to help our customers achieve their immediate ambitions is enabled by our unique platform, which combines and integrates modular technology with human expertise, judgement and ingenuity.

Unencumbered by legacy infrastructure, we are able to move swiftly into carefully chosen markets where we can best deliver highly valued, differentiated products and services - with precision and at scale.

Operating in multiple segments and with an active and highly engaged customer base, we are well positioned to meet the evolving needs of people and businesses in the face of societal and economic shifts – from the future of housing to the green and self-employed economies.

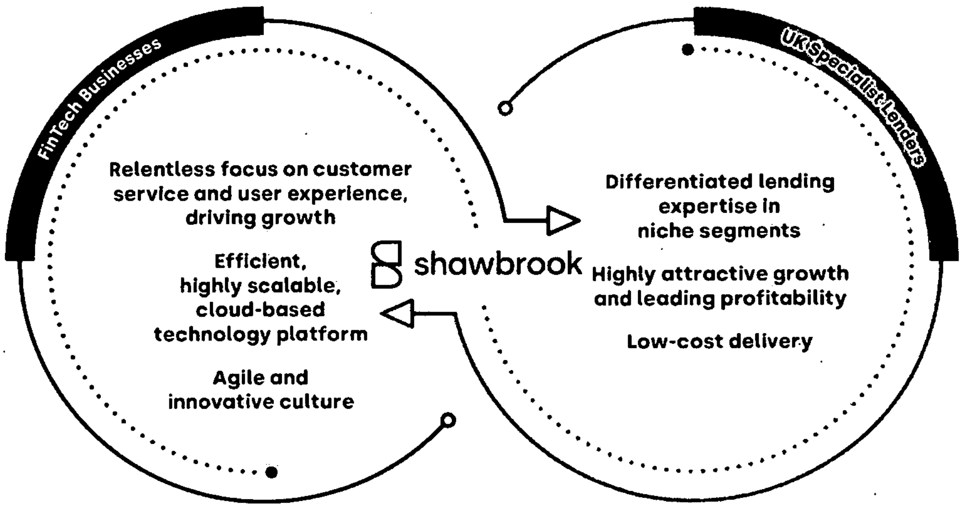
To meet the scale of our potential, we will continue to deliver on our purpose: **to power up ingenuity to create opportunity, every single day.**

About Shawbrook

The best-of-both

Shawbrook is the "best-of-both": uniquely combining the agility and customer service of a FinTech with human expertise and ingenuity to deliver market-leading profitability.

Driven by a strong sense of purpose, we have a relentless focus on delivering maximum value to our customers. Our efficient and highly scalable model allows us to continuously expand our customer reach and to deliver individualised customer experiences. Our differentiated proposition, alongside our established and scalable multi-channel origination and distribution model, results in proven, strong and sustainable profitability.



	FinTech Businesses	Shawbrook	UK Specialist Lenders
Trustpilot score	4.4★ [1]	4.6★ [2]	3.5★ [1]
Growth	40%+ [3]	37% [4]	10% [5]
Profitability	Not yet profitable	20.1% RoTE [6]	c.17% RoTE [7]

Differentiated customer proposition with a focus on **improving user experience** at all stages of the relationship

Multi-channel distribution with **strong relationships and partnerships** with leading FinTech brands

Scalable FinTech lending and savings platform with end-to-end digital capabilities

Highly **profitable banking franchise** that is **deep and broad across our chosen lending markets**

[1] The average Trustpilot score for a selection of lending focused FinTech businesses and UK specialist lenders as at January 2022.

[2] As at January 2022 for Shawbrook Bank Limited.

[3] Represents year-on-year growth for selected lending focused FinTech businesses as at their respective latest reported historical financial period.

[4] Net operating income increase for the Group from FY 2020 to FY 2021.

[5] Represents year-on-year growth for a selection of UK based specialist lenders as at their respective latest reported historical financial period.

[6] Return on tangible equity for the year ended 31 December 2021.

[7] Represents the median return on tangible equity for a selection of UK based specialist lenders as at their respective latest reported historical financial period.

About Shawbrook

Our business model: next generation banking platform

We have a proven and scalable business model providing many avenues for growth through a diverse product portfolio and multi-channel distribution.

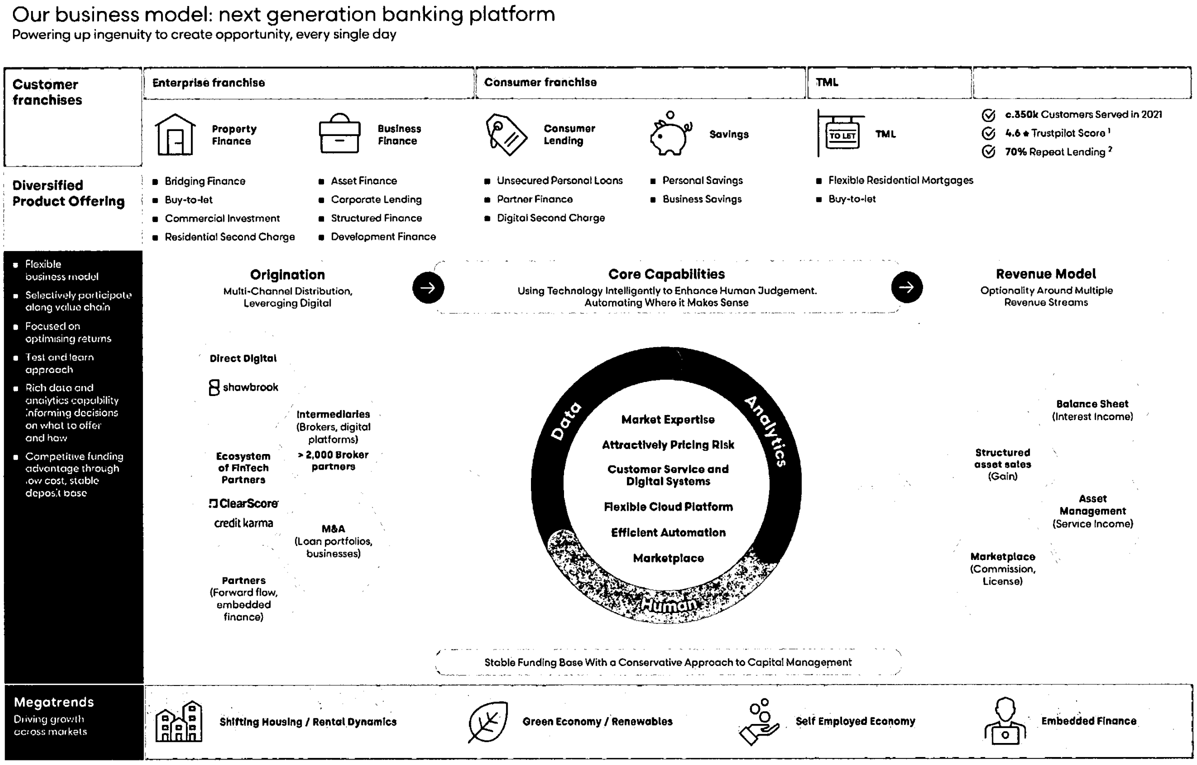
Our diverse banking platform leverages deep data-driven customer insight and understanding to efficiently acquire, manage and retain both assets and liabilities at scale through three customer franchises.

To meet the needs of our defined customer segments, we deploy an ever-evolving suite of products through our distribution model, including both offline and digital as well as direct and indirect channels. This multi-channel approach to origination enables the efficient delivery of bespoke services to our expanding customer base.

Pricing, underwriting, product configuration and portfolio management are enabled through the smart use of data analytics, automated where appropriate and augmented with expert human judgement when necessary. Alongside significant investment in technology and data infrastructure, our people and culture remain at the heart of our model. The ingenuity of our teams drives innovation and growth, and we are focused on attracting, developing and retaining top talent, as we continuously work to improve the customer journey throughout the entire lifecycle.

Our business model, which is illustrated on the following page, offers diverse revenue opportunities, including interest income from balance sheet lending as well as non-interest income from structured asset sales, marketplace and asset management, whilst also providing a significant competitive advantage through our stable and diversified funding base.

About Shawbrook



[1] For the year ended 31 December 2021.
[2] Repeat lending for the year ended 31 December 2021 across Business Finance.

Financial review

Performance indicators

Definitions of all metrics set out in the tables below are provided on page 170.

Financial performance metrics

	2021 %	2020 %	Change
Gross asset yield	**6.0**	5.8	0.2%
Liability yield	**(1.1)**	(1.7)	0.6%
Net interest margin	**4.9**	4.1	0.8%
Management expenses ratio	**(2.0)**	(2.2)	0.2%
Cost to income ratio	**40.7**	53.6	12.9%
Cost of risk	**(0.40)**	(0.80)	0.40%
Return on lending assets before tax	**2.5**	1.1	1.4%
Return on tangible equity	**20.2**	8.1	12.1%

Financial position metrics

	2021	2020	Change
Assets and liabilities			
Loan book (£m)	**8,607.9**	7,102.8	21.2%
Average principal employed (£m)	**7,869.8**	6,825.7	15.3%
Customer deposits (£m)	**8,358.6**	6,894.1	21.2%
Stock cost of retail deposits (%)	**0.9**	1.2	0.3%
Wholesale funding (£m)	**1,519.5**	1,020.5	48.9%
Liquidity			
Liquidity coverage ratio (%)	**247.8**	229.7	18.1%
Capital and leverage[1]			
Common Equity Tier 1 capital ratio (%)	**12.6**	12.6	-
Total Tier 1 capital ratio (%)	**14.7**	15.0	(0.3%)
Total capital ratio (%)	**16.2**	16.8	(0.6%)
Leverage ratio (%)	**8.0**	8.6	(0.6%)
Risk-weighted assets (£m)	**6,134.0**	5,268.4	16.4%

[1] Capital and leverage metrics are shown on a transitional basis after applying IFRS 9 transitional arrangements. A comparison of the reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis) is provided on page 93.

Financial review

Summary of statutory results for the year

	2021 £m	2020 £m	Change
Operating income[1]	**474.9**	397.3	19.5%
Interest expense and similar charges	**(88.9)**	(114.9)	22.6%
Net operating income	**386.0**	282.4	36.7%
Administrative expenses	**(164.2)**	(131.0)	(25.3%)
Impairment losses on financial instruments	**(31.4)**	(54.9)	42.8%
Provisions	**7.0**	(20.3)	134.5%
Total operating expenses	**(188.6)**	(206.2)	8.5%
Net share of results and impairment of associate	**-**	(2.6)	n/a
Statutory profit before tax	**197.4**	73.6	168.2%
Tax	**(47.9)**	(15.4)	(211.0%)
Statutory profit after tax, attributable to owners	**149.5**	58.2	156.9%

"As the economy continued to recover from the pandemic and confidence returned to our chosen lending markets, we were well placed to support our customers. This support has been underpinned by our ongoing digitalisation journey as we invest in our customer proposition to deliver quality service, ensure operational resilience and realise operational efficiency.

Our full year results delivered our best performance to date with profit before tax increasing to £197.4 million (2020: £73.6 million), delivering record origination levels and increasing our loan book to £8.6 billion (2020: £7.1 billion). Our strong capital position, supported by high levels of liquidity, was also maintained across the year and we delivered a return on tangible equity of 20.2% (2020: 8.1%).

Our investments in automation and process simplification helped to deliver further efficiencies and, even with the acquisition of TML in February 2021 and full recognition of its cost base, the management expenses ratio reduced by 0.2% to 2.0% and the cost to income ratio to 40.7%[2] (2020: 53.6%).

Looking forward, there are challenges facing the UK economy and our customers through increased geopolitical risk, rising energy prices, cost of living, inflation and potential supply chain issues, but we are well positioned to support the challenges and opportunities our customers and communities face as societal and macro-trends continue to evolve. With the ongoing investment in our people, platforms and data, we are confident in our ability to flex and adapt and provide innovative solutions to meet our customers' needs."

Dylan Minto, Chief Financial Officer

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

[2] When adjusted for movement in other provisions, cost to income ratio is 42.5% (2020: 46.4%).

Financial review

Expanding market opportunities and digitalisation innovation delivered significant lending growth of 26%[1]

All asset classes experienced growth during the year, resulting in the total loan book growing to £8.6 billion (2020: £7.1 billion). During the year, we successfully completed a £343 million structured asset sale of TML buy-to-let loans, supporting our originate to distribute strategy and balance sheet diversification. Loan book growth in the year totalled £1.5 billion (£1.8 billion when adjusted for the structured asset sale), driven by record originations as the demand for our customer-centric lending proposition grew in our core SME and property markets.

Record levels of profitability driven by enhanced net interest margin, careful cost management and prudent risk appetite

Profit before tax increased to £197.4 million for the year (2020: £73.6 million), with net operating income increasing by 36.7%, administrative expenses increasing by 25.3%, impairment losses reducing by 42.8% and provisions charges reducing by 134.5%.

Net operating income increased by 36.7% to £386.0 million (2020: £282.4 million) and net interest margin increased to 4.9% (2020: 4.1%), as we increased gross asset yield to 6.0% (2020: 5.8%) whilst materially reducing interest expense by 22.6% to £88.9 million (2020: £114.9 million) by managing down the cost of retail deposits to 0.9% (2020: 1.2%). Whilst competition intensified in the deposit market in anticipation of base rate rises, our strong savings proposition continued to attract customer deposits, with growth of 21.2%, increasing our deposit book by £1.5 billion during the year. We continue to diversify our funding base, but remain predominantly funded by retail and SME customers, supplemented with wholesale funding primarily through the Bank of England's TFSME programme, with drawn balances increasing to £1.2 billion (2020: £0.8 billion).

Careful cost management remains a core focus, with the cost to income ratio (when adjusted for the conduct related provision charges) improved to 42.5% (2020: 46.4%), but we continue to invest in talent and innovative technology solutions to support and enhance our customer proposition. Administrative expenses increased 25.3% to £164.2 million (2020: £131.0 million) and is partly attributable to the acquisition of TML in February 2021 and the inclusion of their operating costs.

If TML costs were excluded, the increase would be 16% and reflects the continued investment in our digitalisation journey, increased operational costs as lockdowns were lifted and higher employee costs as we resource appropriately to meet our business needs.

The careful and robust management of loan books remained a strategic priority throughout the pandemic. The Group's overall arrears rate, at 1.7% (December 2020: 1.9%), is trending back to pre-pandemic levels (December 2019: 1.6%) following a peak of 3.6% in June 2020.

As the economic backdrop has improved, the economic scenarios used in the expected credit loss (ECL) calculations have been re-weighted, with the severe downside scenario reducing from 15% to 5%, the downside scenario reducing from 35% to 25%, the central view changing from 40% to 60% and the upside scenario remaining at 10%. The underlying IFRS 9 modelled results show an improving trend, reflecting the more positive economic outlook as the economy recovers, resulting in a net ECL release for the year. Offsetting this, is a write-off of £35.2 million relating to a customer of the Group, that became insolvent during the year. Overall a net £31.4 million impairment charge was reported for the year (2020: £54.9 million), with the cost of risk at 0.40% (2020: 0.80%) and the total loss allowance coverage reducing to pre-pandemic levels at 0.9% (2020: 1.3%).

We continue to hold a provision for customer remediation and conduct issues of £13.5 million (2020: £14.8 million) and review its adequacy regularly. During the year we received further payments totalling £14.1 million (2020: £2.0 million), representing the final settlement under our insurance claim relating to solar panels financed by our Consumer franchise. This was partially offset by additional provisions made during the year of £7.1 million, resulting in an overall net credit for the year of £7.0 million (2020: £20.3 million net charge). We continue to engage proactively with the Financial Ombudsman Service and defend our position where claims are assessed as being without merit.

[1] When adjusted to add back in the structured asset sale completed in September 2021 of TML buy-to-let loans, which had a carrying amount at the point of derecognition of £342.6 million.

Financial review

Conservative capital and liquidity levels provide the foundation for future growth
Our Common Equity Tier 1 capital ratio was 12.6% (2020: 12.6%) and our total capital ratio was 16.2% (2020: 16.8%). The slight movement in the total capital ratio over the year reflects the retained profit after tax of £149.5 million, offset by growth in risk-weighted assets of £865.6 million, the coupon paid on Additional Tier 1 capital securities and a reduction in the transitional IFRS 9 relief. The transitional arrangements for IFRS 9 provide a benefit of 0.2% (2020: 0.7%) to both the Common Equity Tier 1 capital ratio and total capital ratio.

The Group's current Total Capital Requirement is 9.07% (Pillar 2A requirement of 1.07%) and with total regulatory capital of £995.7 million, the Group remains comfortably above regulatory requirements. The Group is well-capitalised to take advantage of the significant market opportunity we have identified in our chosen specialist lending markets. We continue to optimise our capital resources while maintaining a robust and prudent risk appetite.

The Group is not required to comply with the Prudential Regulation Authority leverage ratio framework, however we maintain our returns with prudent levels of leverage. The leverage ratio for the Group is 8.0% (2020: 8.6%), compared to the minimum requirement of 3.0%, with risk-weighted assets as a proportion of the loan book having reduced slightly to 71% (2020: 74%).

The liquidity coverage ratio remains prudently positioned at 247.8% (2020: 229.7%).

Outlook
Since the year end, geopolitical risk has escalated with the Russian invasion of Ukraine and the economic response by the international community which, in turn, has created economic uncertainty for the global economy. Whilst we do not have any direct exposure to Russia, Ukraine or Belarus, we continue to monitor the situation and in response have updated our affordability policy to ensure risk appetite remains appropriate and are closely monitoring the cyber perimeter and information security risks within the Group. Whilst we have seen the UK economy recover throughout 2021, with confidence returning to our key markets, the increasing inflationary pressure and the possibility of new COVID-19 variants means the UK economic outlook remains uncertain, but we will continue to monitor and adapt to these emerging market conditions supported by our strong capital and liquidity base.

Our proven track record in successfully supporting our customers through challenging times and expanding into new segments and products provides confidence that we will continue to meet the changing needs of our customers, colleagues and business partners in the future.

Creating value for our stakeholders

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

Effective stakeholder engagement is central to the formulation and execution of our strategy and is critical to us achieving our purpose and long-term sustainable success. Throughout the year, the Board continued to consider the needs of all our stakeholders and the impact of decisions taken. The principles underpinning Section 172 are not only considered at Board level, but are embedded throughout the organisation. Further details on how the Board has engaged with the Group's stakeholders is set out below.

Customers
The interests of our customers sits at the centre of all the decisions we make, so understanding what is important to them is key to our long-term success. We use insights gained through regular engagement to enhance our proposition to attract new and retain loyal customers.

During 2021, we extended the reach of our real time customer satisfaction tool across additional teams and channels, including our digital savings platform. The Board takes account of customer interests by monitoring these outputs and other customer conduct measures included within regular reports. We have also introduced 'voice of customer' forums across our customer franchises, analysing data such as complaints metrics and individual feedback to identify root causes.

Customer considerations sit at the heart of the Group's new product development activity, as we continue to introduce innovative products to meet the evolving needs of our customers. During 2021, we conducted detailed customer research, which suggested that there was a gap in the market for a new lending product that offered flexibility and a digital offering. Following Board review and approval, we subsequently launched our non-advised digital second charge mortgage product, the first product of its kind in the UK.

During the year, we evolved our technology strategy to further enhance the customer experience. The Board was engaged throughout the development process, including the review of strategic presentations, live demonstrations, and regular progress updates with select Non-Executive Directors.

Distribution partners
To deploy our capabilities into our markets, we work with a range of like-minded distribution partners, including brokers and networks, key business introducers, platform lending partners and digital marketplace partners. These relationships are essential to the successful delivery of our strategy and, by working in partnership, offer us greater access and insight into our markets, driving better customer outcomes.

Regular dialogue with our distribution partners facilitates our ability to ensure a continued understanding of their needs. Throughout the year, we sought regular feedback from our partners to help evolve our proposition in a way that best served their needs and those of our end customers.

As well as conducting feedback sessions attended by senior management, direct feedback sessions were held between the Group's new Chief Executive Officer and our broker partners. These provided opportunities for the partners to share first-hand their valuable experiences with us. The insights gained are used to drive continuous improvement.

Over the course of the year, feedback from our partners continued to play an essential part in shaping new and innovative digital solutions to provide significantly improved user experience. In our Enterprise franchise, feedback from our brokers was critical to the development of the My Shawbrook Portal, with insights received throughout the staged roll out to a select group of brokers and used ahead of the full launch. The Board received regular status updates on the project including the feedback received.

Employees
Our Board believes that our employees' dedication to our stakeholders is core to the successful delivery of our strategic ambitions. As a result, we are committed to creating an environment that is truly inclusive, in which our employees feel part of our overall purpose, are encouraged to develop, and are supported to reach their full potential.

Over the year, we continued to offer our employees a platform to have their say and then used the feedback provided to make changes to enhance our value proposition. Feedback obtained from staff engagement surveys are presented and discussed at Board level, to ensure continued understanding of employee sentiment and to help determine future focus areas.

Creating value for our stakeholders

Since the launch of the Group's first People Engagement Forum in December 2020, designed to bring the employee voice into the Boardroom, the employee represented forum has contributed to key strategic topics including future ways of working, our approach to reward and our purpose. Throughout the year, a number of the Group's Directors attended face to face meetings to gain a clearer understanding of the employee viewpoint on key topics.

During 2021, we hosted a range of employee events to ensure our people continued to feel connected and engaged. These included regular all staff calls and our annual all staff conference, which were used as opportunities to celebrate strategic developments and share updates on Group performance and future plans. The Group's Chairman presented at the all staff conference, while members of the Board also attended.

Our commitment to employee wellbeing continued to be endorsed by the Board, demonstrated through a full programme of wellbeing activities deployed throughout the year. Activities included the introduction of a new digital healthcare benefit to offer all employees and their families personalised support through some of life's big transitions. We also continued to leverage the expertise of trusted partners to support our employees with physical, mental and financial wellbeing.

As a business, we recognise the importance of a diverse workforce and are committed to ensuring that Shawbrook is a fair, inclusive and diverse organisation. Throughout 2021, we progressed our EDI agenda to drive positive change. The Board was actively engaged in the Group's approach to EDI, reviewing relevant insights and agreeing areas of focus and strategy.

Suppliers
Supported by more than 1,000 third parties, our supplier network provides us with the goods and services that we rely on to deliver the best outcomes for our stakeholders.

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

Regular updates concerning performance of the Group's material outsourcers are also provided to the Board. These include management information, performance measures to drive continuous improvement and ad hoc reports.

The Board also oversees the Group's outsourcing strategy. During the year, this included a detailed review of the current loan servicing strategy, which resulted in changes being agreed to further enhance our customer proposition.

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

Regulators
Shawbrook is regulated by both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and the Board is committed to further developing relationships with both, engaging regularly on a range of topics.

As we continued to take steps to scale and evolve our business throughout the year, we ensured that open and transparent dialogue continued.

Update meetings on key strategic topics were held with the Chairman and Executive Directors, supported by regular engagement with senior management, covering prudential and conduct aspects such as organisational design change and operational resilience. We also actively engaged with the FCA throughout the design phase of the Group's new digital second charge product to ensure they were aware of the proposition ahead of its launch.

The Group's Chief Risk Officer provides regular updates to the Risk Committee on regulatory engagement to ensure all key messages are cascaded effectively.

Creating value for our stakeholders

Investors
We continued to progress our debt investor communications programme, to increase transparency and develop our relationships with our debt investor community. Following the release of our half year results, we hosted an investor roadshow, giving our investors an opportunity to meet with the Group's Executive Directors to discuss business performance. We also continued to release our quarterly statements to provide updates on developments through the quarter.

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

As an organisation focused on unlocking opportunities for individuals and businesses across the UK, we are passionate about supporting those communities that we touch.

Consideration of how we can increase the positive impact we have on our communities forms a core part of the Group's ESG strategy, which was developed and approved by the Board during the year. A spotlight session on our key charitable partnerships was also held, providing an opportunity for the Board to input into these critical relationships.

The Strategic Report was approved by the Board of Directors on 30 March 2022 and was signed on its behalf by:

Marcelino Castrillo
Chief Executive Officer

Corporate Governance Report

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

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

The Board
The Board takes account of the views of the Company's Shareholder and has regard to wider stakeholder interests and other relevant matters in its discussions and decision-making. The Board recognises that stakeholders' interests are integral to the promotion of the Company's long-term sustainable success. Further information about how the Board considers the interests of its stakeholders can be found on pages 17 to 19.

Composition, Board balance and time commitment
The Board currently consists of nine members[1], namely the Chairman, four Independent Non-Executive Directors, two Executive Directors and two Institutional Directors. The gender split of the Board is 78% male and 22% female.

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

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

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

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

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

The Board and Board Committees held a number of scheduled meetings in 2021 at which senior executives, external advisors and independent advisors were invited, as required, to attend and present on business developments and governance matters. The Company Secretary and/or his deputy attended all Board meetings and he, or his nominated deputy, attended all Board Committee meetings.

[1] Excluding Lan Tu, who joined the Board on 10 March 2022.

Corporate Governance Report

Board meetings and activity in 2021

Number of scheduled meetings attended*					
	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination and Governance Committee
John Callender (Chair)[1]	8/8			4/4	3/3
Marcelino Castrillo[2]	4/4				
Ian Cowie[3]	4/4				
Dylan Minto	8/8				
Robin Ashton[4]	8/8	6/6	6/7	4/4	3/3
Lindsey McMurray[5]	7/8	5/6	7/7	4/4	2/3
Cédric Dubourdieu[6]	8/8	5/6	7/7	4/4	3/3
Paul Lawrence[7]	7/8	6/6	7/7	3/4	3/3
Andrew Didham[8]	8/8	6/6	7/7	3/3	
Michele Turmore[9]	8/8	6/6	7/7	1/1	

The attendance above reflects the number of scheduled Board and committee meetings held during 2021. During the year there were also a number of ad-hoc Board and committee meetings to deal with matters arising outside of the usual meeting schedule. The majority of Directors made themselves available at short notice for these meetings.

Notes

* Meetings were held from January to December 2021.

1. John Callendar attended all Risk and Audit Committee meetings in 2021.
2. Marcelino Castrillo was appointed as a Director of the Board on 7 June 2021.
3. Ian Cowie resigned as a Director of the Board on 7 June 2021.
4. Due to prior commitments, Robin Ashton was unable to attend the 13 May Risk Committee meeting.
5. Due to prior commitments, Lindsey McMurray was unable to attend the 25 February Audit Committee meeting and the 16 December Board and Nomination and Governance Committee meetings.
6. Due to prior commitments, Cédric Dubourdieu was unable to attend the 25 February Audit Committee meeting.
7. Due to prior commitments, Paul Lawrence was unable to attend the 20 October Board and Remuneration Committee meetings.
8. Andrew Didham stepped down as a member of the Remuneration Committee on 1 August 2021.
9. Michele Turmore was appointed as a member of the Remuneration Committee on 1 August 2021.

The activities undertaken by the Board in 2021 were intended to help promote the long-term sustainable success of the Company.

The scheduled Board meetings focused on five main themes in 2021:

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

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

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

Spotlights, including deep dive sessions on franchise strategy, Information Security, funding strategy, developing talent and agile ways of working, digital platforms and ESG.

Board and Board Committee governance, including receiving reports from the Board's committees; updating terms of reference for the committees; approving the search for a new Senior Independent Director and implementing an internally facilitated annual review of Board and committee effectiveness.

Corporate Governance Report

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

Board Strategy Day
The Board sets aside time each year outside the annual Board calendar to give the Directors the opportunity to focus solely on strategic matters relating to the Group. In October 2021, the Board, Executive Management, and representatives of the Shareholder met to discuss key themes on the financial plans of the Group, the competitive landscape, purpose, inorganic opportunities and the Group's future strategy.

Board effectiveness review
During the reporting period an internal Board effectiveness review was conducted, focusing on Board performance in 2021. More information about the nature and outcomes of this review can be read in our Parent Company's Annual Report and Accounts.

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

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

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

Each year an annual Board training schedule is agreed. In 2021, the Board received training in respect of Directors' and Officers' insurance, Interest Rate Risk in Banking Book, Purpose, Senior Managers and Certification Regime and an update on the regulatory landscape. During 2022, the Board has received training in respect of cyber security and capital optimisation and hybrid capital instruments.

Further sessions on Directors' duties, Culture, Equality, Diversity and Inclusion and IRR and Hedging are scheduled to take place throughout the remainder of the year.

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

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

Corporate Governance Report

Risk management and internal control systems

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

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

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

The Group's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board considers the materiality of financial and non-financial risks and the relationship between the cost of, and benefit from, the system of internal controls. During 2020, the Group continued to strengthen its risk management and internal controls capability to ensure that it remained relevant, appropriate and scalable to support the Group's objectives over the duration of the strategic plan and continued to embed improvements into the Group's RMF. These included the appointment of a new Head of Financial Crime / Money Laundering Reporting Officer and investment in the Group's understanding of the physical and transition risks associated with climate change.

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

Shawbrook Bank Limited is subject to regulation by the PRA and the FCA and as such undertakes an ILAAP and ICAAP on an annual basis. The ICAAP process benefited from ongoing improvements during 2021; the process involves an assessment of all the risks that the Group faces in its operating environment, the likelihood of those risks crystallising and their potential materiality and the effectiveness of the control framework in mitigating each risk. This includes a thorough evaluation of how the Group would be impacted by severe, but plausible, periods of stress in its stress testing programme.

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

Cyber resilience

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

Directors' Report

Corporate governance statement

The Directors of the Company present their report together with the audited financial statements for the year ended 31 December 2021. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, can be located as follows:

Subject	Pages
Business activities and future development	8-19
Corporate Governance Report	20-23
Events after the reporting period	167
Internal controls and financial risk management	23
Relationship with suppliers	18
Results for the year	103-106
Use of financial instruments	143-146; 157-161

Section 414 of the Companies Act 2006 requires the Directors to present a Strategic Report in the Annual Report and Accounts. The information can be found on pages 4 to 19.

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

The Directors present their Annual Report and Accounts for the year ended 31 December 2021.

Principal activities

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

Results for the year

The Group made profit before taxation for the year of £197.4 million (2020: £73.6 million) and profit after taxation of £149.5 million (2020: £58.2 million).

The Company made profit before taxation for the year of £203.8 million (2020: £73.7 million) and profit after taxation of £153.5 million (2020: £58.3 million).

Dividends

The Directors are not recommending a final dividend in respect of the year ended 31 December 2021 (2020: £nil).

Directors

The Directors who served during the year were as follows:

- Robin Ashton
- John Callender
- Marcelino Castrillo (appointed as a Director of the Board on 7 June 2021)
- Ian Cowie (resigned as a Director of the Board on 7 June 2021)
- Andrew Didham
- Cédric Dubourdieu
- Paul Lawrence
- Lindsey McMurray
- Dylan Minto
- Michele Turmore

Employees with disabilities

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

Directors' Report

Human rights and Modern Slavery Act
Shawbrook has zero-tolerance to any modern slavery and by having the correct tools and regularly reviewing our policies, we can ensure that any occurrences are swiftly addressed. In 2021, we continued to take the appropriate steps to prevent slavery and human trafficking from both our business and supply chain. A full copy of our modern slavery statement can be found on the Group's website at: *www.shawbrook.co.uk/modern-slavery-act/*

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

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

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

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

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

The Group has maintained appropriate Directors' and Officers' liability insurance in place throughout 2021.

Company Secretary
All Directors have access to the services of the Company Secretary in relation to the discharge of their duties. Daniel Rushbrook is the Group Company Secretary. He can be contacted at the Company's registered office, details of which are on page 3.

Climate metrics and targets
In 2021, we commissioned BeZero Carbon to measure our carbon footprint[1]. We measured our Scope 1 and 2 greenhouse gas emissions as well as partial Scope 3 emissions (detailed in the tables on the following page). Our emissions relating to loans and investments (Scope 3, category 15) are not currently included, but we have started planning for their measurement during 2022. The estimated emissions for purchased goods and services are based on very high-level assumptions (from category-based expenditure).

In 2021 our total measured emissions were 15,792.5 tonnes of carbon dioxide equivalent (tCO2e).

[1] To calculate our carbon emissions, we follow the Greenhouse Gas Reporting Protocol framework, which identifies three scopes of emissions. Scope 1 represents the direct emissions from owned or controlled sources. Scope 2 represents the indirect emissions from the generation of purchased electricity. Scope 3 represents other indirect emissions across our value chain, including upstream and downstream emissions.

Directors' Report

The following tables present the period from 1 January to 31 December[1]. The tables use measures including: kilowatt hours (kWh) tonnes of carbon dioxide equivalent (tCO2e) and kilogram of carbon dioxide equivalent (kgCO2e). Certain metrics for 2020 were not measured and, accordingly, are marked as 'n/m'.

		2021	2020	Change
Energy	Total energy use for Scope 1 and 2 emissions (kWh)	**1,796,510**	1,703,243	5.5%
Emissions	Emissions from heating and own transport (Scope 1) (tCO2e)	-	-	-
	Emissions from the use of purchased electricity (Scope 2) (tCO2e)	**336.7**	123.4	172.8%
	Total emissions (Scope 1 and 2) (tCO2e)	**336.7**	123.4	172.8%
	Scope 3 emissions from business travel (tCO2e)	**110.4**	326.1	(66.2%)
	Total Scope 1, 2 and 3 emissions (tCO2e)	**447.1**	449.5	(0.5%)
Intensity metrics	Scope 1 and 2 emissions (kgCO2e per square foot)	**4.8**	1.8	n/a
	Scope 1 and 2 emissions (kgCO2e per full-time equivalent employee)	**378.1**	n/m	n/a

		2021	2020
Additional disclosure: Scope 3 emissions	Purchased goods and services (tCO2e)	**14,633.5**	n/m
	Fuel- and energy-related activities not included in Scope 1 or Scope 2 (tCO2e)	**29.8**	n/m
	Waste generated in operations (tCO2e)	**59.6**	n/m
	Employee commuting including work from home (tCO2e)	**622.3**	n/m
	Downstream transportation and distribution (tCO2e)	**0.2**	n/m
	Total emissions (Scope 3) (tCO2e)	**15,345.4**	n/m
	Total emissions (Scope 1, 2 and 3) (tCO2e)	**15,792.5**	449.5

Streamlined Energy and Carbon Reporting
The total emissions attributable to the Group, in compliance with the Streamlined Energy and Carbon Reporting (SECR) guidelines, were calculated to be 447.1 tCO2e between the reporting period of 1 January 2021 and 31 December 2021.

The COVID-19 pandemic led to significant changes in business operations during both 2020 and 2021, including work from home policies and travel restrictions, leading to a different emission profile than would be expected during a typical operating year.

The SECR methodology follows the Greenhouse Gas Reporting Protocol, specifically under the operational control approach for all facilities controlled by the Group. All energy and greenhouse gas calculations were completed using the 2020 and 2021 UK Government Greenhouse Gas Conversion Factors for Company Reporting[2]. Data used was based on operational data consisting of monthly and quarterly energy consumption breakdowns for all office sites and employee mileage that was later reimbursed by the Group. Where energy consumption was only provided by the amount of the utility bills paid, the office floor area was used to estimate energy consumption.

In February 2021, the Group acquired TML as a subsidiary. The 2021 SECR disclosure accounts for TML's energy use and greenhouse gas emissions.

Comparison to 2020 SECR
Total electricity use increased by 93,267 kWh. This increase is in part due to the extra office location (TML's office in Glasgow). Additionally, the 2021 reporting year included restrictions and guidance on work from home during COVID-19 lockdown periods. It is expected that, overall, employees worked more frequently in the office during 2021 than in 2020, leading to higher energy consumption in office locations.

[1] The Group's 2020 SECR report has been restated to include three additional office locations that were previously excluded.
[2] Department for Business, Energy and Industrial Strategy.

Directors' Report

Of the mandatory SECR reporting metrics, the Group's gross emissions decreased by 2.4 tCO_2e. Despite an overall increase in electricity consumption in 2021, the decrease in business travel emissions of 215.7 tCO_2e in the year led to an overall decrease.

Despite the varying COVID-19 lockdown periods, the total mileage claimed on grey fleet cars was very similar between both years. Therefore, the decrease in travel emissions is expected to be due to use of different data sources and calculation methodology (based on spending) in the 2021 report.

Going concern
The financial statements are prepared on a going concern basis. To assess the appropriateness of this basis the Directors have considered a wide range of information relating to present and future conditions, including the Group's current financial position, future projections of profitability, cash flows and capital resources. In addition, the Directors have considered the Group's risk assessment framework and the possible impacts from the top and emerging risks, as highlighted in the Risk Report, on the longer-term strategy and financial position of the business.

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

The Group's capital and liquidity plans have been stress tested under a range of severe but plausible scenarios as part of the annual planning process and annual ICAAP and ILAAP process and have been reviewed by the Directors. The stressed forecasts indicate that under these stressed scenarios, which include using the three PRA-prescribed scenarios, being the updated Rates Down scenario for non-systemic banks, the 2021 PRA-prescribed solvency scenario for systemic firms and a pandemic scenario, the Group continues to operate with sufficient levels of liquidity and capital for the next 12 months, with the Group's capital ratios and liquidity comfortably in excess of regulatory requirements.

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

Political and charitable donations
The Group did not make any political donations during the year (2020: £nil).

Share capital
Shawbrook Bank Limited is a company limited by shares. Details of the Group's issued share capital are shown in Note 42 of the Financial Statements.

The Group's share capital comprises one class of ordinary share with a nominal value of £1.00 each. As at 31 December 2021, 175,487,207 ordinary shares were in issue. There were no movements in the issued share capital during either of the reported years.

A capital contribution of £5.6 million was made during the year relating to Company's acquisition of TML as shown in Note 10 of the Financial Statements.

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

Directors' Report

Rights attaching to shares

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

New issues of share capital

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

Purchase of own shares by the Company

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

Auditor

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

Disclosure of information to the auditor

The Directors confirm that:

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

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

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

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

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

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

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

Directors' Report

Each of the Directors, whose names are listed on page 3, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report (on pages 4 to 19) and the Directors' Report (on pages 24 to 29) include a fair review of: (i) the business's development and performance and (ii) the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face;
- the Annual Report and financial statements comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for the shareholder to assess the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 30 March 2022.

By order of the Board.

DR

Daniel Rushbrook
Company Secretary

Risk Report

Approach to risk management

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

The Group's approach to risk management continued to evolve in 2021, with further investment in key areas such as climate change, financial crime controls, operational resiliency, information security and technology.

Notable activities and changes in relation to risk management during the year are summarised below.

- The Group appointed a new Chief Executive Officer in June 2021. Following this appointment, the Group implemented organisational changes, whereby the Group is now centred around three customer franchises (Enterprise, Consumer and TML), with an additional central segment. The risk function worked with the customer franchises and central functions to ensure alignment of responsibilities and clear segregation of the first and second line of defence. Additional investment has taken place in the second line of defence to increase consumer expertise, transition the oversight of collections and recoveries from the first line of defence, outsource policy oversight and support planning for the implementation of the Consumer Duty.
- The risk function appointed a new Director of Financial Crime and Money Laundering Reporting Officer and a Risk Management Director. In anticipation of possible challenges resulting from the ongoing impacts of COVID-19 and tapering of government support, the risk function also appointed permanent resources to support activities associated with the identification and subsequent management of potential problem loans.
- The Risk Management Framework (RMF) was further enhanced, reflecting the annual review of risk appetite and including further clarification of climate change risks and how these are managed.
- To support the embedding of climate change risk awareness, a training module was rolled out to all employees in November 2021. The Climate Risk Working Group also completed a climate risk assessment and developed a Climate Risk Implementation Plan for 2021, to demonstrate compliance with SS3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'. In support of the Climate Risk Implementation Plan, the Group arranged external training for the Board on the financial and transitional impacts arising from climate change. The Group has also established relationships with leading climate data specialists to support its assessment of physical and transition risk and has made progress in developing climate related disclosures. The Group plans to align to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) during 2022.
- Throughout the year, the Group has implemented its LIBOR transition programme and, as at 31 December 2021, the majority of the Group's exposures with LIBOR dependency have been transitioned to alternative rates through active communication with customers.
- The Group has further embedded its approach to stress testing and received Board approval for its Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Group risk appetite.
- The Group has completed a further review of its important business services and impact tolerances, together with a review of the implications for SS2/21 'Outsourcing and third party risk management', which was published in March 2021 and sets out the Prudential Regulation Authority's (PRA) expectations on how regulated firms should comply with regulatory requirements and expectations relating to outsourcing and third-party management. The Group is on track to deliver changes that are required to meet the requirements of SS2/21 in its existing contracts by 31 March 2022.

Effective risk management is recognised as being key to the execution of the Group's strategy. The Group's approach to risk management is underpinned by five key elements: risk strategy, risk appetite, the RMF, governance and culture. Further details of these key elements are provided below.

Approach to risk management

Risk strategy

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

The strategic risk management objectives are to:

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

Risk appetite

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

During the year ended 31 December 2021, the Group completed the annual review, together with some interim reviews, of the Group and first line of defence risk appetites. This included the approval of an initial set of climate change risk appetite measures within the appropriate principal risks.

The Risk Appetite Statement is not static and evolves to support the Group's business objectives, the operating environment and risk outlook. Whilst the Group Risk Appetite Report provides an aggregated measure of performance against risk appetite, it is not just a reporting tool. Just as importantly, it also provides a framework that is used dynamically to inform strategic and operational management decisions, as well as supporting the business planning process. In line with the opening up of the UK economy throughout 2021, the Group made strategic business decisions to re-balance risk appetite, whilst managing the needs of its existing customers.

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

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

Approach to risk management

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

Risk Management Framework

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

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

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

The RMF also incorporates the organisational arrangements for managing risk with specific responsibilities distributed to certain functions. This ensures that there is clear accountability, responsibility and engagement at appropriate levels within the Group, which can provide robust review and challenge, as well as be challenged. Operationally, the RMF is organised around a number of principal risks (see page 48).

Governance

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

Culture

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

Risk governance and oversight

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

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

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

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

The Group's principal risks are detailed on page 48. Oversight of these principal risks is illustrated below. Climate risk is embedded in each of the principal risks and is overseen by the Chief Risk Officer.

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

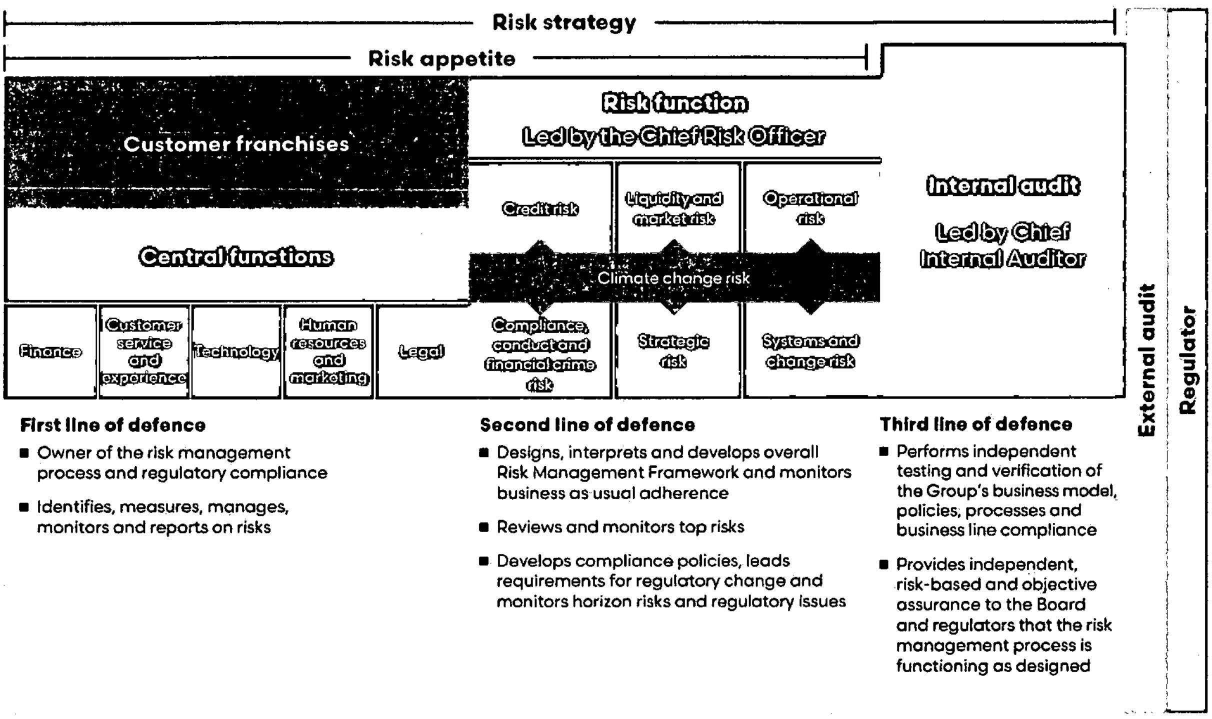
These bodies and senior officers are accountable and responsible for ensuring that the day-to-day risks are appropriately managed within the agreed risk appetite and in accordance with the requirements of the RMF.

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

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

Risk governance and oversight

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



First line of defence
Responsibility for risk management resides in the frontline customer franchises together with the central functions. Line management is directly accountable for identifying and managing the risks that arise in their business or functional area. They are required to establish effective controls in line with the Group's risk policies and act within the risk appetite parameters set and approved by the Board.

The first line of defence comprises the customer franchises and the central functions including: the finance function led by the Chief Financial Officer, the technology and change function led by the Chief Technology Officer, the human resources and marketing function led by the Chief People and Marketing Officer and the legal function led by General Counsel and Company Secretary. Operational risk and resilience oversight is performed by the Enterprise franchise on behalf of the Executive Committee.

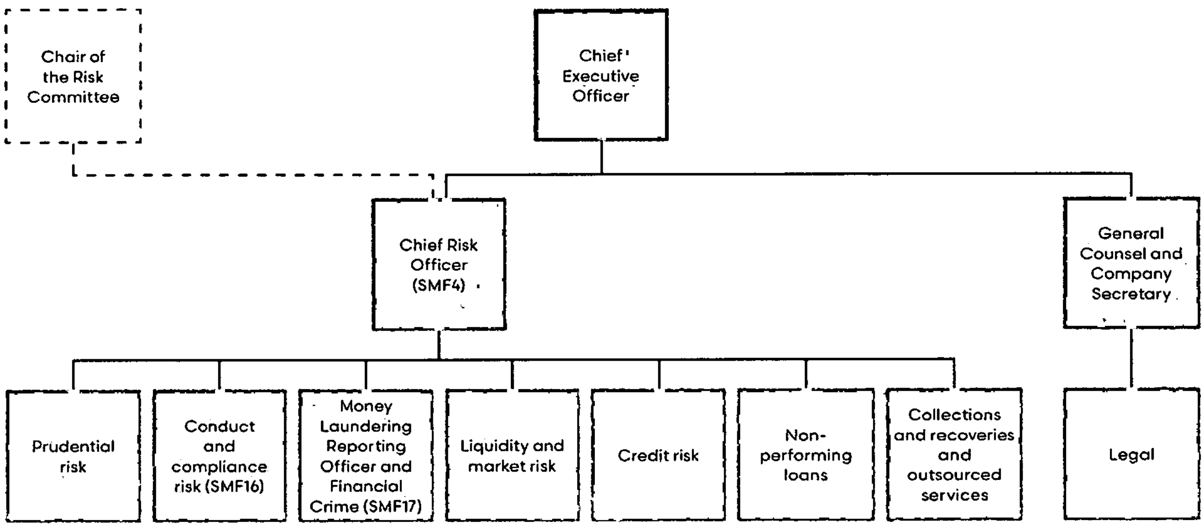
Each functional area operates to set risk policies to ensure that activities remain within the Board's stated risk appetite for that area of the Group. The risk policies are approved by the appropriate committee in accordance with their terms of reference and are reviewed annually, with any material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

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

Risk governance and oversight

Second line of defence
The second line of defence comprises the Group's central and independent risk management and compliance function led by the Chief Risk Officer, who reports to the Chief Executive Officer and laterally to the Chair of the Risk Committee. The Chief Risk Officer is also provided with unfettered access to the Chairman of the Board. The second line of defence also includes the General Counsel and Company Secretary who report to the Chief Executive Officer.

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



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

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

Risk governance and oversight

Third line of defence

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

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

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

The Group continues to engage Deloitte LLP to provide resources as part of the co-sourced model led by the Chief Internal Auditor.

Risk policies and controls

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

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

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

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

Asset class policies

The Group controls its lending activities through 21 asset class policies and a further 10 lending policies. This provides a stable, consistent risk standard and control across the Group's portfolio of loan assets. Asset classes can also be aligned more readily with risk-weightings, probability of default (PD), loss given default (LGD) and expected credit loss (ECL) metrics, which facilitates risk reporting, risk adjusted profitability analysis and modelling for stress testing and capital adequacy purposes. During 2021, the Group continued to utilise a matrix that sits above the asset class policies to highlight the key criteria that are reserved for Board approval.

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

Top and emerging risks

The Group's top and emerging risks are identified through the process outlined in the RMF (see page 33) and are considered regularly by the Group Risk Management Committee and subsequently by the Risk Committee.

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

The Group sees eight themes as its top risks:

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

A review of each of these themes is provided below. The links to key performance metrics provided for each top risk refer to those detailed on page 8 of the Strategic Report.

Credit impairment — **Movement: decreased**

Overview

As at 31 December 2021, the Group's loan book is £8.6 billion and is exposed to credit impairment if customers are unable to repay loans and any outstanding interest and fees.

The shape of the economic recovery will play a key role in driving the impairment profile in the foreseeable future.

As the government support provided during COVID-19 comes to an end, the risk of highly indebted SMEs not able to service their debt increases. In addition, the shape of post-COVID economic recovery, e.g. rise in online shopping, hybrid working, rising inflation, labour shortages and disruption in supply chain, could all collectively put pressure on cost of risk across retail and SME portfolios.

Links to key performance metrics

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

How this could impact our strategy or business model

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

How we manage this risk

- Investment in permanent non-performing loan resources has managed the number of watchlist and forbearance cases during COVID-19 and will continue to respond proactively to potential uncertainty following the removal of furlough.
- The Group's risk appetite is calibrated to help achieve the business strategy and is modified as required to reflect the uncertainty in economic and competitive landscape.
- The Group has enhanced underwriting guidelines and requirements to provide increased focus on sustainability of income, including some non-contractual income sources, within the affordability calculation. Asset class policies have been cautiously reviewed to recognise the recovery in some segments of the Group's target market.
- The impact on impairment models is regularly monitored and reported to internal committees and post-model adjustments (PMAs) are reviewed by the Model Management Sub-Committee and approved by the Group Impairment Committee.

Focus areas for 2022

- Increased focus on product and sectoral risk to support the Group's evolution of risk appetite as the economic recovery continues.
- Develop further strategic credit management information to ensure timely and accurate reflection of risk in the Group's lending segments, thus enhancing the Group's ability to make proactive decisions.
- Continue to develop the granularity and accuracy of the Group's stress testing capability.
- Regular review of the evidence supporting all key areas of judgement used in support of the model-based ECL.

Top and emerging risks

Intermediary, outsourcing and operational resiliency	Movement: no change
Overview The specialist nature of some of the Group's lending through intermediaries and brokers could mean some customers find themselves with an increased risk of an unfavourable outcome. This may include meeting Mortgage Conduct of Business regulation, Consumer Credit sourcebook and other regulations and the oversight of third parties where it may be exposed to Section 75 and Section 140 risk. For the Group, this could also lead to increased conduct related redress, additional fraud, or credit risk impairments. The Group uses a number of third parties to support the delivery of its objectives. The availability and resiliency of its core customer facing systems play a key role in supporting the Group's reputation in its chosen markets. **Links to key performance metrics** • Loan book • Customers served	**How this could impact our strategy or business model** • The Group may be impacted by the failure of third parties to deliver on their regulatory obligations, which may lead to increased complaints, redress costs and damage to the Group's reputation through regulatory censure. This may also lead to increased contingent liabilities in certain areas where the Group is exposed to Section 75 and Section 140 liabilities, which impacts on the Group's profitability and capital resources. • Failure of a third-party outsourcer may lead to customer harm, which may lead to complaints, loss of confidence in the Group and potentially regulatory censure. • The Group, as a deposit taker, could be impacted if its systems prevented a significant number of payments to be made, leading to its financial stability being undermined. • The potential for operational disruption could have a material impact on profitability or viability. **How we manage this risk** • The Group has continued to invest in its relationship with its key third parties, to focus on strong customer outcomes particularly as furlough ends. This has included increased reporting of the performance of material third parties at the Group Risk Management Committee, Risk Committee and Board as appropriate. • The Group has implemented a new material outsource service for its Consumer franchise to benefit from increased levels of digital self-service channels through which customers can engage with the Group. • The Group has identified all of its important business services and has invested resources in developing policy, process and procedures to support the effective operation of each. • The Group has developed and implemented an operational resiliency roadmap and heatmap of its key business services, including an update to its impact tolerances to promote greater operational resiliency. • The Group has further invested in cloud technology to increase the resiliency of its core systems, back-up for its core information and to automate its watchlist and other key management information. This has also included the onboarding of climate related management information. **Focus areas for 2022** • Further embedding of the Operational Resilience Framework through scenario testing to refine the Group's impact tolerances in both assessing customer harm and the safety and soundness of the Group. • The Group is reviewing its existing contracts to meet the requirements of SS2/21 on outsourcing and third-party management. • The Group is accelerating its investment in digital, including the embedding of Agile and product engineering within its product segments and the automation of its credit risk management information.

Top and emerging risks

Global pandemic risk — **Movement: decreased**

Overview

The UK COVID-19 vaccination programme and economic and regulatory policy measures have significantly supported the UK's economic recovery during 2021. However, uncertainty around the impact of furlough on unemployment and the prospects for SMEs, combined with the potential for new variants and the impact on the NHS over the winter months, could impact on the economic recovery. This could impact upon the Group's employees, operations, third parties and customers. The ultimate impact will depend on unemployment, virus recurrence, the nature and extent of any government interventions and the timing and effectiveness of new health measures taken to supress the spread.

Links to key performance metrics

- Loan book
- Customers served
- Cost of risk
- CET1 capital ratio
- Total capital ratio
- Employee engagement score

How this could impact our strategy or business model

- Reduced customer spending and business investment, lowering demand for the Group's loan products and decreasing originations.
- Increased impairments resulting from higher unemployment, insolvencies and reduced income impacting customer's ability to service debt and increased numbers of customers requesting forbearance.
- Impact on impairment arising from other economic variables such as residential and commercial property prices.
- Increased pressure on operations resulting from increased numbers of customers seeking support and the potential for colleagues to be exposed to the virus generating increased absenteeism.
- A protracted delay in the return to the office environment could reduce collaboration and delay the execution of the strategy.

How we manage this risk

- The Executive Committee established a People Engagement Forum with the aim of ensuring that the employee voice is heard in a more formalised way. The People Engagement Forum is working alongside the Group's Estate Steering Committee to shape the design and delivery of the transition back to the 'new normal'. The People Engagement Forum has focused on lessons learnt from working at home and longer-term thinking about how the Group uses its offices to support the delivery of strategy, collaboration and employee engagement.
- The Group continues to follow government advice and has promoted a gradual return to office-based working. Going forward, the Group aims to adopt a hybrid and flexible approach to work, guided by industry standards and practices, which could support both our employees and customers alike. Additional investment in IT infrastructure, including the roll out of new laptops to all colleagues, has been made to enhance information security, which will continue to support Group's hybrid working approach.
- Continuation of measures to support the safety and wellbeing of all employees, including: the provision of membership to a wellbeing and meditation app, licenses to a video conferencing provider to allow employees to remain connected with families and the business and access to an online GP service.
- The Group has provided loans to customers under COVID-19 related business support schemes (Coronavirus Business Interruption Loan Scheme and Recovery Loan Scheme) to existing customers affected by COVID-19 that met eligibility criteria.
- Provision of forbearance arrangements, adhering to and complying with regulatory guidance. Whilst most customers have returned to making full repayments, the Group expects that some customers will require longer-term forbearance measures.

Focus areas for 2022

- As government support and temporary COVID-19 related measures expire, the Group will continue to focus on supporting its customers appropriately and meeting regulatory obligations.
- Continued assessment of the impact of COVID-19 scenarios to identify and evaluate financial impacts on the business, the Group's third parties, operations and its employees.
- Continued focus on the impact of COVID-19 on the Group's impairment models and calculated ECLs.
- Conduct risk assessments to identify potential strategic, operational and regulatory exposures.

Top and emerging risks

<table>
<tr><th>Geopolitical risk</th><th>Movement: no change</th></tr>
<tr><td>
Overview
Geopolitical risk, such as an unprecedented political risk e.g. a dispute triggering Article 16 or regional conflicts, could present a risk to the business, its financials and earnings volatility.

The UK left the EU on 31 January 2020 with a trade agreement in place at the end of the transition period on 31 December 2020. However, during 2021 a number of issues resurfaced between the UK and the EU, e.g. revision of terms of Northern Ireland protocol, fishing rights and export ban on COVID-19 vaccine quotas, which could lead to a trade dispute with the EU.

Post-Brexit immigration rules have disrupted trade, particularly affecting UK exports to the EU. The impact was also observed in labour markets, e.g. shortage in road haulage drivers, farm and hospitality workers, as many European workers returned to the EU. Although this has led to an increase in job vacancies in the UK, many of these remain unfilled due to skill gaps and low uptake by British workers in certain segments.

Links to key performance metrics
• Loan book
• Cost to income ratio
• Customers served
• Cost of risk
• CET1 capital ratio
• Total capital ratio
</td><td>
How this could impact our strategy or business model
• Lower economic, labour shortage and disruption in supply chains could impact the level of private sector investment in the UK, which, in turn, negatively impact on the Group's customers' demand for loans, funding and deposits that it provides.
• Trade disagreements could potentially elevate economic issues as seen with a rise in inflation during 2021, which could lead to higher interest rates and affect impairments on the Group's loan portfolios.
• Credit spreads could widen leading to reduced investor appetite for the Group's debt securities, which could impact the Group's cost of and/or access to funding and the ability to grow the loan portfolios.
• The Group's operational resiliency may be impacted by the need to transition activities from non-UK firms.

How we manage this risk
• The Group undertakes a comprehensive assessment of its risk appetite and stress tests its lending and deposit portfolios to ensure that it can meet its objectives in severe but plausible economic conditions. This includes the Group's assessment of post-Brexit risks and opportunities.
• The Group regularly engages with its critical suppliers to foresee and mitigate any impact on services provided to the Group.
• The Group continues to strengthen its capital position and pursue a diversified funding structure. The Group has completed a number of securitisations of its loan portfolios and this continues to be a key part of the Group's strategy.
• The Group has reviewed its register of outsource providers and has no gaps in EU General Data Protection Regulation Article 28 clauses.

Focus areas for 2022
• Ensure that all outsourcers and third parties are operationally resilient in the event of geopolitical uncertainty, including the review of business continuity plans and disaster recovery plans and regular tests of technology resiliency using tools such as penetration testing.
• Continue to develop a range of mitigating actions, including the use of robust stress tests that contain the risk of geopolitical risk by comparing the economic scenarios assessed in IFRS 9 with those used in the ICAAP.
• The Group continues to monitor the situation in Ukraine. Although the Group does not have any direct exposure, it does have indirect exposure, for example the impacts of rising energy prices, cost of living and inflation, potential supply chain issues faced by customers and increased cyber security threats. Accordingly, the Group has updated its affordability policy to ensure that its lending remains appropriate and is closely monitoring the cyber perimeter and information security risks within the Group and by engaging with key third parties.
</td></tr>
</table>

Top and emerging risks

Economic and competitive environment	**Movement: increased**
Overview A reversal in UK economic conditions, particularly in England where the majority of the Group's operations are based, could affect the Group's performance. The UK economy witnessed sharp growth during the first half of 2021 as COVID-19 restrictions ended. However, the downside risks remained during 2021, with higher inflation and acute material shortages as reflected in soaring prices of used cars, rising energy and fuel prices and shortage of construction materials, all impacting on growth in the short- to medium-term. In addition, the economic challenges from the ending of the furlough scheme, together with ending of temporary restrictions on the use of statutory demands and certain winding-up petitions on corporations, are still to be seen. The trading environment remains competitive as more specialised lenders returned to lending during 2021 as consumer demand returned, new lenders gained banking licenses and existing firms invest in technology and agile ways of operating and providing service to customers and clients. **Links to key performance metrics** • Loan book • Customers served • Cost of risk • Gross asset yield • CET1 capital ratio • Total capital ratio	**How this could impact our strategy or business model** • Reduced gross lending from lower demand as customers defer major purchases and investment. This may be partly offset by lower early settlement of loans. • Increased impairments if a significant number of SMEs experience financial distress or insolvency, or if consumers experience an increase in unemployment. • A prolonged economic downturn may impact the Group's ability to fund strategic investment to meet the needs of customers and improve operations. • Rising competition may compress Group margins and impact on target returns. **How we manage this risk** • The Group continued on its digital journey including the launch of the My Shawbrook Buy-to-Let Portal and delivering Platform for Growth to support the scaling of the Asset Finance offering. This includes the development of a decision engine to support the delivery of automated lending decisions and implementation of a partner oversight tool that supports greater consistency and automation of brokers and intermediaries. • The Group carefully considered its risk appetite in its selected markets and prioritised the needs of its existing customers over new originations. The Group prioritised investment in meeting the Group's longer-term needs through the creation of a 'Value Creation Roadmap'. • Investment made during 2020 in additional resources in the first and second lines of defence continued to strengthen the Group's ability to manage problem loans. • The Group became an accredited Recovery Loan Scheme lender in August 2021, offering a limited number of loans to existing customers affected by COVID-19 that meet specific eligibility criteria. • The Group undertakes a comprehensive assessment of its risk appetite under baseline and stress economic scenarios to ensure that it can meet its objectives in severe but plausible economic conditions. **Focus areas for 2022** • The targeted expansion of risk appetite in carefully selected sectors to align with the economic outlook as it emerges. • Scaling the business through the implementation of automated lending decisions. • Utilisation of third parties and technology to increase capacity in originations, servicing and collections activities to position the Group to meet the needs of its customers. • Continue to invest in its outsourcing controls and oversight to manage any additional risk that the Group may be exposed to. • Accelerate the Group's investment in digital through additional resources in product management and a focus on customer and user experience. • Support the wider adoption of Agile through the embedding of a product and engineering model. • Invest in technology resources to deliver the engineering requirements of the accelerated digital strategy.

Top and emerging risks

Pace of regulatory change	**Movement: no change**
Overview The prudential and conduct regulatory regimes are subject to change and could lead to either increase in the level and quality of financial resources, or change in policies and processes to meet regulatory requirements. In relation to financial risk, in December 2021, the Financial Policy Committee announced that the UK countercyclical capital buffer would increase from 0% to 1% in December 2022 and, if the economy continued to progress, it would be expected to increase from 1% to 2% in June 2023. Other relevant prudential policy announcements in the next year include guidance on implementation of the remaining Basel 3 banking standards, the minimum requirement for own funds and eligible liabilities review and the implementation of Basel 3.1. The financial sector will also continue to embed climate risk regulation and industry standards, which are subject to evolve over the coming years and will form a key part of the business strategy. In relation to non-financial risks, implementation of operational resilience and third party and outsourcing regulations will continue, along with other high priority regulatory initiatives as published in the Regulatory Initiatives Grid in November 2021, including the new Consumer Duty. **Links to key performance metrics** • Loan book • Cost to income ratio • Cost of risk • CET1 capital ratio • Total capital ratio	**How this could impact our strategy or business model** • An increase in minimum regulatory capital requirements may directly impact on the Group's risk appetite and its ability to support its lending to current and potential future customers. • Changes in regulatory capital requirements may lead the Group to change its business mix, exit certain business activities altogether or not to expand in areas despite otherwise attractive potential. • An increase in minimum regulatory capital requirements may restrict distributions on capital instruments, which may have an impact on the Group's ability to issue new, or refinance existing, capital instruments. • Frequent change in regulation could also have wide ranging impacts beyond financial resources reflected through changes in internal policies and processes, people and systems resources, product offerings and the markets and customers we serve. **How we manage this risk** • The Group actively engages with regulators, industry bodies and advisors to actively engage in consultation processes. The Group actively reviews regulatory publications to assess their implications for the business and oversees the impact analysis through its Regulatory Change Working Group. • The Group follows its prudential programme to update its ICAAP, ILAAP and Recovery Plan and Resolution Pack and considers the conclusions in the regular business planning processes that have taken place during the year. • During 2021, the Group completed a structured asset sale of £343 million of TML originated mortgages. This is the second structured asset sale of TML originated mortgages. The transaction will support the Group's growth objectives, funding strategy and capital management. **Focus areas for 2022** • Ongoing stress testing of the Group's lending portfolios to quantify the impact of any changes on the strategy and business model. • Complete an annual review of the ICAAP and Recovery Plan and complete the Liquidity Supervisory Review and Evaluation Process. • The design and implementation of controls to support the embedding of the new Consumer Duty and new Consumer Principle.

Top and emerging risks

Pace, scale of change and people risk	Movement: no change
Overview The scale and pace of change could create delivery challenges and could lead to disruption of the Group's plans and in the delivery of its objectives. The Group needs to deliver a significant number of projects over the plan to deliver its objectives. Failure to deliver the required change may lead to disruptions in the delivery of its objectives. The hybrid working environment post-COVID poses additional challenges on collaboration and development, but may open up new recruitment markets. ESG is a key pillar of the Group's purpose led strategy and reflects the importance of sustainability, and equality, diversity and inclusion in driving the long-term strategy and business model. **Links to key performance metrics** • Loan book • Customers served • Cost of risk • Gross asset yield • CET1 capital ratio • Total capital ratio	**How this could impact our strategy or business model** • Delivering what customers need and in the way that they want to engage with the Group is essential to building the Group and failure to do this may impact on originations, customer retention and profitability. • People risk remains a key factor in the post-COVID environment as hybrid working and flexible working hours becomes the 'new normal'. Improvement in technology continues to create options for people to live and work from a place of their choice and firms that lag behind in their employee value proposition might find it difficult to attract the right talent. • Failure to protect employees and promote mental health and wellbeing could lead to higher absence and impacts on the Group's ability to look after its existing customers. • A clear and purposeful ESG strategy is key to supporting long-term sustainable performance, including strong engagement from all employees. **How we manage this risk** • The Group has focused on supporting employees during COVID-19 with the implementation of new technologies to ensure that the Group's operations remain resilient. • The Group has actively considered the wellbeing of its employees by offering membership to a wellbeing and meditation app, access to an online GP service and a comprehensive workplace assessment process that has been followed with the provision of additional support where reasonable adjustments are required. • The Group's People Engagement Forum is working alongside the Group's Estate Steering Committee to shape the design and delivery of the transition back to the 'new normal'. The People Engagement Forum has focused on lessons learnt from working at home and longer-term thinking about how the Group uses its offices to support the delivery of strategy, collaboration and employee engagement. • The Group has launched an ESG working group and an equality, diversity and inclusion network, which included the Group signing up for the Race at Work Charter. • In April 2021, the Group announced a multi-year partnership with rugby union side, Saracens. As part of the sponsorship the Group provides ongoing financial support to the 20-year-old 'Saracens Foundation', whose mission is to transform lives on and off the pitch to build stronger communities. • The Group has regularly completed its employee engagement survey and maintained an employee engagement score of 8.0 (2020: 8.0). • The Group continues to develop its employee value proposition to attract and retain the best talent to support its business strategy. • The Group's adoption of hybrid working provides the opportunity to access a wider talent pool across the UK and, in turn, supports the UK Government's levelling up agenda. **Focus areas for 2022** • The Group has organised its strategic priorities into a roadmap through which to prioritise its resources. Delivery of the roadmap is key to the Group's objectives. • The Group will continue to advance its digital strategy through its investment in people and technological resources to deliver its objectives.

Top and emerging risks

Information and cyber security risk	Movement: increased
Overview The cyber threat remains significant and high profile across all industries. Cyber security and information risk continues to be a focus area for regulators and is increasingly assessed as an integral part of operational resilience. This is coupled with an increase in public awareness and regulatory focus specifically on cyber resilience in the face of increasingly targeted, destructive ransomware attacks experienced over the last 12 months in the market. **Links to key performance metrics** • Loan book • Customers served • CET1 capital ratio • Total capital ratio	**How this could impact our strategy or business model** • Increasing customer demand could exceed the Group's ability to provide highly reliable and widely available systems and services, leading to a fall in confidence and customer attrition. • The evolving nature and scale of criminal activity could increase the likelihood and severity of attacks on the Group's systems. • Customer franchise value and customer trust could be significantly eroded by a successful attack on the Group's systems, leading to a diversion of funds or the theft of customer data. **How we manage this risk** • The Group continually reviews its control environment for information security to reflect the evolving nature of the threats to which the Group is exposed. • The Group's strategy for mitigating information security risk is comprehensive, including: a documented cyber strategy, ongoing threat assessments, regular penetration testing, the wide deployment of preventative and detective controls and a programme of cyber awareness education and training. • The Group continues to invest in its technology layer, including the use of cloud computing resources to improve resiliency and the implementation of additional controls to support the security of its core systems. This includes investment in automated application security testing tools and sensitive data discovery software. • Development of customer franchise specific application and data heatmaps to manage legacy system risk, resiliency and the build-up of technical debt. **Focus areas for 2022** • The Group has continued to invest in its capabilities to reduce its exposure to a cyber-attack and plans to further align to ISO 27001 standards to further refine its risk appetite and controls with respect to information security. • Embed Chief Technology Office and information security controls within its outsourcers and third parties. • Group-wide implementation of data ownership and controls to promote improved accuracy of source customer data and improvements in management information. • Group-wide implementation of Agile through the embedding of the product and engineering model.

Top and emerging risks

Emerging risks

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

The Group has identified two emerging risks:

- Financial crime
- Climate risk

Each of these risks are considered further below. The links to key performance metrics provided for each emerging risk refer to those detailed on page 8 of the Strategic Report.

In the comparative year, LIBOR transition and negative rates were also identified as emerging risks. However, as at 31 December 2021, the Group's LIBOR transition programme is largely complete and during 2021 the Group has implemented tactical changes to address the potential for negative rates. Consequently, these areas have now been removed as emerging risks.

Financial crime	**Movement: emerging risk**
Overview Financial crime is any kind of criminal conduct relating to money or to financial services or markets. This includes any offence involving: • fraud or dishonesty; • misconduct in, or misuse of information relating to, a financial market; • handling the proceeds of crime; or • the financing of terrorism. Although the risk has always been present in the financial services industry, the increased use of digital channels has elevated the risk profile. With the development of technology, the type and impact of financial crime activities is likely to increase over the coming years. **Links to key performance metrics** • Loan book • Cost to income ratio • Customers served • Cost of risk	**How this could impact our strategy or business model** • An inadequate control environment for financial crime could lead to increased operational losses, credit impairment, increased manual reviews and potentially regulatory enforcement, penalties and/or censure. • The reputational damage associated with financial crime could cause loss of customers and intermediaries, impacting the Group's revenues and financial position and/or regulatory standing. • The current hybrid working environment and the transition of resources to new work activities may impact the effectiveness of existing controls and increase fraud opportunities. **How we manage this risk** • The Group continues to enhance its control environment with respect to financial crime. This is closely monitored by the Executive Committee. • The Group began implementation of an automated customer due diligence processes in 2021 and this will be completed in 2022. • The Group conducts a firm-wide financial crime risk assessment to assess compliance with Group policies. This focuses on the following risk categories: money laundering and terrorist financing risk, bribery and corruption risk, sanctions risk, tax evasion risk and fraud risk. • The Group has a dedicated Money Laundering Reporting Officer, who reports to the Chief Risk Officer. **Focus areas for 2022** • During 2021, the Group has significantly enhanced its defences to tackle financial crime through the implementation of a new financial crime control environment. This implementation plan will continue into 2022, with key focus on the automation of processes and controls such as customer due diligence and transaction monitoring. • The Group will continue to invest in resources and risk identification, prevention and control mechanisms to protect its customers and investors and to protect the Group from the facilitation of financial crime. • The Group will ensure that actions arising from the review of the material customer loan write-off that occurred in 2021 are fully implemented.

Top and emerging risks

Climate risk	Movement: emerging risk
Overview Climate change and society's response to it, presents financial risks which impact the Group's objectives. The risks arise through two primary channels: the physical effects of climate change and the impact of changes associated with the transition to a lower carbon economy. **Links to key performance metrics** • Loan book • Customers served • Cost of risk • Gross asset yield • CET1 capital ratio • Total capital ratio	**How this could impact our strategy or business model** • Physical risks could lead to real impacts on the economy through business disruption, asset destruction and migration. This may drive market and credit losses to the Group through lower property and corporate asset values, lower household wealth and lower corporate profits and more litigation. • The transition to a lower carbon economy could lead to lower growth and productivity and the potential for operational risks and underwriting losses. **How we manage this risk** • The Group considers the embedding of climate related matters to be a key initiative and, as such, has appointed the Chief Risk Officer as the responsible executive to oversee delivery of the Climate Change Plan. • The Group has embedded the management of climate risk within each of its principal risks, with a focus on high materiality areas including strategic risk and credit risk. • The Group has developed a proportionate approach to climate change in line with the requirements of SS3/19 and focuses its assessment on term loans in the Enterprise and TML franchises. • The Group has partnered with leading climate data providers and consultancies to develop its understanding of physical and transition risk and has used this to develop its initial risk appetite statement and measures together with metrics, measures and initial climate risk disclosures and the TCFD roadmap. • The Group has a working group that meets monthly to oversee implementation and achieved compliance with SS3/19 by the end of 2021. This includes the development of target capabilities across four workstreams: governance, RMF, scenario analysis and disclosures. **Focus areas for 2022** • Climate risk is an ongoing long-term cross cutting risk, hence its impact on the Group's policies, customers, markets and products will be closely linked to the UK Government's policies on transition to net zero and how other financial institutions embed climate risk in their business models.

Principal risks

The principal risks faced by the Group are set out in the table below. Oversight of the Group's principal risks is outlined on page 34. Climate risk is embedded within each principal risk.

Certain information in the principal risks section is audited. Sections that are specifically marked as 'audited' are covered by the Independent Auditor's Report starting on page 97. All other sections are unaudited.

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

Principal risk	Definition	Principal sources of exposure	Additional information
Credit risk *(Audited)*	Credit risk is the risk that a borrowing client or treasury counterparty fails to repay some, or all, of the capital or interest advanced to them, due to lack of willingness to pay and/or lack of ability to pay. Credit risk can be further divided into customer credit risk (from core lending activity) and treasury credit risk (from treasury activity). Credit risk also includes credit concentration risk, which is the risk of exposure to particular groups of customers, sectors or geographies that, uncontrolled, may lead to additional losses that the Shareholder or the market may not expect.	The principal source of customer credit risk is the Group's loans and advances to customers. Treasury credit risk exposure is limited to short-term deposits placed with leading UK banks and high-quality liquid assets purchased for inclusion in the Group's liquidity buffer.	See page 50
Liquidity risk *(Partially audited)*	Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.	The principal source of liquidity risk is the Group's retail and wholesale deposits, as well as affinity partnerships and bilateral/public securitisations.	See page 78
Market risk *(Partially audited)*	Market risk is the risk of financial loss through unhedged or mismatched asset and liability positions that are sensitive to changes in interest rates or currencies.	Exposure to market risk arises from the Group's core activities of offering loans and deposits to customers. All financial assets held by the Group are non-trading.	See page 83
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system failures, or from external events.	The principal sources of operational risk, as per the year-end assessment, are information, model, third-party suppliers and process execution.	See page 86
Compliance, conduct and financial crime risk	Conduct risk is the risk that the Group's behaviour will result in poor customer outcomes and that the Group's people fail to behave with integrity. Compliance and financial crime risk is the risk of regulatory enforcement and sanction, material financial loss, or loss of reputation the Group may suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice, or that the Group's processes may be used to commit financial crime.	The principal sources of compliance, conduct and financial crime risk are when customers suffer harm due to the Group, or its third-party suppliers and intermediaries, failure to meet expectations, or treat customers fairly, particularly when servicing the needs of customers with vulnerabilities. Compliance risk arises where the Group fails to identify or comply with applicable law and regulation. Financial crime risk arises where the Group's systems and controls are circumvented for the purposes of perpetrating financial crime, including fraud, bribery, money laundering and the financing of terrorist activity.	See page 87

Continued.

Principal risks

Principal risk	Definition	Principal sources of exposure	Additional information
Strategic risk	Strategic risk is the risk that the Group is unable to meet its objectives through the inappropriate selection or implementation of strategic plans. This includes the ability to generate lending volumes within the Group's risk appetite.	The principal sources of strategic risk are lending growth, financial strength and profit volatility.	See page 87
Systems and change risk	Systems risk is the risk that new threats are introduced to the Group's critical systems resulting in them becoming unavailable during core operational times. Change risk is the risk that transition changes in the business will not be supported by appropriate change capability and be improperly implemented. It is also the risk that too many in-flight changes cause disruption to business operations.	The principal sources of systems and change risk are sufficient and up to date technology, together with appropriate innovation and delivery capacity.	See page 87

Change in lending segments

During the year ended 31 December 2021, the Group implemented organisational changes. Prior to these organisational changes, the Group had three reportable lending segments (Property Finance, Business Finance and Consumer Lending). Following the changes, a new reportable lending segment, TML Mortgages, was added. TML Mortgages, was previously included within the Property Finance lending segment. As a result of this change, there are now four reportable lending segments, which are organised under the Group's new customer franchises, as summarised below:

- **Enterprise:** comprising the amended Property Finance segment and Business Finance;
- **Consumer:** comprising Consumer Lending; and
- **TML:** comprising the new TML Mortgages segment[1].

A number of the disclosures in the credit risk section that follows present information that is disaggregated by lending segment. Such disclosures are now based on the four new lending segments and prior year comparative information has been restated accordingly.

[1] The TML Mortgages segment comprises: the TML subsidiary, or, prior to it becoming a subsidiary when TML was an associate, the Group's share of results; and loans originated by TML that are held on the Company's statement of financial position.

Principal risks

Credit risk

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

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

(a) Managing credit risk *(audited)*

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

Credit risk approval process

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

During the year ended 31 December 2021, organisational changes were implemented. This included the existing Property Finance credit approval authorities transferring from the Chief Operating Office to the Customer Experience Director, who is a member of the Executive Committee. TML credit approval authorities remained with the Chief Operating Office in TML, pending the arrival of a new Chief Risk Officer in TML, and the existing Consumer Lending credit approval authorities transferred to the Head of Regulated Lending and Customer Service. The delegation for all SME lending within the Enterprise franchise continues to sit with the credit risk team in the Group's risk function.

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

The Group is a responsible lender and affordability remains a key area of focus for the Group. The Group's approach to affordability is set out in the Group's affordability policy, which is embedded within each of the customer franchise's lending guides and systems. The Group also uses a number of external systems to check affordability and has the ability to refer to Open Banking information, subject to policy and customer consent.

Credit monitoring

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

The Group's risk function oversees collections and arrears management processes, which are managed internally or by selected third parties. Throughout 2021, the Group continued to invest in its collections strategies and potential problem loan management teams to ensure that the Group is well positioned for a more challenging environment.

Managing credit risk in relation to business support schemes offered by the UK Government

The Group became an accredited Coronavirus Business Interruption Loan Scheme (CBILS) lender in May 2020 and offered CBILS loans until the end of March 2021. Following this, the Group became an accredited Recovery Loan Scheme lender in August 2021.

To manage credit risk in relation to loans offered under these support schemes, the Group only offers such loans to customers with existing debt facilities that meet specific eligibility criteria. Credit risk on these loans are individually assessed and then approved by the second line of defence.

As a further risk mitigant, the UK Government provides the Group with a guarantee to protect 80% of any post recovery loss in the event of default on loans offered under these support schemes. In relation to CBILS loans, the UK Government also provided the option to customers to make a Business Interruption Payment on their behalf to cover the first 12 months of interest payments and some upfront fees.

Principal risks

Credit risk

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

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

The Group calculates ECLs and recognises a 'loss allowance' in the statement of financial position for its financial assets not held at fair value through profit or loss and for loan commitments[1].

The following sections provide details regarding the measurement and calculation of ECLs, the use of post-model adjustments (PMAs), analysis of the loss allowance recognised in the statement of financial position and an assessment of the critical accounting judgements and estimates associated with the impairment of financial assets.

Measurement of expected credit losses *(audited)*

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

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

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

In relation to the above:

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

Assessing whether an asset shows a SICR and determining whether an asset is considered to be in default, or otherwise credit impaired, or is considered to be 'cured' are all identified as areas involving critical judgement and are detailed further starting on page 62.

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

[1] The Group has no financial guarantee contracts.

Principal risks

Credit risk

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

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

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

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

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

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

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

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

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

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

Principal risks

Credit risk

Loss given default

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

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

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

Basis of calculation

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

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

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

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

- Stage 1 and Stage 2 loans and certain Stage 3 exposures within the Enterprise franchise (except as identified above);
- Mortgages originated through TML; and
- all loans within the Consumer franchise.

Principal risks

Credit risk

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

Property Finance	• Product asset class (residential lending and commercial/semi-commercial lending); • time on file; and • exposure value.
Business Finance	• Business unit (i.e. asset finance, structured finance, corporate lending and development finance); • time on file; and • collateral type.
Consumer Lending	• Product type (personal loans and home improvement/holiday ownership loans); and • time on file.
TML Mortgages	• Product type (buy-to-let and owner-occupied lending).

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

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

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

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

Post-model adjustments *(audited)*
Limitations in the impairment models used to calculate ECLs may be identified through the ongoing assessment and validation of the outputs from the models. Consequently, in certain circumstances, the Group makes PMAs to ensure the loss allowance recognised adequately reflects the expected outcome. These adjustments are generally modelled to take into account the particular attributes of the account that have not been adequately captured by the models. All PMAs are monitored, reviewed and where applicable incorporated into future model development. PMAs are reviewed and approved every six months at the Group Impairment Committee and the Audit Committee, along with other key impairment judgements. PMAs are considered to be an area of critical judgement (see page 62).

Principal risks

Credit risk

During the year ended 31 December 2021, PMAs continued to be applied in the economic response models as these models have not been trained over a period that is comparable to a COVID-19 environment.

As at 31 December 2021, specific PMAs added to the modelled loss allowance totalled £4.9 million (2020: £7.0 million) and are as follows:

- a COVID-19 PMA of £0.8 million (2020: £2.9 million). This PMA is applied to customers that have taken a payment holiday in relation to COVID-19 to account for the additional risk of default once the payment holiday has expired. The PMA has been calculated on the assumption that they will ultimately behave like loans in Stage 2;
- a high-risk sector PMA of £1.8 million (2020: £4.1 million). This PMA is applied to individual customers that are non-performing where recovery is linked to COVID-19 and sectors assessed by the Group as being most impacted by COVID-19 to account for the additional risk of default;
- a property-based PMA of £0.3 million (2020: £nil). This PMA is applied to loans where the underlying collateral is a block over 18 metres tall that may be subject to cladding risk; and
- a consumer-based PMA of £2.0 million (2020: £nil). This PMA reflects the growth in the loan book during H2 2021 where the full risk has not emerged due to the lack of seasoning of the loans.

PMAs are assigned between Stage 1 and Stage 2.

A summary of PMA's by lending segment[1] is as follows:

	2021 £m	2020 £m
Property Finance	**0.3**	2.9
Business Finance	**1.8**	4.1
Consumer Lending	**2.8**	-
Total post-model adjustments	**4.9**	7.0

Analysis of the loss allowance recognised *(audited)*
A summary of the loss allowance recognised in the Group's statement of financial position is as follows:

	2021 £m	2020 £m
Cash and balances at central banks	**<0.1**	<0.1
Loans and advances to banks	**<0.1**	<0.1
Loans and advances to customers	**76.0**	92.3
Investment securities	**<0.1**	<0.1
Assets held for sale	**0.5**	<0.1
Loan commitments	**0.7**	3.2
Total loss allowance recognised	77.2	95.5
Of which: modelled	**72.3**	88.5
Of which: post-model adjustments on loans and advances to customers	**4.9**	7.0

Further analysis of the loss allowance recognised in respect of each financial asset category and loan commitments is provided in the following sections.

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

[1] This is based on the Group's new lending segments as detailed on page 49. Prior year comparatives have been restated accordingly. There are no PMAs applied to the TML Mortgages lending segment.

Principal risks

Credit risk

Loans and advances to customers

The loss allowance for loans and advances to customers is £76.0 million (2020: £92.3 million). This is recognised as a deduction from the gross carrying amount of the asset (see Note 23 of the Financial Statements).

The following table provides an analysis of the Group's loans and advances to customers by lending segment[1] and the year-end stage classification:

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

As at 31 December 2020	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Total £m
Stage 1	3,287.5	1,489.9	394.4	239.1	5,410.9
Stage 2	1,219.8	266.2	66.1	0.2	1,552.3
Stage 3[2]	109.8	41.0	5.2	0.3	156.3
Gross carrying amount	4,617.1	1,797.1	465.7	239.6	7,119.5
Stage 1	(6.9)	(11.5)	(10.1)	(0.5)	(29.0)
Stage 2	(10.9)	(13.6)	(9.9)	-	(34.4)
Stage 3	(13.0)	(11.9)	(4.0)	-	(28.9)
Loss allowance	(30.8)	(37.0)	(24.0)	(0.5)	(92.3)
Carrying amount[3]	4,586.3	1,760.1	441.7	239.1	7,027.2
Loss allowance coverage					
Stage 1	0.2%	0.8%	2.6%	0.2%	0.5%
Stage 2	0.9%	5.1%	15.0%	-	2.2%
Stage 3	11.8%	29.0%	76.9%	-	18.5%
Total loss allowance coverage	0.7%	2.1%	5.2%	0.2%	1.3%

[1] This is based on the Group's new lending segments as detailed on page 49. Prior year comparatives have been restated accordingly.

[2] Stage 3 loans in Business Finance include POCI loans with a gross carrying amount of £3.3 million (2020: £3.8 million) and loss allowance of £nil (2020: £nil).

[3] Excludes fair value adjustments for hedged risk.

Principal risks

Credit risk

The following table provides an analysis of the Group's loans and advances to customers by agreement type and the year-end stage classification:

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

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

[1] Stage 3 loans in loan receivables include POCI loans with a gross carrying amount of £3.3 million (2020: £3.8 million) and loss allowance of £nil (2020: £nil).

[2] Excludes fair value adjustments for hedged risk.

Principal risks

Credit risk

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

				2021				2020
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**29.0**	**34.4**	**28.9**	**92.3**	20.6	14.2	26.3	61.1
ECL (credit)/charge for the year								
Transfer from Stage 1	**(2.9)**	**2.5**	**0.4**	**-**	(4.2)	3.2	1.0	-
Transfer from Stage 2	**15.9**	**(23.4)**	**7.5**	**-**	4.0	(7.8)	3.8	-
Transfer from Stage 3	**10.3**	**1.2**	**(11.5)**	**-**	5.3	1.4	(6.7)	-
New financial assets originated or purchased	**12.8**	**1.3**	**1.7**	**15.8**	10.9	6.5	0.7	18.1
Financial assets derecognised (excluding disposals)	**(20.8)**	**(0.7)**	**(0.3)**	**(21.8)**	(9.8)	0.2	(9.0)	(18.6)
Changes in credit risk[1]	**(17.6)**	**(0.1)**	**8.3**	**(9.4)**	2.8	16.8	12.8	32.4
Net ECL (credit)/charge for the year	**(2.3)**	**(19.2)**	**6.1**	**(15.4)**	9.0	20.3	2.6	31.9
Other movements								
Financial assets derecognised on disposal	**(0.4)**	**-**	**-**	**(0.4)**	(0.6)	(0.1)	-	(0.7)
Financial assets transferred to assets held for sale	**(0.5)**	**-**	**-**	**(0.5)**	-	-	-	-
Total other movements	**(0.9)**	**-**	**-**	**(0.9)**	(0.6)	(0.1)	-	(0.7)
Total movement in loss allowance	**(3.2)**	**(19.2)**	**6.1**	**(16.3)**	8.4	20.2	2.6	31.2
As at 31 December	**25.8**	**15.2**	**35.0**	**76.0**	29.0	34.4	28.9	92.3

The net ECL (credit)/charge for the year represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 20 of the Financial Statements). An analysis of this (credit)/charge by lending segment[2] is provided in the following table.

	2021 £m	2020 £m
Property Finance	**(8.1)**	17.2
Business Finance	**1.8**	11.5
Consumer Lending	**(9.9)**	2.9
TML Mortgages	**0.8**	0.3
Net ECL (credit)/charge for the year	**(15.4)**	31.9

The ECL credit in the current year, compared to the ECL charge in the comparative year, is predominantly attributable to the improvement in the economic outlook included within the calculation of ECLs (see page 65 for additional information).

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

[2] This is based on the Group's new lending segments as detailed on page 49. Prior year comparatives have been restated accordingly.

Principal risks

Credit risk

Other movements in the loss allowance includes the release of loss allowance upon disposal of financial assets. In both reported years, this is attributable to structured asset sales and the derecognised loss allowance forms part of the net gain on derecognition of financial assets measured at amortised cost recognised in the statement of profit and loss (see Note 15 of the Financial Statements).

Other movements in the loss allowance also includes the transfer of loss allowance from loans and advances to customers to assets held for sale. This transfer is a reclassification in the statement of financial position and has no impact in the statement of profit and loss.

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

				2021				2020
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**5,410.9**	**1,552.3**	**156.3**	**7,119.5**	5,847.8	716.6	125.6	6,690.0
Movements in gross carrying amount								
Transfer from Stage 1	**(415.8)**	**348.8**	**67.0**	**-**	(983.3)	916.8	66.5	-
Transfer from Stage 2	**974.0**	**(1,071.9)**	**97.9**	**-**	178.4	(214.6)	36.2	-
Transfer from Stage 3	**38.4**	**13.2**	**(51.6)**	**-**	33.2	15.4	(48.6)	-
New financial assets originated or purchased	**3,444.2**	**30.7**	**21.7**	**3,496.6**	2,144.6	205.6	13.2	2,363.4
Financial assets derecognised (excluding disposals)	**(1,395.6)**	**(10.5)**	**(40.4)**	**(1,446.5)**	(1,218.2)	(12.5)	(22.5)	(1,253.2)
Net changes in lending[1]	**(98.9)**	**(30.2)**	**(28.8)**	**(157.9)**	(265.8)	(68.0)	(14.0)	(347.8)
Financial assets derecognised on disposal	**(343.0)**	**-**	**-**	**(343.0)**	(323.7)	(6.9)	-	(330.6)
Financial assets transferred to assets held for sale	**(298.5)**	**(1.2)**	**(0.5)**	**(300.2)**	(2.1)	(0.1)	(0.1)	(2.3)
Total movement in gross carrying amount	**1,904.8**	**(721.1)**	**65.3**	**1,249.0**	(436.9)	835.7	30.7	429.5
As at 31 December	**7,315.7**	**831.2**	**221.6**	**8,368.5**	5,410.9	1,552.3	156.3	7,119.5

[1] Net changes in lending includes repayments, additional drawdowns and accrued interest.

Principal risks

Credit risk

Assets held for sale
Assets held for sale comprise loans and advances to customers that meet the criteria to be separately classified as assets held for sale. These loans continue to be measured at amortised cost. The loss allowance for assets held for sale is £0.5 million (2020: <£0.1 million). This is recognised as a deduction from the gross carrying amount of the asset (see Note 32 of the Financial Statements).

The following table provides an analysis of movements during the year in the loss allowance associated with assets held for sale.

	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
As at 1 January	-	-	-	-	5.3	1.6	1.6	8.5
Movements in loss allowance								
Financial assets derecognised on disposal	-	-	-	-	(5.3)	(1.6)	(1.6)	(8.5)
Financial assets transferred from loans and advances to customers	**0.5**	-	-	**0.5**	-	-	-	-
Total movement in loss allowance	**0.5**	-	-	**0.5**	(5.3)	(1.6)	(1.6)	(8.5)
As at 31 December	**0.5**	-	-	**0.5**	-	-	-	-

In relation to the above table, the derecognised loss allowance forms part of the net gain on derecognition of financial assets measured at amortised cost recognised in the statement of profit and loss (see Note 15 of the Financial Statements).

Movements in the gross carrying amount of assets held for sale during the year that contributed to the changes in the loss allowance during the year are shown in the following table.

	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
As at 1 January	**2.1**	**0.1**	**0.1**	**2.3**	106.6	3.1	2.9	112.6
Movements in gross carrying amount								
Financial assets derecognised on disposal	**(2.1)**	**(0.1)**	**(0.1)**	**(2.3)**	(100.5)	(3.0)	(2.8)	(106.3)
Financial assets transferred from loans and advances to customers	**298.5**	**1.2**	**0.5**	**300.2**	2.1	0.1	0.1	2.3
Net changes in lending[1]	-	-	-	-	(6.1)	(0.1)	(0.1)	(6.3)
Total movement in gross carrying amount	**296.4**	**1.1**	**0.4**	**297.9**	(104.5)	(3.0)	(2.8)	(110.3)
As at 31 December	**298.5**	**1.2**	**0.5**	**300.2**	2.1	0.1	0.1	2.3

[1] Net changes in lending includes repayments, additional drawdowns and accrued interest.

Principal risks

Credit risk

Loan commitments

The loss allowance for loan commitments is £0.7 million (2020: £3.2 million). The loss allowance is recognised as a provision (see Note 36 of the Financial Statements).

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

				2021				2020
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**2.4**	**0.7**	**0.1**	**3.2**	1.0	-	-	1.0
ECL (credit)/charge for the year								
Transfer from Stage 1	**(0.1)**	**0.1**	-	-	(0.1)	0.1	-	-
Transfer from Stage 2	**0.2**	**(0.2)**	-	-	-	-	-	-
New loan commitments	**0.1**	-	-	**0.1**	1.5	0.3	0.1	1.9
Loan commitments that have been derecognised	**(0.9)**	-	-	**(0.9)**	(0.2)	-	-	(0.2)
Changes in credit risk[1]	**(1.4)**	**(0.5)**	**0.2**	**(1.7)**	0.2	0.3	-	0.5
Net ECL (credit)/charge for the year	**(2.1)**	**(0.6)**	**0.2**	**(2.5)**	1.4	0.7	0.1	2.2
As at 31 December	**0.3**	**0.1**	**0.3**	**0.7**	2.4	0.7	0.1	3.2

The net ECL (credit)/charge for the year represents the amount recognised in the statement of profit and loss within impairment losses on financial assets (see Note 20 of the Financial Statements). The ECL credit in the current year, compared to the ECL charge in the comparative year, is predominantly attributable to the improvement in the economic outlook included within the calculation of ECLs (see page 65 for additional information).

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

				2021				2020
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
As at 1 January	**1,020.1**	**58.9**	**9.7**	**1,088.7**	585.9	5.6	-	591.5
Movements in gross loan commitments								
Transfer from Stage 1	**(26.2)**	**26.2**	-	-	(51.0)	33.4	17.6	-
Transfer from Stage 2	**28.1**	**(33.5)**	**5.4**	-	7.5	(10.8)	3.3	-
Transfer from Stage 3	**9.6**	-	**(9.6)**	-	-	-	-	-
New loan commitments	**517.9**	**11.2**	-	**529.1**	515.9	30.0	2.8	548.7
Loan commitments that have been derecognised	**(358.7)**	-	-	**(358.7)**	(190.9)	(9.0)	(17.4)	(217.3)
Net changes in commitments	**(14.0)**	**(16.9)**	**3.4**	**(27.5)**	152.7	9.7	3.4	165.8
Total movement in gross loan commitments	**156.7**	**(13.0)**	**(0.8)**	**142.9**	434.2	53.3	9.7	497.2
As at 31 December	**1,176.8**	**45.9**	**8.9**	**1,231.6**	1,020.1	58.9	9.7	1,088.7

[1] Changes in credit risk includes changes resulting from net changes in commitments and changes resulting from adjustments to the models used in the calculation of ECL's, including model inputs and underlying assumptions.

Principal risks

Credit risk

Critical judgements relating to the impairment of financial assets *(audited)*
The measurement of ECLs requires the Group to make a number of judgements. The judgements that are considered to have the most significant effect on the amounts in the financial statements are:

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

These judgements have an impact upon the stage the financial asset is allocated to and therefore whether a 12-month or lifetime ECL is recognised in the financial statements. Additional details regarding each of these judgement areas are provided below.

An additional area of judgement that is considered to have a significant effect on amounts in the financial statements is the application of PMAs. PMAs are amounts added to the modelled ECL amount when the Group judges that the modelled ECL amount does not adequately reflect the expected outcome. Details of PMAs applied by the Group are provided on page 54.

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

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

Significant increase in credit risk assessment
If a financial asset shows a SICR, it is transferred to Stage 2 and the ECL recognised changes from a 12-month ECL to a lifetime ECL. The assessment of whether there has been a SICR requires a high level of judgement as detailed below. The assessment of whether there has been a SICR also incorporates forward-looking information. The use of forward-looking information is detailed on page 65.

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

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

Principal risks

Credit risk

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

Property Finance: residential and commercial investment mortgages	• External mortgage payments in arrears from the credit reference agencies. The external arrears information is statistically a lead indicator of financial difficulties and potential arrears on the loan book; • for short-term loans with a modelled PD: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than four times the estimate at origination; • for term loans with a modelled PD: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than two times the estimate at origination; • for portfolios where the origination PD is less than 1%, an additional SICR rule has been implemented whereby the minimum additive PD movement must be at least 10% to trigger a SICR; • for all portfolios with a slotted PD: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than three times the estimate at origination; • loan account is forborne; or • entry on to amber watchlist.
Property Finance: residential owner-occupied mortgages	• All exposures are graded under the modelled approach. Where the modelled PD > 0.38% and the absolute movement in remaining lifetime PD is more than 5.1 times the estimate at origination; • where the customer has ever been six or more payments in arrears on any fixed term account at the credit reference agency; • where the customer has missed a mortgage payment in the last six months at the credit reference agency; or • loan account is forborne.
Business Finance	• For accounts with a modelled PD: where the absolute movement in the remaining lifetime PD is more than 4.6 times the estimate at origination; • for accounts with a slotted PD: where the absolute movement in the remaining lifetime PD is more than three times the estimate at origination; or • loan account is forborne; or • entry on to amber watchlist.
Consumer Lending	• Non-personal loans: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than 2.0 times the estimate at origination; • personal loans: where the PD > 0.38% and the absolute movement in remaining lifetime PD is more than 2.0 times the estimate at origination; • county court judgements registered at the credit reference agencies of > £150 or > £1,000 in last three years; or • loan account is forborne.
TML Mortgages	• Where the customer has missed a mortgage payment; • loan account is forborne; or • loan account is on watchlist.

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

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

Principal risks

Credit risk

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

Loan commitments relating to the undrawn component of a facility are assigned to the same stage as the drawn component of the facility. Therefore, if the drawn component of the facility shows a SICR and is transferred to Stage 2, the undrawn component will also be transferred.

The extension of short-term concessions in response to COVID-19 from March 2020 to July 2021, may indicate a SICR under the Group's normal assessment criteria outlined above. However, the Group adopted advice from UK regulatory bodies that the granting of COVID-19 related concessions does not automatically indicate a SICR for the majority of cases, with these interim measures not considered to be forbearance given the customer was not in financial difficulty when the concession was granted. As such, the accounts with COVID-19 related concessions were predominantly removed from the SICR assessment. The Group did, however, carefully consider internal credit and customer data to determine whether there might be any other accounts with SICR not otherwise identified by the process. In 2021, the additional risk arising from customers off-ramping from payment holidays has been considered through PMAs.

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

The Group applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default and should therefore be transferred to Stage 3. These criteria include:

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

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

Approach to curing
The Group considers a financial asset to be cured, and therefore reclassifies back to a lower stage, when none of the assessed criteria that caused movement into the higher stage is currently present.

For Stage 3 loans with forbearance arrangements in place, the loan must first successfully complete its 12-month curing period to be transferred to Stage 2. Following this, the loan must then successfully complete its 24-month forbearance probation period before the forbearance classification can be discontinued. For Stage 3 loans that have cured without forbearance, they need to have completed a 12-month probation in Stage 2 prior to returning to Stage 1.

During the year ended 31 December 2021, the Group has enhanced its forbearance data and has further enhanced the implementation of probation periods for loans. For amortising loans in Stage 2 as a result of arrears, the arrears must be cured for a period of 180 days prior to returning to Stage 1. If the Stage 2 criteria was driven by an increase in PD, the probation period of 90 days starts from entry to Stage 2 prior to returning to Stage 1. Where the loan is in Stage 2 and cures through probation, the loan must remain up to date for a period of 24 months prior to returning to Stage 1. For loan products such as revolving credit facilities, the loan must be in 'amber watchlist' (monitoring) for 180-days prior to returning to Stage 1 and, if it cured through the granting of forbearance, then the loan must remain in 'amber watchlist' for 24 months prior to returning to Stage 1.

Principal risks

Credit risk

Critical accounting estimates relating to the impairment of financial assets *(audited)*
The calculation of ECLs requires the Group to make a number of assumptions and estimates. The accuracy of the ECL calculation would be impacted by movements in the forward-looking economic scenarios used, or the probability weightings applied to these scenarios and by unanticipated changes to model assumptions that differ from actual outcomes. The key assumptions and estimates that, depending on a range of factors, could result in a material adjustment in the next financial year are set out in the following sections.

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

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

In the comparative year ended 31 December 2020, the Group moved from using three forward-looking economic scenarios to four: a base case (central view), an alternative upside scenario, an alternative moderate downside scenario and an alternative severe downside scenario. In the current year ended 31 December 2021, the Group continued to use four forward-looking economic scenarios and has updated the economic scenarios accordingly.

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

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

For the year ended 31 December 2021, the economic scenarios reflect that the UK economy witnessed sharp growth during the first half of 2021 as COVID-19 restrictions ended. However, the downside risks remained during 2021, with higher inflation and acute material shortages, as reflected in the prices of used cars, rising energy and fuel prices and shortage of construction materials, all impacting on growth in the short- to medium-term. In addition, the economic challenges from the ending of the furlough scheme, together with ending of temporary restrictions on the use of statutory demands and certain winding-up petitions on corporations, are still to be seen.

Principal risks

Credit risk

A summary of the economic assumptions used are detailed in the following tables:

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

As at 31 December 2020		2021	2022	2023	2024	2025
GDP - % average change year-on-year	Base	7.1%	4.3%	3.6%	2.8%	1.9%
	Upside	12.9%	4.1%	1.8%	1.8%	1.8%
	Downside	1.6%	8.1%	3.7%	2.8%	1.9%
	Severe downside	(4.5%)	11.5%	4.7%	3.0%	2.2%
Bank Rate (%)	Base	0.10%	0.10%	0.50%	0.75%	1.00%
	Upside	0.10%	0.25%	0.75%	1.00%	1.25%
	Downside	0.10%	0.10%	0.50%	0.75%	1.00%
	Severe downside	0.50%	0.50%	0.50%	0.75%	1.00%
UK Unemployment (%)	Base	6.5%	5.3%	5.1%	5.1%	5.1%
	Upside	5.0%	4.1%	4.1%	4.1%	4.1%
	Downside	8.5%	6.7%	5.7%	5.6%	5.6%
	Severe downside	10.5%	7.5%	6.8%	6.1%	6.1%
Consumer Prices Index - % change year-on-year	Base	1.9%	2.0%	2.0%	2.0%	2.0%
	Upside	0.9%	0.9%	0.9%	0.9%	0.9%
	Downside	0.6%	2.0%	1.9%	1.9%	1.9%
	Severe downside	5.0%	2.1%	2.1%	2.0%	2.0%
UK Residential House Price Index - % change year-on-year	Base	(6.6%)	3.7%	3.6%	3.2%	3.2%
	Upside	2.9%	3.7%	3.7%	3.7%	3.2%
	Downside	(11.2%)	1.4%	2.6%	4.3%	4.3%
	Severe downside	(15.7%)	2.1%	4.4%	4.7%	3.3%

The probability weightings applied to the above scenarios are another area of judgement. They are generally set to ensure that there is an asymmetry in the ECL. The probability weightings applied to each scenario are as follows:

	2021	2020
Base	**60%**	40%
Upside	**10%**	10%
Downside	**25%**	35%
Severe downside	**5%**	15%

Principal risks

Credit risk

In determining the probability weightings, the Group has regularly considered the nature and probability of the alternative downside scenarios. The nature and shape of the economic scenarios reflect the outlook of the UK economy. The end of furlough and the tapering of government schemes does not look like it will feed through into unemployment, which is supported by high vacancy rates. The lack of number of properties for sale is expected to continue to support house prices into 2022. Inflation is the biggest short-term risk with risks of further disruption linked to new variants contained within the scenarios. The progress of the UK economy and the narrowing of the range of forecasts supports an increase in the weighting on the central view from 40% to 60%.

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

The calculation of ECLs is sensitive to the judgements and assumptions made regarding the forward-looking scenarios used and the probability weightings applied. Sensitivity analysis was performed to assess the impact on the loss allowance recognised on loans and advances to customers and loan commitments.

The following table shows the loss allowance as at 31 December 2021 for loans and advances to customers and loan commitments based on the probability-weighted multiple economic scenarios, as recognised in the statement of financial position (see Note 23 and Note 36 of the Financial Statements, respectively), and the impact on this loss allowance if each individual forward-looking scenario were weighted at 100%. In each of the scenarios, PMA's are assumed to be constant and have been added back into each of the scenarios.

	Probability-weighted loss allowance per statement of financial position	Increase/(decrease) in loss allowance if scenario weighted at 100%			
As at 31 December 2021	**£m**	**Base £m**	**Upside £m**	**Downside £m**	**Severe downside £m**
Loans and advances to customers					
Property Finance and TML Mortgages[1]	**23.1**	**(2.2)**	**(6.5)**	**5.1**	**14.0**
Business Finance	**38.8**	**(0.7)**	**(3.3)**	**1.8**	**5.5**
Consumer Lending	**14.1**	**(0.2)**	**(0.4)**	**0.4**	**1.2**
Total	**76.0**	**(3.1)**	**(10.2)**	**7.3**	**20.7**
Loan commitments					
Business Finance	**0.7**	**-**	**(0.1)**	**0.1**	**0.2**
Total	**0.7**	**-**	**(0.1)**	**0.1**	**0.2**

Model estimations

ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The Group considers the key assumptions impacting the ECL calculation to be within the PD and LGD. Sensitivity analysis was performed to assess the impact of changes in these key assumptions on the loss allowance recognised on loans and advances to customers and loan commitments as at 31 December 2021.

A summary of the key assumptions and sensitivity analysis is provided in the following table.

[1] As detailed on page 49, during the year a new reportable segment, TML Mortgages, was added, which was previously reported as part of Property Finance, for the purpose of sensitivity analysis, TML Mortgages remains included with Property Finance while the Group develops its methodology.

Principal risks

Credit risk

Assumption	Sensitivity analysis
PD	• A 10% increase in the PD for each customer would increase the total loss allowance on loans and advances to customers and loan commitments by £2.7 million.
LGD: Property Finance and TML Mortgages[1] • Property value • Forced sale discount	• A 10% absolute reduction in property prices would increase the loss allowance on loans and advances to customers in the Property Finance and TML Mortgages segments by £12.2 million. • A 5% absolute increase in the forced sale discount would increase the loss allowance on loans and advances to customers in the Property Finance and TML Mortgages segments by £8.5 million.
LGD: Business Finance • Absolute LGD value	• A 5% absolute increase in the LGD applied would increase the total loss allowance on loans and advances to customers and loan commitments in Business Finance by £4.5 million.
LGD: Consumer Lending • Loss given charge-off	• A 10% absolute increase in the loss given charge-off would increase the loss allowance on loans and advances to customers in Consumer Lending by £1.4 million.

(c) Exposure to credit risk *(audited)*
Financial assets subject to impairment
To assess exposure to credit risk, the Group has developed a credit grading system that maps to a common master grading scale. This credit grading system is applied to the Group's financial assets for which a loss allowance is recognised, together with loan commitments.

The risk grading framework set out below has been applied in both reported years and consists of 25 grades on a master grading scale, reflecting varying degrees of risk and default. Responsibility for setting risk grades lies with the approval point for the risk or committee, as appropriate. Risk grades are subject to regular reviews by the Group's risk function.

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

The following tables analyse the Group's exposure by credit risk grade and year-end stage classification. The credit risk grades are based on the grades defined in the preceding table. It should be noted that the credit risk grading assessment is a point-in-time assessment, whereas the stage classification is determined based on the change in credit risk from initial recognition. As such, for non-credit impaired financial assets, there is not a direct relationship between the credit risk assessment and stage classification.

The following tables also provide the Group's maximum exposure to credit risk. For financial assets, the Group's maximum exposure to credit risk is the gross carrying amount net of any loss allowance recognised. Where the loss allowance is less than £0.1 million, the Group's maximum exposure to credit risk is equal to the gross carrying amount and only this amount is presented in the table. For loan commitments, the Group's maximum exposure to credit risk is the gross amount committed. The maximum exposure does not take into account the effect of credit risk mitigation, such as collateral held.

Company
Separate disclosure tables analysing the Company's exposures are not provided, as the figures are largely the same between the Group and the Company. As detailed in Note 41 of the Financial Statements, the difference between the Group and Company's financial assets at amortised cost is mainly attributable to investment securities, all of which is graded as low risk and allocated to Stage 1 for both the Group and the Company.

[1] As detailed on page 49, during the year a new reportable segment, TML Mortgages, was added, which was previously reported as part of Property Finance, for the purpose of sensitivity analysis, TML Mortgages remains included with Property Finance while the Group develops its methodology.

Principal risks

Credit risk

Cash and balances at central banks	2021 Stage 1 £m	2021 Total £m	2020 Stage 1 £m	2020 Total £m
Low risk	**1,693.8**	**1,693.8**	1,273.2	1,273.2
Gross carrying amount	**1,693.8**	**1,693.8**	1,273.2	1,273.2

Loans and advances to banks	2021 Stage 1 £m	2021 Total £m	2020 Stage 1 £m	2020 Total £m
Low risk	**66.9**	**66.9**	91.0	91.0
Gross carrying amount	**66.9**	**66.9**	91.0	91.0

Loans and advances to customers	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3[1] £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3[1] £m	2020 Total £m
Low risk	**1,301.0**	**44.2**	**1.8**	**1,347.0**	1,779.9	76.2	3.4	1,859.5
Medium risk	**4,081.7**	**250.5**	**-**	**4,332.2**	2,202.8	791.6	1.9	2,996.3
High risk	**1,933.0**	**536.5**	**219.8**	**2,689.3**	1,428.2	684.5	151.0	2,263.7
Gross carrying amount	**7,315.7**	**831.2**	**221.6**	**8,368.5**	5,410.9	1,552.3	156.3	7,119.5
Loss allowance	**(25.8)**	**(15.2)**	**(35.0)**	**(76.0)**	(29.0)	(34.4)	(28.9)	(92.3)
Carrying amount[2]	**7,289.9**	**816.0**	**186.6**	**8,292.5**	5,381.9	1,517.9	127.4	7,027.2

Investment securities	2021 Stage 1 £m	2021 Total £m	2020 Stage 1 £m	2020 Total £m
Low risk	**522.0**	**522.0**	358.2	358.2
Gross carrying amount	**522.0**	**522.0**	358.2	358.2

Assets held for sale	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
Low risk	**298.5**	**-**	**-**	**298.5**	-	-	-	-
Medium risk	**-**	**-**	**-**	**-**	2.1	0.1	-	2.2
High risk	**-**	**1.2**	**0.5**	**1.7**	-	-	0.1	0.1
Gross carrying amount	**298.5**	**1.2**	**0.5**	**300.2**	2.1	0.1	0.1	2.3
Loss allowance	**(0.5)**	**-**	**-**	**(0.5)**	-	-	-	-
Carrying amount	**298.0**	**1.2**	**0.5**	**299.7**	2.1	0.1	0.1	2.3

Loan commitments	2021 Stage 1 £m	2021 Stage 2 £m	2021 Stage 3 £m	2021 Total £m	2020 Stage 1 £m	2020 Stage 2 £m	2020 Stage 3 £m	2020 Total £m
Low risk	**576.7**	**-**	**-**	**576.7**	531.7	3.2	0.6	535.5
Medium risk	**323.8**	**5.6**	**-**	**329.4**	114.6	2.5	-	117.1
High risk	**276.3**	**40.3**	**8.9**	**325.5**	373.8	53.2	9.1	436.1
Gross amount committed	**1,176.8**	**45.9**	**8.9**	**1,231.6**	1,020.1	58.9	9.7	1,088.7

[1] Stage 3 loans include POCI loans with a gross carrying amount of £3.3 million (2020: £3.8 million) and loss allowance of £nil (2020: £nil), these are included in the high risk grade.

[2] Excludes fair value adjustments for hedged risk.

Principal risks

Credit risk

Financial assets not subject to impairment

The following table sets out the Group's maximum exposure to credit risk from its financial assets not subject to impairment (i.e. those held at fair value through profit or loss). The maximum exposure to credit risk is equal to the carrying amount. The maximum exposure does not take into account the effect of credit risk mitigation through the use of master netting and collateral arrangements.

	2021 £m	2020 £m
Derivative financial assets	**21.5**	4.1

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

The Group monitors concentrations of credit risk from its loans and advances to customers by geographic location, loan size and by industry.

Concentrations of credit risk by geographic location

An analysis of the Group's loans and advances to customers by lending segment[1] and geographic location is shown below:

As at 31 December 2021	**Property Finance £m**	**Enterprise Business Finance £m**	**Consumer Lending £m**	**TML Mortgages £m**	**Total £m**
East Anglia	**149.0**	**119.4**	**17.8**	**20.2**	**306.4**
East Midlands	**240.1**	**101.2**	**31.8**	**30.0**	**403.1**
Greater London	**1,793.0**	**613.0**	**50.1**	**146.7**	**2,602.8**
Guernsey/Jersey/Isle of Man	**24.3**	**11.4**	**-**	**-**	**35.7**
North East	**89.4**	**22.0**	**21.7**	**16.5**	**149.6**
North West	**464.4**	**241.4**	**51.0**	**48.2**	**805.0**
Northern Ireland	**5.8**	**1.2**	**0.5**	**0.1**	**7.6**
Scotland	**297.1**	**99.4**	**52.9**	**41.5**	**490.9**
South East	**1,046.9**	**258.9**	**84.1**	**99.4**	**1,489.3**
South West	**353.0**	**267.1**	**37.2**	**32.0**	**689.3**
Wales	**135.1**	**55.8**	**21.6**	**16.1**	**228.6**
West Midlands	**280.6**	**206.0**	**41.0**	**33.5**	**561.1**
Yorkshire/Humberside	**306.6**	**223.6**	**39.4**	**29.5**	**599.1**
Gross loans and advances to customers	**5,185.3**	**2,220.4**	**449.1**	**513.7**	**8,368.5**

As at 31 December 2020	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Total £m
East Anglia	139.6	60.6	19.1	7.5	226.8
East Midlands	189.7	87.2	34.2	10.2	321.3
Greater London	1,713.2	465.8	52.5	96.6	2,328.1
Guernsey/Jersey/Isle of Man	31.6	16.1	0.1	-	47.8
North East	83.4	26.7	20.7	2.9	133.7
North West	383.3	188.3	52.4	15.5	639.5
Northern Ireland	6.8	-	1.0	0.1	7.9
Scotland	268.8	67.2	58.3	14.6	408.9
South East	919.7	282.6	85.8	47.8	1,335.9
South West	322.8	193.9	38.0	12.8	567.5
Wales	105.4	71.2	20.1	4.8	201.5
West Midlands	215.5	210.5	43.1	16.7	485.8
Yorkshire/Humberside	237.3	127.0	40.4	10.1	414.8
Gross loans and advances to customers	4,617.1	1,797.1	465.7	239.6	7,119.5

[1] This is based on the Group's new lending segments as detailed on page 49. Prior year comparatives have been restated accordingly.

Principal risks

Credit risk

Concentrations of credit risk by loan size

An analysis of the Group's loans and advances to customers by lending segment[1] and loan size is shown below:

As at 31 December 2021	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Total £m
0 - £50k	**159.6**	**50.0**	**448.7**	**13.2**	**671.5**
£50k - £100k	**430.1**	**40.1**	**0.4**	**57.3**	**527.9**
£100k - £250k	**1,399.5**	**94.9**	**-**	**224.0**	**1,718.4**
£250k - £500k	**1,185.2**	**93.8**	**-**	**155.7**	**1,434.7**
£500k - £1.0 million	**687.9**	**176.0**	**-**	**55.6**	**919.5**
£1.0 million - £2.5 million	**642.3**	**405.3**	**-**	**7.9**	**1,055.5**
£2.5 million - £5.0 million	**317.6**	**380.2**	**-**	**-**	**697.8**
£5.0 million - £10.0 million	**150.8**	**356.3**	**-**	**-**	**507.1**
£10.0 million - £25.0 million	**156.5**	**597.6**	**-**	**-**	**754.1**
> £25.0 million	**55.8**	**26.2**	**-**	**-**	**82.0**
Gross loans and advances to customers	**5,185.3**	**2,220.4**	**449.1**	**513.7**	**8,368.5**

As at 31 December 2020	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Total £m
0 - £50k	175.7	73.9	465.3	13.8	728.7
£50k - £100k	408.9	50.0	0.4	33.6	492.9
£100k - £250k	1,176.6	103.0	-	80.4	1,360.0
£250k - £500k	1,043.2	111.1	-	77.9	1,232.2
£500k - £1.0 million	683.0	172.8	-	30.8	886.6
£1.0 million - £2.5 million	603.0	350.1	-	3.1	956.2
£2.5 million - £5.0 million	293.5	299.6	-	-	593.1
£5.0 million - £10.0 million	133.2	320.3	-	-	453.5
£10.0 million - £25.0 million	100.0	281.4	-	-	381.4
> £25.0 million	-	34.9	-	-	34.9
Gross loans and advances to customers	4,617.1	1,797.1	465.7	239.6	7,119.5

[1] This is based on the Group's new lending segments as detailed on page 49. Prior year comparatives have been restated accordingly.

Principal risks

Credit risk

Concentrations of credit risk by industry

An analysis of the Group's loans and advances to customers by lending segment[1] and industry is shown below:

As at 31 December 2021	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Total £m
Agriculture, forestry and fishing	**0.2**	**20.7**	**-**	**-**	**20.9**
Mining and quarrying	**0.1**	**1.5**	**-**	**-**	**1.6**
Manufacturing	**6.4**	**196.3**	**-**	**-**	**202.7**
Transport, storage and utilities	**5.4**	**250.1**	**-**	**-**	**255.5**
Construction	**320.3**	**390.3**	**-**	**-**	**710.6**
Wholesale and retail trade	**14.9**	**143.4**	**-**	**-**	**158.3**
Services and other	**2,397.3**	**193.6**	**449.1**	**359.7**	**3,399.7**
Real estate (commercial)	**2,422.2**	**566.5**	**-**	**154.0**	**3,142.7**
Financial industry (bank and non-bank)	**18.5**	**458.0**	**-**	**-**	**476.5**
Gross loans and advances to customers	**5,185.3**	**2,220.4**	**449.1**	**513.7**	**8,368.5**

As at 31 December 2020	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Total £m
Agriculture, forestry and fishing	0.6	24.3	-	-	24.9
Mining and quarrying	0.1	0.3	-	-	0.4
Manufacturing	3.2	156.5	-	-	159.7
Transport, storage and utilities	6.4	221.4	-	-	227.8
Construction	307.5	300.1	-	-	607.6
Wholesale and retail trade	15.2	108.3	-	-	123.5
Services and other	2,164.6	155.4	465.7	108.4	2,894.1
Real estate (commercial)	2,110.2	422.6	-	131.2	2,664.0
Financial industry (bank and non-bank)	9.3	408.2	-	-	417.5
Gross loans and advances to customers	4,617.1	1,797.1	465.7	239.6	7,119.5

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

As a key method of mitigating credit risk, the Group holds collateral and other credit enhancements against certain of its financial assets. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Group's policies regarding obtaining collateral have not significantly changed during the year and there has been no significant change in the overall quality of the collateral held by the Group since the prior year.

Derivative financial assets

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

[1] This is based on the Group's new lending segments as detailed on page 49. Prior year comparatives have been restated accordingly.

Principal risks

Credit risk

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

For loans and advances to customers, the Group obtains collateral for certain of its exposures. Types of collateral obtained is dependent upon the loan type, as follows:

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

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

The following tables set out the security profile of the Group's loans and advances to customers by lending segment[1]. Amounts in the table represent gross carrying amounts. Loans with a government guarantee, as detailed above, are classified as secured for the purposes of this disclosure:

As at 31 December 2021	**Property Finance £m**	**Enterprise Business Finance £m**	**Consumer Lending £m**	**TML Mortgages £m**	**Total £m**
Secured on commercial and residential property	**5,185.3**	**713.5**	**-**	**513.7**	**6,412.5**
Secured on debt receivables	**-**	**793.5**	**-**	**-**	**793.5**
Secured on other assets	**-**	**219.6**	**-**	**-**	**219.6**
Secured on finance lease assets	**-**	**54.0**	**-**	**-**	**54.0**
Secured on instalment credit assets	**-**	**376.1**	**-**	**-**	**376.1**
Loans with 80% government guarantee	**-**	**44.6**	**-**	**-**	**44.6**
Total secured loans and advances to customers	**5,185.3**	**2,201.3**	**-**	**513.7**	**7,900.3**
Unsecured loan receivables	**-**	**19.1**	**449.1**	**-**	**468.2**
Gross loans and advances to customers	**5,185.3**	**2,220.4**	**449.1**	**513.7**	**8,368.5**

As at 31 December 2020	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Total £m
Secured on commercial and residential property	4,617.1	534.4	-	239.6	5,391.1
Secured on debt receivables	-	595.4	-	-	595.4
Secured on other assets	-	178.8	-	-	178.8
Secured on finance lease assets	-	72.1	-	-	72.1
Secured on instalment credit assets	-	362.3	-	-	362.3
Loans with 80% government guarantee	-	32.2	-	-	32.2
Total secured loans and advances to customers	4617.1	1,775.2	-	239.6	6,631.9
Unsecured loan receivables	-	21.9	465.7	-	487.6
Gross loans and advances to customers	4,617.1	1,797.1	465.7	239.6	7,119.5

[1] This is based on the Group's new lending segments as detailed on page 49. Prior year comparatives have been restated accordingly.

Principal risks

Credit risk

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

Credit-impaired financial assets
The Group closely monitors collateral held for financial assets considered to be credit-impaired (Stage 3 and POCI), as it becomes more likely that the Group will take possession of such collateral to mitigate potential credit losses.

The only asset category with credit-impaired assets is loans and advances to customers. The below tables provide further information about these credit-impaired assets and the related collateral held by lending segment[1]:

As at 31 December 2021	Gross carrying amount		Loss allowance		Carrying amount		Fair value of collateral held
	Secured £m	Unsecured £m	Secured £m	Unsecured £m	Secured £m	Unsecured £m	£m
Property Finance	**127.4**	**-**	**(13.4)**	**-**	**114.0**	**-**	**114.0**
Business Finance[2]	**89.7**	**-**	**(18.4)**	**-**	**71.3**	**-**	**71.3**
Consumer Lending	**-**	**4.4**	**-**	**(3.2)**	**-**	**1.2**	**n/a**
TML Mortgages	**0.1**	**-**	**-**	**-**	**0.1**	**-**	**0.1**
Total credit-impaired loans and advances to customers	**217.2**	**4.4**	**(31.8)**	**(3.2)**	**185.4**	**1.2**	**185.4**

As at 31 December 2020	Gross carrying amount		Loss allowance		Carrying amount		Fair value of collateral held
	Secured £m	Unsecured £m	Secured £m	Unsecured £m	Secured £m	Unsecured £m	£m
Property Finance	109.8	-	(13.0)	-	96.8	-	96.8
Business Finance[2]	41.0	-	(11.9)	-	29.1	-	29.1
Consumer Lending	-	5.2	-	(4.0)	-	1.2	n/a
TML Mortgages	0.3	-	-	-	0.3	-	0.3
Total credit-impaired loans and advances to customers	151.1	5.2	(24.9)	(4.0)	126.2	1.2	126.2

The following table shows the distribution of loan-to-value ratios for the Group's credit-impaired mortgage assets held in the Property Finance and TML Mortgages lending segments. Loan-to-value is calculated as the ratio of the current gross carrying amount of the loan to the value of the collateral at origination. Amounts in the following table reflect the gross carrying amount of the loans.

	2021		2020	
	Property Finance £m	**TML Mortgages £m**	Property Finance £m	TML Mortgages £m
Loan-to-value ratio				
Less than 50%	**27.0**	**-**	20.1	-
50-70%	**65.1**	**-**	45.5	-
71-90%	**31.9**	**0.1**	41.9	0.3
91-100%	**1.5**	**-**	1.6	-
More than 100%	**1.9**	**-**	0.7	-
Total credit-impaired mortgage assets	**127.4**	**0.1**	109.8	0.3

[1] This is based on the Group's new lending segments as detailed on page 49. Prior year comparatives have been restated accordingly.
[2] Business Finance includes POCI loans with a gross carrying amount of £3.3 million (2020: 3.8 million) and loss allowance of £nil (2020: £nil). The POCI loans are secured assets and the fair value of collateral held is £3.3 million (2020: £3.8 million) (i.e. capped at the carrying amount of the loan).

Principal risks

Credit risk

Repossessions
The Group's policy is to pursue the realisation of collateral in an orderly manner.

In March 2020, in line with the Financial Conduct Authority (FCA) requirement, the Group implemented a moratorium on repossessions. The moratorium ended on 31 March 2021, however the UK Government imposed further restrictions on repossessions until 31 May 2021 and 30 June 2021 in England and Wales, respectively. In Scotland there was no overall end date and instead a tiered approach, based on location, was used, with restrictions lifted in most areas by mid-May 2021. The Group recommenced application of its normal repossessions policy when the restrictions were lifted and took possession of a number of properties during the remainder of 2021. The Group continues to monitor and comply with regulatory and government guidelines.

As at 31 December 2021, the Group held 13 repossessed properties with a carrying amount of £12.4 million (2020: 4 repossessed properties with carrying amount of £3.0 million).

(f) Forbearance and COVID-19 concessions *(audited)*
Forbearance
The Group maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Group. A concession may be either of the following:

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

Forbearance in relation to an exposure can be temporary or permanent depending on the circumstances, progress on financial rehabilitation and the detail of the concession(s) agreed.

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

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

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

- the exposure is considered to be performing, including where it has been reclassified from the non-performing category, after an analysis of the financial condition of the debtor showed that it no longer met the conditions to be considered as non-performing;
- a minimum two year probation period has passed from the date the forborne exposure was considered to be performing;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- none of the exposures to the debtor is more than 30 days past due at the end of the probation period.

Principal risks

Credit risk

The following tables provide a summary of the Group's forborne loans and advances to customers by lending segment[1] and year-end stage classification. There are no forborne loans in the TML Mortgages segment and, as such, this segment is not included in the tables.

As at 31 December 2021	Number	Gross amount of forborne loans Performing £m	Gross amount of forborne loans Non-performing £m	Gross amount of forborne loans Total £m	Loss allowance on forborne loans Performing £m	Loss allowance on forborne loans Non-Performing £m	Loss allowance on forborne loans Total £m	Coverage %
Property Finance								
Stage 2	**208**	**11.8**	**8.5**	**20.3**	**-**	**(0.1)**	**(0.1)**	**0.5**
Stage 3	**549**	**-**	**41.5**	**41.5**	**-**	**(4.0)**	**(4.0)**	**9.6**
Total	**757**	**11.8**	**50.0**	**61.8**	**-**	**(4.1)**	**(4.1)**	**6.6**
Business Finance								
Stage 2	**276**	**43.6**	**1.8**	**45.4**	**(2.4)**	**-**	**(2.4)**	**5.3**
Stage 3	**652**	**-**	**61.8**	**61.8**	**-**	**(12.3)**	**(12.3)**	**19.9**
Total	**928**	**43.6**	**63.6**	**107.2**	**(2.4)**	**(12.3)**	**(14.7)**	**13.7**
Consumer Lending								
Stage 2	**332**	**0.8**	**0.5**	**1.3**	**-**	**(0.1)**	**(0.1)**	**7.7**
Stage 3	**3,105**	**-**	**3.2**	**3.2**	**-**	**(2.4)**	**(2.4)**	**75.0**
Total	**3,437**	**0.8**	**3.7**	**4.5**	**-**	**(2.5)**	**(2.5)**	**55.6**
Total								
Stage 2	**816**	**56.2**	**10.8**	**67.0**	**(2.4)**	**(0.2)**	**(2.6)**	**3.9**
Stage 3	**4,306**	**-**	**106.5**	**106.5**	**-**	**(18.7)**	**(18.7)**	**17.6**
Total	**5,122**	**56.2**	**117.3**	**173.5**	**(2.4)**	**(18.9)**	**(21.3)**	**12.3**

[1] This is based on the Group's new lending segments as detailed on page 49.

Principal risks

Credit risk

As at 31 December 2020	Number	Gross amount of forborne loans Performing £m	Non-performing £m	Total £m	Loss allowance on forborne loans Performing £m	Non-Performing £m	Total £m	Coverage %
Property Finance								
Stage 2	189	9.6	1.3	10.9	(0.2)	-	(0.2)	1.8
Stage 3	502	-	35.0	35.0	-	(4.5)	(4.5)	12.9
Total	691	9.6	36.3	45.9	(0.2)	(4.5)	(4.7)	10.2
Business Finance								
Stage 2	385	57.6	11.2	68.8	(4.4)	(0.4)	(4.8)	7.0
Stage 3	185	-	6.7	6.7	-	(3.1)	(3.1)	46.3
Total	570	57.6	17.9	75.5	(4.4)	(3.5)	(7.9)	10.5
Consumer Lending								
Stage 2	327	0.6	1.2	1.8	(0.1)	(0.9)	(1.0)	55.6
Stage 3	2,467	-	2.6	2.6	-	(1.9)	(1.9)	73.1
Total	2,794	0.6	3.8	4.4	(0.1)	(2.8)	(2.9)	65.9
Total								
Stage 2	901	67.8	13.7	81.5	(4.7)	(1.3)	(6.0)	7.4
Stage 3	3,154	-	44.3	44.3	-	(9.5)	(9.5)	21.4
Total	4,055	67.8	58.0	125.8	(4.7)	(10.8)	(15.5)	12.3

COVID-19 concessions
As at 31 December 2021, all short-term concessions that were granted to customers in response to COVID-19 had concluded. On expiry of these COVID-19 concessions, where underlying longer-term financial difficulties were evident, the Group's normal forbearance assessment applied. The Group has considered the additional risk of recently expired COVID-19 concessions within its PMAs.

In the comparative year, as at 31 December 2020, there were 1,557 loans, with a gross carrying amount of £86.0 million and a loss allowance of £3.1 million, that had COVID-19 concessions applied. In line with regulatory guidance, customers with COVID-19 concessions were not considered forborne and are not included in the Group's forbearance disclosures shown above.

Principal risks

Liquidity risk

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

The following sections provide additional information relating to the management of liquidity risk and additional analysis and metrics used in assessing, monitoring and managing liquidity risk.

Managing liquidity risk

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

The Group's treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding. The Board sets limits over the level, composition and maturity of liquidity and deposit funding balances, which are reviewed at least annually. Compliance with these limits is monitored on a daily basis by finance and risk personnel that are independent of the treasury function.

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

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

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

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

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

Company

Separate disclosure tables segmenting the carrying amount of the Company's financial assets and liabilities are not provided, as the figures are largely the same between the Group and the Company. The segmental split for financial assets and liabilities in the Company where there is a significant difference to the Group is as follows:

- **Investment securities:** £614.8 million, of which: £5.9 million is 1-3 months, £28.2 million is 3 months-1 year, £193.8 million is 1-2 years, £285.3 million is 2-5 years and £101.6 million is more than 5 years (2020: £421.6 million, of which: £38.5 million is 3 months-1 year, £28.5 million is 1-2 years, £204.0 million is 2-5 years and £150.6 million is more than 5 years).
- **Debt securities in issue:** this does not apply to the Company and totals £nil in the Company statement of financial position.
- **Deemed loan due to structured entities:** £402.8 million, of which £11.2 million is less than 1 month, £6.9 million is 1-3 months, £22.1 million is 3 months-1 year, £34.0 million is 1-2 years, £54.0 million is 2-5 years and £274.6 million is more than 5 years (2020: £268.2 million, of which £11.6 million is 3 months-1 year, £1.3 million is 1-2 years, £20.3 million is 2-5 years and £235.0 million is more than 5 years).

Principal risks

Liquidity risk

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

As at 31 December 2020	Less than 1 month £m	1-3 months £m	3 months - 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial assets							
Cash and balances at central banks	1,255.2	-	-	-	-	18.0	1,273.2
Loans and advances to banks	91.0	-	-	-	-	-	91.0
Loans and advances to customers	496.9	188.1	830.3	630.0	1,148.1	3,767.9	7,061.3
Investment securities	-	-	37.7	28.4	202.7	89.4	358.2
Derivative financial assets	0.4	-	-	3.5	0.1	0.1	4.1
Assets held for sale	-	2.3	-	-	-	-	2.3
Total financial assets	1,843.5	190.4	868.0	661.9	1,350.9	3,875.4	8,790.1
Financial liabilities							
Amounts due to banks	(0.7)	(16.3)	(41.5)	-	(757.0)	-	(815.5)
Customer deposits	(2,478.1)	(759.6)	(1,745.2)	(1,098.7)	(748.5)	(64.0)	(6,894.1)
Derivative financial liabilities	(0.4)	(0.8)	(0.8)	(5.8)	(30.7)	(3.5)	(42.0)
Debt securities in issue	-	(0.1)	(8.9)	(1.0)	(15.5)	(179.5)	(205.0)
Lease liabilities	(0.2)	(0.3)	(1.4)	(1.9)	(4.8)	(2.5)	(11.1)
Subordinated debt liability	-	(0.3)	(1.5)	-	-	(95.9)	(97.7)
Total financial liabilities	(2,479.4)	(777.4)	(1,799.3)	(1,107.4)	(1,556.5)	(345.4)	(8,065.4)
Cumulative gap	(635.9)	(1,222.9)	(2,154.2)	(2,599.7)	(2,805.3)	724.7	724.7

Principal risks

Liquidity risk

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

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

As at 31 December 2020	Less than 1 month £m	1-3 months £m	3 months - 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Financial liabilities							
Amounts due to banks	0.9	16.4	42.2	0.8	758.5	-	818.8
Customer deposits	2,479.7	761.0	1,760.8	1,119.7	821.2	72.6	7,015.0
Derivative financial liabilities	0.4	0.8	0.8	5.8	30.7	3.5	42.0
Debt securities in issue	0.3	0.7	11.5	4.7	28.1	204.3	249.6
Lease liabilities	0.2	0.3	1.4	2.0	5.1	2.8	11.8
Subordinated debt liability	-	0.7	7.5	8.1	24.1	130.5	170.9
Total financial liabilities	2,481.5	779.9	1,824.2	1,141.1	1,667.7	413.7	8,308.1

Company
Separate disclosure tables segmenting the gross contractual cash flows of the Company's financial liabilities are not provided, as the figures are largely the same between the Group and the Company. The segmental split for financial liabilities in the Company where there is a significant difference to the Group is as follows:

- **Debt securities in issue:** this does not apply to the Company and totals £nil in the Company statement of financial position.
- **Deemed loan due to structured entities:** £402.8 million, of which £11.2 million is less than 1 month, £6.9 million is 1-3 months, £22.1 million is 3 months-1 year, £34.0 million is 1-2 years, £54.0 million is 2-5 years and £274.6 million is more than 5 years (2020: £268.2 million, of which £11.6 million is 3 months-1 year, £1.3 million is 1-2 years, £20.3 million is 2-5 years and £235.0 million is more than 5 years).

Principal risks

Liquidity risk

Liquidity buffer

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

The Group's average monthly liquidity buffer throughout the year was £1,477.8 million (2020: £1,665.0 million).

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

	2021 £m	2020 £m
Cash and withdrawable central bank reserves (LCR level 1 assets)	**1,672.5**	1,255.1
Central government assets (LCR level 1 assets)	**17.1**	22.8
Extremely high-quality covered bonds (LCR level 1 assets)	**-**	97.1
High-quality covered bonds (LCR level 2A assets)	**-**	9.1
Total liquidity buffer	**1,689.6**	1,384.1

Central government assets are off-balance sheet UK gilts acquired as part of an off-balance sheet 'security swap'. See Note 7(j) of the Financial Statements for further details.

Liquidity coverage ratio and net stable funding ratio

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

The following table sets out the Group's LCR:

	2021	2020
Liquidity buffer (£m)	**1,689.6**	1,384.1
Total net cash outflows (£m)	**681.9**	602.6
Liquidity coverage ratio (%)	**247.8**	229.7

The net stable funding ratio (NSFR) is a regulatory metric that measures the amount of stable funding available compared to the amount of stable funding required. Based on current interpretations of regulatory requirements and guidance, the Group's NSFR as at 31 December 2021 is 136.4% (2020: 136.7%). This is in excess of the minimum level of 100% that will come into effect on 1 January 2022[1].

Assets available to support future funding *(audited)*

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

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

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

[1] In the UK, the timing of a binding NSFR has been extended by the PRA and it will now become effective from 1 January 2022, as part of the revised Capital Requirements Regulation (CRR II) implementation. Upon implementation, the NSFR must be at least equal to 100% on an ongoing basis.

Principal risks

Liquidity risk

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

	Encumbered		Unencumbered		
As at 31 December 2020	Pledged as collateral £m	Other £m	Available as collateral £m	Other £m	Total £m
Cash and balances at central banks	-	18.0	-	1,255.2	1,273.2
Loans and advances to banks	48.6	6.3	36.1	-	91.0
Loans and advances to customers	1,269.4	-	5,791.9	-	7,061.3
Investment securities	165.0	-	193.2	-	358.2
Derivative financial assets	-	-	-	4.1	4.1
Assets held for sale	-	-	-	2.3	2.3
Non-financial assets	-	-	39.2	102.4	141.6
Total assets	1,483.0	24.3	6,060.4	1,364.0	8,931.7

Encumbered assets 'pledged as collateral' comprise:

Loans and advances to banks totalling £10.8 million (2020: £48.6 million), of which:

- £10.8 million (2020: £48.6 million) is pledged as collateral against derivative contracts.

Loans and advances to customers totalling £1,684.1 million (2020: £1,269.4 million), of which:

- £1,282.2 million (2020: £946.8 million) is positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £nil (2020: £55.3 million) is pledged as collateral against secured bank borrowings.
- £401.9 million (2020: £267.3 million) is pledged to securitisation programmes.

Investment securities totalling £520.3 million (2020: £165.0 million), of which:

- £391.0 million (2020: £150.0 million) is positioned with the Bank of England for use as collateral against amounts drawn under the Term Funding Scheme with additional incentives for SMEs.
- £129.3 million (2020: £15.0 million) is pledged as collateral for repurchase agreements or used in 'security swaps' (see Note 7(j) of the Financial Statements).

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

- £21.1 million (2020: £18.0 million) of mandatory deposits with central banks.
- £15.7 million (2020: £6.3 million) of securitisation cash, which represents restricted cash balances of consolidated structured entities.

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

Principal risks

Market risk

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

The following sections provide additional information relating to the management of market risk and specific details regarding foreign exchange risk, basis risk and interest rate risk. An update regarding the Group's transition from LIBOR to alternative rates is also provided.

Managing market risk

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

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

Foreign exchange risk *(audited)*

Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Group has low levels of foreign exchange risk that is managed by appropriate financial instruments including derivatives.

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

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

As at 31 December 2020	Euros £m	US Dollars £m	Australian Dollars £m
Loans and advances to banks	4.1	5.0	0.6
Loans and advances to customers	7.0	10.5	-
Total exposure	11.1	15.5	0.6

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

Basis risk *(audited)*

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

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

Information regarding the Group's transition from LIBOR to alternative rates can be found on page 86.

Principal risks

Market risk

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

The following tables provide a summary of the Group's interest rate gap position. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

Company
Separate disclosure tables setting out the Company's interest rate gap position are not provided, as the figures are largely the same between the Group and the Company. For assets and liabilities in the Company where there is a significant difference to the Group, the time bands are as follows:

- **Investment securities:** £614.8 million, all of which is within 3 months (2020: £421.6 million, all of which is within 3 months).
- **Debt securities in issue:** this does not apply to the Company and totals £nil in the Company statement of financial position.
- **Deemed loan due to structured entities:** £402.8 million, of which £11.2 million is less than 1 month, £6.9 million is 1-3 months, £22.1 million is 3 months-1 year, £34.0 million is 1-2 years, £54.0 million is 2-5 years and £274.6 million is more than 5 years (2020: £268.2 million, of which £11.6 million is 3 months-1 year, £1.3 million is 1-2 years, £20.3 million is 2-5 years and £235.0 million is more than 5 years).

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

Principal risks

Market risk

As at 31 December 2020	Within 3 months £m	3 months but <6 months £m	6 months but <1 year £m	1 year but <5 years £m	>5 years £m	Non-interest bearing £m	Total £m
Assets							
Cash and balances at central banks	1,255.2	-	-	-	-	18.0	1,273.2
Loans and advances to banks	91.0	-	-	-	-	-	91.0
Loans and advances to customers	3,205.7	303.9	561.8	2,857.4	197.2	(64.7)	7,061.3
Investment securities	358.2	-	-	-	-	-	358.2
Derivative financial assets	-	-	-	-	-	4.1	4.1
Assets held for sale	-	-	-	-	-	2.3	2.3
Non-financial assets	3.8	2.3	4.2	18.3	1.3	111.7	141.6
Total assets	4,913.9	306.2	566.0	2,875.7	198.5	71.4	8,931.7
Equity and liabilities							
Amounts due to banks	(815.5)	-	-	-	-	-	(815.5)
Customer deposits	(3,195.3)	(955.7)	(811.2)	(1,829.5)	(63.6)	(38.8)	(6,894.1)
Derivative financial liabilities	-	-	-	-	-	(42.0)	(42.0)
Debt securities in issue	(205.6)	-	-	-	-	0.6	(205.0)
Lease liabilities	-	-	-	-	-	(11.1)	(11.1)
Subordinated debt liability	(0.3)	(1.5)	-	(95.0)	-	(0.9)	(97.7)
Non-financial liabilities	-	-	-	-	-	(59.2)	(59.2)
Equity	-	-	-	(125.0)	-	(682.1)	(807.1)
Total equity and liabilities	(4,216.7)	(957.2)	(811.2)	(2,049.5)	(63.6)	(833.5)	(8,931.7)
Notional values of derivatives	1,305.8	(20.0)	(59.0)	(1,132.2)	(94.6)	-	-
Cumulative gap	2,003.0	1,332.0	1,027.8	721.8	762.1	-	-

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

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

- **+ 250 bps:** £13.9 million positive (2020: £14.2 million negative)
- **- 250 bps:** £51.1 million positive (2020: £7.3 million positive)

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

- **+ 250 bps:** £59.1 million positive (2020: £62.0 million positive)
- **- 250 bps:** £7.3 million negative (2020: £8.9 million positive)

In preparing the above, the Group makes certain assumptions consistent with expected and contractual repricing behaviour as well as behavioural repayment profiles of the underlying statement of financial position items in relation to the specific scenarios. The results also include the impact of hedge transactions.

Principal risks

Market risk

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

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

The LIBOR transition programme established a plan designed to actively transition the Group's LIBOR exposures, which were limited to sterling LIBOR only, to alternative rates by the end of 2021, with minimum reliance on a tough legacy legislative solution.

In both the 2020 Annual Report and Accounts and the 2021 Interim Financial Report, the Group reported on its progress against this transition plan and its remaining exposures with LIBOR dependency. During the second half of 2021, the Group implemented the final steps of the transition plan and, as at 31 December 2021, all derivative financial instruments and the majority of non-derivative financial instruments with LIBOR dependency have either matured or been migrated to an alternative rate specifically selected to be appropriate for the particular product and the customers that the product serves.

Non-derivative financial instruments that continue to be linked to sterling LIBOR as at 31 December 2021 (and are therefore deemed not to have transitioned from LIBOR) comprise 1,110 customer loans with a gross carrying amount of £983.5 million, of which:
- 52 loans with a gross carrying amount of £5.3 million fall within the tough legacy bracket and will move to synthetic LIBOR[1] on 1 January 2022; and
- 1,058 loans with a gross carrying amount of £978.2 million have had all required steps for transition completed and will transfer to an alternative rate on the next interest rate setting date during Q1 2022.

Operational risk

The Risk Committee receives regular reports across the spectrum of operational risks. These reports cover incidents that have arisen and allow the Risk Committee to assess the Group's response and proposed remedial actions.

During 2021, the Group has continued to enhance and embed the internal controls environment. More robust internal control libraries have been established, hosted within the Group's governance, risk and control system. This has enhanced the Risk and Control Self-Assessment process as residual risk positions, and therefore the Group's overall risk profile, is more substantiated, with views on internal control design adequacy and operating effectiveness.

Throughout 2021, the Group delivered an updated important business services inventory and impact tolerance metrics, supported by service mapping and scenario testing, to address the latest regulatory requirements. Collaboration with industry peers ensured alignment on approach. The resulting Group self-assessment and resilience actions provide a roadmap to continue enhancing the Group's operational resilience looking ahead to the 2025 regulatory deadline.

[1] The FCA used its powers, granted to it by the Government under the Benchmarks Regulation, to require continued publication on a 'synthetic' basis for the 1-month, 3-month and 6-month sterling LIBOR settings until the end of 2022. These synthetic LIBOR rates are not intended for use in new contracts, but are available for holders of 'legacy' LIBOR-referencing contracts.

Principal risks

Compliance, conduct and financial crime risk

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

During 2021, conduct risks were raised by each customer franchise for consideration by the Risk Committee. The Risk Committee reviewed the risks raised and considered whether the Group's proposed actions were appropriate to mitigate the risks effectively and ensured that all complaints were fairly addressed. The year has seen continued improvements made to the Group's financial crime controls, along with further roll-outs of automated customer due diligence for new and existing customers.

The Group's framework and approach for the fair servicing of vulnerable customers has received increased focus during the year, following publication of the FCA's latest guidance in this area. This work continues into 2022 and will eventually be aligned with the requirements expected to arise from the new Consumer Duty, which will be launched by the FCA in the second half of 2022.

The Group has continued to incur costs in relation to litigation and complaints. Costs include customer redress and remediation, specifically in relation to Section 75 and Section 140 of the Consumer Credit Act within the Consumer franchise. Key accounting judgements and estimates associated with these matters are considered regularly by the Audit Committee. Resolution of these matters remains a necessary and important part of delivering the Group's risk appetite. The Group received some insurance recoveries on amounts previously provided for, as detailed in Note 36 of the Financial Statements. Risk appetite is assessed by the customer franchises and central functions through key indicators, which are aggregated and provide an overall rating that is reported to the Risk Committee as part of the Group's Risk Appetite Dashboard. This is supported by additional tools, such as the conduct risk and control self-assessment. As a result of this analysis, the Group has reconsidered its appetite for lending with Section 75 and Section 140 exposure.

Strategic risk

Strategic risk focuses on large, long-term risks that could become a material issue for the delivery of the Group's goals and objectives. Management of strategic risk is primarily the responsibility of the Group's senior management team. The management of strategic risk is intrinsically linked to the corporate planning and stress testing processes and is further supported by the regular provision of consolidated business performance and risk reporting to the Executive Committee and the Board.

During 2021, the Group made strategic decisions to securitise a number of mortgages originated through The Mortgage Lender Limited to reflect market conditions for the asset class and to support the proactive management of risk weighted assets within the capital stack.

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

Systems and change risk

Customer expectations for service availability continue to rise with the rapid pace of new technologies, leading to a significantly lower tolerance for service disruption. The Group recognises that, in order to continue to be recognised for very high levels of customer satisfaction, it needs to continually monitor systems risk and ensure that change is delivered with minimum disruption to customers. The Group has continued to invest in its digital capability to improve customer experience and has invested in cloud technologies to increase the scale, stability and resiliency of its systems.

During 2021, the Group delivered key areas of its operational resiliency roadmap, including an update to the Group's important business services and the documentation of the processes supporting them and measurement of key operational resiliency metrics. As part of the roadmap, revised impact tolerances have been created and are now being monitored in parallel to the development of scenario testing.

Capital risk and management

Capital risk is the risk that there is insufficient quantity and quality of capital to cover regulatory requirements and/or to support its own growth plans. Exposure to capital risk could arise due to a depletion of capital resources as a result of the crystallisation of any of the risks to which the Group is exposed or an increase in minimum capital requirements.

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

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

The principal objectives when managing capital are to:

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

The Group recognises the importance of allocating the correct risk-weighting to its assets and, during the year ended 31 December 2021, formed a regulatory reporting committee to oversee the documentation and testing of its risk-weighted assets. A Risk-weighted Asset Policy was also developed by this committee, which was recommended for approval at the Audit Committee.

The Company is regulated by the PRA and the FCA. Since February 2021, the Group includes one regulated subsidiary, The Mortgage Lender Limited (TML), which is regulated by the FCA.

The Company has a solo-consolidation waiver, which allows it to incorporate TML, and also its consolidated structured entities, when calculating its requirements under Article 6(1) of the Capital Requirements Regulation (CRR). Consequently, the Company is supervised and reports to its regulators on a 'partially' consolidated basis only (i.e. including TML and consolidated structured entities, but excluding the dormant unregulated subsidiaries listed in Note 46 of the Financial Statements). The Group, as a whole, is also included within the regulatory submissions of its parent company, Shawbrook Group plc, which reports to the PRA on a fully consolidated basis.

Regulatory requirements
The Group applies the regulatory framework defined by the CRR and the Capital Requirements Directive (CRD V). Directive requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook.

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

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

Capital risk and management

As at 31 December 2021, the minimum capital and leverage requirements set out by the regulatory framework are summarised below (except where otherwise noted, these are unchanged from 31 December 2020).

The regulatory minimum for the Common Equity Tier 1 capital ratio, total Tier 1 capital ratio and total capital ratio are set at 4.5%, 6% and 8% of risk-weighted assets, respectively. In addition to these minimum requirements, the Group is required to maintain additional Common Equity Tier 1 capital for the capital conservation buffer of 2.5% of risk-weighted assets and the UK countercyclical capital buffer of 0% of risk-weighted assets. Additional systemic buffers provided for by CRD V do not apply to the Group.

The regulatory minimum for the leverage ratio is set at 3%. The Group is not required to comply with the PRA's UK Leverage Ratio Framework until its retail deposits exceed the £50 billion threshold.

The Total Capital Requirement of the Group set by the PRA is 9.07% of risk-weighted assets (2020: 9.78% of risk-weighted assets).

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

Regulatory developments
During the year ended 31 December 2021, the following regulatory changes came into effect:

- In June 2021, the Group implemented the revised SME supporting factor set out in the amendments to Article 501 of the CRR.
- CRD V introduced a new requirement relating to certain holding companies of PRA regulated entities established in the UK (referred to as parent financial holding companies or parent mixed financial holding companies). Companies in scope of the new requirement will become subject to licensing obligations and ongoing supervision by the PRA. Relevant companies were required to apply to the PRA for either approval or exemption from the new requirement. The Group concluded that the new requirement applied to the Company and applied for approval prior to the June 2021 deadline. The PRA confirmed that the Company was approved as a financial holding company in December 2021.

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

- From January 2022, the revised Capital Requirements Regulation (CRR II) will come into effect, as set out PS22/21 'Implementation of Basel standards: Final rules'. The CRR II changes will require the Group to implement new rules associated with the NSFR, counterparty credit risk and large exposures, however it is not expected that this will have any material impacts.
- The latest Regulatory Initiatives Grid (published in November 2021) stated that the consultation paper to support the implementation of Basel 3.1 would be delayed until Q4 2022 (previously scheduled for October 2021) and that implementation would not take place until late 2023 at the earliest. The Group's planning assumption is that implementation will be aligned with the EU on 1 January 2025.
- In December 2021, the Financial Policy Committee announced an increase in the UK countercyclical capital buffer from 0% to 1% with effect from December 2022. It also announced that, absent from any changes in the economic environment, it would expect to increase the UK countercyclical capital buffer from 1% to 2% with effect from June 2023 to reflect a more standard environment.
- Following the PRA's publication of PS21/21 'The UK leverage ratio framework', as of 1 January 2022, the Group will calculate its leverage ratio based on the guidelines contained within the policy statement by recalibrating from a 3% to a 3.25% minimum leverage ratio and excluding central bank claims as long as they are matched by liabilities of the same currency and equal or longer maturity. As at 31 December 2021, the Group held £1.7 billion of central bank claims that would have been eligible to exclude, which would have increased the leverage ratio by c. 1.3%.

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

Capital risk and management

Per the transitional factors set out in Regulation (EU) 2017/2395, the proportion that the Group may add back in 2021 is 50% (2020: 70%). However, in response to the COVID-19 pandemic, the EU reviewed the transitional arrangements and reached agreement to reset the proportions for relevant ECLs raised from 1 January 2020, as set out in the CRR 'Quick Fix', a change that was accepted by the PRA. As a result, for non-credit impaired ECLs raised from 1 January 2020, the revised add-back percentage for 2021 is 100% (2020: 100%). Provisions raised prior to 2020 continue to follow the original transitional factors set out in Regulation (EU) 2017/2395.

Capital risk disclosures

The following disclosures present the capital position for the Group on the aforementioned 'partially' consolidated basis detailed on page 88 (i.e. including TML and consolidated structured entities), as reported to the PRA. The Group, as a whole, is also included within the capital disclosures of its parent company, Shawbrook Group plc, which reports to the PRA on a fully consolidated basis, and can be found in Shawbrook Group plc's Annual Report and Accounts, which is available on the website: *www.shawbrook.co.uk/investors/*

Disclosures are presented on a CRD V transitional basis after applying IFRS 9 transitional arrangements. A comparison of the reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis) is provided on page 93.

Additional disclosures can be found in the Shawbrook Group plc Pillar 3 Disclosures, which is available on the website detailed above.

Regulatory capital

Regulatory capital consists of the sum of the following elements:

- **Common Equity Tier 1 capital:** includes ordinary share capital, related share premiums, retained earnings, reserves and deductions for intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- **Additional Tier 1 capital:** includes instruments classified as equity.
- **Tier 2 capital:** includes qualifying subordinated liabilities.

The following table summarises the composition of regulatory capital as at 31 December:

	2021 £m	2020 £m
Share capital	**175.5**	175.5
Share premium account	**81.0**	81.0
Capital contribution reserve	**23.9**	17.7
Merger reserve	**1.6**	1.6
Retained earnings	**531.6**	392.0
Intangible assets	**(55.2)**	(45.1)
Transitional adjustment for IFRS 9	**17.3**	41.0
Common Equity Tier 1 capital	**775.7**	663.7
Capital securities	**125.0**	125.0
Additional Tier 1 capital	**125.0**	125.0
Total Tier 1 capital	**900.7**	788.7
Subordinated debt liability[1]	**95.0**	95.0
Tier 2 capital	**95.0**	95.0
Total regulatory capital	**995.7**	883.7

[1] For the purpose of regulatory capital calculations, capitalised interest and other accounting adjustments of £2.5 million are excluded (2020: £2.7 million).

Capital risk and management

Total regulatory capital reconciles to total equity as follows:

	2021 £m	2020 £m
Total regulatory capital	**995.7**	883.7
Subordinated debt liability[1]	**(95.0)**	(95.0)
Intangible assets	**55.2**	45.1
Transitional adjustment for IFRS 9	**(17.3)**	(41.0)
Total equity	**938.6**	792.8
Of which: Shawbrook Bank Limited equity (per Company statement of financial position)	**942.8**	792.9
Of which: regulated subsidiaries included via solo-consolidation waiver	**(4.2)**	(0.1)

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

	2021 £m	2020 £m
Total regulatory capital as at 1 January	**883.7**	814.3
Movement in Common Equity Tier 1 capital		
Increase in capital contribution reserve	**6.2**	0.5
Movement in retained earnings:		
Profit for the year	**149.4**	58.2
Coupon paid on capital securities	**(9.8)**	(9.8)
(Increase)/decrease in intangible assets	**(10.1)**	1.5
(Decrease)/increase in transitional adjustment for IFRS 9	**(23.7)**	18.9
Total movement in Common Equity Tier 1 capital	**112.0**	69.3
Movement in Tier 2 capital		
Issuances of subordinated debt	-	75.0
Repurchases and redemption of subordinated debt	-	(75.0)
Other movements	-	0.1
Total movement in Tier 2 capital	-	0.1
Total regulatory capital as at 31 December	**995.7**	883.7

Capital risk and management

Risk-weighted assets

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

	2021 £m	2020 £m
Credit risk[1]		
Property Finance	**2,531.1**	1,974.9
Business Finance	**2,369.9**	2,234.0
Consumer Lending	**322.5**	341.2
TML Mortgages	**207.1**	84.7
Other	**151.7**	113.2
Total credit risk	**5,582.3**	4,748.0
Counterparty credit risk: credit valuation adjustment	**1.0**	2.6
Securitisation exposures in the banking book	**20.9**	15.9
Operational risk	**529.8**	501.9
Total risk-weighted assets	**6,134.0**	5,268.4

Capital ratios

	2021 %	2020 %
Common Equity Tier 1 capital ratio	**12.6**	12.6
Total Tier 1 capital ratio	**14.7**	15.0
Total capital ratio	**16.2**	16.8

Leverage

	2021 £m	2020 £m
Total Tier 1 capital	**900.7**	788.7
Exposure measure		
Total statutory assets (excluding derivatives)	**10,987.2**	8,913.2
Off-balance sheet items	**278.6**	200.3
Exposure value for derivatives	**35.5**	25.5
Transitional adjustment for IFRS 9	**17.3**	41.0
Other regulatory adjustments	**(55.2)**	(45.1)
Total exposures	**11,263.4**	9,134.9
Leverage ratio	**8.0%**	8.6%

In relation to the above table:

- Off-balance sheet items comprise pipeline and committed facilities balances that have a credit conversion factor of low/medium risk attached to them.
- Exposure value for derivatives has been reported in compliance with CRD V rules. The derivative measure is calculated as the replacement cost for the current exposure plus an add-on for future exposure and is not reduced for any collateral received, or grossed up for collateral provided.
- Other regulatory adjustments comprise asset amounts deducted in determining Tier 1 capital (i.e. intangible assets).

[1] Credit risk is allocated to the Group's reportable lending segments. The Group's lending segments have changed during the year, with the addition of TML Mortgages which was previously reported within Property Finance (see page 49). Prior year comparative information has been restated accordingly.

Capital risk and management

IFRS 9 transitional arrangements impact analysis

As detailed on page 89, the Group has elected to use a transitional approach when recognising the impact of adopting IFRS 9. To illustrate the impact of using this transitional approach, the following table provides a comparison of the Group's reported capital metrics (including transitional adjustments) to the capital metrics as if IFRS 9 transitional arrangements had not been applied (the 'fully loaded' basis):

	2021		2020	
	Including transitional adjustments	**Transitional adjustments not applied**	Including transitional adjustments	Transitional adjustments not applied
Capital resources				
Common Equity Tier 1 capital (£m)	**775.7**	**758.4**	663.7	622.7
Total Tier 1 capital (£m)	**900.7**	**883.4**	788.7	747.7
Total regulatory capital (£m)	**995.7**	**978.4**	883.7	842.7
Risk-weighted assets				
Total risk-weighted assets (£m)	**6,134.0**	**6,126.7**	5,268.4	5,235.4
Capital ratios				
Common Equity Tier 1 capital ratio (%)	**12.6**	**12.4**	12.6	11.9
Total Tier 1 Capital Ratio (%)	**14.7**	**14.4**	15.0	14.3
Total capital ratio (%)	**16.2**	**16.0**	16.8	16.1
Leverage				
Leverage ratio total exposures (£m)	**11,263.4**	**11,246.1**	9,134.9	9,093.9
Leverage ratio (%)	**8.0**	**7.9**	8.6	8.2

ICAAP, ILAAP and stress testing

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

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

The Board, Group Risk Management Committee and the Asset and Liability Committee have engaged in a number of exercises that have considered and developed stress test scenarios. The analysis enables the Group to evaluate its capital and funding resilience in the face of severe but plausible risk shocks. In addition to the UK Solvency Scenario and the Rates Down scenario prescribed by the PRA, the stress tests have included a range of market-wide and idiosyncratic stress tests, as well as operational risk scenario analyses. Stress testing is an integral part of the adequacy assessment processes for liquidity and capital, and the setting of tolerances under the annual review of Group risk appetite.

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

Recovery Plan and Resolution Pack

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

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

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

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

Group viability statement

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

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

The assessment of viability included the following:

- the Board considered updates to the business plans at various times during the year to assess current business performance and the impact of any emerging risks as identified through the Group's established RMF;
- the Board considered the Group's current and forecast liquidity and funding plans supporting the strategic objectives;
- the Board reviewed and evaluated the top and emerging risks, including the overall control environment, for the Group as part of the regular and ongoing reporting to the Board. This included a review of the cyber intelligence threat and the annual information risk assessment, together with the technology roadmap for improvements in the technology control environment in 2021 and 2022;
- the Board considered the strategy and updated five-year plan and approved them in December 2021. This included the business plans and financial projections from 31 December 2021 to 31 December 2026. The plan included various scenarios stressing the business performance, which demonstrated that the Group continued to operate within regulatory requirements for both capital and liquidity over the period;
- the Board considered the quantity and quality of capital resources available to support the delivery of the Group's objectives. This included consideration of the effects of a changing regulatory landscape on the Total Capital Requirement, Pillar 2B and the CRD V combined buffer requirements, together with the effect of the Group's Recovery Plan to restore the capital position in scenarios of capital headwinds;
- the Group considered the implications of implementing the minimum requirement for own funds and eligible liabilities in the event that the Group triggers the threshold and the impact on capital from implementing Basel 3.1; and
- the Board reviewed and approved the annual ICAAP and ILAAP. As part of its ICAAP, the Group performed a variety of stress tests and reverse stress tests, which were derived after considering the Group's top and emerging risks and were presented to the Group Risk Management Committee and the Board. The Group also considered its funding and liquidity adequacy in the context of the stress testing and reverse stress tests. The Group considered the key ongoing risks including:
    - economic uncertainty arising from the ongoing pandemic impacting interest rates, inflation and the wider UK economy, including the unwinding of any governmental and regulatory changes implemented since the start of the pandemic;
    - legal and regulatory changes as a result of the ongoing implementation of existing EU legislation into UK law and the economic impacts from any changes to the UK's trading relationship with the EU; and
    - financial risks arising from the transitional impacts of climate change on the Group's business.

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

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

Financial Statements

KPMG

Independent auditor's report

to the members of Shawbrook Bank Limited

1. Our opinion is unmodified

We have audited the financial statements of Shawbrook Bank Limited ("the Company") for the year ended 31 December 2021 which comprise the Consolidated statement of profit and loss and other comprehensive income, Consolidated and Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated and Company statement of cash flows, and the related notes, including the accounting policies in Note 7.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the Directors in June 2011. The period of total uninterrupted engagement is for the eleven financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£6.9million (2020: £4.4 million) 3.5% of Group profit before tax (2020: 4.4% of three-year average Group profit before tax)	
Coverage	100% (2020: 100%) of Group profit before tax	
Key audit matters		**vs 2020**
Recurring risks	Expected credit loss provisioning	▼
	Provision for conduct matters	▼
	IT user access management	◀▶

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

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

Expected credit loss provisioning

£76.0 million; 2020: £92.3 million

Refer to pages 38, 50-77 (Risk Report), pages 123-124 (accounting policies) and page 136 (financial disclosures)

Risk vs 2020: ▼

The risk

Subjective estimate

The measurement of expected credit losses ("ECL") for loans to customer involves significant judgement and estimates with a high degree of estimation uncertainty. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the estimation of ECL are:

— **Model estimations:** Inherently judgemental modelling is used to estimate ECL, particularly in determining certain Probabilities of Default ("PD") and Loss Given Default ("LGD") of the portfolios. These models utilise both the Group's historical data and external data inputs.

— **Economic scenarios:** IFRS 9 requires the Group to measure ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios and the probability weightings applied to them.

— **Significant Increase in Credit Risk ('SICR'):** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12- month or a lifetime provision is recorded. In the current year, market reaction towards the recovery phase from COVID -19 heightens the level of subjectivity in this judgement.

— **Post-model adjustments:** Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends. Such adjustments are inherently subjective and significant judgement is involved in estimating these amounts.

— **Assumptions applied to non-modelled portfolios:** The Group also has portfolios for which the ECL is estimated through a coverage approach or using slotting approach to determine PDs. While calculations are less complex than for the modelled portfolios, the determination of the assumptions which are applied to these portfolios is based on management's judgement and is subjective with a high degree of estimation uncertainty.

The effect of these matters is that, as part of our risk assessment, we determined that ECL provisioning has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

Disclosure quality

The disclosures regarding the Group's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL estimate.

Our response

We performed the following audit procedures rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described:

— **Our credit risk modelling expertise:** We involved our own credit risk modelling specialists to assist us with the following:

- for a sample of models which were changed or updated during the year, evaluating whether the changes were appropriate by assessing the updated model methodology;
- independently for a sample of models, evaluating the model output by inspecting the corresponding model functionality and independently implementing the model by rebuilding the model code;
- independently assessing and reperforming, for a selection of models, the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences; and
- reperforming and inspecting model code for the calculation of certain components of the ECL model to assess its consistency of the Group's approved staging criteria and the output of the model.

— **Our economics expertise:** We involved our own economic specialists who assisted us in:

- assessing the reasonableness of the Group's methodology and models for determining the economic scenarios used and the probability weightings applied to them;
- assessing key economic variables which included comparing samples of economic variables to external sources; and
- assessing the overall reasonableness of the economic forecasts by comparing the Group's forecasts to our own modelled forecasts.

— **Test of details:** Other key areas of our testing in addition to set out above included:

- sample testing over key inputs into the ECL calculation for certain non-modelled portfolios through credit file reviews; and
- critically evaluated management's assumptions which are applied to determine the basis of post model adjustments.

— **Assessing transparency:** We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis that will be disclosed. In addition, we assessed whether the disclosure of the key judgements and assumptions made is sufficiently clear.

Our results:

We found the resulting estimate of the ECL recognised and the associated disclosures made to be acceptable (2020: acceptable).

Provisions for conduct matters

£13.5 million; 2020: £14.8 million
Refer to pages 118, 126-127 (accounting policies) and page 153 (financial disclosures)

Risk vs 2020: ▼

The risk

Subjective estimate

Due to the uncertainties that can arise in measuring potential obligations resulting from operational, legal and regulatory matters, the Directors apply judgement in estimating the value of any associated provisions.

In particular, the Group continues to receive an inflow of customer complaints relating to its financing of solar lending products where the original supplier is no longer solvent. The solar provision is considered as a significant audit risk.

The key elements of judgement are the estimation of future customer complaints rate, the uphold rate of complaints received and the estimated redress cost per upheld complaint. These judgements are informed by the Group's past complaint and claim experience. Given the limited historical information, there is a risk that the actual experience may differ from the Group's expectation.

The effect of these matters is that, as part of our risk assessment, we determined that the provision related to conduct matters has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Disclosure quality

The disclosures relating to the provision for conduct matters are important in explaining the Group's key judgements and material inputs to the subjective estimate.

Our response

We performed the following audit procedures rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described:

— **Test of details:** We assessed and challenged the appropriateness of the model underlying the provision for solar conduct matters and reperformed the calculation.

— **Historical comparison:** We assessed the reasonableness of the key assumptions against historical experience of customer complaints levels, complaint uphold rates and redress paid.

— **Sensitivity analysis:** We assessed and challenged the reasonableness of the solar provisioning model's key assumptions, by performing stress tests on the number of expected future complaints, the uphold level of complaints and the redress paid per complaint.

— **Assessing transparency:** We evaluated whether the Group's disclosures detailing significant conduct related matters adequately disclose the potential liabilities of the Group. As a part of this, we have assessed the sensitivity analysis that is disclosed.

Our results:

We found the resulting estimate of the conduct provisions recognised and related disclosures made to be acceptable (2020: acceptable).

IT user access management

Page 45 (Risk Report); Risk vs 2020: ◄►

The risk

Control performance

The Group's accounting and reporting processes are dependent on automated controls enabled by IT systems. User access management controls are an important component of the general IT control environment assuring that unauthorised access to systems does not impact the effective operation of the automated controls in the financial reporting processes.

Certain user access management controls were not consistently implemented and effectively operated across the Group, including at third party service providers in the previous year.

Ineffective controls included privileged access management and monitoring of privileged database activities on certain systems related to management of loans to customers.

If the above controls for user access management are deficient and not remediated or adequately mitigated, the pervasive nature of these controls may undermine our ability to place reliance on automated and IT dependent controls in our audit.

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Our response

Our audit procedures included:

— **Control testing**: Using our own IT audit specialists, we tested the design and operating effectiveness of the relevant controls over user access management including:

- authorising access rights for new joiners;
- authorising modified access;
- timely removal of user access rights;
- logging and monitoring of user activities;
- privileged user and developer access to production systems, the procedures to assess granting, potential use, and the removal of these access rights; and
- segregation of duties including access to multiple systems that could circumvent segregation controls.

— **Test of details**: For certain account balances we responded to the deficient General IT Controls by performing additional substantive testing, such as extended sample testing over certain account balance and comparing the selected data to the external sources (such as third party contracts and / or bank statements) to test the integrity of the transactional level data that is flowing into and contained within the Group's financial statements

Our results:

Our audit response to the identified control deficiencies was to expand the extent of our planned detailed testing. Based on the risk identified and our procedures performed, we did not identify unauthorised user activities in the systems relevant to financial reporting (2020: none identified).

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

We continue to perform procedures over going concern, valuation of goodwill - Business Finance and effective interest rate accounting. However, following the more favourable economic outlook and general improvement in the macroeconomic environment regarding COVID-19, the level of uncertainty relating to forecasts that support going concern and goodwill has reduced, sensitivity around redemption profile in relation to effective interest rate accounting, the level of judgement and estimation uncertainty relating to these matters has reduced since the previous year. We have not assessed each these areas as being one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the Group financial statements as a whole was set at £6.9 million (2020: £4.4 million), determined with reference to a benchmark of Group profit before tax of £198.8 million (2020: £101.8 million, normalised by averaging over the last three years).

Materiality for the parent Company financial statements as a whole was set at £6.9 million (2020: £4.3 million), determined with reference to a benchmark of profit before tax, of which it represents 3.4% (2020: 4.3%).

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

Performance materiality was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £4.49 million (2020: £2.86 million) for the group and £4.49 million (2020: £2.79 million) for the parent company.

We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.35 million (2020: £0.22 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality and performance materiality levels set out above.

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or Company or to cease their operations, and as they have concluded that the Group's and Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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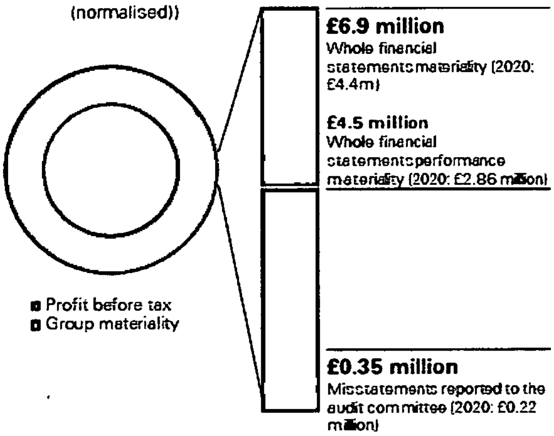
Group profit before tax
£198.8m (2020: £101.8m (normalised))

Group materiality
£6.9million (2020: £4.4million)



We used our knowledge of the Group and Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely effect the Group's and Company's available financial resources is insufficient regulatory capital to meet minimum regulatory capital levels over the going concern period.

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

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

Our conclusions based on this work:

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

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

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

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

We also identified fraud risks related to expected credit losses provision and provision for conduct matters due to the fact these involve significant estimation and subjective judgements that are difficult to corroborate. Further detail in respect of ECL provisioning and provision for conduct matters is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts;
- evaluating the business purpose of significant unusual transactions; and
- assessing significant accounting estimates for bias.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategic Report and Directors' Report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the Directors' report;

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

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

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 28-29, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

S. Ryder

Simon Ryder (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
30 March 2022

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Consolidated statement of profit and loss and other comprehensive income

for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Interest income calculated using the effective interest rate method	12	**456.3**	399.9
Other interest and similar income	12	**(12.6)**	(8.7)
Interest expense and similar charges	13	**(88.9)**	(114.9)
Net interest income		**354.8**	276.3
Operating lease rental income		**10.4**	10.9
Depreciation on operating leases	27	**(8.6)**	(9.1)
Net other operating lease expense		**-**	(0.1)
Net operating lease income		**1.8**	1.7
Fee and commission income	14	**11.5**	8.6
Fee and commission expense	14	**(7.3)**	(9.2)
Net fee and commission income/(expense)	14	**4.2**	(0.6)
Net gains on derecognition of financial assets measured at amortised cost	15	**21.7**	9.4
Net gains/(losses) on derivative financial instruments and hedge accounting	26	**3.1**	(5.0)
Net other operating income		**0.4**	0.6
Net operating income		**386.0**	282.4
Administrative expenses	16	**(164.2)**	(131.0)
Impairment losses on financial assets	20	**(31.4)**	(54.9)
Provisions	36	**7.0**	(20.3)
Total operating expenses		**(188.6)**	(206.2)
Share of results of associate	30	**-**	0.1
Impairment of investment in associate	30	**-**	(2.7)
Profit before tax		**197.4**	73.6
Tax	21	**(47.9)**	(15.4)
Profit after tax, being total comprehensive income, attributable to owners		**149.5**	58.2

The notes on pages 107 to 167 are an integral part of these financial statements.

Consolidated and Company statement of financial position
as at 31 December 2021

		Group		Company	
	Note	**2021**	2020	**2021**	2020
		£m	£m	**£m**	£m
Assets					
Cash and balances at central banks	22	**1,693.8**	1,273.2	**1,693.8**	1,273.2
Loans and advances to banks	22	**66.9**	91.0	**49.0**	84.7
Loans and advances to customers	23	**8,272.1**	7,061.3	**8,278.9**	7,061.3
Investment securities	25	**521.4**	358.2	**614.8**	421.6
Derivative financial assets	26	**21.5**	4.1	**21.5**	0.6
Current tax receivable		**4.2**	3.0	**4.2**	3.0
Property, plant and equipment	27	**48.3**	53.6	**47.8**	53.6
Intangible assets	28	**69.5**	59.4	**44.3**	45.1
Deferred tax assets	29	**14.2**	12.3	**9.2**	12.3
Investment in associate	30	**-**	2.8	**-**	2.8
Other assets	31	**11.5**	10.5	**17.5**	20.1
Assets held for sale	32	**299.7**	2.3	**299.7**	2.3
Investment in subsidiaries	33	**-**	-	**13.9**	-
Total assets		**11,023.1**	8,931.7	**11,094.6**	8,980.6
Liabilities					
Amounts due to banks	34	**1,200.7**	815.5	**1,200.7**	815.5
Customer deposits	35	**8,358.6**	6,894.1	**8,358.6**	6,894.1
Provisions	36	**14.2**	18.0	**14.2**	18.0
Derivative financial liabilities	26	**8.1**	42.0	**7.9**	42.0
Debt securities in issue	37	**318.8**	205.0	**-**	-
Lease liabilities	38	**9.8**	11.1	**9.4**	11.1
Other liabilities	39	**62.4**	41.2	**60.7**	41.1
Subordinated debt liability	40	**97.5**	97.7	**97.5**	97.7
Deemed loan due to structured entities	24	**-**	-	**402.8**	268.2
Total liabilities		**10,070.1**	8,124.6	**10,151.8**	8,187.7
Equity					
Share capital	42	**175.5**	175.5	**175.5**	175.5
Share premium account		**81.0**	81.0	**81.0**	81.0
Capital securities	43	**125.0**	125.0	**125.0**	125.0
Merger reserve		**1.6**	1.6	**1.6**	1.6
Capital contribution reserve	10	**23.9**	17.7	**23.9**	17.7
Retained earnings		**546.0**	406.3	**535.8**	392.1
Total equity		**953.0**	807.1	**942.8**	792.9
Total equity and liabilities		**11,023.1**	8,931.7	**11,094.6**	8,980.6

The notes on pages 107 to 167 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 March 2022 and were signed on its behalf by:

Marcelino Castrillo
Chief Executive Officer

Dylan Minto
Chief Financial Officer

Registered number 00388466

Consolidated statement of changes in equity
for the year ended 31 December 2021

Year ended 31 December 2021	**Share capital £m**	**Share premium account £m**	**Capital securities £m**	**Merger reserve £m**	**Capital contribution reserve £m**	**Retained earnings £m**	**Total equity £m**
As at 1 January 2021	**175.5**	**81.0**	**125.0**	**1.6**	**17.7**	**406.3**	**807.1**
Profit for the year	-	-	-	-	-	**149.5**	**149.5**
Share-based payments	-	-	-	-	**0.6**	-	**0.6**
Coupon paid on capital securities	-	-	-	-	-	**(9.8)**	**(9.8)**
Capital contribution	-	-	-	-	**5.6**	-	**5.6**
As at 31 December 2021	**175.5**	**81.0**	**125.0**	**1.6**	**23.9**	**546.0**	**953.0**

Year ended 31 December 2020	Share capital £m	Share premium account £m	Capital securities £m	Merger reserve £m	Capital contribution reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2020	175.5	81.0	125.0	1.6	17.2	357.9	758.2
Profit for the year	-	-	-	-	-	58.2	58.2
Share-based payments	-	-	-	-	0.5	-	0.5
Coupon paid on capital securities	-	-	-	-	-	(9.8)	(9.8)
As at 31 December 2020	175.5	81.0	125.0	1.6	17.7	406.3	807.1

The notes on pages 107 to 167 are an integral part of these financial statements.

Company statement of changes in equity
for the year ended 31 December 2021

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

Year ended 31 December 2020	Share capital £m	Share premium account £m	Capital securities £m	Merger reserve £m	Capital contribution reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2020	175.5	81.0	125.0	1.6	17.2	343.6	743.9
Profit for the year	-	-	-	-	-	58.3	58.3
Share-based payments	-	-	-	-	0.5	-	0.5
Coupon paid on capital securities	-	-	-	-	-	(9.8)	(9.8)
As at 31 December 2020	175.5	81.0	125.0	1.6	17.7	392.1	792.9

The notes on pages 107 to 167 are an integral part of these financial statements.

Consolidated and Company statement of cash flows
for the year ended 31 December 2021

		Group		Company	
	Note	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Cash flows from operating activities					
Profit before tax		**197.4**	73.6	**203.8**	73.7
Adjustments for non-cash items and other adjustments included in the statement of profit and loss[1]	44	**1.1**	61.0	**2.6**	61.3
Increase in operating assets	44	**(1,519.3)**	(368.9)	**(1,526.5)**	(369.0)
Increase in operating liabilities[1]	44	**1,448.8**	766.5	**1,449.6**	766.5
Tax paid		**(48.4)**	(16.8)	**(48.4)**	(16.8)
Net cash generated from operating activities		**79.6**	515.4	**81.1**	515.7
Cash flows from investing activities					
Purchase of investment securities		**(199.8)**	(158.2)	**(231.9)**	(176.8)
Disposals and maturities of investment securities		**37.7**	-	**37.7**	-
Purchase of property, plant and equipment		**(0.7)**	(0.8)	**(0.7)**	(0.8)
Purchase and development of intangible assets		**(7.1)**	(7.5)	**(7.1)**	(7.5)
Purchase of subsidiary, net of cash acquired		**(3.4)**	-	**(5.5)**	-
Net cash used by investing activities		**(173.3)**	(166.5)	**(207.5)**	(185.1)
Cash flows from financing activities					
Increase/(decrease) in amounts due to banks		**385.2**	(66.1)	**385.2**	(66.1)
Issue of debt securities		**158.6**	-	**-**	-
Repurchase and redemption of debt securities		**(44.2)**	(36.8)	**-**	-
Costs arising on issue of debt securities		**(0.8)**	-	**-**	-
Payment of principal portion of lease liabilities		**(1.9)**	(1.2)	**(1.8)**	(1.2)
Issue of subordinated debt		**-**	75.0	**-**	75.0
Repurchase and redemption of subordinated debt		**-**	(75.0)	**-**	(75.0)
Increase/(decrease) in deemed loan due to structured entity		**-**	-	**134.6**	(18.0)
Coupon paid to holders of capital securities		**(9.8)**	(9.8)	**(9.8)**	(9.8)
Net cash generated from/(used by) financing activities		**487.1**	(113.9)	**508.2**	(95.1)
Net increase in cash and cash equivalents		**393.4**	235.0	**381.8**	235.5
Cash and cash equivalents as at 1 January		**1,346.2**	1,111.2	**1,339.9**	1,104.4
Cash and cash equivalents as at 31 December	22	**1,739.6**	1,346.2	**1,721.7**	1,339.9

The notes on pages 107 to 167 are an integral part of these financial statements.

[1] In the year ended 31 December 2021, a presentational change has been made to present the expected credit loss (ECL) charge on loan commitments as part of adjustments for non-cash items and other adjustments included in the statement of profit and loss. Previously it was included within the increase in operating liabilities. The change is made so that presentation is consistent with the ECL charge on loans and advances to customers. Prior year comparatives have been restated accordingly to reflect this presentational change, resulting in £2.2 million being reclassified from increase in operating liabilities to adjustments for non-cash items and other adjustments included in the statement of profit and loss.

Notes to the financial statements
for the year ended 31 December 2021

Notes to the financial statements

1. Reporting entity

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

The consolidated financial statements comprise the results of the Company and its subsidiaries (together, the 'Group'). Details of subsidiary companies included in the Group are provided in Note 46.

Details of the parent company is are provided in Note 45.

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

2. Basis of accounting and measurement

Both the consolidated and Company financial statements are prepared in accordance with UK-adopted international accounting standards, as defined by the UK Endorsement Board (UKEB)[1]. Details of new policies adopted by the Group during the year and significant accounting policies applied by the Group are provided in Note 6 and Note 7, respectively.

The reporting period for both the consolidated and Company financial statements is the 12 months ended 31 December 2021.

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

The financial statements are prepared on a going concern basis (see Note 3) and on a historical cost basis, except as required in the valuation of derivative financial instruments, which are carried at fair value.

3. Going concern

The financial statements are prepared on a going concern basis. To assess the appropriateness of this basis the Directors have considered a wide range of information relating to present and future conditions, including the Group's current financial position, future projections of profitability, cash flows and capital resources. In addition, the Directors have considered the Group's risk assessment framework and the possible impacts from the top and emerging risks, as highlighted in the Risk Report, on the longer-term strategy and financial position of the business.

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

The Group's capital and liquidity plans have been stress tested under a range of severe but plausible scenarios as part of the annual planning process and annual ICAAP and ILAAP process and have been reviewed by the Directors. The stressed forecasts indicate that under these stressed scenarios, which include using the three Prudential Regulation Authority (PRA) prescribed scenarios, being the updated Rates Down scenario for non-systemic banks, the 2021 PRA prescribed solvency scenario for systemic firms and a pandemic scenario, the Group continues to operate with sufficient levels of liquidity and capital for the next 12 months, with the Group's capital ratios and liquidity in excess of regulatory requirements.

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

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[1] Per the UKEB:

- UK-adopted international accounting standards comprise: EU adopted international accounting standards at the end of Transition Period, and, international accounting standards adopted by the Secretary of State for the Department of Department for Business, Energy and Industrial Strategy (before delegation of adoption powers to the UKEB).
- International accounting standards means the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board.

Notes to the financial statements

4. Functional and presentation currency

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

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

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

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

5. Presentation of risk and capital management disclosures

Disclosures required under IFRS 7 'Financial Instruments: Disclosures' concerning the nature and extent of risks relating to financial instruments are included within the principal risks section of the Risk Report. Specifically, this includes information about credit risk (starting on page 50), liquidity risk (starting on page 78), and market risk (starting on page 83). Disclosures required under IAS 1 'Presentation of Financial Statements' concerning objectives, policies and processes for managing capital are included within the capital risk and management section of the Risk Report starting on page 88. Where information in the Risk Report is marked as 'audited', it is covered by the Independent Auditor's Report.

6. Adoption of new and revised standards and interpretations

During the year ended 31 December 2021, the Group adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), as detailed below.

None of the other amendments that came into effect during the year had a significant impact on the Group and no new accounting policies came into effect during the year. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

(a) Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the 'Phase 2 amendments')

Following endorsement by the UK, the Group adopted the Phase 2 amendments with effect from 1 January 2021. The Phase 2 amendments provide certain practical expedients and temporary reliefs to address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative rates. For the Group, this specifically relates to when changes are made to the contractual cash flows of financial instruments and hedging relationships as a result of interest rate benchmark reform, as detailed below.

Changes in the basis for determining the contractual cash flows

The amendments to IFRS 9 'Financial Instruments' provide a practical expedient that allows a change in the basis of determining the contractual cash flows of a financial instrument required by the reform to be accounted for by updating the effective interest rate, without the recognition of an immediate gain or loss (i.e. it is not accounted for in accordance with the Group's usual accounting policy for modifications of financial instruments). This practical expedient may only be applied where the change to the contractual cash flows is both necessary as a direct consequence of the reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. In the event that changes are in addition to those required by the reform, the practical expedient is applied first, after which the Group's usual accounting policy for modifications of financial instruments is applied.

During the year, loans and advances to customers and investment securities with a gross carrying amount at the point of transition of £305.3 million and £53.6 million, respectively, were transitioned from a LIBOR reference rate to an alternative reference rate and the practical expedient was applied.

Notes to the financial statements

6. Adoption of new and revised standards and interpretations (continued)

Additional, loans and advances to customers with a gross carrying amount of £2,743.9 million were transitioned from a LIBOR reference rate to an alternative rate during the year and did not meet the criteria to avail the practical expedient. For these loans, the Group's usual accounting policy for modifications of financial assets was applied and net modification gains/losses of £nil were recognised in the statement of profit and loss.

Hedge accounting
On adoption of IFRS 9, the Group made the accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 'Financial Instruments: Recognition and Measurement'. The Phase 2 amendments to IAS 39 provide certain reliefs when changes are made to hedge relationships as a result of interest rate benchmark reform.

Specifically, the Group has applied a temporary exception that means changes to the referenced interest rate benchmark and hedge documentation due to interest rate benchmark reform does not constitute the discontinuation of the hedge relationship, nor the designation of a new hedging relationship. During the year, hedge relationships with a nominal amount of £492.6 million were transitioned from a LIBOR reference rate to an alternative benchmark rate and, as a result of applying this relief, were not discontinued.

Disclosures
The amendments to IFRS 7 require certain disclosures to be made to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. These disclosures are included in the market risk section of the Risk Report starting on page 86 and include details of the Group's LIBOR transition programme and a summary of the Group's remaining exposures with LIBOR dependency as at 31 December 2021.

7. Significant accounting policies

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

(a) Basis of consolidation
Subsidiaries
See disclosures at Note 46

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

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

Business combinations
See disclosures at Note 10

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

If the cost of acquisition (aggregate of the fair value of consideration transferred, amount recognised for non-controlling interests and fair value of any previous interest held) exceeds the fair value of identifiable net assets acquired, goodwill is recognised and is treated in accordance with the Group's intangible asset policy (see Note 7(n)). If the fair value of identifiable net assets acquired exceeds the cost of acquisition (a 'bargain purchase'), a gain is recognised in the statement of profit and loss.

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

Notes to the financial statements

7. Significant accounting policies (continued)

Investment in associates
See disclosures at Note 30

Associates are entities over which the Group has significant influence and that is neither a subsidiary undertaking nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Interests in associates are accounted for using the equity method of accounting until the date on which significant influence ceases.

Investments are initially measured at cost, including transaction costs. After initial recognition, the Group recognises its share of the associate's post-acquisition profit or loss and other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

Investments are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in the statement of profit and loss.

(b) Operating segments

See disclosures at Note 11

Operating segments are identified based on internal reports and components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. For this purpose, the Executive Committee has been determined to be the chief operating decision maker for the Group.

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

(c) Interest income and expense

See disclosures at Note 12 and Note 13

Financial instruments measured at amortised cost
For all interest-bearing financial instruments measured at amortised cost, interest income and expense are recognised using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the gross carrying amount of a financial asset, or the amortised cost of a financial liability.

In relation to the above, amortised cost is the amount at which the financial instrument is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

With the exception of credit-impaired financial assets, when calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but does not consider the loss allowance recognised on financial assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial instrument. In calculating interest income and expense, the calculated effective interest rate is applied to the gross carrying amount of the financial asset, or to the amortised cost of the financial liability, respectively.

Notes to the financial statements

7. Significant accounting policies (continued)

For financial assets that become credit-impaired after initial recognition (i.e. a 'Stage 3' asset, as detailed on page 51 of the Risk Report), interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition (I.e. a 'POCI' asset, as detailed on page 51 of the Risk Report), interest income is calculated by applying a credit-adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to the gross basis, even if the credit risk of the asset improves.

Derivative financial instruments
For derivative financial instruments forming part of hedging relationships and economic hedging relationships, the Group recognises net interest income or expense based on the underlying hedged items. For derivative financial instruments hedging assets, the net interest income or expense is recognised in interest income. For derivative financial instruments hedging liabilities, the net interest income or expense is recognised in interest expense.

(d) Fee and commission income and expense
See disclosures at Note 14

Fee and commission income include amounts from contracts with customers that are not included in the effective interest rate calculation detailed in Note 7(c). These amounts are recognised when performance obligations attached to the fee or commission have been satisfied. The income streams included in fee and commission income all have a single performance obligation attached to them. Where income is earned from the provision of a service, such as an account maintenance fee, the performance obligation is deemed to have been satisfied when the service is delivered. Where income is earned upon the execution of a significant act, such as fees for executing a payment, the performance obligation is deemed to have been satisfied when the act is completed.

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

(e) Administrative expenses
See disclosures at Note 16

Administrative expenses are recognised on an accruals basis.

Accounting policies for expenses relating to property, plant and equipment and intangible assets are set out in Note 7(m) and Note 7(n), respectively. Accounting policies for payroll related costs, are set out below:

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

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

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

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

Notes to the financial statements

7. Significant accounting policies (continued)

Employee share-based payments
For the equity-settled share-based payment scheme in operation, the grant date fair value of the share-based payment transaction is recognised as a payroll cost in administrative expenses in the statement of profit and loss, with a corresponding increase in equity, on a straight-line basis over the period that the employees become unconditionally entitled to the awards (the vesting period). In the absence of market prices, the grant date fair value is estimated using an appropriate valuation technique.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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

(f) Tax

See disclosures at Note 21 and Note 29

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

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

Deferred tax
Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

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

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

(g) Cash and cash equivalents

See disclosures at Note 22

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

Both cash and balances at central banks and loans and advances to banks are classified as financial assets measured at amortised cost (see Note 7(v)).

Certain assets included in loans and advances to banks are pledged as collateral under terms that are usual and customary for such activities.

Notes to the financial statements

7. Significant accounting policies (continued)

(h) Loans and advances to customers
See disclosures at Note 23

Loans and advances to customers are classified as financial assets measured at amortised cost (see Note 7(v)).

Loans and advances to customers include assets acquired in exchange for loans, instalment credit and finance lease receivables as part of an orderly realisation. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Further details of finance lease receivables are included in Note 7(t).

Certain assets included in loans and advances to customers are pledged as collateral under terms that are usual and customary for such activities. In addition, certain assets have been transferred to structured entities as part of securitisation transactions (see Note 7(i)).

(i) Securitisation transactions
See disclosures at Note 24 and Note 37

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

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

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

Securitisations involve the simultaneous issue of mortgage-backed debt securities by the associated structured entity to investors. In securitisation transactions where the structured entity is consolidated, the issued debt securities are classified on initial recognition as either financial liabilities or equity instruments, in accordance with the substance of the contractual arrangements. Typically, the Group has an obligation to deliver the cash flows generated from the underlying securitised loans to the debt security holder and accordingly, the debt securities are classified as financial liabilities measured at amortised cost (see Note 7(v)) and are recognised in debt securities in issue in the statement of financial position.

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

(j) Investment securities
See disclosures at Note 25

Investment securities are classified as financial assets measured at amortised cost (see Note 7(v)).

Investment securities include covered bonds and retained debt securities issued as part of securitisation transactions (see Note 7(i)).

Certain assets included in investment securities are pledged as collateral under terms that are usual and customary for such activities.

Notes to the financial statements

7. Significant accounting policies (continued)

Repurchase agreements, reverse repurchase agreements and security swaps
Securities may be sold subject to a commitment to repurchase them at a predetermined price (a 'repurchase agreement'). The terms of the transaction are such that the derecognition criteria outlined in Note 7(v) are not met and, accordingly, the sold assets continue to be recognised in their entirety in the statement of financial position. A liability is recognised in respect of the consideration received in amounts due to banks in the statement of financial position, reflecting the Group's obligation to repurchase the assets for a fixed price at a future date. The difference between the sale and repurchase price is treated as interest and is accrued over the life of the agreement using the effective interest rate method.

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

(k) Derivative financial instruments
See disclosures at Note 26

Derivative financial instruments are mandatorily classified as fair value through profit or loss (see Note 7(v)). Derivatives are classified as financial assets where their fair value is positive and financial liabilities where their fair value is negative. Where there is the legal right and intention to settle net, the derivative is classified as a net asset or net liability, as appropriate.

To calculate fair values, the Group typically uses discounted cash flow models using yield curves that are based on observable market data. For collateralised positions, the Group uses discount curves based on overnight indexed swap rates. For non-collateralised positions, the Group uses discount curves based on Sterling Overnight Index Average rate (SONIA).

For measuring derivatives that might change the classification from being an asset to a liability or vice versa, fair values do not take into consideration either the credit valuation adjustment or the debit valuation adjustment, as the Group's portfolio is fully collateralised and it is deemed to be immaterial.

Where derivatives are not designated as part of an accounting hedge relationship, gains and losses arising from changes in fair value are recognised in net gains/(losses) on derivative financial instruments and hedge accounting in the statement of profit and loss. Where derivatives are designated within an accounting hedge relationship, the treatment of the changes in fair value are as described in Note 7(l).

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

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

(l) Hedge accounting
See disclosures at Note 26

The Group has elected, as an accounting policy choice permitted under IFRS 9, to continue to apply the hedge accounting rules set out in IAS 39. However, the Group does provide the additional and more detailed hedge accounting disclosures introduced by IFRS 9's consequential amendments to IFRS 7.

Notes to the financial statements

7. Significant accounting policies (continued)

Hedge accounting is permitted when documentation, eligibility and testing criteria are met. As such, at the inception of the hedge relationship, the Group formally designates and documents the hedge relationship (the link between the hedging instrument and the hedged item) to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the method that will be used to assess the effectiveness of the hedging relationship (the dollar-offset method, or, for trades designated in dynamic hedge accounting relationships, the regression method).

The Group makes an assessment, both at inception and on a monthly basis, as to whether the derivatives used in hedging transactions are highly effective in offsetting the exposure to changes in the hedged item's fair value. The hedge is deemed to be highly effective where the actual results of the hedge are within a range of 80-125%. If the Group concludes that the hedge is no longer highly effective, hedge accounting is discontinued.

The Group applies the reliefs set out in 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7', (the 'Phase 1 amendments'). Accordingly, for the prospective assessment of hedge effectiveness, the Group assumes that the benchmark interest rate was not altered as a result of interest rate benchmark reform. For the retrospective assessment of hedge effectiveness, if the hedging relationship was subject to interest rate benchmark reforms, the Group does not discontinue hedge accounting solely because the actual effectiveness fell outside of the 80-125% range. During the year, all hedge relationships with a LIBOR dependency were either discontinued or transitioned to alternative benchmark rates and, at this point in time, the Group ceased to apply the Phase 1 amendments.

With effect from 1 January 2021, the Group adopted 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments provide certain reliefs when changes are made to hedge relationships as a result of interest rate benchmark reform. Details of the reliefs applied by the Group during the year as a result of adopting these amendments are provided in Note 6(a).

The Group designates certain derivatives as fair value hedges. The Group does not designate any derivatives as cash flow hedges or net investment hedges.

Fair value hedges
The Group applies fair value hedge accounting for portfolio hedges of interest rate risk. The hedged items are portfolios that are identified as part of the risk management process. These comprise either fixed rate assets only, or fixed rate liabilities only, in respect of the designated benchmark interest rate, such as SONIA.

Each portfolio is grouped into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Interest rate swaps are used as the hedging instruments to manage this interest rate risk to swap the fixed rate interest flows to floating.

Changes in the fair value of derivatives designated as fair value hedges and changes in the fair value of the hedged asset or liability attributable to the hedged risk are recognised in net gains/(losses) on derivative financial instruments and hedge accounting in the statement of profit and loss.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. The cumulative fair value adjustment to the carrying amount of the hedged item is amortised to the statement of profit and loss over the remaining period to maturity. If the hedged item is derecognised, the cumulative fair value adjustment to the carrying amount of the hedged item is recognised immediately in the statement of profit and loss.

(m) Property, plant and equipment and depreciation
See disclosures at Note 27

Assets on operating leases represent assets that are leased to customers under operating lease agreements. Right-of-use leasehold property represent assets that are leased by the Group. Further details of these asset categories are set out in Note 7(t). Accounting policies for all other asset categories are as follows:

Assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset and any directly attributable costs of bringing the asset to the location and condition necessary for its intended use. Subsequent expenditure is only capitalised when it improves the expected future economic benefits of the asset. All other costs, including ongoing repairs and maintenance, are expensed to administrative expenses in the statement of profit and loss as incurred.

Notes to the financial statements

7. Significant accounting policies (continued)

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over its estimated useful life and is charged to administrative expenses in the statement of profit and loss. For leasehold property, the estimated useful life is the life of the lease. For fixtures and fittings, the estimated life is 10 years, or is aligned to the length of the lease of the property it resides in. For office equipment, the estimated useful life is three to five years. The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

On the disposal of an asset, the net disposal proceeds are compared with the carrying amount of the asset and any gain or loss is included in administrative expenses in the statement of profit and loss.

(n) Intangible assets and amortisation

See disclosures at Note 28

Goodwill
Goodwill may arise on the acquisition of subsidiaries and represents the excess of the cost of acquisition over the fair value of identifiable net assets acquired. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is not amortised but is tested annually for impairment and additionally whenever there is an indication that impairment may exist. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGUs). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the carrying amount of a CGU exceeds its recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

Other intangible assets
Other intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. For externally acquired intangible assets, cost includes the original purchase price of the asset and any directly attributable costs of preparing the asset for its intended use. For internally developed intangible assets, cost includes all costs directly attributable in preparing the asset so that it is capable of operating in its intended manner.

For internally developed intangible assets costs may only be capitalised when the Group is able to demonstrate that: the expenditure can be reliably measured; the product or process is technically and commercially feasible; future economic benefits are probable; and the Group has the intention and ability to complete development and subsequently use or sell the asset. Until the point that all conditions are regarded as met, costs are recognised in administrative expenses in the statement of profit and loss as incurred.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in administrative expenses in the statement of profit and loss as incurred.

Assets are amortised on a straight-line basis over its estimated useful life of between three and seven years. Amortisation is recognised in administrative expenses in the statement of profit and loss. The amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

On the disposal of an asset, the net disposal proceeds are compared with the carrying amount of the asset and any gain or loss included in administrative expenses in the statement of profit and loss.

Notes to the financial statements

7. Significant accounting policies (continued)

(o) Assets and disposal groups held for sale
See disclosures at Note 32

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the plan to sell the asset or disposal group and the sale expected to be completed within one year from the date of the classification.

Non-current assets and disposal groups classified as held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell, with any adjustments recognised in the statement of profit and loss. Depreciation and amortisation cease once classified as held for sale.

An exception to this is financial assets within the scope of IFRS 9, which continue to be measured in accordance with this standard as set out in Note 7(v). For example, loans classified as held for sale continue to be measured at amortised cost.

Assets classified as held for sale are presented on a separate line in the statement of financial position. Prior period presentation is not restated.

(p) Investment in subsidiaries
See disclosures at Note 33

The Company's investments in controlled entities are valued at cost less any accumulated impairment losses. Such investments are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in the statement of profit and loss.

(q) Amounts due to banks
See disclosures at Note 34

Amounts due to banks are classified as financial liabilities measured at amortised cost (see Note 7(v)).

Amounts due to banks may include liabilities recognised as part of repurchase agreements (see Note 7(j)).

(r) Customer deposits
See disclosures at Note 35

Customer deposits are classified as financial liabilities measured at amortised cost (see Note 7(v)).

(s) Provisions
See disclosures at Note 36

Provisions are recognised when there is a present obligation arising as a result of a past event, it is probable (more likely than not) that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions for levies are recognised when the conditions that trigger the payment of the levy are met.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit and loss net of any reimbursement.

Provisions also includes the loss allowance for loan commitments (see Note 7(z)).

Notes to the financial statements

7. Significant accounting policies (continued)

(t) Leases
See disclosures at Note 38

Group as a lessor: finance leases
Lease agreements in which the Group transfers substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases.

A finance lease receivable equal to the net investment in the lease is recognised and is presented within loans and advances to customers in the statement of financial position. This represents the future lease payments less profit and costs allocated to future periods.

Lease payments are apportioned between interest income in the statement of profit and loss and a reduction of the finance lease receivable to achieve a constant rate of interest on the remaining balance of the receivable.

Group as a lessor: operating leases
Lease agreements in which the Group does not transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as operating leases.

The leased asset is included in property, plant and equipment in the statement of financial position. The asset is recognised at the lower of its fair value less costs to sell and the carrying amount of the lease (net of impairment allowance) at the date of exchange.

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over the life of the lease and is charged to depreciation on operating leases in the statement of profit and loss.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in net other operating lease income/(expense) in the statement of profit and loss.

Operating lease rental income is recognised in the statement of profit and loss on a straight-line basis over the lease term.

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

Group as a lessee
At the lease commencement date, the Group recognises a right-of-use asset and a lease liability.

The right-of-use asset is included in property, plant and equipment in the statement of financial position. The asset is measured at cost less accumulated depreciation and any accumulated impairment losses and is adjusted for any remeasurement of the lease liability. The cost of the asset includes the amount of the lease liability recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received.

Depreciation is calculated to write off the cost of the asset less its estimated residual value on a straight-line basis over the life of the lease and is charged to administrative expenses in the statement of profit and loss.

Assets are reviewed for indicators of impairment at each reporting date and if indicators are present, an impairment review is performed. If the carrying amount exceeds its recoverable amount, an impairment loss is recognised in administrative expenses in the statement of profit and loss.

The lease liability is measured at the present value of the lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date, unless the interest rate implicit in the lease is readily determinable. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

Notes to the financial statements

7. Significant accounting policies (continued)

Lease liabilities are classified as financial liabilities measured at amortised cost (see Note 7(v)). Lease liabilities are remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments, or a change in the assessment to purchase the underlying asset. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Group applies the recognition exemption to any short-term leases (i.e. those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option) and any leases that are considered of low value. For these leases, no right-of-use asset is recognised and lease payments continue to be charged to administrative expenses in the statement of profit and loss on a straight-line basis over the lease term.

(u) Subordinated debt liability
See disclosures at Note 40

The subordinated debt liability is classified as a financial liability measured at amortised cost (see Note 7(v)).

(v) Financial instruments
See disclosures at Note 41

Recognition
Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date.

Classification and measurement of financial assets
To classify financial assets, the Group performs two assessments:

- **The 'business model assessment':** this assessment determines whether the Group's objective is to generate cash flows from collecting contractual cash flows ('hold-to-collect'), by both collecting contractual cash flows and selling financial assets ('hold-to-collect-and-sell') or neither. The assessment is performed at a portfolio level and is based on expected scenarios. In making this assessment, the Group considers information such as: sales in prior periods, expected sales in future periods and the reasons for such sales. If cash flows are realised in a manner that is different from the original expectation, the classification of the remaining financial assets in that portfolio is not changed but such information is used when assessing new financial assets going forward.
- **The 'SPPI test':** this assessment determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) (i.e. whether the contractual cash flows are consistent with a basic lending arrangement). For the purposes of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin. The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition. In performing the SPPI test, terms that could change the contractual cash flows so that they are not SPPI are considered, such as: contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

Based on the two assessments, financial assets are classified as amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), as follows:

- **Amortised cost:** when the financial asset is held in a hold-to-collect business model and its contractual terms give rise on specified dates to cash flows that are SPPI.
- **FVOCI:** when the financial asset is held in a hold-to-collect-and-sell business model and its contractual terms give rise on specified dates to cash flows that are SPPI.
- **FVTPL:** when the financial asset does not meet the criteria to be classified as amortised cost or FVOCI.

Derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Notes to the financial statements

7. Significant accounting policies (continued)

For financial assets that meet the requirements to be classified as amortised cost or FVOCI, on initial recognition, the Group may irrevocably designate the financial asset as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investments in equity instruments are normally classified as FVTPL. However, on initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect, on an investment-by-investment basis, to present subsequent changes in fair value in the statement of other comprehensive income.

After initial recognition, financial assets are reclassified only under the rare circumstances that the Group changes its business model for managing financial assets.

All of the Group's financial assets are classified as amortised cost, with the exception of derivative financial assets, which, for classification purposes, are always deemed to be held for trading and are therefore mandatorily classified as FVTPL.

Financial assets classified as amortised cost are initially measured at fair value plus incremental direct transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method (see Note 7(c)). Amortised cost is reduced by impairment losses (see Note 7(w)). Interest income, foreign exchange gains and losses and impairment losses are recognised in the statement of profit and loss.

Financial assets classified as FVTPL are initially measured at fair value and are subsequently remeasured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the statement of profit and loss.

Classification and measurement of financial liabilities
Financial instruments are classified as a financial liability when the substance of the contractual arrangements result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments.

Financial liabilities are classified at initial recognition as FVTPL or amortised cost as follows:

- **FVTPL:** when the financial liability meets the definition of held for trading, or when the financial liability is designated as such to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
- **Amortised cost:** when the financial liability is not classified as FVTPL.

All of the Group's financial liabilities are classified as amortised cost, with the exception of derivative financial liabilities, which, for classification purposes, are always deemed to be held for trading and are therefore mandatorily classified as FVTPL.

Financial liabilities classified as amortised cost are initially measured at fair value minus incremental direct transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method (see Note 7(c)). Interest expense is recognised in the statement of profit and loss.

Financial liabilities classified as FVTPL are initially measured at fair value and are subsequently remeasured at fair value. Net gains and losses, including any interest, are recognised in the statement of profit and loss.

Derecognition of financial instruments
Derecognition is the point at which the Group ceases to recognise a financial asset or a financial liability on its statement of financial position.

The Group derecognises a financial asset (or a part of a financial asset) when:

- the contractual rights to the cash flows from the financial asset have expired;
- the Group transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred; or
- the Group transfers the financial asset in a transaction in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the asset. If the Group retains control of the asset, it continues to recognise the transferred asset only to the extent of its continuing involvement and derecognises the remainder.

Notes to the financial statements

7. Significant accounting policies (continued)

The Group derecognises a financial liability (or a part of a financial liability) when its contractual obligations are extinguished (i.e. discharged, cancelled, or expired).

On derecognition, the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration received/paid (including any new asset obtained less any new liability assumed) is recognised in the statement of profit and loss.

Modification of financial instruments
When a financial instrument is modified, the Group performs quantitative and qualitative evaluation to assess whether or not the new terms are substantially different to the original terms.

For financial assets, the Group considers the specific circumstances including:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that substantially affects the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate; and
- insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

For financial liabilities, the Group specifically, but not exclusively, considers the outcome of the '10% test'. This involves a comparison of the cash flows before and after the modification, discounted at the original effective interest rate, whereby a difference of more than 10% indicates the modification is substantial.

If the terms and cash flows of the modified financial instrument are deemed to be substantially different, the derecognition criteria are met and the original financial instrument is derecognised and a 'new' financial instrument is recognised at fair value. The difference between the carrying amount of the derecognised financial instrument and the new financial instrument with modified terms is recognised in the statement of profit and loss. Fees that are considered in determining the fair value of the new financial instrument and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the new financial instrument. All other fees are included as part of the gain or loss on derecognition.

If the terms and cash flows of the modified financial instrument are not deemed to be substantially different, the financial instrument is not derecognised and the Group recalculates the 'new' gross carrying amount of the financial instrument based on the revised cash flows of the modified financial instrument discounted at the original effective interest rate and recognises any associated gain or loss in the statement of profit and loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the financial instrument and are amortised over the remaining term of the modified financial instrument by recalculating the effective interest rate on the financial instrument.

In relation to financial assets, where a modification is granted due to the financial difficulty of the borrower, the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. Under such circumstances, the Group first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and usually means the derecognition criteria are not met.

With effect from 1 January 2021, the Group adopted 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments provide a practical expedient that allows certain modifications arising due to the reform to be accounted for by updating the effective interest rate, rather than applying the normal modification policy outlined above. Additional details, including the Group's application of this practical expedient during the year, are provided in Note 6(a).

Fair value of financial instruments
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Notes to the financial statements

7. Significant accounting policies (continued)

Where possible, fair value is determined with reference to quoted prices in an active market or dealer price quotations. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where quoted prices are not available, the Group uses generally accepted valuation techniques to estimate fair value including discounted cash flow models and Black-Scholes option pricing. Wherever possible these valuation techniques use independently sourced market parameters, such as interest rate yield curves, option volatilities and currency rates.

On initial recognition, the best evidence of the fair value of a financial instrument is normally transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value on initial recognition differs from the transaction price, the Group accounts for such differences as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability, or based on a valuation technique that uses only data from observable markets, the difference is recognised in the statement of profit and loss on initial recognition (i.e. day one profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day one profit or loss will be deferred by including it in the initial carrying amount of the asset or liability). Subsequently, the deferred gain or loss will be released to the statement of profit and loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, the Group measures assets at bid price and liabilities at ask price.

The Group uses a fair value hierarchy that categorises financial instruments into three different levels, as detailed in Note 41. Levels are reviewed at each reporting date and this determines whether transfers between levels are required.

Further details of the fair value calculation of derivative financial instruments are set out in Note 7(k).

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions, such as in the Group's trading activity.

(w) Impairment of financial assets

See disclosures at Note 20

Impairment of financial assets is calculated using a forward-looking expected credit loss (ECL) model. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes. A summary of ECL measurement is as follows:

- **Financial assets that are not credit-impaired at the reporting date:** as the present value of all cash shortfalls. Cash shortfalls are the difference between the contractual cash flows due to the Group and the cash flows that the Group expects to receive.
- **Financial assets that are credit-impaired at the reporting date:** as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
- **Loan commitments:** as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows the Group expects to receive.

ECLs are measured in a manner that reflects the time value of money and uses reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to the financial statements

7. Significant accounting policies (continued)

The Group calculates ECLs and records a loss allowance for its financial assets not held at FVTPL (i.e. its financial assets held at amortised cost) and for loan commitments[1]. Assets held at FVTPL and equity instruments are not subject to impairment.

Loss allowances are presented in the statement of financial position as follows:

- **financial assets measured at amortised cost:** as a deduction from the gross carrying amount of the financial asset;
- **loan commitments:** generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the loss allowance on the undrawn loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

The calculation of ECLs is dependent upon the 'stage' the asset is assigned to (Stage 1, 2 or 3), which is based on changes in credit risk when comparing credit risk at initial recognition to credit risk at the reporting date, or whether the asset was purchased or originated credit-impaired (POCI). Details of the 'staging' of assets and POCI assets, the calculation of ECLs and the key judgements and estimates associated with this, are provided in the credit risk section of the Risk Report starting on page 51.

The Group can elect as an accounting policy choice, to use the 'simplified approach' for trade receivables, contract assets and lease receivables. The Group has elected not to use this simplified approach.

Modifications
If a financial asset is modified, an assessment is made to determine whether the asset meets the derecognition criteria outlined in Note 7(v). Subsequently ECLs are measured as follows:

- if the modification does not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- if the modification does result in derecognition of the existing asset, then the expected fair value of the 'new' asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including in determining whether a significant increase in credit risk has occurred and whether the new financial asset is deemed to be a POCI asset.

Write-offs
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Write-offs constitute a derecognition event, as detailed in Note 7(v).

Financial assets that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Amounts subsequently recovered on assets written off are recognised in impairment losses on financial assets in the statement of profit and loss.

[1] The Group has no financial assets held at FVOCI and no financial guarantee contracts.

Notes to the financial statements

7. Significant accounting policies (continued)

(x) Capital securities
See disclosures at Note 43

Capital securities are classified as equity instruments, as the substance of the contractual arrangements are such that the Group does not have a present obligation to deliver cash, another financial asset or a variable number of equity instruments. The capital securities are measured at the fair value of the proceeds from the issuance less any costs that are incremental and directly attributable to the issuance (net of applicable tax).

Distributions to holders of the capital securities are recognised when they become irrevocable and are deducted from retained earnings in equity. Income tax relief on distributions to holders of the capital securities is recognised in the statement of profit and loss, to align with where the transactions and events that generated the distributable profits are recognised.

(y) Contingent liabilities
See disclosures at Note 49

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group. Alternatively, they are present obligations that have arisen from past events where the outflow of resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the financial statements, but they are disclosed unless the probability of settlement is remote.

(z) Loan commitments
See disclosures at Note 50

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Group includes certain uncommitted facilities within its reported loan commitments where the terms are such that the Group has an obligation to the customer should the customer get into financial distress.

The Group recognises a loss allowance on loan commitments in accordance with the policies set out in Note 7(w). The loss allowance is included within provisions in the statement of financial position.

8. New and revised standards and interpretations not yet adopted

A number of new and revised standards issued by the International Accounting Standards Board have not yet come into effect. None of these are expected to have a material impact on the Group's financial statements.

9. Critical accounting judgements and estimates

The preparation of financial statements requires the Group to make judgements and estimates that affect the application of accounting policies and the reported results and financial position.

Estimates, and the underlying assumptions driving these estimates, are reviewed by the Group on an ongoing basis. Due to the inherent uncertainty in making estimates, actual results reported in the future may differ from the amounts estimated. Revisions to estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving the most complex and subjective judgements, and areas where estimates are considered to have the most significant effect on the financial statements, are set out in the following sections.

The COVID-19 pandemic continues to give rise to heightened levels of uncertainty. This has required the Group to make particularly complex judgements and estimates in the current period, in particular in relation to impairment losses on financial assets. The Group continues to closely monitor developments and their impact on areas involving judgement and the use of estimates and makes updates as appropriate.

Notes to the financial statements

9. Critical accounting judgements and estimates (continued)

(a) Impairment losses on financial assets

See accounting policies at Note 7(w) and disclosures at Note 20

Impairment of financial assets is calculated using a forward-looking ECL model. The calculation and measurement of ECLs requires the use of complex judgements and represents a key source of estimation uncertainty.

Judgements

Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining the stage the financial asset is allocated to and therefore whether a 12-month or lifetime ECL is recognised in the financial statements. This involves judgements over whether the financial asset has had a significant increase in credit risk since initial recognition, whether the financial asset is in default or whether the financial asset is 'cured'; and
- application of 'post-model adjustments' when the Group judges that the modelled ECL amount does not adequately reflect the expected outcome.

Additional details are provided in the credit risk section of the Risk Report starting on page 62.

Estimates

Underlying assumptions used in estimating ECLs that, depending on a range of factors, could result in a material adjustment in the next financial year are:

- the forward-looking economic scenarios used;
- probability weightings applied to these scenarios; and
- model assumptions used, such as the probability of default (PD) and loss given default (LGD).

Additional details, including sensitivity analysis, are included in the credit risk section of the Risk Report starting on page 65.

(b) Provisions for customer remediation and conduct issues

See accounting policies at Note 7(s) and disclosures at Note 36

Provisions have been recognised in respect of potential claims for instances of misrepresentation, or breaches of contract by suppliers, where the suppliers have become insolvent and therefore the Group has limited recourse to those suppliers. Calculating the amount of the provision requires judgement and represents a source of estimation uncertainty.

Judgements

Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining whether an event has occurred in the past that would result in a claim, and whether it is probable that such a claim would result in an outflow of resources for the Group; and
- assessing the statutory limitation period.

Estimates

The following table sets out the underlying assumptions used in estimating the provision that, depending on a range of factors, could result in a material adjustment in the next financial year. Sensitivity analysis to illustrate the impact of, what the Group considers to be, reasonable changes to these assumptions is also provided.

Notes to the financial statements

9. Critical accounting judgements and estimates (continued)

Assumption	Sensitivity analysis
Number of complaints In deriving this figure the Group takes into account: • the status of current claims and projected potential future claims based on existing complaint data; • the origin of the claim (i.e. if the claim relates to a solvent or insolvent supplier, or if the claim is via a claims management company); and • the statutory limitation period.	The impact of a +/-5 percentage point change in the absolute number of complaints would result in a £4.3 million increase or decrease in the provisions, respectively.
Number of upheld claims Once the number of complaints has been estimated, it is necessary to estimate how many of these claims will be upheld. This is based on existing complaint data.	The impact of a +/-5 percentage point change in the average uphold rate per complaint would result in a £1.7 million increase or decrease in the provisions, respectively.
Redress costs on upheld claims This reflects the expected average customer compensation on the estimated number of upheld claims, based on agreed redress strategies (inclusive of loan balance adjustments and cash payments). This is based on actual claim data.	The impact of a £500 increase or decrease in the average redress per complaint would result in a £1.4 million increase or decrease in the provisions, respectively.

(c) Securitisations

See accounting policies at Note 7(i) and disclosures at Note 24

Securitisations involve the transfer of customer loans to structured entities. In determining the accounting treatment to be applied for each securitisation transaction, complex assessments must be performed, which necessitates the application of judgement.

Judgements

Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining whether the Group controls the structured entity and whether it should therefore be treated as a subsidiary by virtue of control and consolidated; and
- determining whether the securitised loans should be derecognised.

(d) Classification of financial assets

See accounting policies at Note 7(v) and disclosures at Note 41

Determining the classification of financial assets involves complex assessments that necessitate the application of judgement.

Judgements

Judgements considered to have the most significant effect on amounts in the financial statements are:

- determining the business model within which portfolios of assets are managed; and
- determining whether the contractual terms of a financial asset give rise on specified dates to cash flows that are SPPI.

These two judgements dictate whether assets are held at amortised cost, FVOCI or FVTPL and thus has a significant impact on the resulting accounting treatment and amounts recognised in the financial statements.

(e) Acquisition of subsidiary

See accounting policies at Note 7(a) and disclosures at Note 10

In February 2021, the Group's equity interest in The Mortgage Lender Limited (TML) increased from 19.99% to 100% and TML became a subsidiary from that date. In accounting for this business combination, judgement was required to determine the fair values at the date of acquisition.

Judgements

The judgement considered to have the most significant effect on amounts in the financial statements is:

- determining the fair value of net assets acquired, in particular in identifying separately identifiable intangible assets.

Notes to the financial statements

10. Acquisition of subsidiary

See accounting policies in Note 7(a)

On 26 February 2021, following the receipt of regulatory and legal approval, the Company completed the acquisition of the remaining 80.01% of shares in TML. As a result, the Company's equity interest in TML increased from 19.99% to 100%, making TML a wholly owned subsidiary of the Group. Prior to this, TML was treated as an associate and was accounted for using the equity method of accounting (see Note 30).

TML's principal activity is residential mortgage finance. Taking control of TML will strengthen the Group's presence in its core residential and buy-to-let markets, providing the Group with growth opportunities through an extended product range and increased distribution network.

TML commenced being consolidated as a subsidiary of the Group from 26 February 2021, the date control transferred to the Group. In the ten months of the reporting period that TML was a subsidiary of the Group, TML contributed net operating income of £4.9 million and a loss before tax of £7.7 million to the Group's results. If the acquisition had occurred on 1 January 2021, it is estimated that the consolidated net operating income for the Group for the year ended 31 December 2021 would have been £386.3 million and consolidated profit before tax for the Group would have been £196.3 million.

As detailed below, in accordance with the requirements of IFRS 3 'Business Combinations', the Group has determined the fair values at the date of acquisition for the consideration transferred, the pre-existing interest in TML and the identifiable assets acquired and liabilities assumed. The Group continued to assess these amounts, in particular the fair value of identifiable net assets acquired, for a period of 12 months, concluding on 25 February 2022, to determine if any additional information existed at the date of acquisition that would alter these amounts.

Critical accounting judgements
Determining the fair values at the date of acquisition, in particular of the net assets acquired, is an area identified as involving critical accounting judgements. Additional details are provided in Note 9(e).

Consideration transferred
The acquisition date fair value of each major class of consideration transferred is as follows:

	Fair value £m
Cash	**5.5**
Loan notes	**5.6**
Total consideration transferred	**11.1**

There are no contingent consideration arrangements.

Pre-existing interest in TML
The fair value of the 19.99% equity interest in TML previously held was £2.8 million, calculated proportionately based on the total consideration paid for the remaining 80.01% interest. An impairment was recognised in the comparative year ended 31 December 2020 to reduce the carrying amount to £2.8 million and, as such, no further remeasurement was required at the point of acquisition.

Identifiable assets acquired and liabilities assumed
The carrying amount of the net assets acquired at the date of acquisition was £2.9 million. The Group recognised a fair value adjustment of £1.0 million, reflecting separately identifiable intangible assets recognised in the combination. An additional adjustment, to align the accounting policies of TML to the Group in respect of lessor accounting, resulted in the recognition of property plant and equipment and lease liabilities of £0.5 million, the overall impact to net assets acquired being £nil. Following these adjustments, the fair value of net assets acquired at the date of acquisition was £3.9 million, as summarised in the following table.

Notes to the financial statements

10. Acquisition of subsidiary (continued)

	Fair value £m
Cash and cash equivalents	**2.1**
Property, plant and equipment	**0.6**
Intangible assets	**1.2**
Deferred tax assets	**2.4**
Other assets	**0.7**
Lease liabilities	**(0.5)**
Other liabilities	**(2.6)**
Total identifiable net assets acquired	**3.9**

Other assets include other receivables of £0.6 million. The gross contractual amounts due on these other receivables was £0.6 million, all of which was expected to be collectable at the date of acquisition.

Goodwill
Goodwill arising from the acquisition has been recognised as follows:

	£m
Fair value of consideration transferred	**11.1**
Fair value of pre-existing 19.99% interest	**2.8**
Fair value of identifiable net assets acquired	**(3.9)**
Goodwill recognised	**10.0**

The goodwill recognised is mainly attributable to the synergies expected to be achieved from integrating TML into the Group.

None of the goodwill recognised is expected to be tax deductible for trading purposes.

Acquisition related costs
In the year ended 31 December 2021, acquisition related costs of £0.6 million are recognised in administrative expenses in the statement of profit and loss (2020: £0.9 million).

Capital contribution from parent company
Immediately following the acquisition, TML exchanged the £5.6 million of loan notes issued by the Company as consideration upon acquisition for new loan notes issued by the Parent Company. This transaction is reflected as a capital contribution to the Company and results in the recognition of £5.6 million in the capital contribution reserve in equity and the cancellation of the loan notes issued.

Notes to the financial statements

11. Segmental analysis

See accounting policies in Note 7(b)

The following section provides information regarding the operating segments of the Group. Substantially all of the Group's activities are in the United Kingdom and, as such, segmental analysis on geographical lines is not presented. The Group is not reliant on any single customer and therefore information about major customers is also not provided.

Operating segments

During the year ended 31 December 2021, the Group implemented organisational changes, whereby the Group is now centred around three customer franchises (Enterprise, Consumer and TML), with an additional central segment.

Prior to the organisational changes, the Group had four reportable operating segments: three lending segments (Property Finance, Business Finance and Consumer Lending) and a central segment (Savings and Central).

Following the changes, a new reportable lending segment, TML Mortgages[1], was added, aligning to the revised basis that financial information is presented to the chief operating decision maker. TML Mortgages, was previously included within the Property Finance lending segment. Consequently, there are now five reportable operating segments: four lending segments and a central segment. These operating segments are organised under the Group's new customer franchises, as summarised in the following table:

Business area	Operating segment	Status	Description
Enterprise franchise	Property Finance	Amended to extract TML Mortgages	Provides specialist commercial and residential mortgage products to professional landlords, investors and homeowners.
	Business Finance	Unchanged	Provides debt-based financing solutions to support UK SME's.
Consumer franchise	Consumer Lending	Unchanged	Provides unsecured personal loans and unsecured loans through strategic partnerships.
TML franchise	TML Mortgages[1]	New segment	Provides flexible residential mortgages for those with complex circumstances, including the self-employed, entrepreneurs and first-time buyers, and buy-to-let mortgages.
Central	Savings and Central	Unchanged	Comprises the Savings business, which offers personal savings products and business savings products for SMEs and charities, along with central functions and shared central costs.

The following tables provide summarised information regarding the results of each reportable operating segment based on the new reportable operating segments. Prior year comparative information has been restated accordingly.

The results for each segment in the following tables are presented on a consolidated basis, as reviewed by the chief operating decision maker. Intra-group transactions between segments are minimal and are not separately disclosed. Intra-group transactions are conducted under terms that are usual and customary for such activities.

[1] The TML Mortgages segment comprises: the TML subsidiary, or, prior to it becoming a subsidiary when TML was an associate, the Group's share of results (see Note 10); and loans originated by TML that are held on the Company's statement of financial position.

Notes to the financial statements

11. Segmental analysis (continued)

Year ended 31 December 2021	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Savings and Central £m	Total £m
Interest and similar income	250.3	143.7	41.2	16.6	(8.1)	443.7
Interest expense and similar charges	(57.2)	(14.7)	(4.9)	(3.6)	(8.5)	(88.9)
Net interest income/(expense)	193.1	129.0	36.3	13.0	(16.6)	354.8
Net operating lease income	-	1.8	-	-	-	1.8
Net fee and commission income/(expense)	(3.4)	8.5	(1.4)	1.5	(1.0)	4.2
Net gains/(losses) on derecognition of financial assets measured at amortised cost	-	(0.1)	-	21.8	-	21.7
Net gains on derivative financial instruments and hedge accounting	-	-	-	-	3.1	3.1
Net other operating income	-	-	-	-	0.4	0.4
Net operating income/(expense)	189.7	139.2	34.9	36.3	(14.1)	386.0
Administrative expenses	(20.7)	(26.5)	(11.3)	(11.9)	(93.8)	(164.2)
Impairment losses on financial assets	7.8	(38.5)	0.1	(0.8)	-	(31.4)
Provisions	-	-	7.0	-	-	7.0
Total operating expenses	(12.9)	(65.0)	(4.2)	(12.7)	(93.8)	(188.6)
Profit/(loss) before tax	176.8	74.2	30.7	23.6	(107.9)	197.4

Notes to the financial statements

11. Segmental analysis (continued)

Year ended 31 December 2020 *(Restated)*	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Savings and Central £m	Total £m
Interest and similar income	221.1	112.2	50.6	10.7	(3.4)	391.2
Interest expense and similar charges	(70.2)	(19.8)	(8.4)	(6.0)	(10.5)	(114.9)
Net interest income/(expense)	150.9	92.4	42.2	4.7	(13.9)	276.3
Net operating lease income	-	1.7	-	-	-	1.7
Net fee and commission (expense)/income	(3.3)	7.9	(2.7)	(0.5)	(2.0)	(0.6)
Net gains/(losses) on derecognition of financial assets measured at amortised cost	-	-	(0.2)	9.6	-	9.4
Net losses on derivative financial instruments and hedge accounting	-	-	-	-	(5.0)	(5.0)
Net other operating income	-	-	-	-	0.6	0.6
Net operating income/(expense)	147.6	102.0	39.3	13.8	(20.3)	282.4
Administrative expenses	(18.1)	(24.4)	(14.5)	(0.6)	(73.4)	(131.0)
Impairment losses on financial assets	(16.9)	(20.1)	(17.0)	(0.9)	-	(54.9)
Provisions	-	-	(20.3)	-	-	(20.3)
Total operating expenses	(35.0)	(44.5)	(51.8)	(1.5)	(73.4)	(206.2)
Net share of results and impairment of associate	-	-	-	(2.6)	-	(2.6)
Profit/(loss) before tax	112.6	57.5	(12.5)	9.7	(93.7)	73.6

The following tables present summarised information about the Group's assets and liabilities based on the new reportable operating segments. Prior year comparative information has been restated accordingly. Certain assets and liabilities are not allocated to the customer franchise operating segments as they are managed on a Group basis and are therefore presented within the Central operating segment.

As at 31 December 2021	**Property Finance £m**	**Enterprise Business Finance £m**	**Consumer Lending £m**	**TML Mortgages £m**	**Savings and Central £m**	**Total £m**
Assets	**5,443.2**	**2,217.6**	**434.3**	**512.8**	**2,415.2**	**11,023.1**
Liabilities	-	-	-	-	**(10,070.1)**	**(10,070.1)**
Net assets/(liabilities)	**5,443.2**	**2,217.6**	**434.3**	**512.8**	**(7,654.9)**	**953.0**

As at 31 December 2020 *(Restated)*	Property Finance £m	Enterprise Business Finance £m	Consumer Lending £m	TML Mortgages £m	Savings and Central £m	Total £m
Assets	4,616.7	1,801.6	445.4	239.1	1,828.9	8,931.7
Liabilities	-	-	-	-	(8,124.6)	(8,124.6)
Net assets/(liabilities)	4,616.7	1,801.6	445.4	239.1	(6,295.7)	807.1

Notes to the financial statements

12. Interest and similar income

See accounting policies in Note 7(c)

	2021 £m	2020 £m
Interest income calculated using the effective interest rate method		
On cash and balances at central banks	**1.5**	3.1
On loans and advances to customers	**451.9**	394.6
On investment securities	**2.9**	2.2
Total interest income calculated using the effective interest rate method	**456.3**	399.9
Other interest and similar income		
On derivative financial instruments	**(12.6)**	(8.7)
Total other interest and similar income	**(12.6)**	(8.7)
Total interest and similar income	**443.7**	391.2

Interest income calculated using the effective interest rate method is all attributable to financial assets measured at amortised cost.

13. Interest expense and similar charges

See accounting policies in Note 7(c)

	2021 £m	2020 £m
On amounts due to banks	**1.6**	3.3
On customer deposits	**76.2**	99.7
On derivative financial instruments	**(0.7)**	(0.9)
On debt securities in issue	**3.7**	3.7
On lease liabilities	**0.2**	0.4
On subordinated debt liability	**7.9**	8.7
Total interest expense and similar charges	**88.9**	114.9

Except for the amounts attributable to derivative financial instruments, amounts in the above table are calculated using the effective interest rate method and are attributable to financial liabilities not measured at fair value through profit and loss.

14. Net fee and commission income

See accounting policies in Note 7(d)

	2021 £m	2020 £m
Fee income on loans and advances to customers	**7.6**	5.3
Credit facility related fees	**3.9**	3.3
Total fee and commission income	**11.5**	8.6
Fee and commission expense	**(7.3)**	(9.2)
Net fee and commission income/(expense)	**4.2**	(0.6)

Notes to the financial statements

15. Derecognition of financial assets measured at amortised cost

See accounting policies in Note 7(v)

	2021 £m	2020 £m
Net losses on sale of customer loan portfolios	**(0.1)**	(0.2)
Net gains on structured asset sales	**21.8**	9.6
Net gains on derecognition of financial assets measured at amortised cost	**21.7**	9.4

Sale of customer loan portfolios

In the year ended 31 December 2021, the £0.1 million net loss is attributable to the sale of a portfolio of loans from Business Finance in February 2021. The portfolio was classified as held for sale as at 31 December 2020 (see Note 32) and, at the point of derecognition, still had a gross carrying amount (and carrying amount) of £2.3 million.

In the comparative year ended 31 December 2020, the £0.2 million net loss was attributable to the sale of a portfolio of unsecured personal loans from Consumer Lending in January 2020. The loans had been classified as held for sale as at 31 December 2019 and at the point of derecognition, the loan portfolio had a gross carrying amount (before loss allowance) of £106.3 million and a carrying amount (after loss allowance) of £97.8 million.

Structured asset sales

The net gains on structured asset sales is attributable to securitised loan portfolios. The securitised loans were transferred to unconsolidated structured entities and met the criteria to be derecognised from the statement of financial position (see Note 24).

16. Administrative expenses

See accounting policies in Note 7(e)

	Note	2021 £m	2020 £m
Payroll costs	17	**93.2**	71.1
Depreciation of property, plant and equipment[1]	27	**3.1**	3.4
Other movements on property, plant and equipment depreciation	27	**(0.4)**	-
Net losses on disposal of property, plant and equipment	27	**-**	0.2
Amortisation of intangible assets	28	**8.2**	8.5
Net losses on disposal of intangible assets	28	**-**	0.5
Other administrative expenses		**60.1**	47.3
Total administrative expenses		**164.2**	131.0

Other administrative expenses include fees paid to the Group's auditor, KPMG LLP, as follows. Amounts represent both current year costs and prior year overruns.

	2021 £000	2020 £000
Audit of these annual accounts	**2,470**	1,187
Audit of the annual accounts of subsidiary companies	**130**	70
Other tax advisory services	**-**	7
All other assurance services	**-**	20
Total auditor's remuneration	**2,600**	1,284

[1] Includes depreciation of all asset categories except for assets on operating leases. Depreciation of assets on operating leases is presented as a separate line item in the statement of profit and loss.

Notes to the financial statements

17. Employees

See accounting policies in Note 7(e)

Aggregate payroll costs included in administrative expenses (Note 16) are as follows:

	2021 £m	2020 £m
Wages and salaries	**81.2**	61.5
Social security costs	**7.4**	5.8
Pension costs	**4.6**	3.8
Payroll costs	**93.2**	71.1

Wages and salaries include share-based payment charges (see Note 18).

Pension costs represent contributions to defined contribution pension schemes. The Group does not operate any defined benefit pension schemes.

Details of Directors' remuneration are provided in Note 19.

The average number of persons employed by the Group on a full-time equivalent basis by reportable operating segment is set out in the following table. The table is based on the Group's new reportable operating segments (see Note 11).

	2021	2020
Property Finance	**96**	89
Business Finance	**235**	225
Consumer Lending	**43**	47
TML Mortgages	**121**	-
Savings and Central	**469**	450
Average employees (on a full-time equivalent basis)	**964**	811

Figures in the above tables include contracted employees of the Group only and do not include contractors.

18. Employee share-based payment transactions

See accounting policies in Note 7(e)

The Group has one share-based scheme in operation, the Management Incentive Plan (MIP). This scheme was originally introduced for a set of individuals in April 2019. The MIP is an equity-settled share-based payment scheme. Individuals selected for inclusion in the MIP were entitled to acquire non-voting 'B' Class ordinary shares in Marlin Bidco Limited. Marlin Bidco Limited is the ultimate parent company of Shawbrook Group plc (the Company's parent company). Awards are subject to performance conditions relating to the equity valuation of Shawbrook Group plc in the event of a prescribed exit event. The outcome of the performance conditions determines the vesting outcome of the awards.

Employee share-based payment charges recognised during the year total £0.6 million (2020: £0.5 million).

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

Number of share-based awards	2021	2020
As at 1 January	**8,175**	5,650
Granted	**1,675**	2,900
Forfeited	**(1,100)**	(375)
As at 31 December	**8,750**	8,175

None of the share-based awards have a contractual maturity date and none were exercisable as at 31 December in either of the reported years.

Notes to the financial statements

18. Employee share-based payment transactions (continued)

The grant date fair value of the share-based awards was determined using a Monte Carlo modelling technique. Key assumptions used in the valuation of awards granted in the reported periods and the resultant grant date fair value are set out in the following table:

	2021 awards	2020 awards
Weighted average expected volatility	**35.7%**	35.0%
Weighted average dividend yield	**0%**	0%
Weighted average risk-free rate of return (based on government bonds)	**0%**	(0.08%)
Weighted average expected life at grant date	**1.4 years**	2.2 years
Weighted average grant date fair value (per share)	**£503**	£410

Expected volatility was calculated based on the historical volatility of banks closely aligned to the Group.

19. Directors' remuneration

	2021 £000	2020 £000
Directors' emoluments	**3,692**	1,740
Total Directors' remuneration	**3,692**	1,740

The above table includes both Executive and Non-Executive Directors. Additional information is provided in the Directors' Remuneration Report of Shawbrook Group plc's 2021 Annual Report and Accounts, available on the website: *www.shawbrook.co.uk/investors/*

20. Impairment losses on financial assets

See accounting policies in Note 7(w)

Impairment losses on financial assets are attributable to the Group's loans and advances to customers and loan commitments, as detailed in the table below. Impairment losses relating to the Group's other financial asset categories in scope of IFRS 9 impairments (cash and balances at central banks, loans and advances to banks and investment securities) are immaterial in both reported years, totalling less than £0.1 million.

	2021 £m	2020 £m
Impairment losses on loans and advances to customers		
Net ECL (credit)/charge for the year	**(15.4)**	31.9
Loan balances written-off in the year	**53.8**	25.2
Amounts recovered in the year in respect of loan balances previously written-off	**(4.5)**	(4.4)
Total impairment losses on loans and advances to customers	**33.9**	52.7
Impairment losses on loan commitments		
Net ECL (credit)/charge for the year	**(2.5)**	2.2
Total impairment losses on loan commitments	**(2.5)**	2.2
Total impairment losses on financial assets	**31.4**	54.9

Loan balances written-off during the year ended 31 December 2021 include £35.2 million relating to a customer of the Group that became insolvent in November 2021.

Further analysis of the net ECL credit/(charge) for the year in respect of loans and advances to customers and loan commitments is provided in the credit risk section of the Risk Report on page 58 and 61, respectively.

Critical accounting judgements and estimates
The impairment of financial assets is an area identified as involving critical accounting judgements and estimates. Additional details are provided in Note 9(a) and in the credit risk section of the Risk Report starting on pages 62 and 65, respectively.

Notes to the financial statements

21. Tax

See accounting policies in Note 7(f)

A summary of the tax charge recognised in the statement of profit and loss is as follows:

	Note	2021 £m	2020 £m
Current tax			
Current year		**50.1**	15.2
Adjustment in respect of prior years		**(2.9)**	(2.4)
Total current tax		**47.2**	12.8
Deferred tax			
Origination and reversal of temporary differences	29	**(0.8)**	1.4
Adjustment in respect of prior years	29	**2.6**	1.2
Tax rate changes	29	**(1.1)**	-
Total deferred tax		**0.7**	2.6
Total tax charge		**47.9**	15.4

A reconciliation of profit before tax to the total tax charge is shown in the following table. The effective tax rate is 24.3% (2020: 20.9%). This is higher than the UK corporation tax rate due to the combined impact of the banking surcharge and the other adjustments outlined in the table.

	2021 £m	2020 £m
Profit before tax	**197.4**	73.6
Implied tax charge thereon at 19.00% (2020: 19.00%)	**37.5**	14.0
Adjustments		
Banking surcharge	**13.5**	3.6
Tax relief on coupon paid on capital securities	**(2.5)**	(2.3)
Adjustment in respect of prior years	**(0.3)**	(1.2)
Disallowable expenses and other permanent differences	**0.8**	1.3
Tax rate changes	**(1.1)**	-
Total tax charge	**47.9**	15.4

The UK corporation tax rate will increase from 19% to 25% from 1 April 2023, as substantively enacted on 24 May 2021. In addition, as part of the Autumn Budget and Spending Review in October 2021, it was announced that from April 2023, the banking surcharge will decrease from 8% to 3% and the banking surcharge exempt amount will increase from £25 million to £100 million.

Notes to the financial statements

22. Cash and cash equivalents

See accounting policies in Note 7(g)

Group	**2021 £m**	2020 £m
Cash and balances at central banks	**1,693.8**	1,273.2
Less: mandatory deposits with central banks	**(21.1)**	(18.0)
Loans and advances to banks	**66.9**	91.0
Total cash and cash equivalents	**1,739.6**	1,346.2

Company
Total cash and cash equivalents: 2021: £1,721.7 million (2020: £1,339.9 million).
Difference to Group total: -£17.9 million (2020: -£6.3 million).

The difference in both reported years is attributable to loans and advances to banks in subsidiary companies. Cash and balances at central banks and mandatory deposits with central banks are the same for both the Group and Company. A separate table for the Company is not provided and the additional disclosures below are the same for both the Group and Company unless otherwise stated.

Mandatory deposits with central banks represent amounts held with the Bank of England in accordance with statutory requirements. These deposits are not included in cash and cash equivalents as they are not available for use in the Group's day-to-day operations.

Cash and cash equivalents in both the Group and the Company includes £10.8 million (2020: £48.6 million) of loans and advances to banks that have been pledged as cash collateral against derivative contracts.

Cash and cash equivalents in the Group also includes £15.7 million (2020: £6.3 million) of securitisation cash, which represents the restricted cash balances of consolidated structured entities.

The loss allowance for both cash and balances at central banks and loans and advances to banks is immaterial in both reported years, totalling less than £0.1 million.

23. Loans and advances to customers

See accounting policies in Note 7(h)

	2021			2020		
Group	**Gross carrying amount £m**	**Loss allowance £m**	**Carrying amount £m**	Gross carrying amount £m	Loss allowance £m	Carrying amount £m
Loan receivables	**7,938.4**	**(61.8)**	**7,876.6**	6,685.1	(76.6)	6,608.5
Finance lease receivables	**54.0**	**(2.8)**	**51.2**	72.1	(5.0)	67.1
Instalment credit receivables	**376.1**	**(11.4)**	**364.7**	362.3	(10.7)	351.6
	8,368.5	**(76.0)**	**8,292.5**	7,119.5	(92.3)	7,027.2
Fair value adjustments for hedged risk			**(20.4)**			34.1
Total loans and advances to customers			**8,272.1**			7,061.3

Company
Total loans and advances to customers: 2021: £8,278.9 million (2020: £7,061.3 million).
Difference to Group total: +£6.8 million (2020: £nil).

The difference in the current year is attributable to loan fees recognised directly in the statement of profit and loss of a subsidiary company, which are capitalised upon consolidation in line with the Group's accounting policy. The capitalised fees reduce the gross carrying amount of loan receivables in the Group. This represents the only difference between the Group and Company, with the gross carrying amount of finance lease receivables and instalment credit receivables, the total loss allowance recognised and the fair value adjustments for hedged risk being the same in both the Group and the Company. A separate table for the Company is not provided and the additional disclosures below are the same for both the Group and Company.

Notes to the financial statements

23. Loans and advances to customers (continued)

Additional analysis of the Group's loans and advances to customers and the associated loss allowance is provided in the credit risk section of the Risk Report starting on page 56.

Loans and advances to customers include pledged and transferred assets as follows. Amounts represent the carrying amount (after loss allowance).

- £1,282.2 million (2020: £946.8 million) positioned with the Bank of England for use as collateral against amounts drawn under its Term Funding Scheme with additional incentives for SMEs.
- £nil (2020: £55.3 million) pledged as collateral against secured bank borrowings.
- £401.9 million (2020: £267.3 million) transferred to consolidated structured entities as part of securitisation programmes, which are pledged as collateral against debt securities in issue.

Loans and advances to customers also include loans offered under COVID-19 related business support schemes (Coronavirus Business Interruption Loan Scheme and Recovery Loan Scheme). Such loans have a carrying amount (after loss allowance) of £43.6 million (2020: £31.9 million). The UK Government provides a guarantee to protect 80% of any post-recovery loss in the event of default on these loans. During the year, no claims have been made against the government guarantee (2020: no claims).

Fair value adjustments for hedged risk represent an offset to the fair value movement on derivatives designated in hedge relationships to manage interest rate risk (see Note 26).

Finance lease and instalment credit receivables
Finance lease receivables and instalment credit receivables relate to agreements issued to customers for a variety of assets, predominantly plant and machinery. The following table sets out a maturity analysis, showing the undiscounted payments to be received after the reporting date and a reconciliation to the gross carrying amount of the receivable.

	2021		2020	
Group and Company	**Finance lease receivables £m**	**Instalment credit receivables £m**	Finance lease receivables £m	Instalment credit receivables £m
Undiscounted payments receivable				
Within one year	**26.2**	**197.2**	34.0	184.5
Between one and two years	**15.7**	**81.5**	20.4	108.2
Between two and three years	**8.1**	**40.3**	11.7	54.5
Between three and four years	**4.4**	**28.0**	6.0	20.6
Between four and five years	**2.7**	**45.7**	3.2	8.2
After five years	**2.5**	**6.4**	4.3	12.0
Total undiscounted payments receivable	**59.6**	**399.1**	79.6	388.0
Unearned finance income	**(5.6)**	**(23.0)**	(7.5)	(25.7)
Gross carrying amount	**54.0**	**376.1**	72.1	362.3

Instalment credit receivables include block discounting facilities of £196.3 million (2020: £163.9 million).

The cost of assets acquired during the year for the purpose of letting to customers under finance lease and instalment credit agreements is as follows:

Group and Company	**2021 £m**	2020 £m
Finance lease agreements	**15.1**	19.8
Instalment credit agreements	**121.5**	78.4
Total cost of assets acquired during the year	**136.6**	98.2

Notes to the financial statements

23. Loans and advances to customers (continued)

Modifications
The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans with a view to maximising recovery.

Modifications occurring due to the customer encountering financial difficulties are referred to as forbearance activities. Details of forborne loans are provided in the credit risk section of the Risk Report starting on page 75.

In response to COVID-19, from March 2020 to July 2021, the Group extended short-term concessions to customers requiring support. In line with regulatory guidance and the Group's forbearance policy, these interim measures were not considered to be forbearance. Details of COVID-19 related concessions are provided in the credit risk section of the Risk Report on page 77.

For loans modified during the year, the total net modification gain/loss recognised in the statement of profit and loss is £nil in both reported years.

LIBOR transition
During the year ended 31 December 2021, the Group implemented its LIBOR transition programme with respect to loans and advances to customers and, by 31 December 2021, the majority of loans had transitioned to alternative rates. Details of loans that continue to be linked to LIBOR as at 31 December 2021, along with further information regarding interest rate benchmark reform, are provided in the market risk section of the Risk Report starting on page 86. Details regarding the practical expedient extended in the 'Phase 2 amendments' to IFRS 9 that was applied by the Group when transitioning customer loans from LIBOR to alternative rates are provided in Note 6(a).

Write-offs still under enforcement activity
Loans that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The contractual amount outstanding on loans and advances to customers that were written off during the reporting period, and are still subject to enforcement activity, is £28.3 million (2020: £27.7 million).

24. Securitisations and structured entities

See accounting policies in Note 7(i)

Consolidated structured entities
The Group includes consolidated structured entities relating to securitisation programmes. The securitisations involve the Company transferring certain mortgage loans included within loans and advances to customers to bankruptcy remote structured entities. In relation to each of these transactions, the Group continues to service the transferred loans in return for an administration fee and is entitled to any residual income from the structured entity after the debt obligations and senior expenses of the securitisation programme have been met.

Based on the structure of these transactions, the Group has assessed that, for accounting purposes, it controls the structured entities and, as such, they are treated as subsidiaries of the Group and are fully consolidated. The transfer of loans did not meet the derecognition criteria and, accordingly, the loans continue to be recognised in their entirety in the statement of financial position (see Note 23).

Company
In the Company statement of financial position, a deemed loan liability is recognised reflecting consideration received from the structured entities upon transfer of loans. As at 31 December 2021, the deemed loan liability is £402.8 million (2020: £268.2 million).

The securitisations provide long-term funding to the Group through the simultaneous issue of mortgage-backed debt securities by the structured entities to external investors (see Note 37). The notes are secured on the portfolio of securitised loans, with the final maturity date of the debt securities issued being no later than the final repayment date of any of the underlying securitised loans.

Company
A portion of the notes issued by the structured entities are held by the Company. In the Company statement of financial position, these internally held debt securities are included in investment securities (see Note 25).

Notes to the financial statements

24. Securitisations and structured entities (continued)

Details of securitisations with consolidated structured entities during the reported years are as follows:

- **2021:** a securitisation programme with a consolidated structured entity was completed in August 2021. Loans of the Company with a gross carrying amount (before loss allowance) of £191.1 million and a carrying amount (after loss allowance) of £190.8 million were transferred to Wandle Mortgage Funding Limited. The structured entity simultaneously privately issued mortgage-backed debt securities of £158.6 million to an external investor (see Note 37), with additional notes purchased by the Company (see Note 25).
- **2020:** there were no securitisations with consolidated structured entities.

The following table summarises the carrying amount of the securitised loans and the associated debt securities in issue as at 31 December.

	2021		2020	
	Loans and advances securitised £m	**Debt securities in issue £m**	Loans and advances securitised £m	Debt securities in issue £m
Shawbrook Mortgage Funding 2019-1 plc	**232.1**	**233.3**	268.2	268.4
Wandle Mortgage Funding Limited	**170.7**	**178.9**	-	-
Less: loss allowance on securitised loans	**(0.9)**		(0.9)	
Total	**401.9**	***412.2***	267.3	268.4
Of which: held by the Company (and eliminated on consolidation) (see Note 25)		**93.4**		63.4
Of which: held by external investors (see Note 37)		**318.8**		205.0

Unconsolidated structured entities

The Group has interests in unconsolidated structured entities associated with securitisation programmes. The securitisations involve the Company transferring certain mortgage loans included within loans and advances to customers to bankruptcy remote structured entities. The residual certificates, representing the rights to receive residual income from the structured entity, were sold as part of these transactions.

Based on the structure of these transactions, the Group has assessed that, for accounting purposes, it does not control the structured entities and, as such, they are not consolidated. The transferred loans met the criteria for derecognition and, accordingly, the loans were derecognised in their entirety from the statement of financial position and are referred to as 'structured asset sales'.

Details of securitisations with unconsolidated structured entities during the reported years are as follows:

- **2021:** a securitisation programme with an unconsolidated structured entity was completed in September 2021. At the point of derecognition, loans had a gross carrying amount (before loss allowance) of £343.0 million and a carrying amount (after loss allowance) of £342.6 million. A net gain on derecognition of £21.8 million is recognised in the statement of profit and loss (see Note 15).
- **2020:** a securitisation programme with an unconsolidated structured entity was completed in September 2020. At the point of derecognition, loans had a gross carrying amount (before loss allowance) of £330.6 million and a carrying amount (after loss allowance) of £329.9 million. A net gain on derecognition of £9.6 million is recognised in the statement of profit and loss (see Note 15).

A portion of the debt securities issued by the unconsolidated structured entities as part of the securitisation transactions were purchased by the Company. The Group therefore has a direct interest in the unconsolidated structured entities. As at 31 December 2021, the carrying amount of the Company's investment in debt securities issued by unconsolidated structured entities is £129.5 million (2020: £79.4 million) (see Note 25). This amount represents the Group's maximum exposure to loss from its interests in unconsolidated structured entities.

As at 31 December 2021, the total asset value of the unconsolidated structured entities, including the portion in which the Group has no interest, is £543.3 million (2020: £327.4 million).

Notes to the financial statements

24. Securitisations and structured entities (continued)

During the year ended 31 December 2021, the Group paid up-front expenses incurred in forming the unconsolidated structured entity of £1.7 million (2020: £1.7 million). This included amounts to capitalise the entity and all bank and legal expenses. The Group has no intentions to provide any further financial or other support to the unconsolidated structured entities following these initial set-up costs.

Critical accounting judgements
The assessments involved in determining whether the Group controls the structured entity and whether the loans meet the criteria to be derecognised are identified as involving critical accounting judgements. Additional details are provided in Note 9(c).

25. Investment securities

See accounting policies in Note 7(j)

			2021			2020
Group	**Covered bonds £m**	**Debt securities £m**	**Total £m**	Covered bonds £m	Debt securities £m	Total £m
As at 1 January	**278.8**	**79.4**	**358.2**	200.0	-	200.0
Additions	**149.8**	**50.0**	**199.8**	78.9	79.3	158.2
Maturities	**(37.7)**	**-**	**(37.7)**	-	-	-
Other movements	**1.6**	**(0.5)**	**1.1**	(0.1)	0.1	-
As at 31 December	**392.5**	**128.9**	**521.4**	278.8	79.4	358.2

Company
Total investment securities: 2021: £614.8 million (2020: £421.6 million).
Difference to Group total: +£93.4 million (2020: +£63.4 million).

The difference in both reported years is attributable to debt securities issued by consolidated structured entities as part of securitisation transactions that were purchased by the Company, which are eliminated on consolidation (see Note 24). Covered bonds are the same in both the Group and the Company. A separate table for the Company is not provided and the additional disclosures below are the same for both the Group and Company unless otherwise stated.

Investment securities include pledged assets as follows:

- £391.0 million (2020: £150.0 million) positioned with the Bank of England for use as collateral against amounts drawn under its Term Funding Scheme with additional incentives for SMEs.
- £129.3 million (2020: £15.0 million) pledged as collateral for repurchase agreements or used in 'security swaps' (see Note 7(j)).

Debt securities represent mortgage-backed debt securities issued by structured entities as part of the Group's securitisation transactions that are held by the Company (see Note 24).

The loss allowance for investment securities is immaterial in both reported years, totalling less than £0.1 million.

Company
Certain debt securities purchased by the Company from consolidated structured entities are used in a 'security swap', whereby notes are exchanged for UK gilts (see Note 7(j)). In 2020, £17.8 million of these debt securities were also positioned with the Bank of England for use as collateral against amounts drawn under its Term Funding Scheme with additional incentives for SMEs.

LIBOR transition

During the year ended 31 December 2021, the Group implemented its LIBOR transition programme with respect to investment securities. As at 31 December 2021, there are no remaining investment securities with LIBOR dependency. Further information regarding interest rate benchmark reform is provided in the market risk section of the Risk Report starting on page 86. Details regarding the practical expedient extended in the 'Phase 2 amendments' to IFRS 9 that was applied by the Group when investment securities were transitioned from LIBOR to alternative benchmark rates are provided in Note 6(a).

Notes to the financial statements

26. Derivative financial instruments and hedge accounting

See accounting policies in Note 7(k) and Note 7(l)

Derivative financial instruments

Derivative financial instruments are used by the Group for risk management purposes in order to minimise or eliminate the impact of movements in interest rates and foreign exchange rates. Derivatives are not used for trading or speculative purposes. Additional information about market risk, and the use of derivatives in managing such risk, is included in the Risk Report starting on page 83. The Group uses the International Swaps and Derivatives Association Master Agreement to document these transactions in conjunction with a Credit Support Annex.

The following table analyses the Group's derivative financial instruments by instrument type and specifies which instruments are designated as hedging instruments in qualifying hedging relationships.

Group **As at 31 December 2021**	**Assets** **Nominal amount £m**	**Assets** **Carrying amount £m**	**Liabilities** **Nominal amount £m**	**Liabilities** **Carrying amount £m**
Interest rate swaps - in hedging relationship	**1,797.8**	**20.3**	**2,296.5**	**5.8**
Other interest rate swaps - not in hedging relationship	**27.7**	**1.0**	**-**	**-**
Interest rate options - in hedging relationship	**-**	**-**	**1,000.0**	**2.1**
Spot and forward foreign exchange swaps - not in hedging relationship	**12.1**	**-**	**14.0**	**-**
Balance guaranteed swaps - not in hedging relationship	**175.3**	**0.2**	**175.3**	**0.2**
Total derivative financial instruments	**2,012.9**	**21.5**	**3,485.8**	**8.1**

Group As at 31 December 2020	Assets Nominal amount £m	Assets Carrying amount £m	Liabilities Nominal amount £m	Liabilities Carrying amount £m
Interest rate swaps - in hedging relationship	62.0	0.2	1,251.1	27.4
Other interest rate swaps - not in hedging relationship	-	-	27.7	0.4
Interest rate options - in hedging relationship	-	-	1,050.0	10.5
Spot and forward foreign exchange swaps - not in hedging relationship	28.4	0.4	0.4	0.2
Balance guaranteed swaps - not in hedging relationship	217.8	3.5	217.8	3.5
Total derivative financial instruments	308.2	4.1	2,547.0	42.0

Company
Total derivative financial assets: 2021: £21.5 million (2020: £0.6 million).
Difference to Group total: £nil (2020: -£3.5 million).

Total derivative financial liabilities: 2021: £7.9 million (2020: £42.0 million).
Difference to Group total: -£0.2 million (2020: £nil).

The difference in derivative financial liabilities in the current year, and derivative financial assets in the comparative year, is attributable to balance guaranteed swaps held by a subsidiary company. In all other respects, derivative financial instruments are the same for both the Group and Company. Separate tables for the Company are not provided and the additional disclosures below are the same for both the Group and Company unless otherwise stated.

Interest rate swaps are used to manage interest rate risk associated with loans and advances to customers and customer deposits.

Interest rate options are used specifically to manage interest rate risk associated with certain mortgage loans. £575 million of the interest rate options are forward starting with an effective date beyond 31 December 2021.

Spot and forward foreign exchange swaps are used to manage foreign exchange risk associated with loans and advances to customers and loans and advances to banks.

Balance guaranteed swaps are used to allow the original hedge accounting relationships relating to certain securitised fixed rate mortgage loans to be maintained. This involved back-to-back balance guaranteed swaps being entered into with an external counterparty. The notional amount of these swaps will amortise in their entirety based upon the realised amortisation of the reference pool of loans.

Notes to the financial statements

26. Derivative financial instruments and hedge accounting (continued)

Article 4 of the European Market Infrastructure Regulation requires that standardised over-the-counter (OTC) derivatives are mandatorily cleared through authorised central counterparties. Accordingly, the Group clears its standardised OTC derivatives via ABN Amro with London Clearing House. The following tables split out the total nominal amount of derivative financial instruments into cleared and OTC:

Group As at 31 December 2021	**Cleared £m**	**OTC £m**	**Assets Total £m**	**Cleared £m**	**OTC £m**	**Liabilities Total £m**
Interest rate swaps in hedging relationship	**1,633.9**	**163.9**	**1,797.8**	**2,289.1**	**7.4**	**2,296.5**
Other interest rate swaps	**27.7**	-	**27.7**	-	-	-
Interest rate options in hedging relationship	-	-	-	-	**1,000.0**	**1,000.0**
Spot and forward foreign exchange swaps	-	**12.1**	**12.1**	-	**14.0**	**14.0**
Balance guaranteed swaps	-	**175.3**	**175.3**	-	**175.3**	**175.3**
Total	**1,661.6**	**351.3**	**2,012.9**	**2,289.1**	**1,196.7**	**3,485.8**

Group As at 31 December 2020	Cleared £m	OTC £m	Assets Total £m	Cleared £m	OTC £m	Liabilities Total £m
Interest rate swaps in hedging relationship	62.0	-	62.0	416.8	834.3	1,251.1
Other interest rate swaps	-	-	-	27.7	-	27.7
Interest rate options in hedging relationship	-	-	-	-	1,050.0	1,050.0
Spot and forward foreign exchange swaps	-	28.4	28.4	-	0.4	0.4
Balance guaranteed swaps	-	217.8	217.8	-	217.8	217.8
Total	62.0	246.2	308.2	444.5	2,102.5	2,547.0

Company
As detailed above, the balance guaranteed swap liability in the current year and balance guaranteed swap asset in the comparative year relate to a subsidiary company and therefore do not apply to Company. In all other respects, the above tables are the same for the Company.

In respect of derivative financial instruments, cash collateral totalling £10.8 million has been pledged (2020: £48.6 million) and £0.3 million has been received (2020: £nil) (see Note 22 and Note 34, respectively).

Hedge accounting

The Group holds certain interest rate swaps and its interest rate options as hedging instruments in fair value hedges, as detailed below. The Group does not designate any derivatives as cash flow hedges or net investment hedges. All hedging relationships relate to hedging instruments and hedged items in the Company. Accordingly, the following hedge accounting disclosures are the same for both the Group and the Company.

Group and Company As at 31 December 2021	**Less than 1 month**	**1 - 3 months**	**3 months - 1 year**	**1 - 5 years**	**More than 5 years**	**Maturity Total**
Interest rate swaps						
Nominal amount (£m)	**9.0**	**60.0**	**1,748.3**	**2,178.4**	**98.6**	**4,094.3**
Average fixed interest rate	**1.16%**	**0.99%**	**0.29%**	**0.70%**	**0.64%**	**0.53%**
Interest rate options						
Nominal amount (£m)	-	-	**350.0**	**650.0**	-	**1,000.0**
Average fixed interest rate	-	-	**0.75%**	**0.75%**	-	**0.75%**

Notes to the financial statements

26. Derivative financial instruments and hedge accounting (continued)

Group and Company As at 31 December 2020	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years	Maturity Total
Interest rate swaps						
Nominal amount (£m)	-	35.0	79.0	1,120.6	78.5	1,313.1
Average fixed interest rate	-	1.10%	1.05%	0.68%	0.67%	0.70%
Interest rate options						
Nominal amount (£m)	-	-	50.0	1,000.0	-	1,050.0
Average fixed interest rate	-	-	0.75%	0.75%	-	0.75%

Amounts relating to items designated as hedging instruments and hedge ineffectiveness are set out in the following tables. The carrying amount of assets and liabilities included in these tables are presented in the statement of financial position on the lines derivative financial assets and derivative financial liabilities, respectively. Ineffectiveness is recognised in the statement of profit and loss on the line net gains/(losses) on derivative financial instruments and hedge accounting. The main sources of ineffectiveness in these hedge relationships relate to the modelled prepayment/repayment behaviour and the assumptions that are used in modelling this behaviour.

Group and Company **As at 31 December 2021**	**Nominal amount £m**	**Carrying amount £m**	**Change in fair value used for calculating ineffectiveness £m**	**Ineffectiveness recognised in statement of profit and loss £m**
Interest rate swaps				
Assets	**1,797.8**	**20.3**	**48.3**	**1.0**
Liabilities	**2,296.5**	**5.8**	**(3.6)**	**-**
Interest rate options				
Liabilities	**1,000.0**	**2.1**	**9.1**	**0.1**

Group and Company As at 31 December 2020	Nominal amount £m	Carrying amount £m	Change in fair value used for calculating ineffectiveness £m	Ineffectiveness recognised in statement of profit and loss £m
Interest rate swaps				
Assets	62.0	0.2	(21.5)	-
Liabilities	1,251.1	27.4	(0.6)	-
Interest rate options				
Liabilities	1,050.0	10.5	(6.4)	0.9

Notes to the financial statements

26. Derivative financial instruments and hedge accounting (continued)

Amounts relating to items designated as hedged items are as follows:

Group and Company As at 31 December 2021	**Note[1]**	**Carrying amount £m**	**Accumulated fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item[2] £m**	**Change in fair value used for calculating ineffectiveness £m**
Assets				
Loans and advances to customers	23	**3,112.3**	**(20.4)**	**(56.5)**
Liabilities				
Customer deposits	35	**1,982.0**	**3.7**	**3.8**

Group and Company As at 31 December 2020	Note[1]	Carrying amount £m	Accumulated fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item[2] £m	Change in fair value used for calculating ineffectiveness £m
Assets				
Loans and advances to customers	23	2,363.1	34.1	24.0
Liabilities				
Customer deposits	35	-	-	0.5

All hedge accounting relationships have remained highly effective throughout both reported years.

LIBOR transition
During the year ended 31 December 2021, the Group implemented its LIBOR transition programme with respect to hedge relationships. As at 31 December 2021, there are no remaining hedge relationships with LIBOR dependency. Further information regarding interest rate benchmark reform is provided in the market risk section of the Risk Report starting on page 86. Details regarding the relief extended in the 'Phase 2 amendments' to IAS 39 that was applied by the Group when transitioning hedges from LIBOR to alternative benchmark rates are provided in Note 6(a).

Net gains and losses on derivative financial instruments and hedge accounting
Gains and losses on derivative financial instruments and hedge accounting recognised in the consolidated statement of profit and loss are summarised as follows:

	2021 £m	2020 £m
Net fair value gains/(losses) on derivative financial instruments	**55.8**	(29.5)
Net fair value (losses)/gains on hedged risk	**(52.7)**	24.5
Net gains/(losses) on derivative financial instruments and hedge accounting	**3.1**	(5.0)

Net fair value gains/(losses) on derivative financial instruments include foreign exchange gains and losses.

[1] Note number reference signposts to where the accumulated fair value hedge adjustments on the hedged item is included.

[2] The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have been de-designated, for which the fair value hedged item adjustment is being amortised into the statement of profit and loss is £2.7 million (2020: £1.6 million).

Notes to the financial statements

27. Property, plant and equipment

See accounting policies in Note 7(m)

Group Year ended 31 December 2021	Right-of-use leasehold property £m	Leasehold property £m	Fixtures, fittings and equipment £m	Assets on operating leases £m	Total £m
Cost					
As at 1 January 2021	**11.7**	**2.9**	**15.5**	**60.4**	**90.5**
Additions	0.1	-	0.7	7.1	7.9
Acquisitions through business combinations	0.5	-	0.1	-	0.6
Disposals	-	(0.3)	(1.2)	(6.8)	(8.3)
Other movements[1]	-	(0.9)	-	-	(0.9)
Transfer to finance leases	-	-	-	(3.8)	(3.8)
As at 31 December 2021	**12.3**	**1.7**	**15.1**	**56.9**	**86.0**
Accumulated depreciation					
As at 1 January 2021	**2.3**	**1.5**	**11.9**	**21.2**	**36.9**
Charge for the year	1.8	0.2	1.1	8.6	11.7
Disposals	-	(0.3)	(1.2)	(6.1)	(7.6)
Other movements[1]	-	(0.4)	-	-	(0.4)
Transfer to finance leases	-	-	-	(2.9)	(2.9)
As at 31 December 2021	**4.1**	**1.0**	**11.8**	**20.8**	**37.7**
Carrying amount					
As at 1 January 2021	**9.4**	**1.4**	**3.6**	**39.2**	**53.6**
As at 31 December 2021	**8.2**	**0.7**	**3.3**	**36.1**	**48.3**

Group Year ended 31 December 2020	Right-of-use leasehold property £m	Leasehold property £m	Fixtures, fittings and equipment £m	Assets on operating leases £m	Total £m
Cost					
As at 1 January 2020	12.6	2.4	16.2	60.4	91.6
Additions	2.6	0.5	0.3	11.1	14.5
Disposals	(3.5)	-	(1.0)	(6.6)	(11.1)
Transfer to finance leases	-	-	-	(4.5)	(4.5)
As at 31 December 2020	11.7	2.9	15.5	60.4	90.5
Accumulated depreciation					
As at 1 January 2020	1.5	0.9	11.5	20.5	34.4
Charge for the year	1.6	0.6	1.2	9.1	12.5
Disposals	(0.8)	-	(0.8)	(5.7)	(7.3)
Transfer to finance leases	-	-	-	(2.7)	(2.7)
As at 31 December 2020	2.3	1.5	11.9	21.2	36.9
Carrying amount					
As at 1 January 2020	11.1	1.5	4.7	39.9	57.2
As at 31 December 2020	9.4	1.4	3.6	39.2	53.6

Further details about right-of-use leasehold property and assets on operating leases are provided in Note 38.

Company

Total property, plant and equipment: 2021: £47.8 million (2020: £53.6 million).
Difference to Group total: -£0.5 million (2020: £nil).

The difference in the current year is attributable to right-of use leasehold assets with a carrying amount of £0.4 million and fixtures and fittings with a carrying amount of £0.1 million relating to subsidiary companies. Separate tables for the Company are not provided.

[1] Other movements represents an adjustment to the dilapidation accrual and reversal of the associated depreciation recognised.

Notes to the financial statements

28. Intangible assets

See accounting policies in Note 7(n)

Group	2021 Goodwill £m	2021 Other intangible assets £m	2021 Total £m	2020 Goodwill £m	2020 Other intangible assets £m	2020 Total £m
Cost						
As at 1 January	**38.5**	**49.8**	**88.3**	38.5	44.3	82.8
Additions	**-**	**7.1**	**7.1**	-	7.5	7.5
Acquisitions through business combinations	**10.0**	**1.2**	**11.2**	-	-	-
Disposals	**-**	**-**	**-**	-	(2.0)	(2.0)
As at 31 December	**48.5**	**58.1**	**106.6**	38.5	49.8	88.3
Accumulated amortisation and impairment						
As at 1 January	**0.5**	**28.4**	**28.9**	0.5	21.4	21.9
Amortisation charge for the year	**-**	**8.2**	**8.2**	-	8.5	8.5
Disposals	**-**	**-**	**-**	-	(1.5)	(1.5)
As at 31 December	**0.5**	**36.6**	**37.1**	0.5	28.4	28.9
Carrying amount						
As at 1 January	**38.0**	**21.4**	**59.4**	38.0	22.9	60.9
As at 31 December	**48.0**	**21.5**	**69.5**	38.0	21.4	59.4

Company
Total intangible assets: 2021: £44.3 million (2020: £45.1 million).
Difference to Group total: -£25.2 million (2020: -£14.3 million).

The difference in both reported years is mainly attributable to goodwill recognised by the Group on business acquisitions. In the Company, goodwill throughout both reported years is £23.7 million, all of which represents cost, with no accumulated impairment losses recognised. This accounts for £24.3 million of the difference in the current year and all of the difference in the comparative year. The remaining difference in the current year of £0.9 million represents the carrying amount of other intangible assets recognised by the Group on the acquisition of businesses. Separate tables for the Company are not provided and the additional disclosures below are the same for both the Group and Company unless otherwise stated.

Other intangible assets is predominantly comprised of computer software. In the Group, other intangibles assets also includes assets recognised on the acquisition of businesses, representing brands and the benefit of business networks.

Other intangible asset additions include £7.0 million of internally generated assets (2020: £7.4 million).

Goodwill impairment testing

In accordance with accounting standards and the Group's accounting policy, the Group performed its annual assessment to identify any impairment to goodwill. For the purposes of impairment testing, goodwill is allocated to the Group's CGUs. The Group's CGUs are the same as the Group's new reportable operating segments (see Note 11).

Goodwill is impaired if the carrying amount of a CGU exceeds its recoverable amount. Determining the recoverable amount involves the calculation of the CGU's value in use, which is derived by discounting the forecast cash flows (post-tax profits) to be generated from its continuing use, as described below.

Notes to the financial statements

28. Intangible assets (continued)

Forecast cash flows are based on the Board approved budget and assumptions regarding the long-term pattern of sustainable cash flows thereafter. Five years of forecast cash flows (post-tax profits) are included in the discounted cash flow model (2020: five years). A terminal value growth rate of 2.0% is then applied into perpetuity to extrapolate cash flows beyond the cash flow period (2020: 1.0%). The terminal value growth rate is estimated by the Group taking into account rates disclosed by comparable institutions. Forecast cash flows include the expected impact of COVID-19 where applicable.

To discount the forecast cash flows, the Group derives a CGU specific discount rate. These discount rates are an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amount, timing and risk profile equivalent to those that the entity expects to derive from the CGU. The Group calculates the discount rates using the price-to-book ratio method, which incorporates target return on equity, growth rate and the price-to-book ratio. The discount rate for each CGU is adjusted to reflect the risks inherent to the individual CGU.

Discount rates used for each CGU are as follows:

	2021		2020	
	Post-tax	**Pre-tax[1]**	Post-tax	Pre-tax[1]
Property Finance	**12.5%**	**16.2%**	12.5%	14.9%
Business Finance	**13.5%**	**17.3%**	13.5%	16.4%
TML Mortgages	**15.0%**	**20.7%**	-	-

In both reported years, impairment testing indicated the recoverable amount of each CGU was in excess of its carrying amount and, as such, no impairment losses have been recognised. Reasonably possible changes in forecast cash flows and the applied post-tax discount rate would not result in the recoverable amount of any CGU reducing below the carrying amount, as verified by sensitivity analysis.

A summary of the carrying amount of goodwill by CGU is as follows:

	2021				2020		
Group	**Property Finance £m**	**Business Finance £m**	**TML Mortgages £m**	**Total £m**	Property Finance £m	Business Finance £m	Total £m
As at 1 January	**5.4**	**32.6**	**-**	**38.0**	5.4	32.6	38.0
Acquisitions through business combinations	**-**	**-**	**10.0**	**10.0**	-	-	-
As at 31 December	**5.4**	**32.6**	**10.0**	**48.0**	5.4	32.6	38.0

Company
In the Company, all goodwill is attributable to Business Finance and is unchanged in both reported years, remaining at a carrying amount of £23.7 million.

[1] The Group applies post-tax discount rates to post-tax cash flows when testing the CGU for impairment. The pre-tax discount rate is disclosed in accordance with IAS 36 'Impairment of Assets'.

Notes to the financial statements

29. Deferred tax assets

See accounting policies in Note 7(f)

Deferred tax assets are attributable to the following items:

Group	2021 £m	2020 £m
Decelerated tax depreciation	**6.9**	9.5
IFRS 9 adjustment	**2.3**	2.5
General provisions	**-**	0.3
Tax losses acquired through business combinations	**2.7**	-
Other	**2.3**	-
Total deferred tax assets	**14.2**	12.3

Company
Total deferred tax: 2021: £9.2 million (2020: £12.3 million).
Difference to Group total: -£5.0 million (2020: £nil).

The difference in the current year is attributable to deferred tax assets recognised in relation to tax losses in subsidiary companies. Separate tables for the Company are not provided.

Movements in deferred tax assets are as follows:

Group	Note	2021 £m	2020 £m
As at 1 January		**12.3**	14.9
Current period movement	21	**0.8**	(1.4)
Adjustment in respect of prior years	21	**(2.6)**	(1.2)
Tax rate changes	21	**1.1**	-
Acquisitions through business combinations	10	**2.4**	-
Other		**0.2**	-
As at 31 December		**14.2**	12.3

Deferred tax assets are mainly attributable to decelerated capital allowances. The Group's business plans project future profits that are sufficient to fully recognise the deferred tax assets. The deferred tax assets will unwind over the remaining life of the underlying assets with which they are associated.

Deferred tax assets in the Group have been calculated based on an aggregation rate of 26.3% (2020: 25.5%), which is the estimated rate of recovery that will unwind over the remaining life of the underlying assets with which they are associated.

30. Investment in associate

See accounting policies in Note 7(a)

Until 26 February 2021, the Company held 19.99% of the ordinary shares of TML. Despite holding less than 20% of the ordinary shares, the Company was deemed to have significant interest and, as such, TML was treated as an associate and was accounted for using the equity method of accounting. On 26 February 2021, the Company's equity interest in TML increased from 19.99% to 100% and TML became a subsidiary from that date (see Note 10).

TML's principal activity is mortgage finance and its place of incorporation and principal place of business is the UK. TML is not publicly listed.

For the purposes of applying the equity method of accounting, TML's monthly unaudited management accounts are used.

Notes to the financial statements

30. Investment in associate (continued)

The following information summarises the financial information of TML, as included in its monthly unaudited management accounts, and the financial information presented in the financial statements. The information for 2020 includes the results of TML for the full reporting year, from 1 January to 31 December 2020. The information for 2021 only includes the results of TML for the two-month period from 1 January to 26 February 2021, after which date TML became a subsidiary of the Group and was no longer accounted for using the equity method of accounting.

	2 months to 26 February 2021 £m	12 months to 31 December 2020 £m
Revenue	**3.1**	14.8
Profit from continuing operations	**0.2**	0.4
Total comprehensive profit for the period	**0.2**	0.4

Based on the information above, the 19.99% share of profit recognised in the statement of profit and loss is less than £0.1 million (2020: £0.1 million profit).

No dividends were received from TML in either reported periods.

A reconciliation of the net assets of TML to the carrying amount of the investment in associate recognised as at 31 December 2020 is presented in the following table. As at 31 December 2021, following the acquisition, the investment in associate is reduced to £nil.

Group and Company	2020
Current assets (£m)	5.7
Non-current assets (£m)	0.4
Current liabilities (£m)	(2.2)
Non-current liabilities (£m)	(0.1)
Net assets of the associate (£m)	3.8
Proportion of ownership interest in the associate	19.99%
Share of net assets (£m)	0.8
Goodwill (£m)	4.7
Accumulated impairment losses (£m)	(2.7)
Total investment in associate (£m)	2.8

Impairment of the investment

In the comparative year, as at 31 December 2020, the Company was in advanced stages of acquiring the remaining equity in TML. Available market information indicated the value of the existing TML investment may be impaired and, accordingly, impairment testing was performed.

The recoverable amount, based on the cost of acquiring the remaining 80.01% of equity in TML, was less than the carrying amount of the investment, resulting in an impairment loss of £2.7 million being recognised in the statement of profit and loss in the year ended 31 December 2020.

31. Other assets

	Group		Company	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Other debtors	**3.3**	3.0	**7.5**	3.0
Prepayments	**8.2**	7.5	**8.9**	8.1
Amounts due from Group companies	**-**	-	**1.1**	9.0
Total other assets	**11.5**	10.5	**17.5**	20.1

Notes to the financial statements

32. Assets held for sale

See accounting policies in Note 7(o)

	2021			2020		
Group and Company	**Gross carrying amount £m**	**Loss allowance £m**	**Carrying amount £m**	Gross carrying amount £m	Loss allowance £m	Carrying amount £m
Customer loans held for sale	**300.2**	**(0.5)**	**299.7**	2.3	-	2.3
Total assets held for sale	**300.2**	**(0.5)**	**299.7**	2.3	-	2.3

As at 31 December 2021, assets held for sale comprise a portfolio of loans from Property Finance. The loans were subsequently sold in January 2022 (see Note 51).

As at 31 December 2020, assets held for sale comprised a portfolio of loans from Business Finance. The sale of these loans completed in February 2021. A net loss of £0.1 million arising from the derecognition of the loans is recognised in the statement of profit and loss (see Note 15).

Further analysis of the Group's assets held for sale and the associated loss allowance can be found in the credit risk section of the Risk Report on page 60.

33. Investment in subsidiaries

See accounting policies in Note 7(p)

The investment in subsidiaries in the Company statement of financial position relates to those subsidiary companies detailed in Note 46. Prior to the acquisition of TML during the year (see Note 10), the investment in subsidiaries amounted to <£0.1 million and is therefore reflected in the statement of financial position, and in the table below, as a £nil balance.

	Note	2021 £m	2020 £m
As at 1 January		**-**	-
Additional 80.01% of TML shares acquired	10	**11.1**	-
Pre-existing 19.99% investment in TML (previously recognised as investment in associate)	30	**2.8**	-
As at 31 December		**13.9**	-

34. Amounts due to banks

See accounting policies in Note 7(q)

Group and Company	**2021 £m**	2020 £m
Central bank facilities	**1,200.3**	757.1
Secured bank borrowings	**-**	43.3
Repurchase agreements	**-**	15.1
Other	**0.4**	-
Total amounts due to banks	**1,200.7**	815.5

Amounts due to banks include:

- £1,200.0 million (2020: £757.0 million) drawn under the Bank of England's Term Funding Scheme with additional incentives for SMEs, which fall due for repayment in 2025. These amounts are collateralised by customer loan assets and investment securities.
- £0.3 million (2020: £nil) of cash collateral received against derivative contracts.

In the comparative year ended 31 December 2020, amounts due to banks also included, £43.3 million of secured bank borrowings that were secured on customer loan assets and £15.0 million of repurchase agreements that were collateralised by investment securities. These balances were repaid during 2021.

Notes to the financial statements

35. Customer deposits

See accounting policies in Note 7(r)

Group and Company	2021 £m	2020 £m
Instant access	**2,527.9**	2,335.7
Term deposits and notice accounts	**5,834.4**	4,558.4
Fair value adjustments for hedged risk	**(3.7)**	-
Total customer deposits	**8,358.6**	6,894.1

Fair value adjustments for hedged risk represent an offset to the fair value movement on derivatives designated in hedge relationships to manage interest rate risk (see Note 26).

36. Provisions

See accounting policies in Note 7(s)

	2021			2020		
Group and Company	**Loss provision £m**	**Other provisions £m**	**Total £m**	Loss provision £m	Other provisions £m	Total £m
As at 1 January	**3.2**	**14.8**	**18.0**	1.0	7.3	8.3
Provisions utilised	**-**	**(8.4)**	**(8.4)**	-	(14.8)	(14.8)
Provisions made/(released)	**(2.5)**	**7.1**	**4.6**	2.2	22.3	24.5
As at 31 December	**0.7**	**13.5**	**14.2**	3.2	14.8	18.0

Loss provision

The loss provision represents the loss allowance on loan commitments (see Note 50). Provisions made/(released) represent the ECL charge/(credit) for the year on loan commitments and is recognised in impairment losses on financial assets in the statement of profit and loss (see Note 20).

Other provisions

Other provisions represent provisions made in relation to customer remediation and conduct issues and provisions for legal costs to defend cases brought against the Group. Provisions made are recognised in provisions in the statement of profit and loss.

A reconciliation of the amount recognised in the consolidated statement of profit and loss for provisions is as follows:

	2021 £m	2020 £m
Provisions made	**7.1**	22.3
Insurance recoveries	**(14.1)**	(2.0)
Net (credit)/charge for provisions	**(7.0)**	20.3

Insurance recoveries in both reported years relate to amounts recovered against solar panel cases. The total of £16.1 million received across 2020 and 2021 represents all monies claimable.

Critical accounting judgements and estimates

The calculation of other provisions relating to customer remediation and conduct issues is an area identified as involving critical accounting judgements and estimates. Additional details are provided in Note 9(b).

Notes to the financial statements

37. Debt securities in issue

See accounting policies in Note 7(i)

Debt securities in issue in the consolidated statement of financial position comprise asset-backed notes issued to external parties by consolidated structured entities as part of securitisation transactions (see Note 24). The notes are secured on the underlying portfolio of securitised loans and recourse under the notes is limited to the structured entity only.

A summary of notes in issue is provided in the following table. Amounts included in the table include accrued interest and unamortised capitalised costs.

	Issued	Issuer	Listing	Initial call date	Scheduled redemption date	Maturity date	**2021 £m**	2020 £m
Class A mortgage-backed floating rate notes	2019	Shawbrook Mortgage Funding 2019-1 plc	Euronext Dublin	2022	n/a	2050	**171.9**	205.0
Senior notes	2021	Wandle Mortgage Funding Limited	Unlisted	n/a	2024	2038	**146.9**	-
Total debt securities in issue							**318.8**	205.0

Movements in the year are summarised in the following table:

	2021 £m	2020 £m
As at 1 January	**205.0**	241.0
Issuances	**158.6**	-
Repurchases and redemptions	**(44.2)**	(36.8)
Costs capitalised	**(0.8)**	-
Other movements	**0.2**	0.8
As at 31 December	**318.8**	205.0

Issuances in the year ended 31 December 2021 comprise £158.6 million senior notes due 2038. These notes were privately issued to external investors in August 2021 by a consolidated structured entity, Wandle Mortgage Funding Limited.

Repurchases and redemptions in the comparative year ended 31 December 2020 included the purchase of £20.0 million of the Class A mortgage-backed floating rate notes originally issued to external investors by the Company. In the Company statement of financial position, these purchased notes are included in investment securities.

38. Leases

See accounting policies in Note 7(t)

Group as a lessor: finance leases
Assets leased to customers under finance leases are predominantly plant and machinery. The underlying assets provide security against the gross receivables and the Group provides no residual value guarantees in order to mitigate risk.

Details of finance lease receivables are set out in Note 23. This includes a maturity analysis showing the gross investment in the lease (the undiscounted lease payments receivable) and a reconciliation to the net investment in the lease (the gross carrying amount of the receivable).

Finance income recognised during the year on finance lease receivables is £5.0 million (2020: £6.0 million) and is included in interest income on loans and advances to customers (see Note 12).

Group as a lessor: operating leases
Assets leased to customers under operating leases are predominantly plant and machinery. The carrying amount of assets on operating leases and the movements during the year are set out in Note 27.

Net income from operating leases is presented on the face of the statement of profit and loss.

Notes to the financial statements

38. Leases (continued)

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

Group and Company	2021 £m	2020 £m
Within one year	**8.8**	10.3
Between one and two years	**6.6**	7.2
Between two and three years	**4.6**	5.7
Between three and four years	**2.7**	3.5
Between four and five years	**1.7**	1.8
After five years	**1.0**	1.3
Total future minimum rentals receivable	**25.4**	29.8

Group as a lessee

The Group has lease contracts for several buildings. These leases typically have lease terms of between 5 and 10 years. The Group does not sublease any of these leased assets.

Details of the right-of-use assets recognised in relation to these leases, including the carrying amount and the movements during the year, are set out in Note 27.

The carrying amount of the associated lease liabilities and the movements during the year are as follows:

Group	2021 £m	2020 £m
As at 1 January	**11.1**	12.4
Additions	**0.1**	2.6
Acquisitions through business combinations	**0.5**	-
Disposals	**-**	(2.7)
Interest expense	**0.2**	0.4
Payments	**(2.1)**	(1.6)
As at 31 December	**9.8**	11.1

Company
Total lease liabilities: 2021: £9.4 million (2020: £11.1 million).
Difference to Group total: -£0.4 million (2020: £nil).

The difference in the current year is attributable to lease liabilities relating to subsidiary companies. Separate tables for the Company are not provided and the additional disclosures below are the same for both the Group and Company unless otherwise stated.

A maturity analysis of lease liabilities is presented in the liquidity risk section of the Risk Report on page 78.

The Group also has certain leases of office equipment with low value, for which the Group applies the recognition exemption for leases of low value assets. For such leases, no right-of-use asset is recognised and lease payments are charged to administrative expenses in the statement of profit and loss.

The following table provides a summary of the amounts recognised in the consolidated statement of profit and loss:

	2021			2020		
	Administrative expenses £m	**Interest expense £m**	**Total £m**	Administrative expenses £m	Interest expense £m	Total £m
Depreciation expense on right-of-use assets	**1.8**	**-**	**1.8**	1.6	-	1.6
Interest expense on lease liabilities	**-**	**0.2**	**0.2**	-	0.4	0.4
Rental expense on low value assets	**0.2**	**-**	**0.2**	0.2	-	0.2
Total	**2.0**	**0.2**	**2.2**	1.8	0.4	2.2

Notes to the financial statements

38. Leases (continued)

Cash outflows from leases in the statement of cash flows are as follows:

Group	2021 £m	2020 £m
Payment of the interest portion of the lease liability (cash flows from operating activities)	**0.2**	0.4
Payment of the principal portion of the lease liability (cash flows from financing activities)	**1.9**	1.2
Total cash outflows from leases	**2.1**	1.6

Company
Cash outflows on leases are materially the same as the Group with a difference of -£0.1 million in 2021 (2020: £nil).

As at 31 December 2021, the Group is not committed to any lease contracts that have not yet commenced (2020: £nil).

39. Other liabilities

Group	2021 £m	2020 £m
Other creditors (including sundry creditors and other taxes)	**25.9**	14.9
Accruals	**36.0**	25.8
Amounts due to parent company	**0.5**	0.5
Total other liabilities	**62.4**	41.2

Company
Total other liabilities: 2021: £60.7 million (2020: £41.1 million).
Difference to Group total: -£1.7 million (2020: -£0.1 million).

The difference in both reported years is attributable to other creditors and accruals in subsidiary companies. The amount due to parent company is the same in both the Group and Company. A separate table for the Company is not provided.

40. Subordinated debt liability

See accounting policies in Note 7(u)

Subordinated debt liabilities comprise notes issued by the Company to its parent, Shawbrook Group plc, as follows. Amounts included in the table include accrued interest.

Group and Company	Issued	Call date	Maturity date	2021 £m	2020 £m
6.5% fixed rate reset callable subordinated notes	2019	2024	2029	**20.3**	20.3
9.0% fixed rate reset callable subordinated notes	2020	2025	2030	**77.2**	77.4
Total subordinated liabilities				**97.5**	97.7

Movements in subordinated debt liabilities during the year are as follows:

Group and Company	2021 £m	2020 £m
As at 1 January	**97.7**	96.4
Issuances	-	75.0
Repurchases and redemptions	-	(75.0)
Other movements	**(0.2)**	1.3
As at 31 December	**97.5**	97.7

In the comparative year ended 31 December 2020, the Company refinanced a portion of its subordinated debt by redeeming at par its 8.5% fixed rate reset callable subordinated notes due 2025 and issuing £75.0 million of 9.0% fixed rate reset callable subordinated notes due 2030.

Notes to the financial statements

41. Financial instruments

See accounting policies in Note 7(v)

Classification of financial assets and financial liabilities

The following table provides a reconciliation of the Group's financial assets and financial liabilities between the line items in the statement of financial position and categories of financial instruments. There were no reclassifications between categories during either of the reported years.

Group	Mandatorily at FVTPL £m (2021)	Amortised cost £m (2021)	Carrying amount £m (2021)	Mandatorily at FVTPL £m (2020)	Amortised cost £m (2020)	Carrying amount £m (2020)
Financial assets						
Cash and balances at central banks	-	**1,693.8**	**1,693.8**	-	1,273.2	1,273.2
Loans and advances to banks	-	**66.9**	**66.9**	-	91.0	91.0
Loans and advances to customers	-	**8,272.1**	**8,272.1**	-	7,061.3	7,061.3
Investment securities	-	**521.4**	**521.4**	-	358.2	358.2
Derivative financial assets	**21.5**	-	**21.5**	4.1	-	4.1
Assets held for sale	-	**299.7**	**299.7**	-	2.3	2.3
Total financial assets	**21.5**	**10,853.9**	**10,875.4**	4.1	8,786.0	8,790.1
Financial liabilities						
Amounts due to banks	-	**1,200.7**	**1,200.7**	-	815.5	815.5
Customer deposits	-	**8,358.6**	**8,358.6**	-	6,894.1	6,894.1
Derivative financial liabilities	**8.1**	-	**8.1**	42.0	-	42.0
Debt securities in issue	-	**318.8**	**318.8**	-	205.0	205.0
Lease liabilities	-	**9.8**	**9.8**	-	11.1	11.1
Subordinated debt liability	-	**97.5**	**97.5**	-	97.7	97.7
Total financial liabilities	**8.1**	**9,985.4**	**9,993.5**	42.0	8,023.4	8,065.4

Company

Total financial assets: 2021: £10,957.7 million; of which: £21.5 million at FVTPL, £10,936.2 million at amortised cost (2020: £8,843.7 million; of which: £0.6 million at FVTPL, £8,843.1 million at amortised cost).
Difference to Group total: +£82.3 million (2020: +£53.6 million).

Differences are mainly attributable to investment securities, with smaller differences also seen in loans and advances to banks, loans and advances to customers and derivative financial assets.

Total financial liabilities: 2021: £10,076.9 million; of which: £7.9 million at FVTPL, £10,069.0 million at amortised cost (2020: £8,128.6 million; of which: £42.0 million at FVTPL, £8,086.6 million at amortised cost).
Difference to Group total: +£83.4 million (2020: +£63.2 million).

Differences are mainly attributable to debt securities in issue (which are not in the Company) and the deemed loan due to structured entities (which is not in the Group), with smaller differences also seen in derivative financial liabilities and lease liabilities.

Explanations for the differences are provided in the respective notes. The deemed loan due to structured entities in the Company is held at amortised cost, in all other respects the measurement categories that the Company's financial assets and financial liabilities are allocated to are the same as the Group, as presented in the above table.

Separate tables for the Company are not provided and the additional disclosures below are the same for both the Group and Company unless otherwise stated.

Critical accounting judgements

The classification of financial assets is an area identified as involving critical accounting judgements. Additional details are provided in Note 9(d).

Notes to the financial statements

41. Financial instruments (continued)

Fair value of financial assets and financial liabilities
A summary of the valuation methods used to calculate the fair value of its financial assets and financial liabilities is as follows:

- **Cash and balances at central banks and loans and advances to banks:** fair value approximates the carrying amount as balances have minimal credit losses and are either short-term in nature or re-price frequently.
- **Loans and advances to customers:** fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date, and adjusted for future credit losses if considered material.
- **Investment securities, debt securities in issue and subordinated debt liability:** fair value is based on quoted prices where available or by discounting cash flows using market rates.
- **Derivative financial instruments:** fair value is obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flows.
- **Amounts due to banks, customer deposits and deemed loan due to structured entities:** fair value is estimated using discounted cash flows applying either market rates where practicable, or rates offered with similar characteristics by other financial institutions. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is considered to approximate the carrying amount.
- **Assets held for sale:** fair value is calculated using expected or known sales price. Where such data is not available, fair value is calculated in accordance with the type of asset held for sale using the valuation methods detailed above.
- **Lease liabilities:** in accordance with IFRS 7, fair value disclosures are not required for lease liabilities. Accordingly, a fair value is not calculated and lease liabilities are not included in the following fair value disclosures.

The Group uses a fair value hierarchy which reflects the significance of the inputs used in making the measurements. There are three levels to the hierarchy as follows:

- **Level 1:** quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market; and
- **Level 3:** inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

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

Notes to the financial statements

41. Financial instruments (continued)

The following table analyses the Group's financial instruments measured at amortised cost into the fair value hierarchy. There were no transfers between the levels of the fair value hierarchy during either of the reported years.

Group	2021 Level 3 £m	2021 Level 2 £m	2021 Level 1 £m	2020 Level 3 £m	2020 Level 2 £m	2020 Level 1 £m
Financial assets at amortised cost						
Cash and balances at central banks	-	-	**1,693.8**	-	-	1,273.2
Loans and advances to banks	-	**66.9**	-	-	91.0	-
Loans and advances to customers	**8,272.1**	-	-	7,061.3	-	-
Investment securities	-	**128.9**	**392.5**	-	79.4	278.8
Assets held for sale	**299.7**	-	-	2.3	-	-
Financial liabilities at amortised cost						
Amounts due to banks	-	**1,200.7**	-	-	815.5	-
Customer deposits	-	**8,358.6**	-	-	6,894.1	-
Debt securities in issue	-	**318.8**	-	-	205.0	-
Subordinated debt liability	-	**97.5**	-	-	97.7	-

Company
The additional investment securities and the deemed loan due to structured entities recognised in the Company are allocated to Level 2 of the fair value hierarchy. In all other respects, financial assets and financial liabilities in the Company are allocated to the same level of the fair value hierarchy, as illustrated in the table above.

The following table provides a comparison of the carrying amount per the statement of financial position and the calculated fair value for the Group's financial instruments measured at amortised cost.

Cash and balances at central banks, loans and advances to banks and assets held for sale are not included in the table, as the carrying amount is a reasonable approximation of fair value.

Group	2021 Carrying amount £m	2021 Fair value £m	2020 Carrying amount £m	2020 Fair value £m
Financial assets at amortised cost				
Loans and advances to customers	**8,272.1**	**8,779.4**	7,061.3	7,477.9
Investment securities	**521.4**	**523.8**	358.2	360.7
Financial liabilities at amortised cost				
Amounts due to banks	**1,200.7**	**1,200.7**	815.5	815.5
Customer deposits	**8,358.6**	**8,354.9**	6,894.1	6,929.2
Debt securities in issue	**318.8**	**320.3**	205.0	205.5
Subordinated debt liability	**97.5**	**100.0**	97.7	96.9

Company
The carrying amount of investment securities is £614.8 million (2020: £421.6 million) and the calculated fair value is £617.5 million (2020: £424.1 million). For the deemed loan due to structured entities, the carrying amount is deemed to be a reasonable approximation of its fair value. In all other respects, the fair values of the Company's financial assets and liabilities are as detailed above.

Notes to the financial statements

41. Financial instruments (continued)

The following table analyses the Group's financial instruments measured at fair value into the fair value hierarchy. There were no transfers between the levels of the fair value hierarchy during either of the reported years.

Group	2021 Level 3 £m	2021 Level 2 £m	2021 Level 1 £m	2020 Level 3 £m	2020 Level 2 £m	2020 Level 1 £m
Financial assets at fair value						
Derivative financial assets	**0.2**	**21.3**	**-**	3.5	0.6	-
Financial liabilities at fair value						
Derivative financial liabilities	**0.2**	**7.9**	**-**	3.5	38.5	-

Financial instruments measured at fair value that are categorised as Level 3 are the balance guaranteed swaps (see Note 26).

Company
The Level 3 derivative financial liabilities in the current year and Level 3 derivative financial assets in the comparative year are balance guaranteed swaps in a subsidiary company and therefore do not apply to the Company.

Changes in fair value measurement for financial instruments measured at fair value and categorised as Level 3 are as follows:

Group	2021 Derivative financial assets £m	2021 Derivative financial liabilities £m	2020 Derivative financial assets £m	2020 Derivative financial liabilities £m
As at 1 January	**3.5**	**(3.5)**	1.3	(1.3)
Net fair value gains/(losses) recognised in the statement of profit and loss	**(3.3)**	**3.3**	2.2	(2.2)
As at 31 December	**0.2**	**(0.2)**	3.5	(3.5)

Net fair value gains/(losses) recognised in the statement of profit and loss are included in net gains/(losses) on derivative financial instruments and hedge accounting. All gains/(losses) recognised in the statement of profit and loss are unrealised.

Notes to the financial statements

41. Financial instruments (continued)

Offsetting financial assets and financial liabilities
The disclosures set out in the following tables include financial assets and financial liabilities that are either offset in the statement of financial position, or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position.

Financial collateral amounts disclosed in the tables are limited to the net balance sheet exposure for the instrument in order to exclude any over collateralisation. Financial collateral amounts disclosed exclude initial margin cash collateral with central clearing houses. All collateral amounts disclosed are cash collateral.

				Related amounts not offset		
Group and Company As at 31 December 2021	**Gross amount £m**	**Amount offset £m**	**Net amount presented on statement of financial position £m**	**Subject to master netting arrangements £m**	**Financial collateral received/ pledged £m**	**Net amount £m**
Financial assets						
Derivative financial assets	**21.5**	-	**21.5**	**(1.6)**	**(19.5)**	**0.4**
Total financial assets	**21.5**	-	**21.5**	**(1.6)**	**(19.5)**	**0.4**
Financial liabilities						
Derivative financial liabilities[1]	**7.9**	-	**7.9**	**(1.6)**	**(6.2)**	**0.1**
Total financial liabilities	**7.9**	-	**7.9**	**(1.6)**	**(6.2)**	**0.1**

				Related amounts not offset		
Group and Company As at 31 December 2020	Gross amount £m	Amount offset £m	Net amount presented on statement of financial position £m	Subject to master netting arrangements £m	Financial collateral received/ pledged £m	Net amount £m
Financial assets						
Derivative financial assets[1]	0.6	-	0.6	(0.6)	-	-
Total financial assets	0.6	-	0.6	(0.6)	-	-
Financial liabilities						
Repurchase agreements[2]	15.1	-	15.1	(15.1)	-	-
Derivative financial liabilities	42.0	-	42.0	(0.6)	(40.8)	0.6
Total financial liabilities	57.1	-	57.1	(15.7)	(40.8)	0.6

42. Share capital

Share capital comprises 175,487,207 issued and fully paid ordinary shares of £1.00 each, totalling share capital of £175,487,207. Holders of the shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. There are no restrictions on the rights implicit to the shares. There were no movements in share capital during either of the reported years.

[1] Derivative financial liabilities of £0.2 million (2020: £nil) and derivative financial assets of £nil (2020: £3.5 million), which are included in the statement of financial position, are not in the scope of the offsetting disclosures as they are not subject to master netting arrangements.

[2] Repurchase agreements are included in amounts due to banks in the statement of financial position (see Note 34).

Notes to the financial statements

43. Capital securities

See accounting policies in Note 7(x)

Capital securities comprise securities issued by the Company to its parent, Shawbrook Group plc, as summarised in the following table.

Group and Company	Issued	Initial call date	2021 £m	2020 £m
7.875% fixed rate reset perpetual Additional Tier 1 write down capital securities	2017	2022	**125.0**	125.0
Total capital securities			**125.0**	125.0

There were no movements in capital securities during either of the reported years.

During the year ended 31 December 2021, distributions made to holders of the capital securities, recognised directly in equity, totalled £9.8 million (2020: £9.8 million).

44. Notes to the cash flow statement

Adjustments for non-cash items and other adjustments included in the statement of profit and loss

	Group		Company	
	2021 £m	2020 £m	**2021 £m**	2020 £m
ECL (credit)/charge on loans and advances to customers	**(15.4)**	31.9	**(15.4)**	31.9
ECL (credit)/charge on loan commitments	**(2.5)**	2.2	**(2.5)**	2.2
Other movements on investment securities	**(1.1)**	-	**1.0**	1.1
Depreciation of property, plant and equipment	**11.7**	12.5	**11.6**	12.5
Other movements on property, plant and equipment depreciation	**(0.4)**	-	**(0.4)**	-
Net losses on disposal of property, plant and equipment	**-**	0.2	**-**	0.2
Amortisation of intangible assets	**8.2**	8.5	**7.9**	8.5
Net losses on disposal of intangible assets	**-**	0.5	**-**	0.5
Share of results of associate	**-**	(0.1)	**-**	(0.1)
Impairment of investment in associate	**-**	2.7	**-**	2.7
Other movements on debt securities in issue	**0.2**	0.8	**-**	-
Other movements on subordinated debt liability	**(0.2)**	1.3	**(0.2)**	1.3
Share-based payments	**0.6**	0.5	**0.6**	0.5
Total non-cash items and other adjustments	**1.1**	61.0	**2.6**	61.3

Net change in operating assets

	Group		Company	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Increase in mandatory deposits with central banks	**(3.1)**	(5.5)	**(3.1)**	(5.5)
Increase in loans and advances to customers	**(1,195.4)**	(455.5)	**(1,202.2)**	(455.5)
(Increase)/decrease in derivative financial assets	**(17.4)**	0.3	**(20.9)**	2.5
Increase in operating lease assets	**(5.5)**	(8.4)	**(5.5)**	(8.4)
(Increase)/decrease in other assets	**(0.5)**	(1.6)	**2.6**	(3.9)
(Increase)/decrease in assets held for sale	**(297.4)**	101.8	**(297.4)**	101.8
Increase in operating assets	**(1,519.3)**	(368.9)	**(1,526.5)**	(369.0)

Notes to the financial statements

44. Notes to the cash flow statement (continued)

Net change in operating liabilities

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Increase in customer deposits	**1,464.5**	784.7	**1,464.5**	784.7
(Decrease)/increase in other provisions	**(1.3)**	7.5	**(1.3)**	7.5
(Decrease)/increase in derivative financial liabilities	**(33.9)**	27.1	**(34.1)**	27.1
Increase/(decrease) in other liabilities	**19.5**	(52.8)	**20.5**	(52.8)
Increase in operating liabilities	**1,448.8**	766.5	**1,449.6**	766.5

45. Parent company

The Company is a subsidiary undertaking of its parent company, Shawbrook Group plc. Shawbrook Group plc is incorporated in England and Wales and is the largest company in which the results of the Company and its subsidiaries are consolidated. The consolidated financial statements of the Group are available on request from Lutea House, Warley Hill Business Park, Brentwood, Essex CM13 3BE.

46. Subsidiary companies

See accounting policies in Note 7(a)

Wholly owned subsidiary companies

As at 31 December 2021, the Group includes the following subsidiary companies whose results are included in the consolidated financial statements. The Company's investment in subsidiaries is detailed in Note 33.

Name	Country of incorporation	Class of shares	Ownership %	Principal activity	Registered address
The Mortgage Lender Limited (TML)	England and Wales	Ordinary	100	Mortgage finance	a
Shawbrook Buildings and Protection Limited	England and Wales	Ordinary	100	Dormant	a
Singers Corporate Asset Finance Limited	England and Wales	Ordinary	100	Dormant	a
Singers Healthcare Finance Limited	England and Wales	Ordinary	100	Dormant	a
Coachlease Limited	England and Wales	Ordinary	100	Dormant	a
Hermes Group Limited	England and Wales	Ordinary	100	Dormant	a
Singer & Friedlander Commercial Finance Limited	Scotland	Ordinary	100	Dormant	b
Link Loans Limited	England and Wales	Ordinary	100	Dormant	a
Centric SPV 1 Limited	England and Wales	Ordinary	100	Dormant	a
Resource Partners SPV Limited	England and Wales	Ordinary	100	Dormant	a

Registered addresses in relation to the above table are as follows:

a: Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex, CM13 3BE

b: 8 Nelson Mandela Place, Glasgow, Scotland, G2 1BT

During the year ended 31 December 2021, TML became a subsidiary of the Company on 26 February 2021 (see Note 10).

During the comparative year ended 31 December 2020, the company status of Link Loans Limited was changed to dormant as of 1 January 2020 and Centric Group Holdings Limited was dissolved on 4 February 2020.

Subsidiaries by virtue of control

As at 31 December 2021, the Group includes the following structured entities relating to securitisation programmes (see Note 24). Shares of these entities are ultimately beneficially owned through an independent trust. However, for accounting purposes, the entities are controlled by the Group and, as such, they are treated as subsidiaries and are fully consolidated.

Notes to the financial statements

46. Subsidiary companies (continued)

Name	Country of incorporation	Principal activity	Registered address
Shawbrook Mortgage Funding 2019-1 plc	England and Wales	Mortgage finance	a
Shawbrook Mortgage Funding 2019-1 Holdings Limited	England and Wales	Holding company	a
Wandle Mortgage Funding Limited	England and Wales	Mortgage finance	b

Registered addresses in relation to the above table are as follows:
a: 1 Bartholomew Lane, London, England, EC2N 2AX
b: Bastion House 6th Floor, 140 London Wall, London, England, EC2Y 5DN

During the year ended 31 December 2021, Wandle Mortgage Funding Limited became a subsidiary of the Group on 10 August 2021 (see Note 24).

47. Related party transactions

Transactions with key management personnel
Key management personnel refer to the Executive Management team and the Directors.

Total compensation for the year for key management personnel employed by the Group is as follows:

Group and Company	2021 £m	2020 £m
Short-term employee benefits	**6.1**	5.2
Other long-term benefits	**1.6**	0.1
Termination benefits	**1.0**	-
Total compensation for employed key management personnel	**8.7**	5.3

The Company provides employee loans to certain key management personnel. These loans are subject to interest in accordance with the beneficial loan arrangements rate set by HMRC. The loans do not involve more than the normal risk of collectability or present other unfavourable features. As at 31 December 2021, the amount outstanding in respect of these loans is £0.5 million (2020: £0.7 million). Interest income recognised in respect of these loans is less than £0.1 million in both reported years. No provisions have been recognised in respect of these loans and no balances have been written off or forgiven during either of the reported years.

The Company also holds savings deposits from certain key management personnel and their close family members. Such deposits are held in the ordinary course of business on normal commercial terms. As at 31 December 2021, the amount held in respect of these deposits is £0.3 million (2020: £0.2 million). Interest expense recognised in respect of these deposits is less than £0.1 million in both reported years.

Transactions with associates
Details of the associates are provided in Note 30.

In February 2021, the Company's equity interest in TML increased from 19.99% to 100% and TML became a subsidiary from that date (see Note 10). Accordingly, there are no balances with associates as at 31 December 2021. As at 31 December 2020, the balance owed to the associate was £0.1 million.

In the two-month period to 26 February 2021, when TML was an associate, the Group incurred £0.9 million of commission and servicing fees in relation to the associate (2020: £4.3 million).

Notes to the financial statements

47. Related party transactions (continued)

Transactions between the Company and its parent company
Details of the parent company, Shawbrook Group plc, are provided in Note 45.

Amounts owed by the Company to its parent company are as follows:

	Note	2021 £m	2020 £m
Other amounts payable	39	**0.5**	0.5
Subordinated debt liability[1]	40	**96.8**	96.8
Total amounts owed to parent		**97.3**	97.3

Transactions during the year between the Company and its parent company are as follows:

	2021 £m	2020 £m
Coupon on capital securities	**9.8**	9.8
Interest on subordinated debt	**7.9**	7.8
Management fee	**0.3**	0.9
Total expense incurred	**18.0**	18.5

Transactions between the Company and its subsidiaries
Details of subsidiary companies are provided in Note 46.

The Company has the following amounts recognised on its statement of financial position that relate to subsidiary entities (including consolidated structured entities, which are treated as subsidiaries by virtue of control):

	Note	2021 £m	2020 £m
Deemed loan due to structured entities	24	**(402.8)**	(268.2)
Debt securities purchased from structured entities	25	**93.4**	63.4
Other amounts receivable	31	**1.1**	9.0
Net liabilities relating to subsidiaries		**(308.3)**	(195.8)

Transactions during the year between the Company and its subsidiaries are as follows:

	2021 £m	2020 £m
Interest expense	**(13.0)**	(12.1)
Interest income	**1.3**	1.3
Fee and commission expense	**(8.6)**	-
Other income	**2.8**	8.0
Net expense incurred	**(17.5)**	(2.8)

Other related party transactions
The following transactions are related via the ultimate parent company of Shawbrook Group plc (the Company's parent company), Marlin Bidco Limited.

As at 31 December 2021, the balance owed by the Company to Marlin Bidco Limited is £0.8 million (2020: £0.8 million).

In both reported years, certain employees, including key management personnel, have acquired non-voting 'B' Class ordinary shares in Marlin Bidco Limited as part of an employee share-based payment scheme, as detailed in Note 9.

[1] The total subordinated debt liability per Note 40 is £97.5 million (2020: £97.7 million). The difference compared to the amount presented in this table of £0.7 million (2020: £0.9 million) relates to capitalised amounts (i.e. capitalised costs and a modification loss), which do not constitute amounts owing between the parties.

Notes to the financial statements

48. Capital commitments

As at 31 December 2021, the Group has no capital commitments (2020: £nil).

49. Contingent liabilities

See accounting policies in Note 7(y)

Part of the Group's business is regulated by the Consumer Credit Act (CCA), which contains very detailed and highly technical requirements. The Group's Consumer franchise is exposed to risk under Section 75 and Section 140A of the CCA, in relation to any misrepresentations, breaches of contract or other failures by suppliers of goods and services to customers where the purchase of those goods and services is financed by the Group. While the Group would have recourse to the supplier in the event of such liability, if the supplier becomes insolvent that recourse would have limited value.

The Group continues to undertake reviews of its compliance with the CCA and other consumer regulations. The Group has identified some areas of potential non-compliance which are not considered to be material at the present time. However, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of a particular matter will not be material to the Group's financial results for a particular period, depending on the amount of loss resulting from the matter. The information usually required by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' is not disclosed for each contingent liability matter on the grounds that it may prejudice the position of the Group in any relating dispute with other parties.

Specific matters of note are as follows:

Solar panel complaints

In the year ended 31 December 2021, the Group has continued to receive complaints from customers about solar panels, where the Group provided finance to customers to fund the purchase of those products. A proportion of complaints received this year have been framed under Section 140A of the CCA (unfair relationships) and typically relate to sales which took place more than six years ago (which is the limitation period for complaints brought under Section 75 of the CCA). The Group believes that these 'unfair relationships' claims lack merit and intends to defend such claims, whether they are raised through the Financial Ombudsman Service (FOS) or the courts. As at the date of approval of the 2021 Annual Report and Accounts, no such claims have yet been the subject of any determination either at FOS or through the courts.

In the event that the Group is unsuccessful in its legal challenge, the Group has undertaken a high-level estimate of possible redress using an assumed claim and redress rate and applied it to the non-provisioned Solar panel loan book. This would suggest a potential remediation cost up to £20 million, but ultimately redress would depend on claim rates and agreement on redress remedies taking into account the benefits received whilst owned.

Timeshare complaints

In the year ended 31 December 2021, the Group also received a number of complaints from customers about holiday ownership (timeshare) products, where the Group provided finance to customers to fund the purchase of those products. While the FOS had previously not upheld the majority of such complaints that were referred to it, in November 2021 the FOS subsequently issued a Final Decision on one such complaint, which was found in the customer's favour. The Group has commenced a legal challenge of this decision by way of judicial review.

In total, the Group advanced loans of c. £200 million to customers in relation to timeshare financing. However, the issues referred to above affect a smaller group of customers totalling loans of c. £113 million. In the event that the Group is unsuccessful in its judicial review challenge, the Group has undertaken a high-level estimate of possible redress using an assumed claim and redress rate and applied it to the loan book. This would suggest a potential remediation cost in the region of £25 million, but ultimately redress would depend on claim rates and agreement on potential redress remedies, the cost of which would be dependent on a number of factors, taking into account the nature of the timeshare asset and the benefits received whilst owned. The Group considers it unlikely that a material liability will arise in relation to this product.

Notes to the financial statements

50. Loan commitments

See accounting policies in Note 7(z)

As at 31 December 2021, loan commitments in both the Group and the Company, which are not recognised in the statement of financial position, total £1,231.6 million (2020: £1,088.7 million). A loss allowance of £0.7 million (2020: £3.2 million) is held against these loan commitments, which is recognised in provisions in the statement of financial position (see Note 36).

Additional analysis of the Group's loan commitments and the associated loss allowance is provided in the credit risk section of the Risk Report starting on page 61.

51. Events after the reporting period

With the exception of the transactions and events outlined below, there have been no other significant events between 31 December 2021 and the date of approval of the 2021 Annual Report and Accounts that require a change or additional disclosure in the financial statements.

In January 2022, the Company completed the sale of a portfolio of loans from Property Finance. The gain on disposal is c. £7.7 million. As at 31 December 2021, these loans are classified as assets held for sale and further details can be found in Note 32.

In February 2022, Russia launched an invasion on Ukraine. Although the Group does not have any direct exposure, it does have indirect exposure, for example the impacts of rising energy prices, cost of living and inflation, potential supply chain issues faced by customers and increased cyber security threats. The Group continues to monitor the situation and in response has updated its affordability policy to ensure that its lending remains appropriate and is closely monitoring the cyber perimeter and information security risks within the Group. Predicting the full extent of the implications of this evolving situation, or how long it may continue, is challenging and the impact on the UK economy and wider financial effects cannot currently be evaluated with a high degree of certainty. It is plausible that the indirect exposures on the Group could have negative impacts, particularly on areas such as the loan book (specifically asset quality and ECLs). The Group considers this a non-adjusting event after the reporting period and no changes have been made to the financial statements.

Other information

Abbreviations

Throughout this document:

'Company' refers to:	Shawbrook Bank Limited
'Group' refers to:	the 'Company' and its subsidiaries
'Shawbrook' refers to:	The 'Group'

The following abbreviations are used within this document:

API	Application programme interface	**ILAAP**	Internal Liquidity Adequacy Assessment Process
bps	Basis point	**LCR**	Liquidity coverage ratio
CBILS	Coronavirus Business Interruption Loan Scheme	**LGD**	Loss given default
CCA	Consumer Credit Act	**LIBOR**	London Inter-bank Offered Rate
CET1	Common Equity Tier 1	**MIP**	Management Incentive Plan
CGU	Cash generating unit	**NSFR**	Net stable funding ratio
COVID-19	Coronavirus disease	**OTC**	Over-the-counter
CRD V	Capital Requirements Directive	**PD**	Probability of default
CRR/CRR II	Capital Requirements Regulation	**PMA**	Post-model adjustment
EAD	Exposure at default	**POCI**	Purchased or originated credit-impaired
EBA	European Banking Authority	**PRA**	Prudential Regulation Authority
ECL	Expected credit loss	**RMF**	Risk Management Framework
EDI	Equality, diversity and inclusion	**SECR**	Streamlined Energy and Carbon Reporting
ESG	Environmental, social and governance	**SICR**	Significant increase in credit risk from initial recognition
EU	European Union	**SMF**	Senior Management Function
FCA	Financial Conduct Authority	**SME**	Small and medium-sized enterprise
FOS	Financial Ombudsman Service	**SONIA**	Sterling Overnight Index Average rate
FVOCI	Fair value through other comprehensive income	**SPPI**	Solely payments of principal and interest on the principal amount outstanding
FVTPL	Fair value through profit or loss	**TCFD**	Task Force on Climate-related Financial Disclosures
HMRC	Her Majesty's Revenue and Customs	**TML**	The Mortgage Lender Limited
IAS	International Accounting Standards	**TFSME**	Term Funding Scheme with additional incentives for SMEs
ICAAP	Internal Capital Adequacy Assessment Process	**UK**	United Kingdom
IFRS	International Financial Reporting Standards	**UKEB**	UK Endorsement Board

Performance indicators

Certain financial measures disclosed in the Annual Report and Accounts do not have a standardised meaning prescribed by international accounting standards and may not therefore be comparable to similar measures presented by other issuers. These measures are considered 'alternative performance measures' (non-GAAP financial measures) and are not a substitute for measures prescribed by international accounting standards. Definitions of financial performance indicators referred to in the Strategic Report (in alphabetical order) are set out below:

Average principal employed	The average of monthly closing loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and assets on operating leases included in property, plant and equipment.
Common Equity Tier 1 (CET1) capital ratio	Common Equity Tier 1 capital, divided by, risk-weighted assets.
Cost of risk	Impairment losses on financial instruments, divided by, average principal employed.
Cost to income ratio	The sum of administrative expenses and provisions (per the statement of profit and loss), divided by, net operating income.
Gross asset yield	Net operating income less interest expense and similar charges, divided by, average principal employed.
Leverage ratio	Total Tier 1 capital, divided by, total leverage ratio exposure measure. Total leverage ratio exposure measure is total assets excluding derivatives and intangible assets, and adjusted for off-balance sheet items such as pipeline and undrawn collateral, exposure value for derivatives and transitional adjustments[2].
Liability yield	Interest expense and similar charges, divided by, average principal employed.
Liquidity coverage ratio	Liquidity buffer, divided by, total 30-day net cash outflows in a standardised stress scenario.
Loan book	The sum of loans and advances to customers[1] (net of loss allowance and fair value adjustments for hedged risk) and the carrying amount of assets on operating leases included in property, plant and equipment.
Management expenses ratio	The sum of administrative expenses and provisions (per the statement of profit and loss), divided by, average principal employed.
Net interest margin	Net operating income, divided by, average principal employed.
Return on lending assets before tax	Profit before tax, divided by, average principal employed.
Return on tangible equity	Profit after tax (adjusted to deduct distributions made to holders of capital securities), divided by, average tangible equity. Average tangible equity is calculated as, total equity less capital securities and intangible assets at the beginning of the period, plus total equity less capital securities and intangible assets at the end of the period, divided by two.
Risk-weighted assets	A measure of assets adjusted for their associated risks. Risk weightings are established in accordance with Prudential Regulation Authority rules and are used to assess capital requirements and adequacy under Pillar 1.
Stock cost of retail deposits	The weighted average interest rate on the Group's retail deposits at the respective reporting date.
Total capital ratio	Total regulatory capital, divided by, risk-weighted assets.
Total Tier 1 capital ratio	Total Tier 1 capital, divided by, risk-weighted assets.
Wholesale funding	The sum of amounts due to banks and debt securities in issue.

[1] For the purpose of this calculation, loans and advances to customers includes loans transferred to assets held for sale, as they are still considered to be part of the Group's overall loan book until derecognised.

[2] Transitional adjustments refer to adjustments for phasing in the impact of IFRS 9 'Financial Instruments' adoption in accordance with EU regulatory transitional arrangements.

Country-by-country reporting

The following disclosures are provided to comply with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The requirements originate from Article 89 of the Capital Requirements Directive (CRD IV). The purpose is to provide increased transparency regarding the source of the Group's income and the locations of its operations.

In both reported years, Shawbrook Bank Limited and its subsidiaries (the 'Group') are all UK registered entities.

The activities of the Group are detailed in Note 1 of the Financial Statements and in the Strategic Report. Details of subsidiary companies included in the Group are provided in Note 46 of the Financial Statements.

Required disclosures for the year ended 31 December are summarised below:

	2021 UK	2020 UK
Net operating income (£m)	**386.0**	282.4
Profit before tax (£m)	**197.4**	73.6
Tax charge (£m)	**47.9**	15.4
Tax paid (£m)	**48.4**	16.8
Average number of employees on a full-time equivalent basis	**964**	811

The Group received no public subsidies during either of the reported years.