Shawbrook Bank Limited (Previously Whiteaway Laidlaw Bank Limited)

Directors' Report and Financial Statements for the Year Ended 31 December 2011

Company number 388466

Shawbrook Bank Limited
Directors & Advisors

Non Executive Directors

Sir George Mathewson (Chairman)
Sir Brian Ivory
Ms L McMurray
Mr G Alcock
Mr RJ Ashton

Executive Directors

Mr O P Woodley (Chief Executive)
Mr N Fielden (Finance Director)

Secretary & Registered Office

Mr D Rushbrook
Lutea House, Warley Hill Business Park
Brentwood, Essex CM13 3BE

Independent Auditors

KPMG Audit plc
One Snowhill, Snow Hill Queensway
Birmingham B4 6GH

Bankers

RBS Bank plc
Bishopsgate
London EC2M 4RB

Solicitors

Slaughter and May
One Bunhill Row,
London EC1Y 8YY

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1. Chairman's Overview

The credit crunch which started four years ago has had many consequences Key amongst them is the long term impact on the access for SMEs to traditional bank finance from the larger incumbent banks in the UK That impact continues to be felt across the UK economy.

Shawbrook Bank came into being in part to address the consequences of that very significant constraint in credit Our aim is to build a substantial bank based upon a traditional banking model, founded upon sound and prudent lending to UK SMEs and individuals and funded by sensible and attractive savings products The opportunities for a new bank like Shawbrook are already very clear and we will continue to take a highly prudent approach to our growth which is designed to build a long term significant force in UK banking, untainted by the problems affecting much of the rest of the industry.

At the start of 2011, the business was owned by Manchester Building Society ("MBS") and had a small scale business model focussed on the provision of business banking The business was acquired by Laidlaw Acquisitions Limited in January 2011 As part of the acquisition £18m of loans were transferred to MBS at book value after impairment provisions

Laidlaw Acquisitions Limited is 100% owned by the Special Opportunities Fund ("SOF"), an investment vehicle managed by the private equity arm of Royal Bank of Scotland ("RBS") However Shawbrook is operationally and strategically independent of RBS (it is not consolidated into RBS results), is subject to regulation from the FSA and others on a fully standalone basis, and individual depositors monies are subject to a separate £85,000 Financial Services Compensation Scheme guarantee

The intention is to create a large scale lending business that will be primarily funded through the retail market This will be achieved by focussing on areas that have been underserved by the established banks as a result of their retrenchment following the post banking crisis Shawbrook is in the enviable position of having no legacy issues to deal with either in the form of impaired loans or exposure to the Eurozone banking system The business strategy can be summarised as

- To maintain a prudent approach to risk, liquidity and credit
- To grow the lending such that the risks and the returns are balanced
- To fund the business through retail deposits

Although the business has been operating for many years, it was on a very small scale so the investment by Laidlaw Acquisitions Limited is akin to that of a start-up In order to create a scale business, it was recognised that significant investment would have to be made in people, systems and marketing to develop a business that would be able to manage significant asset growth in a highly effective manner This need for significant investment has been fully recognised by the shareholder and sufficient capital has been committed to the business to support this growth This can be seen in the very high levels of Tier 1 capital that the business is holding

The plan for 2011 was to

- Recruit an experienced Board and management team
- Rebrand the business
- Acquire and build expert and sustainable loan origination businesses
- Establish a volume deposit-taking capability

This plan has been delivered very successfully and the scale of opportunity in the market now looks even more significant than 12 months ago

Our **Commercial Mortgage** product was launched in April of 2011, built using the award winning team and infrastructure of Commercial First which we acquired at the end of February We now have an extensive product set in place for owner occupier SMEs through to professional buy-to-let investors and supported by highly efficient systems and experienced underwriters

Our **Secured Lending** activity was augmented by the acquisition of the Link Loans business in July. Link Loans was established in 2010 to address the substantial gap left by the withdrawal of many major lenders from the secured lending market as a result of the credit crunch This business line has grown significantly following acquisition by Shawbrook and is now the market leader in the UK

The acquisition of Link Loans also brought an **Unsecured Lending** capability into Shawbrook in the area of home improvement loans We are now investing significantly in our unsecured lending infrastructure and will be developing a wider product set over the coming year

All our lending products are distributed through a network of brokers, intermediaries and suppliers Many of these are long standing relationships with our team and we are very grateful to all our partners for the excellent support they continue to provide

The business is funded by our **Retail Deposit** operation and we have found the savings market to be highly responsive to attractive offers presented in a straightforward manner That is what we will continue to do

A highly experienced Board has been assembled to oversee the operation of the Bank I am grateful to the Deputy Chairman and all the NEDs for their support and active involvement in the business

I also want to take this opportunity to thank all of my colleagues in the business for their hard work and efforts in building the business in 2011 We have put in place a team with extensive industry experience in our different areas of operation which we believe is key to building strong business foundations to underpin our activities and enable us to build a highly successful business in the long-term

Sir George Mathewson

Chairman

2. Directors' Report

The directors present their directors' report and financial statements for the year ended 31 December 2011

2.1. Principal activities

The Company is a banking institution which is authorised and regulated by the Financial Services Authority ("FSA") Its principal activities are

- The taking of retail deposits
- The provision of secured and unsecured consumer loans
- The provision of secured commercial loans

2.2. Board composition

Sir George Mathewson (Non Executive Chairman; appointed 04/03/2011)

At The Royal Bank of Scotland Group, Sir George's roles included Director of Strategic Planning and Development, Deputy and Group Chief Executive and Chairman, retiring in April 2006

His current positions include, Director of Stagecoach Group, Chairman of the Council of Economic Advisers to the Scottish Parliament and The Royal Botanic Garden Edinburgh Board of Trustees and a member of the Banco Santander International Advisory Board and is Chairman of several private companies, including the SOF portfolio company Arrow Global

Sir Brian Ivory (Senior Non Executive; appointed 04/03/2011)

Sir Brian spent 9 years until 2007 as Non Executive Director at Bank of Scotland and subsequently HBOS, where he also chaired the Remuneration Committee

His current positions include Chairman of Arcus European Infrastructure Fund, Non Executive Director at Remy Cointreau SA, Chairman of the Scottish American Investment Company, Chairman at Retec Digital Plc, Non Executive Director at Insight Investment Management, and Chairman of Marathon Asset Management

Lindsey McMurray (Shareholder representative; appointed 31/01/2011)

At The Royal Bank of Scotland Group, Lindsey's role as Head of Equity Finance involves managing the £1 1bn Special Opportunities Fund which seeks to identify, select and execute transactions sourced primarily through the RBS network

Before joining RBS, Lindsey spent six years in a London-based private equity firm, Cabot Square, where she was a Partner, focusing on operating investments in real estate and other asset backed investments, together with investments in the financial services sector

Robin Ashton (Non executive, appointed 01/12/2011)

Robin spent 24 years with Provident Financial plc in a variety of roles including 5 years as Chief Executive, where he led the international business as it moved from start-up loss into profitability, continued to grow profits in existing markets and expanded into new countries

He also spent a year as Chief Executive of London Scottish Bank plc where he liaised closely with the FSA and developed a turnaround strategy to raise equity and improve liquidity and regulatory capital for the business Robin was also previously Non Executive Chairman of the Link Loans business and is currently a Non Executive Director at Leeds Building Society

Graham Alcock (Non executive; appointed 01/04/2007)

Graham was an existing member of the Whiteaway Laidlaw Bank board and provides continuity of board matters and business knowledge into the new period of ownership

His previous positions are Non-Executive Chairman of Hilton Ventures plc and Non-executive Director of The University of Manchester Incubator Company Limited.

Owen Woodley (Chief Executive, appointed 31/01/2011)

Owen has spent 25 years in the financial services industry, operating across corporate and institutional banking, credit cards and retail finance He joined the corporate banking arm of Barclays in 1986, working with customers in a number of industry sectors including transport, catering and media in both corporate relationship management and new business development As part of this, he led the team backing one of the key successful bidders in the rail franchising process

Owen left Barclays in 2007 to join the Board of a small UK retail bank called Secure Trust Bank, initially as Sales & Marketing Director and latterly as Acting CEO until late 2010 During that time, the bank launched new unsecured lending and current account products and acquired assets from failing banks The bottom line of the business grew from £3 5m in 2006 to £11m in 2009

Nick Fielden (Finance Director; appointed 09/06/2011)

Nick is a Chartered Accountant who qualified with KPMG, and spent 3 years in business consultancy before joining HSBC He spent 13 years with HSBC in a variety of roles within both retail and commercial banking His first 3 years in HSBC were in line financial controller roles within the Forward Trust subsidiaries Nick then moved into project management and business systems for 4 years He moved into the retail bank in 2001 with responsibility for channel and product reporting

He joined Shawbrook from Secure Trust Bank which he moved to from HSBC in 2007, and spent 4 years as part of a team that had been brought in to reinvigorate a declining business During that time profits more than doubled and the business transformed itself into a successful lending operation

Other directors who served during the year were

- Mr D Cowie – resigned 31/01/2011
- Mr R Dyson – resigned 31/01/2011
- Mr B Tyler – resigned 21/07/2011
  Mr D Martin – resigned 31/01/2011

2.3. Review of business

Shawbrook has combined 3 separate businesses into a single organisation

- Whiteaway Laidlaw Bank to provide the deposit raising capability and some legacy business accounts
- The people and origination processes (but not the back book of loans previously originated) from Commercial First to provide loans secured on property to the commercial market This was a highly successful lender that had been funded through wholesale money prior to the banking crisis but had been unable to grow once the wholesale markets dried up
- Link Loans, a secured lender providing loans to consumers secured on their property The acquisition brought both the an experienced team and also a £34m book of performing loans

The business strategy is to provide retail funds to enable the growth in these established lending businesses without the limitations and risk posed by volatile wholesale funding The lending approach is undeniably cautious - this manifests itself in the relatively low loan to value positions taken and the use of a set panel of known property specialists to value properties In addition to this cautious approach to valuation, all applications are subject to 'old fashioned' credit appraisals by experienced underwriters These factors have contributed to a position (albeit after only 7 months of originating new business) where there is not a single commercial mortgage in arrears and 98% of the secured lending book is up to date

Both the asset and liability sides of the business have grown rapidly The retail deposits have been attracted through the 'best buy' tables and they have enabled the business to grow the balances to £180m by December With the exception of a small amount of legacy balances, the retail deposits are either in the form of notice accounts of 60 days or more duration, or fixed term deposits of 6 months or more duration This highly cautious structure is relatively expensive, but it significantly reduces business risk

The lending businesses have originated £77m in 2011 which is ahead of the original plan However the business has not, and does not intend to sacrifice either rate or quality in return for volume The margins on new business remain in line with original expectations

Costs in the business are in line with the expansion plan The combination of the significant investment costs in setting up a 'new' bank and creating infrastructure to run a business significantly in excess of its current scale were always going to result in losses for the first 2 years As a result the cost base has significantly increased during 2011 and is now around £1m a month, however it will not have to increase proportionately with future income growth

The directors use the following metrics to monitor the business·

	2011	2010
Total income £000	2,164	1,214
Net Interest income £000	1,801	775
Impairment losses £000	(186)	(382)
Loss before tax £000	(10,299)	(411)
Cash & cash equivalents £000	73,729	16,675
Loan balances £000	111,513	21,956
Deposit balances £000	180,419	29,657
Deposit loan ratio %	162	135
Risk Weighted Assets £000	53,637	11,328
Core Tier 1 Capital £000	31,278	4,280
Core Tier 1 capital to RWAs %	58	38

The Bank has undergone a conversion from UK GAAP to IFRS as the basis of the accounting framework The impact of this is set out in note 16

2.4. Dividends and transfers to reserves

The Bank's trading loss for the year ended 31st December 2011 after taxation was £8 0m (2010 £0 3m) The directors do not recommend the payment of a final dividend (2010 £nil)

2.5. Capital

The business has issued £35m of share capital during the year to support both the business acquisitions and the organic growth The business will require further capital to support both the organic growth in its lending books and any future acquisitions The Board has set out plans covering the next 3 years and the shareholder is supportive of these and the additional capital that has been identified The business had £32m of Core Tier 1 capital at December 201

2.6. Political and charitable contributions

The Bank did not make any political or charitable donations or incur any political expenditure during the year

2.7. Supplier payment policy

The company's payment policy is to pay creditors in line with agreed terms, payments being made on average within 26 days of the receipt of an invoice (2010 34 days)

2.8. Principal risks and uncertainties

The Board regards the identification, monitoring and management of risk as a fundamental part of their role and as such they are actively involved in the development of risk management frameworks and policies The main risks that the business is exposed to are

- Credit risk through the provision of loans and valuation of security This is managed through the regular reviews of portfolio performances in the Audit and Risk Committee
- Market risk through the movement in interest rates relative to that priced into loans and deposits and this is reviewed through the Assets and Liabilities Committee ("ALCO")
- Liquidity risk is the risk that depositors will want repaying faster than loans or other assets mature This is managed through ALCO
- Operational risk is the risk of loss arising from inadequate controls or processes. This is managed through the Internal Audit process and Operational Risk Review Committee
- Regulatory risk is the risk that the Bank will have insufficient capital resources to support the business or does not comply with regulatory requirements in the way it conducts its business or treats its customers. This is managed by the Individual Capital Assessment Process ("ICAAP") and compliance function

A detailed description of the risk management policies is set out in notes 11-12 to these financial statements

2.9. Going concern

The financial statements are prepared on a going concern basis as the Directors have a reasonable expectation that the Bank has adequate resources to continue in business for the foreseeable future In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including future projections of profitability, cash flows and capital resources For this reason, they continue to adopt the going concern basis in preparing the Bank's financial statements Further information relevant to the assessment is provided within the basis of preparation of the financial statements in note 9 2

2.10. Post balance sheet event

On 22 March 2012 Shawbrook acquired 100% of the share capital of Singers Asset Finance Limited ("SAF") SAF is an asset finance business that lends to UK businesses and the NHS through leasing and hire purchase products The December 2011 SAF draft unaudited financial statements indicate that the business had lending assets (being loans plus the value of operating lease assets) of £348m and has made a profit of £8m for the financial year

SAF was owned by one of the Icelandic banks that failed during the 2008 banking crisis, and since the failure of the parent SAF was charged with reducing its balance sheet to enable the insolvent parent to repay creditors SAF itself has never been in administration and continued to trade strongly both before and after 2008 The acquisition by Shawbrook will enable SAF to expand lending now that the funding constraints of an impaired parent have been removed

SAF is a successful business that comes with an experienced management team and established operational capability Shawbrook will integrate key central functions such as compliance & regulation, finance and IT sourcing but, that aside, SAF will operate as a distinct business within Shawbrook

There will undoubtedly be some additional costs in integrating the businesses, but it is believed that they will be largely balanced by savings through purchasing efficiencies and a reduced funding cost None of these savings will be a result of reductions in headcount – indeed the plan will be to recruit additional sales capability to facilitate the growth plans of the business

Existing Shawbrook directors will join the SAF boards and senior SAF management will join key Shawbrook management committees

The SAF acquisition will provide Shawbrook with an established and successful asset finance business to complement the existing property backed and unsecured business lines providing a greater range of products to customers It also significantly diversifies the Bank's lending activities thereby reducing risk

As well as buying the share capital, Shawbrook also replaced the existing SAF funding (being a mixture of parent loan and a securitisation facility) with retail deposits that Shawbrook had raised during the first two months of 2012

The magnitude of this acquisition, allied to the growth plans for the remainder of 2012, required additional capital to be injected into Shawbrook, and on 22 March £60m of additional ordinary shares were issued to Laidlaw Acquisitions Limited

2.11. Disclosure of information to auditors

The directors confirm that so far as each of the directors are aware, there is no relevant audit information of which the Company's auditor is unaware and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

2.12. Auditors

Grant Thornton UK LLP resigned as auditors during the year and KPMG Audit Plc were appointed

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

2.13. Statement of directors' responsibilities in respect of the Directors' Report and the financial statements.

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

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

By order of the board

Owen Woodley

Chief Executive

22 March 2012

3. Independent Auditor's Report to the Members of Shawbrook Bank Limited

We have audited the financial statements of Shawbrook Bank Limited for the year ended 31 December 2011 set out on pages 9 to 43 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

22 March 2012

Simon Clark (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

One Snowhill, Snow Hill Queensway, Birmingham B4 6GH

4. Income Statement

	Note	2011 £000	2010 £000
Interest receivable and similar income	13 1	**4,798**	1,484
Interest expense and similar charges	13 1	**(2,997)**	(709)
Net Interest Income		**1,801**	775
Fees and commissions income		**599**	539
Fees and commissions expense		**(236)**	(100)
Operating Income		**2,164**	1,214
Administrative expenses	13 2	**(12,277)**	(1,243)
Impairment losses on Loans and Advances to Customers	14 5	**(186)**	(382)
Loss before Tax		**(10,299)**	(411)
Tax expense	13 7	**2,307**	114
Loss for the year attributable to Shareholders		**(7,992)**	(297)

The notes on pages 14 to 43 are an integral part of these financial statements

5. Statement of Comprehensive Income

	Note	2011 £000	2010 £000
Loss for the year		**(7,992)**	(297)
Other Comprehensive Income			
Effective portion of changes in fair value of Cash Flow Hedges		**5**	0
Net change in fair value of Investment Securities - Available for Sale		**(658)**	0
Tax on Other Comprehensive Income	13 7	**173**	0
Total Other Comprehensive Income for the year net of Taxation		**(480)**	0
Total Comprehensive Income for the year		**(8,472)**	(297)
Loss attributable to·			
Equity holders of the Bank		**(8,472)**	(297)
Total Comprehensive Income attributable to:			
Equity holders of the Bank		**(8,472)**	(297)

The notes on pages 14 to 43 are an integral part of these financial statements

6. Statement of Financial Position

	Note	2011	2010
		£000	£000
Assets			
Loans and Advances to Banks and Building Societies	14 1	**26,982**	16,675
Investment Securities - Available for Sale	14 2	**64,791**	0
Derivative Financial Instruments	14 4	**110**	0
Loans and Advances to Customers	14 5	**111,513**	21,956
Other Assets	14 6	**2,816**	465
Investments	14 7	**8,157**	0
Property, Plant and Equipment	14 8	**420**	13
Deferred Tax Asset	14 9	**2,343**	31
Total Assets		**217,132**	39,140
Liabilities			
Derivative Financial Instruments	14 4	**104**	0
Customer Deposits	14 10	**180,419**	29,657
Other Liabilities	14 11	**5,811**	203
Subordinated Debt		**0**	5,000
Total Liabilities		**186,334**	34,860
Equity			
Share Capital	14 13	**36,990**	2,000
Cash Flow Hedging Reserve	14 13	**4**	0
Available for Sale Reserve	14 13	**(484)**	0
Retained Earnings		**(5,712)**	2,280
Total Equity		**30,798**	4,280
Total Equity and Liabilities		**217,132**	39,140

The notes on pages 14 to 43 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 22 March 2012 and were signed on its behalf by

Owen Woodley
Director

Nick Fielden
Director

Company Number 388466

7. Statement of Changes in Equity

	Share Capital £000	Available for Sale Reserve £000	Cash Flow Hedging Reserve £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2010	2,000	0	0	2,577	4,577
Loss for the year	0	0	0	(297)	(297)
Total Comprehensive Income for the year	0	0	0	(297)	(297)
Balance at 31 December 2010	2,000	0	0	2,280	4,280
Balance at 1 January 2011	**2,000**	**0**	**0**	**2,280**	**4,280**
Comprehensive Income for the year					
Loss for the year	0	0	0	(7,992)	(7,992)
Other Comprehensive Income	0	(658)	5	0	(653)
Tax on other Comprehensive Income	0	174	(1)	0	173
Total Comprehensive Income for the year	**0**	**(484)**	**4**	**(7,992)**	**(8,472)**
Contributions by and distributions to owners					
Issue of shares	34,990	0	0	0	**34,990**
Total contributions by and distributions to owners	**34,990**	**0**	**0**	**0**	**34,990**
Balance at 31 December 2011	**36,990**	**(484)**	**4**	**(5,712)**	**30,798**

8. Statement of Cashflows

	Note	2011 £000	2010 £000
Cash flows from operating activities			
Loss for the year		(7,992)	(297)
Adjustments for			
Tax		(2,307)	(114)
Depreciation		135	10
Provisions against amounts due from customers		186	382
Cash flows from operating activities before changes in operating assets and liabilities		(9,978)	(19)
Increase/decrease in operating assets and liabilities			
(Increase)/decrease in Investment Securities - Available for Sale		(18,528)	0
(Increase)/decrease in Derivative Financial Instruments		(2)	0
(Increase)/decrease in Loans and Advances to Customers		(89,742)	4,424
(Increase)/decrease in Other Assets		(2,351)	337
Increase/(decrease) in Customer Deposits		150,762	(1,287)
Increase/(decrease) in Other Liabilities		5,608	(287)
Tax paid		(6)	0
Net cash flow from changes in operating activities		35,763	3,168
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment		(542)	(5)
Investment in subsidiaries		(8,157)	0
Net cash from Investing Activities		(8,699)	(5)
Cash flows from Financing Activities			
Redemption of loan notes		(5,000)	0
Proceeds from the issue of share capital		34,990	0
Net cash from Financing Activities		29,990	0
Net increase in Cash and Cash Equivalents		57,054	3,163
Cash and cash equivalents at 1 January		16,675	13,512
Cash and Cash Equivalents at 31 December	14 3	73,729	16,675

9. Accounting Policies

9.1. Reporting entity

Shawbrook Bank Limited (the "Bank") is domiciled in the UK

9.2. Basis of preparation

The Bank's financial statements have been prepared in accordance with IFRS (as adopted and endorsed by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS

The Bank is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements These financial statements present information about the Bank as an individual undertaking and not about its group

The Bank's business activities together with its financial position and the factors likely to affect its future development and performance are set out in the Directors' Report on pages 1 to 7 In addition, the risk management information in note 11 includes the Bank's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk and liquidity risk The capital management information in note 11 provides information on the Bank's capital policies and capital resources

In common with many financial institutions, the Bank meets its day-to-day liquidity requirements through managing its retail funding sources, and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business The Bank's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Bank should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future The Bank has also considered a number of stress tests on capital and liquidity and these provide assurance that the Bank is sufficiently capitalised and is comfortably in excess of liquidity stress tests

Consequently, after making enquiries, the Directors are satisfied that the Bank has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements

9.3. Transition to adopted IFRS

These are the Bank's first financial statements prepared in accordance with IFRSs (as adopted and endorsed by the EU) and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied The Bank's date of transition to IFRSs is 1 January 2010

9.4. Interpretations and amendments effective in 2011

In preparing these financial statements, the Bank has adopted the following pronouncement during the year that is new or revised but has no material impact on the financial statements

9.4.1. Revised IAS 24 Related Party Disclosures

IAS 24 requires entities to disclose in their financial statements information about transactions with related parties In broad terms, two parties are related to each other if one party controls, or significantly influences, the other party.

The standard simplifies the disclosure requirements for government related entities and clarifies the definition of a related party

9.5. Future accounting developments

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

9.5.1. IFRS 9 'Financial Instruments'

Effective from 1 January 2015 but not yet endorsed by the EU

The standard replaces parts of IAS 39 Phase one of this process specifically requires financial assets to be classified at amortised cost or at fair value Consequently, the available-for-sale category currently used will become void Further development phases for IFRS 9 are scheduled to cover key areas such as impairment and hedge accounting Early adoption is permitted once endorsed by the EU The impact of IFRS 9 is likely to be material to the Bank once it becomes effective

9.5.2. Amendment to IFRS 7 Disclosures

Effective from 1 July 2011 but not yet endorsed by the EU

The amendment is designed to promote transparency of off-balance sheet activities, particularly in relation to securitisation of financial assets. This is unlikely to have a material impact on the Bank

9.5.3. IFRS 13 'Fair Value Measurement'

Effective from 1 January 2013 but not yet endorsed by the EU

The standard defines fair value and acts as its single authority, dealing with both measurement and disclosure It does not require fair value measurements in addition to those already required, or permitted by other IFRSs, and is not intended to establish valuation standards or affect valuation practices outside of financial reporting The standard is unlikely to have a material impact on the Bank

9.5.4. Amendment to IAS 1 'Presentation of Financial Statements

Effective 1 July 2012 but not yet endorsed by the EU

This amendment proposes to split the presentation of other comprehensive income into two sections The different sections will distinguish between items which may or may not be recycled in to any future profit or loss This is unlikely to have a material impact on the Bank

9.6. Measurement convention

The financial statements are prepared on the historical cost basis as modified by the fair value of available for sale assets and derivatives

9.7. Cash and cash equivalents

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

9.8. Financial assets and financial liabilities

The Bank initially recognises loans and receivables on the date that they are originated and customer deposits when cash is received from the depositors All other financial assets and liabilities are recognised initially on the settlement date, which is the date that the Bank becomes a party to the contractual provisions of the instrument

The Bank classifies its financial assets in the following categories at fair value through profit and loss, loans and receivables and available for sale financial assets The Bank's financial liabilities are designated as other financial liabilities at amortised cost and at fair value through profit and loss A financial asset is measured initially at fair value plus the transaction costs that are directly attributable to its acquisition A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue

The Bank has not classified any assets or liabilities as held to maturity.

9.8.1. Financial assets and liabilities at fair value through profit and loss

This category comprises interest rate swaps All swaps at 31 December 2011 are in qualifying hedge relationships These cash flow hedges are used to hedge against fluctuations in future cash flows from interest rate movements on variable rate loans On initial purchase the derivative is valued at fair value and then the effective portion of the change in the fair value of the hedging instrument is recognised in equity (cash flow hedging reserve) until the gain or loss on the hedged item is realised, when it is amortised, the ineffective portion of the hedging instrument is recognised in the statement of comprehensive income immediately Fair values are based on quoted market prices in active markets and where these are not available, using valuation techniques such as discounted cashflow models

9.8.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see note 9 8 6) Loans and receivables comprise Loans and Advances to Banks and Building Societies and Loans and Advances to Customers

9.8.3. Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated available for sale and that are not classified in any of the previous categories of financial assets Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses, are recognised within other comprehensive income and presented within equity in the available for sale reserve On disposal, gains and losses recognised previously in equity are transferred to the income statement

Available for sale financial assets solely comprise UK Government debt securities

9.8.4. Other financial liabilities

Customer deposits are non-derivative financial liabilities with fixed or determinable payments Deposits are carried at amortised cost using the effective interest method

9.8.5. Derecognition of financial assets and liabilities

Derecognition is the point at which the Bank removes an asset or liability from its balance sheet The Bank's policy is to derecognise financial assets when the contractual rights to the cash flows from the financial asset have expired or where the Bank has transferred all the risks and rewards of ownership

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire

9.8.6. Impairment of financial assets

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

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

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experience by the borrower, and
- Initiation of bankruptcy proceedings

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

When a loan is uncollectible, it is written off against the related provision for loan impairment Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement

9.9. Hedge accounting

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125% The Bank makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss

If a hedging derivative expires or is sold, terminated, or exchanged, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment

9.10. Property, plant and equipment

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

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

- Office equipment 20% - 33%
- Fixtures and fittings 10%

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

9.11. Post – retirement obligations

The costs of the Bank's contributions to defined contribution pension arrangements are recognised as an employee benefit expense when they are due

9.12. Interest income and expense

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

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

9.13. Fees and commission income and expense

Fees and commissions which are not considered integral to the effective interest rate are recognised on an accruals basis when the service has been provided or incurred

9.14. Operating leases

Payments made under operating leases are recognised in the income statement amortised over the term of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

9.15. Taxation

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

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

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

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

10. Critical Accounting Estimates and Judgements in applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances The key estimates, assumptions and judgements are set out below.

10.1. Effective interest rate

In determining the expected life of loans and receivables assets, the Bank uses historical and forecast redemption data as well as management judgement At regular intervals throughout the year, the expected life of loans and receivables assets are reassessed for reasonableness Any variation in the expected life of these assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income A 10% increase in the expected life of loan assets would have an immaterial impact in the value of loans on the statement of financial position

10.2. Impairment losses on loans and advances

The Bank regularly reviews its loan portfolios to assess the level of impairment In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

10.3. Fair value of derivatives

The fair values of derivative financial instruments are based on prevailing money market rates at 31 December The fair value is calculated using discounted cash flow valuation models Changes in the rates used during the course of the day could impact the fair value of the derivative financial instruments and available for sale assets

A change in the yield curve of 1% would not result in a material change in the value of the derivative financial instruments as at 31 December 2011

10.4. Deferred tax asset recognition

The deferred tax asset recognised at 31 December 2011 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated against which they can be utilised In arriving at this conclusion the Directors have estimated the future profit performance for the Bank which is subject to a number of variables If forecast profit reduces by 10% the Directors would still deem recognition of the deferred tax asset as appropriate

11. Risk Management

11.1. Risk appetite statement

The Bank's business plan and ICAAP have been predicated on the basis that the Bank is willing to take a balanced view towards risk and return The business plan includes a number of lines of business, spread across personal customers, SMEs and regional government entities The planned growth in the business over the medium term is well spread across the business lines The Board is currently reviewing the following Risk Appetite Statement as part of its annual review process and will continue to review the appropriateness of the risk appetite at least annually

The Bank has a low risk appetite fully aligned with the scale and nature of the business model The Bank is exposed to liquidity and credit risks as a consequence of its activities and the Bank chooses to accept these risks subject to the constraints and framework established in this risk appetite statement The Risk Appetite Statement is for the Bank to

- Achieve stated business objectives as stated in the Board approved business plan
- Maintain a comprehensive credit risk management framework focused on only the UK retail market, commercial mortgage lending, second charge lending and asset finance business
- Invest in the money market restricted to counterparties with a minimum rating of Moody's long-term A1 or equivalent or UK Government-owned systematically critical clearers
- Maintain a robust capital and liquidity management under "normal" and "stressed" conditions
- Manage balance sheet and market risks to ensure minimal earnings volatility
- Operate with low tolerances for operational and compliance risk exposures by ensuring that staff are properly trained, procedures are documented and supervisory controls are in place to ensure that the controls continue to operate effectively
- Ensure full compliance with the spirit (and letter) of all relevant legal and regulatory requirements

A more detailed description of the risk management policies in these areas is set out below

11.2. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations Impairment provisions are provided for losses that have been incurred at the statement of financial position date

Lending under retail finance, commercial mortgages and secured second charge loans is undertaken within detailed limits and guidelines set out in Credit and Concentration risk policy statements These include maximum advances and Loan to Value ("LTV") percentages for each type of lending and proven affordability, credit status, payment history and income criteria These are monitored by management with the aid of monthly detailed portfolio performance reports

Money market investments are made with eligible counterparties approved by the Board The ALCO reviews the list of counterparty exposures at least monthly and sets limits for each institution and rating

The Bank's maximum exposure to credit risk is as follows

	2011 £000	2010 £000
Loans and Advances to Banks and Building Societies	**26,982**	16,675
Investment Securities - Available for Sale	**64,791**	0
Loans and Advances to Customers	**111,513**	21,956
Derivative Financial Instruments	**110**	0
	203,396	38,631
Contractual loan commitments	**25,950**	0
Total Credit risk	**229,346**	38,631

Contractual loan commitments represent loan agreements entered into but not advanced as at 31 December 2011

The above table represents the maximum credit risk exposure (net of impairments) to the Bank at 31 December 2011 and 2010 without taking account of any collateral held The amount of collateral held at 31 December 2011 is £107m (2010. £nil) which is in the form of residential and commercial property

Cash and cash equivalents represents current account and UK money market balances with major UK financial institutions Investment Securities - Available for Sale comprise high quality UK Government debt securities

Included within Loans and Advances to Banks and Building Societies as at 31 December 2011 is £300,000 which the Bank has deposited as collateral against cash flow obligations under interest rate swap contracts held for cash flow hedging purposes

The Bank maintains a forbearance policy for the servicing and management of any customers entering into arrears across its lending products The Bank is committed to supporting any customers in financial difficulty and will ensure the necessary processes and policies are in place to enable consistently fair treatment of each customer At the same time, the Bank ensures those processes and policies do not restrict the ability to manage and support customers based on their own individual circumstances This includes considering whether it is appropriate to agree to vary or suspend the terms of a loan, e g by extending its term, changing the type of loan, deferring interest or by capitalising arrears to assist a customer in financial difficulties The Bank will not seek to repossess a property unless all other reasonable attempts to resolve the position have failed Repossession is regarded as the last resort As at 31 December 2011 the number of such forbearance arrangements in place was 15 against which impairment provisions of £15,000 were held

11.3. Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due

The new Liquidity regime came into force on the 1 October 2010 The FSA requires a firm to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due There is also a requirement that a firm ensures its liquidity resources contain an adequate buffer of high quality, unencumbered assets (i e Government securities in the liquidity asset buffer), and it maintains a prudent funding profile The liquid assets buffer is a pool of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress The liquidity resources outside the buffer must either be marketable assets with a demonstrable secondary market that the firm can access, or a credit facility that can be activated in times of stress

The Bank prepared and approved its Individual Liquidity Adequacy Assessment (ILAA) The liquidity buffer required by the ILAA has been put in place and maintained since

The Board has responsibility for setting and approving the liquidity risk management strategy and risk appetite of the Bank The Board will set and approve liquidity limits within the overall risk appetite statement, which includes maintaining robust capital and liquidity management under normal and stressed conditions

The Board reviews the Bank's liquidity position at each Board meeting and considers liquidity in the context of other strategic decisions they make The responsibility for oversight of liquidity, including periodic stress testing, lies with the ALCO Senior management receive daily liquidity reports

The Bank maintains sufficient liquidity resources to enable it to survive for over 3 months under any combination of idiosyncratic, market wide and combination stresses A liquid assets buffer of high quality UK Government Bonds or reserves with the Bank of England is used to create a source of highly liquid assets that can be called upon to create sufficient liquidity to meet liabilities on demand

The table below analyses contractual undiscounted cashflows of non-derivative liabilities

	Carrying amount £000	Gross Nominal (outflow) £000	Up to 3 months £000	3 to 6 months £000	6 months to 1 year £000	1 to 5 years £000	Over 5 5 years £000
At 31 December 2011							
Customer Deposits	**180,419**	**(192,934)**	**(81,404)**	**(11,197)**	**(39,874)**	**(60,458)**	**0**
At 31 December 2010							
Customer Deposits	29,657	(29,791)	(29,774)	(17)	0	0	0

11.4. Market risk

Market risk is the risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments The Bank does not engage in any trading operations The Bank's exposure to foreign currency risk is immaterial

11.4.1. Interest rate risk

Interest rate risk is the potential adverse impact on the Bank's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Bank's assets and liabilities In particular, fixed rate products expose the Bank to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows

The Bank manages and controls interest rate risk through its hedging strategy Interest rate exposure is managed by ALCO on a monthly basis and it operates within pre-agreed limits

11.4.2. Interest rate sensitivity gap

The Bank considers a 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations The change in equity as a result, based on the present value of future cash flows discount using the London Interbank Offered Rate ("LIBOR"), would be as follows

	£000
+200 basis points	(135)
-200 basis points	185

The following table summarises the repricing periods for the Bank's assets and liabilities Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date

	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non-interest bearing £000	TOTAL £000
At 31 December 2011							
Assets							
Loans and advances to Banks and Building Societies	26,982	0	0	0	0	0	26,982
Assets Classified as Available for Sale	18,043	46,748	0	0	0	0	64,791
Loans and advances to customers	111,214	2	10	481	0	(194)	111,513
Other non-financial assets	0	0	0	0	0	13,846	13,846
	156,239	**46,750**	**10**	**481**	**0**	**13,652**	**217,132**
Liabilities							
Customer Deposits	80,647	11,107	38,332	50,333	0	0	180,419
Other non-financial liabilities	0	0	0	0	0	5,915	5,915
Total Equity	0	0	0	0	0	30,798	30,798
	80,647	**11,107**	**38,332**	**50,333**	**0**	**36,713**	**217,132**
Derivative Financial Instruments	**(49,248)**	**0**	**500**	**48,748**	**0**	**0**	**0**
Interest rate sensitivity gap	**26,344**	**35,643**	**(37,822)**	**(1,104)**	**0**	**(23,061)**	
Cumulative gap	**26,344**	**61,987**	**24,165**	**23,061**	**23,061**	**0**	
At 31 December 2010							
Assets							
Loans and advances to Banks and Building Societies	16,641	0	0	0	0	34	16,675
Loans and Advances to Customers	13,796	2	0	7,828	330	0	21,956
Other non-financial assets	0	0	0	0	0	509	509
	30,437	2	0	7,828	330	543	39,140
Liabilities							
Customer accounts	25,500	17	0	3,500	0	640	29,657
Other non-financial liabilities	0	0	0	0	0	203	203
Subordinated Debt	5,000	0	0	0	0	0	5,000
Total Equity	0	0	0	0	0	4,280	4,280
	30,500	17	0	3,500	0	5,123	39,140
Interest rate sensitivity gap	(63)	(15)	0	4,328	330	(4,580)	
Cumulative gap	(63)	(78)	(78)	4,250	4,580	0	

11.5. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events

The management team ensures that risk policies and procedures have been developed to prevent operational risks occurring or restrict their adverse impact where full prevention would be uneconomic The effectiveness of these policies and procedures are validated through the Internal Audit process and the Operational Risk Review Committee

The Operational Risk Review Committee reviews at least quarterly the adequacy of the Bank's control framework to operate within the low operational risk appetite set by the Board for the Bank

The Internal Audit function ensures that there is comprehensive coverage of the risk landscape inherent in the business model and functional capabilities of the Bank, with the frequency of the review informed by the perceived risk in the underlying processes In addition, the Bank makes use of a number of insurance policies to manage its operational risk

11.6. Concentration risk

Concentration risk is the additional risk, primarily credit risk, arising from having exposures concentrated in one sector, geographical area or product Concentrations also can arise from a large individual exposure or a number of exposures to a group of related counterparties

The Bank benefits from product diversity between both personal and corporate customers and secured and unsecured products and also from geographic diversity throughout the UK

11.7. Strategy risk

Strategic risk is the risk to earnings or capital arising from changes to the business environment, from adverse business decisions, from improper implementation of business decisions, or from lack of responsiveness to changes in the business environment

The business plan has been updated to include businesses acquired during the year Furthermore the risk that the Bank may need to raise additional capital due to changes in business cycles or deteriorating economic conditions, or business conditions wrought by competition, is managed through the ICAAP

11.8. Systems and Change risk

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

The Bank has arrangements in place with Manchester Building Society who currently provide and maintain the deposit platform to ensure continuity of operations following the change in ownership

12. Capital Management

The Board is ultimately responsible for capital management The Board and Executive Management Committee monitor the capital position of the Bank on a monthly basis The ICAAP is central to the capital management framework and is used to inform the Board of the ongoing assessment and quantification of the Bank's risks, how the Bank mitigates those risks and capital adequacy of the Bank

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the FSA Handbook (BIPRU 2 2), the ICAAP is embedded in the risk management framework for the Bank and is subject to ongoing updates and revisions when necessary However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together management framework (i e the policies, procedures, strategies and systems that the Bank has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar I plus" approach to determine the level of capital the Bank needs to hold This method takes the Pillar I capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations deliver a sufficient capital sum adequately to cover management's anticipated risks Where the Board considered that the Pillar I calculations did not reflect the risk, an additional capital add-on in Pillar II is applied, as per the Individual Capital Guidance (ICG) issued by the FSA

At all times the Bank's capital position must be aligned with the capital adequacy limits approved by the Board in the risk appetite statement, which is to maintain a robust capital and liquidity management under "normal" and "stressed" conditions With regard to capital management this means

- Maintain a level of capital equal to the minimum that is set by the FSA in the Individual Capital Guidance ("ICG")
- All capital will be Core tier 1 capital Any change to this policy must be agreed by the Board

Throughout the year the Bank has complied with ICG requirements

The following shows the regulatory capital resources managed by the Bank

	2011	2010
	£000	£000
Share Capital	**36,990**	2,000
Retained Earnings	**(5,712)**	2,280
Core Tier 1	**31,278**	4,280
Investments	**(8,157)**	0
Regulatory Capital	**23,121**	4,280

13. Income Statement and Comprehensive Income Statement Analyses

13.1. Interest income and expense

	2011 £000	2010 £000
Interest on Loans and Advances to customers	3,599	1,375
Interest on Investment Securities - Available for Sale	835	0
Interest on Loans and Advances to Banks and Building Societies	364	109
Interest receivable and similar income	4,798	1,484
Interest on Customer Deposits	(2,997)	(709)
Interest expense and similar charges	(2,997)	(709)
Net Interest Income	1,801	775

13.2. Administration Expenses

	Note	2011 £000	2010 £000
Staff Costs	13.4	5,392	815
Depreciation	14.8	135	10
Operating Lease rentals		275	50
Impairment of intercompany balance	15 1	1,042	0
FSCS costs	14 12	76	(16)
Other Administrative expenses		5,357	384
Administrative Expenses		12,277	1,243

13.3. Auditors remuneration

	2011 £000	2010 £000
Audit of financial statements	75	40
Services relating to taxation	16	6
Other services	83	0
Auditors remuneration	174	46

13.4. Staff numbers and costs

The average number of persons employed by the Bank (including directors) during the year was as follows

	2011	2010
Sales	43	2
Admin	28	17
	71	19

The aggregate payroll costs of these persons were as follows

	2011 £000	2010 £000
Wages and Salaries	4,652	692
Social Security costs	555	65
Pension costs	185	58
	5,392	815

13.5. Directors' remuneration

	2011 £000	2010 £000
Directors' emoluments	602	160
Bank contributions to money purchase pension plans	18	15
	620	175

The aggregate of emoluments of the highest paid director was £184,790 and Bank pension contributions of £13,750 were made to a money purchase scheme on his behalf

Retirement benefits are accruing to the following number of directors under

	2011	2010
Money purchase schemes	2	1

13.6. Operating leases

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

	2011 £000	2010 £000
Less than 1 year	0	0
Between 1 and 5 years	1,476	0
More than 5 years	0	92
	1,476	92

13.7. Tax

13.7.1. Recognised in the Income Statement

	2011 £000	2010 £000
Current year	(6)	122
Deferred tax	2,313	(8)
Tax	2,307	114

13.7.2. Recognised in Other Comprehensive Income

	2011 £000	2010 £000
Effective portion of changes in fair value of Cash Flow Hedges	(1)	0
Change in fair value of Assets Classified as Available for Sale	174	0
Tax on other Comprehensive Income	173	0

13.7.3. Tax reconciliation

The UK Government announced that the main rate of corporation tax for the year beginning 1 April 2011 will reduce from 28% to 26% to be followed by further 1% reductions per annum to 23% for the year beginning 1 April 2014 This results in a weighted average rate of 26 5% for 2011 (2010 28%) Furthermore these changes will reduce the Bank's future current tax charge accordingly

	2011 £000	2010 £000
Loss for the year	(10,299)	(411)
Tax using the UK corporation tax rate of 26 5 % (2010 28 %)	(2,729)	(115)
Adjustments		
Non-deductible expenses	276	0
Origination and reversal of temporary differences	0	(10)
Reduction in tax rate on Deferred Tax balances	138	8
Other adjustments	8	3
Total Tax	(2,307)	(114)

14. Balance Sheet Analyses

14.1. Loans and Advances to Banks and Building Societies

	2011 £000	2010 £000
Placements with other Banks and Building Societies included in Cash and Cash Equivalents	**26,982**	16,675

The table below presents an analysis of Loans and Advances to Banks and Building societies by rating agency designation as at 31 December, based on Moody's long term ratings

	2011	2010
Aa2	**57**	0
Aa3	**9,472**	16,539
A1	**4,556**	0
A2	**12,890**	64
Unrated	**7**	72
	26,982	16,675

14.2. Investment Securities - Available for Sale

	2011 £000	2010 £000
UK Government Treasury Bills	**21,983**	0
UK Government Gilts	**42,808**	0
Investment Securities - Available for Sale	**64,791**	0

As at 31 December 2011 UK Government Gilts and Treasury Bills are rated AAA by Moody's

14.3. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances

	Note	2011 £000	2010 £000
Loans and Advances to Banks and Building Societies	14 1	26,982	16,675
Investment Securities - Available for Sale (less than 3 months maturity)		46,747	0
Cash and Cash Equivalents		73,729	16,675

14.4. Derivative Financial Instruments

Derivatives are held for non-trading purposes and are designated in qualifying hedging relationships

	Notional Amount £000	Fair value of assets £000	Fair value of liabilities £000
At 31 December 2011			
Interest Rate Swaps	**49,248**	**110**	**104**
At 31 December 2010			
Interest Rate Swaps	0	0	0

As at 31 December 2011 the Derivative Financial Instrument counterparties are rated A2 by Moody's

14.5. Loans and Advances to Customers

	2011 £000	2010 £000
Gross loans and advances	111,707	23,415
Allowances for impairment losses on loans and advances	(194)	(1,459)
Loans and Advances to Customers	**111,513**	21,956

Loans and advances to customers can be further summarised as follows

	2011 £000	2010 £000
Neither past due nor impaired	109,595	20,437
Past due but not impaired	1,634	425
Impaired	478	2,553
	111,707	23,415
Less allowances for impairment losses on loans and advances	(194)	(1,459)
Loans and Advances to Customers	**111,513**	21,956

The interest income recognised on impaired loans during the year was £16,000 (2010 £127,000)

The Bank enters into agreements with customers and where appropriate takes security. The security profile of the loan book is shown below

	2011 £000	2010 £000
Secured on property	**106,962**	0
Unsecured	**4,745**	23,415
	111,707	23,415

The amount of collateral held at 31 December 2011 is £107m (2010 £nil) which is in the form of residential and commercial property

The movement in the allowances for losses in respect of loans and advances during the year was as follows

	2011 £000	2010 £000
At 1 January	1,459	1,369
Provision movement charged to Income Statement	186	382
Provisions utilised	0	(292)
Provisions on loan disposal to Manchester Building Society	(1,451)	0
At 31 December	**194**	1,459

14.6. Other Assets

	Note	2011 £000	2010 £000
Other debtors		1,183	389
Prepayments		191	76
Amounts due from group companies	15 1	1,442	0
Other Assets		**2,816**	465

14.7. Investments

The Bank has the following investments in subsidiaries

	Country of Incorporation	Class of shares held	Ownership	Principal Activity
Apple Holdco Limited	England and Wales	Ordinary	100%	Holding company
Apple Acquisition Limited	England and Wales	Ordinary	100%	Arranging consumer loans
Ascot Funding Limited	England and Wales	Ordinary	100%	Arranging consumer loans
Link Loans Limited	England and Wales	Ordinary	100%	Arranging consumer loans

Shares in subsidiaries are stated at cost less any provision for impairment All subsidiaries are unlisted and have an accounting reference date of 31 December None of the subsidiaries are banking institutions

On 15 July 2011 the Bank obtained control of the business of the Link Loans group of companies ("Link Loans"), a specialist lender that provides secured and unsecured loans to personal borrowers, by acquiring 100% of the shares and voting interest in Apple Holdco Limited, the parent company of the Link Loans group The cost of this investment at year end was £8 2m

The results of Link Loans are not included as these financial statements present information about the Bank as an individual undertaking and not about its group The impact of this acquisition in the consolidated financial statements of Laidlaw Acquisitions Limited is as follows

In the five months to 31 December 2011 the Link Loans business contributed net interest income of £nil and losses of £0 5m If the acquisition had occurred on 1 January 2011 management estimates that consolidated revenue for the year would have been £2 4m and consolidated losses would have been £10 1m In determining these amounts management has assumed that the fair value adjustments which arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011

The acquisition had the following effect on the Group's assets and liabilities

	Fair values on Acquisition £000
Acquiree's Net Assets	
Loans and Advances to Customers	33,503
Loans and Advances to Banks and Building Societies	1,909
Borrowings and loan notes	(32,470)
Other Net Liabilities	(649)
Net identifiable assets and liabilities	**2,293**
Consideration transferred	
Cash	7,656
Total Consideration	**7,656**
Goodwill on acquisition	**5,363**

The goodwill is attributable to the skills and technical talent of the Link Loans workforce and enduring quality of the acquired broker relationships None of the goodwill recognised is expected to be deductible for tax purposes

14.8. Property, Plant and Equipment

	Fixtures, fittings & equipment £000
Cost	
At 1 January 2010	162
Additions	5
Disposals	(26)
At 31 December 2010	141
Additions	542
Disposals	(117)
Balance at 31 December 2011	566
Depreciation	
At 1 January 2010	144
Depreciation charge for the year	10
Disposals	(26)
At 31 December 2010	128
Depreciation charge for the year	135
Disposals	(117)
Balance at 31 December 2011	146
Net book value	
At 31 December 2010	13
At 31 December 2011	420

14.9. Deferred Tax Asset

Deferred tax assets are attributable to the following

	2011 £000	2010 £000
Tax value of loss carry-forwards	2,312	0
Other	31	31
Deferred Tax Asset	**2,343**	31

The movement in deferred tax during the year is as follows

	1 January 2011 £000	Recognised in Income £000	Recognised in Equity £000	31 December 2011 £000
Tax value of loss carry-forwards	0	2,313	(1)	2,312
Other	31	0	0	31
	31	**2,313**	**(1)**	**2,343**

The movement in deferred tax during the prior year is as follows

	1 January 2010 £000	Recognised in Income £000	Recognised in Equity £000	31 December 2010 £000
Other	39	(8)	0	31
	39	(8)	0	31

The Bank has a deferred tax asset of £2 3m as of 31 December 2011 resulting from the accumulated losses during the start-up phase of development The business expects to reach breakeven and to start generating profits during the second half of 2012, although it expects to make an overall loss in 2012 The business plan indicates that the profits generated in 2013 will be sufficient to utilise the entire balance of accumulated tax losses to that point

The business plan does not assume the benefit of any further business acquisitions beyond that detailed in the Post Balance Sheet Events note

During the year the Government substantively enacted a reduction in the UK corporation tax rate to 25% with effect from 1 April 2012 Deferred tax has been calculated at the corporation tax rates applicable to the financial years in which it is expected that the assets will be realised or the liabilities settled, being 25%

The Government also announced its intention to further reduce the UK corporation tax rate to 23% by 1 April 2014, with a 1% decrease in the corporation tax rate for each year starting on 1 April 2012

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Bank's future current tax charge and reduce the Bank's deferred tax assets accordingly

14.10. Customer Deposits

	2011 £000	2010 £000
Instant Access	1,888	11,357
Term Deposits	178,531	18,300
Customer Deposits	**180,419**	29,657

14.11. Other Liabilities

	Note	2011 £000	2010 £000
Other Creditors		1,956	106
Accruals		1,975	97
Amounts due to group companies	15 1	1,880	0
Other Liabilities		**5,811**	**203**

Included within Other Liabilities is the balance of collateral placed by Manchester Building Society against certain loan assets retained by the Bank following the change in ownership in January 2011, which reduces as the loans are repaid The balance outstanding at 31 December 2011 is £700,000

14.12. Provisions

	2011 £000	2010 £000
At 1 January	20	46
Paid during the year	(10)	(10)
Adjustment to provision	76	(16)
At 31 December	**86**	20

Based on its share of protected deposits, the Bank, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it The FSCS levy consists of two parts - a management expenses levy and a compensation levy The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it In 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley Plc 's retail deposit business to Abbey National Plc and similar issues with various Icelandic banks, London Scottish Bank Plc and the transfer of core parts of Dunfermline Building Society to Nationwide Building Society in the first half of 2009

The FSCS has met the claims by way of loans received from the HM Treasury on which it is liable to pay interest The FSCS has, in turn, acquired the rights to the realisation of the assets of these institutions The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the institutions to fully repay the respective loans from HM Treasury To the extent that the loans have not been fully repaid by 31 March 2012, the

FSCS will agree a schedule of repayments with HM Treasury and levy the industry, including the Bank, accordingly The Bank recognised, in last year's results, a provision for FSCS management expenses levies of £20,000, covering the scheme years 2010/11 and 2011/12 based on market participation up to the date of the Balance Sheet A payment of £10,000 has been made in the year which, together with the charge in respect of scheme year 2012/13, has resulted in a provision of £86,000 at 31 December 2011

The Management Expenses Levy for Scheme Year 2011/2012 was calculated using the agreed funding rate of 12months Libor + 30bp The Scheme Year 2012/2013 levy will be based on a funding rate of 12months Libor + 100bp However, the final costs for coming years could change in the light of prevailing rates and the amount of recoveries the FSCS receives FSCS' current intention, which will be reviewed in the light of market conditions, is to recover the remainder of the principal on the non-B&B loans, estimated to be £802m, by levying the deposit-taking sector in three roughly equal instalments beginning in 2013/14

14.13. Capital and reserves

14.13.1. Share Capital

Allotted and fully paid

	Ordinary shares of £1 each	
	2011	2010
	£000	£000
On issue at 1 January	2,000	2,000
Issued for cash	34,990	0
On issue at 31 December	**36,990**	**2,000**

During the year the Bank issued 34,990,000 Ordinary shares of £1 each for cash at par value

14.13.2. Cash Flow Hedging Reserve

The Cash Flow Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments

14.13.3. Available for Sale Reserve

The Available for Sale Reserve includes the cumulative net change in the fair value of Investment Securities - Available for Sale until the investment is derecognised or impaired

14.14. Financial instruments

Fair values of financial assets and financial liabilities are based on quoted market prices If the market is not active the Bank establishes a fair value by using appropriate valuation techniques These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i e derived from prices)
- Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques

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

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

14.14.1. Investment Securities Available for Sale

The fair value of Investment Securities Available for Sale is determined by reference to their quoted bid price at the balance sheet date

14.14.2. Derivative financial instruments

The fair value of interest rate swaps is derived by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date

The interest rates used to discount estimated cash flows are based on LIBOR

14.14.3. Loans and Advances to Customers

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses if considered material

14.14.4. Customer Deposits

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date

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

	Fair Value through Profit and Loss £000	Loans and receivables £000	Available for sale financial assets £000	Other liabilities at amortised cost £000	Total carrying amount £000	Fair Value £000
At 31 December 2011						
Loans and Advances to Banks and Building Societies	0	26,982	0	0	26,982	26,982
Investment Securities Available for Sale	0	0	64,791	0	64,791	64,791
Loans and Advances to Customers	0	111,513	0	0	111,513	111,513
Derivative Financial Instruments	110	0	0	0	110	110
	110	**138,495**	**64,791**	**0**	**203,396**	**203,396**
Derivative Financial Instruments	104	0	0	0	104	104
Customer Deposits	0	0	0	180,419	180,419	180,419
	104	**0**	**0**	**180,419**	**180,523**	**180,523**
At 31 December 2010						
Loans and Advances to Banks and Building Societies	0	16,675	0	0	16,675	16,675
Loans and Advances to Customers	0	21,956	0	0	21,956	21,956
	0	38,631	0	0	38,631	38,631
Customer Deposits				29,657	29,657	29,657
	0	0	0	29,657	29,657	29,657

14.14.5. Fair value hierarchy

The table below analyses financial instruments measured at fair value into a fair value hierarchy

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2011				
Available for sale financial assets	64,791	0	0	64,791
Derivative financial assets	0	110	0	110
Derivative financial liabilities	0	(104)	0	(104)
	64,791	**6**	**0**	**64,797**
At 31 December 2010	0	0	0	0

There are no significant effects on profit or loss or equity by changing the inputs into the fair value measurements to another reasonable possible assumption

15. Other Analyses

15.1. Related party transactions

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

The compensation of the directors is given in note 13 5

	Acquisition/(disposal) of loan portfolios	
	2011	2010
	£000	£000
Manchester Building Society	**(18,160)**	0
Subsidiaries	**33,604**	0

	Receivables outstanding		Payables outstanding	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Immediate parent company	**1,116**	0	**0**	0
Subsidiaries	**1,368**	0	**1,880**	0
	2,484	0	**1,880**	0
Less allowances for impairment on receivables from immediate parent company	**(1,042)**	0	**0**	0
	1,442	0	**1,880**	0

The loan portfolio disposal to Manchester Building Society occurred prior to the Bank's change in ownership at book value after impairment provisions

The allowances for impairment relate to costs associated with the acquisition of the Bank which were paid by the Bank on behalf of Laidlaw Acquisitions Limited, which have subsequently been deemed as impaired

15.2. Ultimate parent company

The Bank is a subsidiary undertaking of Laidlaw Acquisitions Limited, which is incorporated in England and Wales and is the largest company in which the results of the Bank are consolidated The consolidated financial statements of Laidlaw Acquisitions Limited are available on request from Lutea House, Warley Hill Business Park, Brentwood, Essex CM13 3BE

16. IFRS Transition

As stated in note 9 3, these are the Bank's first financial statements prepared in accordance with IFRSs

The accounting policies set out in notes 9 to 15 have been applied in preparing the financial statements for the year ended 31 December 2011, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the preparation of an opening IFRS balance sheet at 1 January 2011(the Bank's date of transition)

In preparing its opening IFRS balance sheet, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP) An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Bank's financial position, financial performance and cash flows is set out in the following tables

16.1. Reconciliation of equity

	1 January 2010			31 December 2010		
	UK GAAP £000	Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000	UK GAAP £000	Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000
Assets						
Loans and Advances to Banks and Building Societies	13,512	0	13,512	16,675	0	16,675
Loans and Advances to Customers	26,967	(129)	26,838	22,098	(142)	21,956
Other Debtors and Prepayments	568	36	604	425	40	465
Property, Plant and Equipment	18	0	18	13	0	13
Deferred Tax Asset	39	0	39	31	0	31
Total Assets	**41,104**	**(93)**	**41,011**	**39,242**	**(102)**	**39,140**
Liabilities						
Customer Deposits	30,944	0	30,944	29,657	0	29,657
Other Creditors	490	0	490	203	0	203
Subordinated Debt	5,000	0	5,000	5,000	0	5,000
Total Liabilities	36,434	0	36,434	34,860	0	34,860
Equity						
Share Capital	2,000	0	2,000	2,000	0	2,000
Retained Earnings	2,670	(93)	2,577	2,382	(102)	2,280
Total Equity	**4,670**	**(93)**	**4,577**	**4,382**	**(102)**	**4,280**
Total Equity and Liabilities	**41,104**	**(93)**	**41,011**	**39,242**	**(102)**	**39,140**

Loans and advances to customers were stated at cost under UK GAAP Under IFRS loans and advances are recognised when the funds are advanced to customers and are carried at amortised cost using the effective interest method The adjustment has resulted in a decrease in tax payable.

16.2. Reconciliation of Statement of Comprehensive Income for the year ended 31 December 2010

	UK GAAP £000	Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000
Interest receivable and similar income	1,497	(13)	1,484
Interest expense and similar charges	(709)	0	(709)
Net Interest Income	**788**	**(13)**	**775**
Fees and commissions income	539	0	539
Fees and commissions expense	(100)	0	(100)
Operating Income	**1,227**	**(13)**	**1,214**
Administrative expenses	(1,243)	0	(1,243)
Impairment losses on loans to customers	(382)	0	(382)
Loss before Taxation	**(398)**	**(13)**	**(411)**
Taxation	110	4	114
Loss for the year attributable to Shareholders	**(288)**	**(9)**	**(297)**
Total Comprehensive Loss for the period	**(288)**	**(9)**	**(297)**
Loss attributable to:			
Equity holders of the Bank	**(288)**	**(9)**	**(297)**
Total Comprehensive Loss attributable to:			
Equity holders of the Bank	**(288)**	**(9)**	**(297)**

16.3. Cash flow statement

Under UK GAAP, the Bank was not required to, and did not, prepare a cash flow statement