Shawbrook Bank Limited

Annual Report and Accounts for the Year Ended 31 December 2012

Company number 388466

Shawbrook Bank Limited
Directors & Advisors

Non Executive Directors

Sir George Mathewson (Chairman)
Sir Brian Ivory
Lindsey McMurray
Graham Alcock
Robin Ashton
Roger Lovering

Executive Directors

Ian Henderson (Chief Executive Officer)
Thomas Wood (Chief Financial Officer)
Nicholas Fielden (Group Finance Director)

Secretary & Registered Office

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

Independent Auditor

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

Bankers

RBS Plc
Bishopsgate
London, EC2M 4RB

Solicitors

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

Company number 388466

Table of Contents

1 Chairman's Overview

As Chairman of Shawbrook Bank I am delighted to report that the year of 2012 was transformational and has established Shawbrook Bank as the leader amongst UK 'Challenger Banks'

Shawbrook Bank was founded on the belief that the market dislocation following the credit crunch offered an opportunity to a traditional deposit taker and broadly based lender to SMEs and individuals This belief has been, and continues to be, amply demonstrated Shawbrook Bank's progress has been truly remarkable

The plan for 2012 was to

- Increase the scale of the business and achieve profitability
- Acquire and integrate the Singers business
- Enhance the strength of the management team

These objectives have been successfully delivered and looking ahead to 2013 the opportunity available to our business is greater than we could have envisaged when Shawbrook was established some two years ago

During the course of 2012 we welcomed Ian Henderson as our new Chief Executive to succeed Owen Woodley Tom Wood also joined as Chief Financial Officer Our achievements in 2012 and progress are dependent on our dedicated staff who are committed to serving our customers with clear focus I would like thank all of our staff for their hard work and dedication We look forward to 2013 with optimism

Sir George Mathewson

Chairman

2 Chief Executive's Report

I was delighted to be able to join Shawbrook Bank for the final month of 2012, a truly transformational year in the Bank's short history In March 2012, Shawbrook acquired Singers Asset Finance (SAF) with £335 million of quality assets from the administrators of the Kaupthing estate, in May the Bank achieved breakeven and went on to deliver a profit in each of the subsequent months of the year, in June the new banking platform and deposit system was launched, and in December Shawbrook acquired Money2Improve In the meantime, the business divisions were busy organically generating £480 million of new loans and £810 million of deposits The integration of all four lending platforms is complete and Shawbrook now has the infrastructure to rapidly build scale through organic growth

Each of Shawbrook's specialist lending businesses, which support over 18,000 small business and personal customers, delivered strong growth in the year Asset Finance, freed from the constraint of parental administration grew by 7% to £348m, the Commercial Lending business grew by 437% to £201m, Secured Lending retained its market leadership position growing to £163m, up 267%, and the newest lending business – Consumer Lending – grew to £29m, a rise of 1,450% on 2011 All of the lending businesses were supported by a cost-effective deposit platform delivering best in class products at attractive rates to a well diversified depositor base of 22,277 accounts

The one thing that underpins the very strong performance in all five divisions is an exceptional focus on customer service We believe our service proposition is a genuine differentiator We consistently endeavour to provide straightforward, easy to understand products, fast and efficient decision-making, typically within 24 hours of application, consistent and transparent underwriting criteria and pricing, and deep two-way relationships with intermediaries and customers Shawbrook's high quality service in 2012 was recognised with the following awards

- Moneyfacts - Best Notice Account Provider 2012
- Business Moneyfacts - Best Service from Commercial Mortgage Provider
- Financial Reporter - Best Secured Loan Lender

We aspire to build a bank where our people are proud to work for us This will enable us to maintain excellent service ensuring our existing customers maintain their relationship with us and we are able to attract new customers During 2012 our headcount grew to 232, excluding acquisitions a growth of 33% Staff retention is strong, with turnover at c 6%, less than half the industry norm

Shawbrook operates risk management processes that reflect industry best practice with the adoption of a "Three Lines of Defence" model The monitoring and control of risk is a fundamental part of Shawbrook's management process and forms part of each employee's objectives

Shawbrook has a straightforward and transparent regulatory capital structure, with 100% of its regulatory capital resources being in the form of ordinary share capital Shawbrook operates under the Standardised Approach for the calculation of credit risk and uses the Basic Indicator Approach for the calculation of operational risk

One of the key causes of bank failure in recent times has been a lack of liquidity, and Shawbrook takes a highly prudent approach to structuring its liquidity Over 75% of the book is on fixed term bonds with an average duration 27 months and the balance in notice accounts It maintains a highly cautious position where typically 90% of the deposit base is more than 3 months from the earliest possible maturity and tightly manages the proportion of the book that is due to mature in any calendar quarter In return for such stability Shawbrook pays attractive rates to it depositors that are amongst the top in the market

Whilst there is no question that the UK economy faces a period of ongoing uncertainty we believe that Shawbrook is extremely well positioned to continue its growth story into the future The demand for our products and services is strong, the platform is in place, and our people stand ready to deliver outstanding service

Ian Henderson

Chief Executive Officer

3 Business Review

3.1 Business Structure

Shawbrook Bank Limited is one of the UK's Challenger Banks with approximately 40,000 customers, c £1bn of assets and national presence through its distribution channels

The Business' operating results are regularly reviewed by the Board (the chief operating decision maker) in the following reportable segments Each segment offers different products and services and is managed on a divisional basis in line with the Bank's management and internal reporting structure The divisions are

- Asset Finance
- Commercial Lending
- Consumer Lending
- Secured Lending
- Other (Savings and Central Support Areas)

As is described later in this document, the business has made a number of acquisitions on top of the strong organic growth achieved in 2012 Although the underlying legal entities remain, the underlying business and assets have all been transferred onto the Shawbrook balance sheet When the terms 'Bank' or 'Group' are used in these report and accounts they refer to the consolidated position of the Shawbrook Bank Group

3.2 Overview

Shawbrook Bank has continued to demonstrate the strength of its diversified business model over the last 12 months and has demonstrated a continual improvement in profitability as the business has continued to grow

The business reached break even in May 2012 after only 16 months of trading since change of control, which was 6 months ahead of the initial plans The Bank generated an underlying profit of £2 6m in 2012 compared to a loss of £8 4m in 2011 This was a pleasing performance that exceeded expectations in a year of significant change The improved business performance was driven by growth in the quantum of loan assets from both organic growth and the successful acquisition of Singers Asset Finance in March 2012 Our focus on ensuring that profitable growth is delivered in a controlled manner is evidenced by the prudent manner in which both capital and liquidity are managed

3.3 Financial performance

The significant growth has necessitated a level of cost that is not part of the day to day operating activities These include the costs of the business acquisitions as well as significant investment expenditure to create the infrastructure needed to support the future growth of the business As a consequence of these costs, the underlying profitability of £2 6m is reduced to a loss before tax of £7 8m (2011 £10 8m) on a statutory basis This is set out in the table below

	Group 2012 £'000	Group 2011 £'000
Total income	50,284	5,203
Interest expense and similar charges	(27,367)	(2,997)
Net Income	**22,917**	**2,206**
Impairment losses on financial assets	(913)	(186)
Costs and provisions	(29,779)	(12,806)
Statutory loss before taxation	(7,775)	(10,786)
Statutory loss before taxation	(7,775)	(10,786)
Acquisition costs	7,657	2,458
Fair value amortisation	1,055	-
Infrastructure developments	792	823
Timing difference on investment maturity	858	(858)
Underlying profit / (loss)	2,587	(8,363)

3 3 1 Net income

The net income is the amount earned on assets (mortgages, other loans, operating leases and liquidity), less that paid on liabilities (retail savings) The Bank's net interest margin for the year increased to 3 7% from 1 6% in 2011 as a result of operational efficiency and scale

3 3.2 Acquisition costs

These include both the £2 1m external costs incurred in acquiring businesses as well as internal costs such as surplus funding costs incurred whilst building up the liquidity required to complete a deal The majority (£6 6m of £7 7m) of the acquisition costs incurred in 2012 related to the acquisition of Singers Asset Finance

3 3 3 Fair value amortisation

This includes the amortisation of both the fair value adjustments created from the Singers transaction in 2012 as disclosed in note 16 and the amortisation of the fair value adjustments created on the acquisition of Link Loans in 2011

3 3 4 Infrastructure developments

Shawbrook has invested heavily to ensure that it has the capability to deal effectively with its planned growth The 2012 costs enabled the business to upgrade the deposit and consumer lending systems along with the back office information and treasury systems

3 3 5 Timing difference on investment maturity

In 2011 the Bank had purchased a number of UK gilts, and the accounting treatment under IFRS accelerated the release of income into 2011, which was subsequently unwound when these were sold in 2012

3 3.6 Costs and provisions

Costs and provisions were £29 8m (2011 £12 8m)

The increase in administrative expenses was attributable to the increase in costs base arising from the acquisitions that took place in 2012, and also from ongoing investment in the people and infrastructure that the business is dependent on for future growth

The provisions referred to here are the costs of the Financial Services Compensation Scheme which totalled £0 7m (2011 £0 1m), an increase of £0 6m This is the cost to the Bank of the Financial Services Compensation Scheme The increase in costs has been driven in part by the growth of the Bank's deposit base to £923 7m (2011 £180 4m), an increase of £743 3m or 412%, and the change in basis of calculation of the levy

3 3.7 Impairment losses on financial assets

The Bank's impairment charge increased year on year by £0 7m to £0 9m (2011 £0 2m) The increase in the charge has arisen due to the growth in the business with loan assets and operating leases increasing by £631 8m to £743 2m (2011 £111 4m) The charge of 12bps is in line with expectations, and the business has benefited from an exceptional performance in respect of loan impairment charges in 2012, a combination of our strong underwriting criteria, collections performance and a relatively benign external environment

The impairment charge on financial assets is broken down as follows

	Group 2012 £'000	Group 2011 £'000
Secured Lending	793	47
Consumer Lending	168	25
Commercial Lending	313	-
Asset Finance	(243)	-
Other	(118)	114
	913	186

3.4 Performance by business area

The Bank's results by business segment are as follows

2012	Secured Lending £000	Commercial Lending £000	Consumer Lending £000	Asset Finance £000	Other £000	Total £000
Net operating income before interest expense and similar charges	12,247	7,985	1,873	28,065	114	50,284
Assets	163,094	200,630	29,435	348,493	302,454	1,044,106

The central functions of the Group are included within 'Other' along with the Deposit and Treasury teams Comparative information for 2011 can be seen in note 17

3.4.1 Asset Finance

The Asset Finance division provides specialist financing to UK SMEs, equipment leasing solutions to NHS Trusts and public and private sector healthcare providers It finances a range of business critical asset classes including commercial and haulage vehicles, vehicle rental fleets, taxis, machine tools, plant and healthcare equipment Shawbrook acquired Singers Asset Finance in March 2012, providing the Bank with an established and profitable lending platform and a highly respected management team which has been lending in the Asset Finance segment since 1996 A large number of Asset Finance customers have had a relationship with the business for many years The integration of the Asset Finance business is complete and it now operates as a division of Shawbrook

The loan book stood at £348 5m at 31 December 2012 (2011 £nil), making it the largest component of the Shawbrook asset base

3 4 2 Commercial Lending

The Commercial Lending division focuses on four complementary product categories residential investment (experienced buy-to-let property investors), short term facilities (to high net worth individuals for property refurbishment), semi commercial (mixed use residential and commercial property operated by seasoned SMEs), and commercial properties (also operated by seasoned SMEs)

Shawbrook has developed the business around a best in class service proposition (including an underwriting decision within 48 hours) and a product range designed around customer needs Experience has shown that speed of response and speed of execution following a decision are services that customers value, but are not currently delivered by many of Shawbrook's larger and less flexible competitors Shawbrook does not require that customers purchase ancillary products or transfer their bank accounts to Shawbrook as part of the transaction

Shawbrook achieved its first completion in May 2011 and, as at December 2012 Shawbrook had c 870 customers and a loan book of £200 6m (2011 £45 9m), and there were no loans in arrears

3.4.3 Consumer Lending

The Consumer Lending division provides a range of unsecured personal loans for a variety of purposes currently primarily focused on home improvement and holiday ownership All of the division's loans are regulated under the Consumer Credit Act As at 31 December 2012, the Consumer Lending loan book stood at £29 4m (2011 £1 7m) Only 0 42% of the loan book had agreements more than 3 months in arrears, reflecting a disciplined application of strict underwriting procedures

3 4 4 Secured Lending

The Secured Lending division provides loans secured by way of a second charge on the customer's primary residential property Lending is provided for a wide variety of purposes including home improvements, loan consolidation and large consumer purchases The loan book has grown to £163 1m as at 31 December 2012 (2011 £61 0m) with very limited arrears - only 0 3% of the loan book having agreements more than 3 months in arrears

3.4.5 Savings

Shawbrook currently raises its funding through retail and business deposits This provides the Bank with access to a stable and flexible source of funding by offering customers attractive and competitive savings products The Bank is a member of the Financial Services Compensation Scheme ("FSCS"), meaning that the first £85,000 of any eligible depositor's funds are guaranteed by the FSCS

Shawbrook's balance of deposits as at 31 December 2012 stood at £923 7m (2011 £180 4m), with £810m in new deposits raised in 2012 A substantial portion (c £525m) of the increase in the deposit balance was raised in Q1 2012 to support the acquisition of Singers Asset Finance The Savings business is reported as part of the 'Other' segment within the business

3.5 Financial Position

3.5.1 Loans and advances to customers

Shawbrook has benefited from progressive balance growth in all business lines with pleasing organic growth in the commercial, consumer and secured lending businesses The acquisition of Singers Asset Finance in March 2012 saw a significant increase in the level of loans and advances Gross lending in the year was £480m (2011 £77m) An analysis of outstanding loans and advances is shown below with balances having grown by 574% during the course of 2012

	Group 2012 £m	Group 2011 £m
Secured Lending	163	61
Consumer Lending	29	2
Commercial Lending	201	46
Asset Finance	348	-
Other	7	2
	748	111

All lending is diversified by source with a spread of lending to SME and personal customers with lending also geographically diversified within the UK

The Bank continues to manage loans which have gone into arrears, supporting the borrower where possible whilst ensuring that the business is protected The level of arrears remains low with only 0 5% of lending balances being over 3 months in arrears (2011 0 4%)

Where it is appropriate for customers' needs, we apply a policy of forbearance and may grant a concession to borrowers This may be applied where actual or apparent financial stress of the customer is considered short term with the potential to be recovered A concession may involve arrears capitalisation, a reduction in the monthly payment, a conversion to interest only or a mortgage term extension These strategies are undertaken in order to achieve reduced long term arrears and allow the best outcome for both the customer and the business by dealing with arrears at an early stage The customer accounts are monitored to ensure that these strategies remain appropriate

Further details on the forbearance strategies of the Group can be found within note 20 1 1 which details all account renegotiations regardless of whether or not our customer has experienced financial difficulty in repaying their loan with the Group For clarity, the arrears position of customers for reporting and provisioning is always based on the original terms of the loan and is not amended in the light of reduced or amended payments in such cases of forbearance

3.6 Liquidity and Funding

Shawbrook adopts a conservative approach to asset and liability management The Bank aims to manage its liability structure to ensure that it has a prudent level of maturity transformation while maintaining an appropriate level of liquidity

To date, Shawbrook's funding has been focused on the notice and term deposit market The Bank continues to optimise its cost of funds and sources of liquidity through retention programmes and intends to access the Funding for Lending Scheme ("FLS") and other wholesale funding sources in the future to the extent they provide more attractive alternatives and diversity An analysis of the Bank's liquidity position is shown below

	Group 2012	Group 2011
Liquidity balances - £m	262	94
Liquidity balances Deposits	28%	52%
Liquidity buffer eligible assets - £m	145	65
Liquidity buffer eligible Liquidity balances	55%	69%
Loan Deposit ratio *	81%	62%

* For the purposes of this calculation, the fair value adjustment to loans and advances has been excluded

As part of the Bank's lıquıdıty management strategy the Bank ınvests ın money market securıtıes Shawbrook Bank ınvests ın these securıtıes according to the Board approved ınvestment polıcy that ensures these funds are ınvested ın a prudent and dıversıfied manner Funds can only be ınvested wıth a counterparty that has at least long-term A3 Moody's credıt ratıng, or equıvalent, or systemıcally crıtıcal clearers

Treasury assets are valued usıng quoted market prıces Wıthın the treasury ınvestment portfolıo the Bank has no exposure to the Eurozone

The Bank regularly conducts an Indıvıdual Lıquıdıty Adequacy Assessment ("ILAA") ın accordance wıth the FSA's lıquıdıty guıdelınes and the Board remaıns satısfied that the Group has suffıcıent lıquıd assets at ıts dısposal, even under stressed scenarıos, to meet ıts oblıgatıons as they fall due

3.6.1 Retail

Durıng the course of 2012, the savıngs market has remaıned competıtıve as ınstıtutıons that have prevıously been relıant on wholesale fundıng have contınued to seek retaıl deposıts The Bank's focus has been the contınual development of ıts successful retaıl deposıt franchıse As at the year end the busıness had 22,277 accounts wıth balances of £923 7m (2011 4,632 accounts and balances of £180 4m)

3.6.2 Wholesale

Whılst the Bank currently has no exposure to wholesale fundıng ıt ıs the Bank's ıntentıon to dıversıfy ıts fundıng sources through access to wholesale fundıng ınıtıally through drawdown of the Bank of England's Fundıng for Lendıng Scheme Thıs wıll provıde dıversıty of fundıng by source and tenor The asset finance and commercıal dıvısıons wıthın the Bank have prıor experıence of securıtısatıon and ıf consıdered approprıate the Bank wıll consıder securıtısatıon at the approprıate tıme

3.7 Capital

Durıng 2012, the Bank was regulated by the Fınancıal Servıces Authorıty ("FSA") (from Aprıl 2013 the FSA was replaced by the Prudentıal Regulatıon Authorıty ("PRA") and the Fınancıal Conduct Authorıty ("FCA") and these bodıes all requıre the Bank to manage ıts capıtal ın accordance wıth ıssued rules and guıdance The capıtal requırements of the Bank are monıtored on a monthly basıs and the results of thıs monıtorıng are reported to the Asset and Lıabılıty Commıttee ("ALCO") and the Board Capıtal ıs ultımately held for the protectıon of retaıl deposıtors The ınternal level of capıtal ıs set wıth the aım of ensurıng that the busıness has suffıcıent levels of capıtal for current and projected future actıvıtıes, to wıthstand downturn stresses, and to ensure that the mınımum regulatory requırement ıs always met The followıng table shows the composıtıon of the Bank's capıtal at 31 December 2012 and 2011

	Group 2012 £m	Group 2011 £m
Share capıtal	112 0	37 0
Retaıned earnıngs	(13 6)	(6 2)
Tıer1 capıtal before deductıons	98 4	30 8
Intangıble assets	(15 0)	(5 4)
Regulatory Capıtal	83 4	25 4
Rısk Weıghted Assets	479 0	53 6
Regulatory Capıtal RWAs	17 4%	47 4%

The regulatory capıtal posıtıon of the Bank ıs shown ın note 20 4

The magnıtude of the acquısıtıons allıed to the growth experıenced ın 2012 requıred addıtıonal capıtal to be ınjected ınto Shawbrook and durıng 2012 £75m of addıtıonal £1 ordınary shares were ıssued to Laıdlaw Acquısıtıons Lımıted at par The busıness wıll requıre further capıtal to support both the organıc growth ın ıts lendıng books and any future acquısıtıons The Board has set out plans coverıng the next 3 years and the shareholder ıs supportıve of these and the addıtıonal capıtal requırement that has been ıdentıfied Throughout the year the Group and Company have complıed wıth Indıvıdual Capıtal Guıdance ("ICG") requırements The Group had £83 4m of Regulatory Capıtal at 31 December 2012 (2011 £25 4m)

3.8 Outlook

The UK economic outlook remains uncertain with the medium to longer term trends unclear The pace of economic recovery is likely to be tentative in the short to medium term Shawbrook remains well positioned to prosper in the current environment with growth continuing in a prudent manner backed by our disciplined loan origination and underwriting disciplines We look ahead to 2013 and beyond with optimism in the knowledge that our business model has proven itself and is increasingly profitable demonstrating the strong customer demand for the service we provide

4 Directors' Report

The directors present their annual report and accounts for the year ended 31 December 2012

4.1 Principal activities

The Company (the "Bank") is a banking institution which is authorised and regulated by the FSA, and from 1 April 2013 by the FCA & PRA Its principal activities are

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

4.2 Board composition

The directors who served during the year were

Sir George Mathewson
Sir Brian Ivory
Lindsey McMurray
Robin Ashton
Graham Alcock
Owen Woodley * – resigned 4 May 2012
Nicholas Fielden *
Thomas Wood * – appointed 24 October 2012
Ian Henderson * – appointed 3 December 2012

* Executive Director

Director appointed after year end

Roger Lovering – appointed 25 January 2013

4.3 Investment in Subsidiaries

4.3 1 Acquisition of the Singers Group

On 22 March 2012, Shawbrook acquired 100% of the share capital of Singers Asset Finance Holdings Limited ("SAFH") which together with its subsidiaries comprise the Singers Group ("Singers") Singers is an Asset Finance business that lends to UK businesses and the NHS through leasing and hire purchase products

Singers is a successful business that came with an experienced management team and established operational capability It was previously owned by one of the Icelandic banks that failed during the 2008 banking crisis However the Singers business itself has never been in administration and continued to be strongly profitable both before and after 2008 The acquisition by Shawbrook has enabled the business to expand its lending following the removal of the funding constraints of an impaired parent Integration of the Shawbrook and Singers businesses took place throughout 2012 finalising on 4 March 2013 when the Singers group was rebranded as Shawbrook and continues to trade as one of the divisions within Shawbrook

The Singers acquisition provides 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

Immediately following the acquisition of SAFH, the entire share capital of Singers Corporate Asset Finance Limited ("SCAF") and Singers Healthcare Finance Limited ("SHF") were transferred from SAFH to the Bank Then all of Singers funding obligations to third parties were settled and all of the remaining assets and liabilities of Singers were transferred by way of an equitable assignment to the Bank at their net book value In addition, SCAF cancelled £31 0m of £1 ordinary share capital and paid a dividend of £2 5m and SHF also paid a dividend of £11 2m

4 3.2 Acquisition of Money2Improve Limited

On 19 November 2012, Shawbrook acquired 100% of the share capital of Money2Improve Limited ('M2i") The Company operated as a business development team that generated relationships with key retail intermediaries in support of the Consumer Lending division Previously Shawbrook had been paying M2i a sales commission for new business generated, however post acquisition the key individuals in M2i became Shawbrook employees and the lead generation activity transferred from M2i into Shawbrook itself

4.4 Results for the year

4 4 1 Group

The Group reached breakeven in May 2012 and has traded profitably since then However, overall the Group made a trading loss for the year ended 31 December 2012 before taxation of £7 8m (2011 £10 8m) Losses after taxation were £7 4m (2011 £8 5m)

The Group Income Statement has been charged with a number of adjustments not reflected in the Company's results which total £3 1m and are comprised of £0 1m fair value adjustments arising on business combinations, £0 9m amortisation of intangible assets and £2 1m of costs relating to the acquisition of Singers and M2i

4 4 2 Company

The Bank reached breakeven in May 2012 and has traded profitably since then However, overall the Bank made a trading loss for the year ended 31 December 2012 of £4 6m (2011 £10 3m) There was a £21 8m (2011 £nil) impairment of the Bank's investment in subsidiaries which increased the loss before taxation to £26 4m (2011 £10 3m) Losses after taxation were £26 3m (2011 £8 0m) The directors do not recommend the payment of a final dividend (2011 £nil)

The value of the Bank's investment in subsidiaries was reduced to £nil following the transfer of all of the subsidiary companies net assets to the Bank Consequently, a £21 8m impairment charge was made in the Bank's financial statements This has not resulted in a change to the Company's capital position because these investments were already treated as a deduction from capital for regulatory purposes

4.5 Compliance

Throughout the year the Group and Company have complied with Individual Capital Guidance ("ICG") requirements and have exceeded and continue to exceed both the Individual Liquidity Guidance ("ILG") requirement and satisfy its own internal liquidity risk appetite

4.6 Political and charitable contributions

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

4.7 Supplier payment policy

We do not currently subscribe to any code or standard on payment practice Our policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by the terms of payment

4.8 Directors' insurance

The Group maintained and continues to maintain an insurance policy for the directors and officers against any liabilities incurred in the conduct of their duties

4.9 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 as follows

- Credit risk is the risk that a borrower or counterparty fails to pay the interest or to repay the capital on a loan or any other financial instrument This is managed through the regular reviews of portfolio performance in the Group Credit and Pricing Committee ("GCPC")
- Market risk is the risk that the value of, or net income arising from, the Group's assets and liabilities change as a result of changes to interest rates This is reviewed on a regular basis through the Asset and Liability Committee ("ALCO")
- Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due and this is managed through ALCO

- Operational risk is the risk of loss arising from inadequate controls or processes, people and systems This is managed through the Operational Risk Review Committee and the Internal Audit process
- 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 the compliance function
- Residual value risk is the risk of loss arising from management estimates of the residual value of any particular asset being incorrect

A more detailed description of the credit, market and liquidity risk is set out in note 20 to these financial statements

4.10 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 14 3

4.11 Disclosure of information to the auditor

The directors confirm that so far as each of the directors are aware, there is no relevant audit information of which the 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 auditor is aware of that information

4.12 Auditor

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

4.13 Statement of directors' responsibilities

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

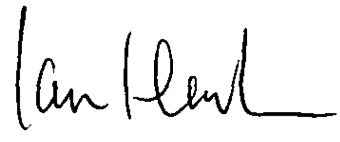
Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period In preparing each of the group and parent company financial statements,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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that 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 group and to prevent and detect fraud and other irregularities

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

By order of the board



Ian Henderson

Chief Executive Officer

23 April 2013

5 Independent Auditor's Report

We have audited the financial statements of Shawbrook Bank Limited for the year ended 31 December 2012 set out on pages 14 to 64 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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 pages 11 and 12, 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 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 Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

23 April 2013

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

6 Consolidated Income Statement

	Note	2012 £000	2011 £000
Interest receivable and similar income	18 1	**46,866**	4,799
Interest expense and similar charges		**(27,367)**	(2,997)
Net interest income		**19,499**	1,802
Operating lease rentals		**15,053**	-
Depreciation on operating leases	19 6	**(11,992)**	-
Net income from operating leases		**3,061**	-
Fees and commissions income		**508**	640
Fees and commissions expense		**(151)**	(236)
Net fee and commission income		**357**	404
Net operating Income		**22,917**	2,206
Acquisition costs		**(2,147)**	-
Administrative expenses	18 2	**(26,901)**	(12,730)
Impairment losses on financial assets	19 4	**(913)**	(186)
Provisions for liabilities and charges	19 11	**(731)**	(76)
Loss before taxation		**(7,775)**	(10,786)
Income tax credit	18 6	**412**	2,307
Loss for the year, attributable to owners		**(7,363)**	(8,479)

The notes on pages 22 to 64 are an integral part of these financial statements

7 Consolidated Statement of Comprehensive Income

	Note	2012 £000	2011 £000
Loss for the year, attributable to owners		**(7,363)**	(8,479)
Other Comprehensive Income			
Effective portion of changes in fair value of cash flow hedges		**(5)**	5
Net change in fair value of investment securities - available for sale		**600**	(658)
Tax on other comprehensive income	18 6	**(146)**	173
Total Other Comprehensive Income for the year net of taxation		**449**	(480)
Total Comprehensive Income for the year, attributable to owners		**(6,914)**	(8,959)

The notes on pages 22 to 64 are an integral part of these financial statements

8 Consolidated Statement of Financial Position

	Note	2012 £000	2011 £000
Assets			
Cash and balances at central banks		**229**	-
Derivative financial Instruments	19 2	**-**	110
Loans and advances to banks and building societies	19 3	**117,114**	28,891
Loans and advances to customers	19 4	**683,705**	111,413
Investment securities - available for sale	19 5	**144,868**	64,791
Property, plant and equipment	19 6	**60,969**	457
Intangible assets	19 7	**15,041**	5,363
Deferred tax asset	19 8	**11,229**	2,343
Other assets	19 9	**10,951**	1,468
Total Assets		**1,044,106**	214,836
Liabilities			
Derivative financial instruments	19 2	**-**	104
Customer deposits	19 10	**923,680**	180,419
Provisions for liabilities and charges	19 11	**792**	86
Other liabilities	19 12	**21,037**	3,916
Total Liabilities		**945,509**	184,525
Equity			
Share capital	19 15	**111,990**	36,990
Cash flow hedging reserve	19 15	**-**	4
Available for sale reserve	19 15	**(31)**	(484)
Capital contribution reserve	19 15	**200**	-
Retained earnings		**(13,562)**	(6,199)
Total Equity		**98,597**	30,311
Total Equity and Liabilities		**1,044,106**	214,836

The notes on pages 22 to 64 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 23 April 2013 and were signed on its behalf by

Ian Henderson
Director

Thomas Wood
Director

Company number 388466

9 Company Statement of Financial Position

	Note	2012 £000	2011 £000
Assets			
Cash and balances at central banks		**229**	-
Derivative financial instruments	19 2	-	110
Loans and advances to banks and building societies	19 3	**116,962**	26,982
Loans and advances to customers	19 4	**684,375**	111,513
Investment securities - available for sale	19 5	**144,868**	64,791
Property, plant and equipment	19 6	**59,658**	420
Investment in subsidiaries	16 3	-	8,157
Deferred tax asset	19 8	**11,437**	2,343
Other assets	19 9	**11,003**	2,816
Total Assets		**1,028,532**	217,132
Liabilities			
Derivative financial instruments	19 2	-	104
Customer deposits	19 10	**923,680**	180,419
Provisions for liabilities and charges	19 11	**792**	86
Other liabilities	19 12	**23,888**	5,725
Total Liabilities		**948,360**	186,334
Equity			
Share capital	19 15	**111,990**	36,990
Cash flow hedging reserve	19 15	-	4
Available for sale reserve	19 15	**(31)**	(484)
Capital contribution reserve	19 15	**200**	-
Retained earnings		**(31,987)**	(5,712)
Total Equity		**80,172**	30,798
Total Equity and Liabilities		**1,028,532**	217,132

The notes on pages 22 to 64 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 23 April 2013 and were signed on its behalf by

Ian Henderson
Director

Thomas Wood
Director

Company number 388466

10 Consolidated Statement of Changes in Equity

	Share Capital £000	Available for Sale Reserve £000	Cash Flow Hedging Reserve £000	Capital Contribution Reserve £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2011	2,000	-	-	-	2,280	4,280
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(8,479)	(8,479)
Other comprehensive income						
Cash flow hedges	-	-	5	-	-	5
Fair value reserve (available for sale financial assets)	-	(658)	-	-	-	(658)
Tax on other comprehensive income	-	174	(1)	-	-	173
Total comprehensive income for the year	-	(484)	4	-	(8,479)	(8,959)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares	34,990	-	-	-	-	34,990
Total contributions by and distributions to owners	34,990	-	-	-	-	34,990
Balance at 31 December 2011	36,990	(484)	4	-	(6,199)	30,311
Balance at 1 January 2012	**36,990**	**(484)**	**4**	-	**(6,199)**	**30,311**
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(7,363)	(7,363)
Other comprehensive income						
Cash flow hedges	-	-	(5)	-	-	(5)
Fair value reserve (available for sale financial assets)	-	600	-	-	-	600
Tax on other comprehensive income	-	(147)	1	-	-	(146)
Total comprehensive income for the year	-	**453**	**(4)**	-	**(7,363)**	**(6,914)**
Capital contribution	-	-	-	**200**	-	**200**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares	75,000	-	-	-	-	**75,000**
Total contributions by and distributions to owners	75,000	-	-	-	-	75,000
Balance at 31 December 2012	**111,990**	**(31)**	-	**200**	**(13,562)**	**98,597**

The notes on pages 22 to 64 are an integral part of these financial statements

11 Company Statement of Changes in Equity

	Share Capital £000	Available for Sale Reserve £000	Cash Flow Hedging Reserve £000	Capital Contribution Reserve £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2011	2,000	-	-	-	2,280	4,280
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(7,992)	(7,992)
Other comprehensive income						
Cash flow hedges	-	-	5	-	-	5
Fair value reserve (available for sale financial assets)	-	(658)	-	-	-	(658)
Tax on other comprehensive income	-	174	(1)	-	-	173
Total comprehensive income for the year	-	(484)	4	-	(7,992)	(8,472)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares	34,990	-	-	-	-	34,990
Total contributions by and distributions to owners	34,990	-	-	-	-	34,990
Balance at 31 December 2011	36,990	(484)	4	-	(5,712)	30,798
Balance at 1 January 2012	**36,990**	**(484)**	**4**	-	**(5,712)**	**30,798**
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(26,275)	(26,275)
Other comprehensive income						
Cash flow hedges	-	-	(5)	-	-	(5)
Fair value reserve (available for sale financial assets)	-	600	-	-	-	600
Tax on other comprehensive income	-	(147)	1	-	-	(146)
Total comprehensive income for the year	-	**453**	**(4)**	-	**(26,275)**	**(25,826)**
Capital contribution	-	-	-	**200**	-	**200**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares	75,000	-	-	-	-	**75,000**
Total contributions by and distributions to owners	75,000	-	-	-	-	75,000
Balance at 31 December 2012	**111,990**	**(31)**	-	**200**	**(31,987)**	**80,172**

The notes on pages 22 to 64 are an integral part of these financial statements

12 Consolidated Statement of Cashflows

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Loss for the year		**(7,363)**	(8,479)
Adjustments for			
Tax	18 6	**(412)**	(2,307)
Depreciation	19 6	**12,433**	150
Amortisation of Intangible assets	19 7	**908**	-
Provisions against loans and advances to customers	19 4	**913**	186
Impairment on residual values	19 6	**81**	-
Amortisation of share scheme fair value		**200**	-
Profit on sale of property, plant and equipment		**(316)**	-
Cash flows from operating activities before changes in operating assets and liabilities		**6,444**	(10,450)
Increase/decrease in operating assets and liabilities			
Increase in investment securities - available for sale		**(63,476)**	(18,524)
Decrease/(increase) in derivative financial instruments		**6**	(6)
Increase in loans and advances to customers		**(310,502)**	(89,643)
Increase in other assets		**(3,674)**	(1,003)
Increase in customer deposits		**743,261**	150,762
Provisions for liabilities and charges		**706**	76
Increase in other liabilities		**3,399**	3,723
		369,720	45,385
Tax paid		**-**	(5)
Net cash flow from changes in operating activities		**376,164**	34,930
Cash flows from Investing Activities			
Purchase of property, plant and equipment		**(12,457)**	(594)
Sale of property, plant and equipment		**3,716**	-
Investment in subsidiaries net of cash and cash equivalents acquired		**(12,652)**	(5,363)
Net cash from Investing Activities		**(21,393)**	(5,957)
Cash flows from Financing Activities			
Redemption of loan notes		**-**	(5,000)
Repayment of SAF third party funding		**(325,138)**	-
Proceeds from the issue of ordinary share capital		**75,000**	34,990
Net cash from Financing Activities		**(250,138)**	29,990
Net increase in Cash and Cash Equivalents		**104,633**	58,963
Cash and cash equivalents at 1 January		**75,638**	16,675
Cash and Cash Equivalents at 31 December	19 1	**180,270**	75,638

The notes on pages 22 to 64 are an integral part of these financial statements

13 Company Statement of Cashflows

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Loss for the year		**(26,275)**	(7,992)
Adjustments for			
Tax	18 6	**(126)**	(2,307)
Depreciation	19 6	**12,083**	135
Impairment of investment in subsidiaries	16	**21,828**	-
Provisions against amounts due from customers	19 4	**1,135**	186
Impairment on residual values	19 6	**81**	-
Amortisation of share scheme fair value		**200**	-
Profit on sale of property, plant and equipment		**(316)**	-
Cash flows from operating activities before changes in operating assets and liabilities		**8,610**	(9,978)
Increase/decrease in operating assets and liabilities			
Increase in investment securities - available for sale		**(63,448)**	(18,528)
Decrease/(increase) in derivative financial instruments		**6**	(2)
Increase in loans and advances to customers		**(310,502)**	(89,742)
Increase in other assets		**(2,536)**	(2,351)
Increase in customer deposits		**743,261**	150,762
Increase in provisions for liabilities and charges		**706**	76
Increase in other liabilities		**4,441**	5,532
		371,928	45,747
Tax paid		**-**	(6)
Net cash flow from changes in operating activities		**380,538**	35,763
Cash flows from Investing Activities			
Purchase of property, plant and equipment		**(12,492)**	(542)
Sale of property, plant and equipment		**3,786**	-
Investment in subsidiaries net of cash and cash equivalents acquired		**(15,305)**	(8,157)
Net cash from Investing Activities		**(24,011)**	(8,699)
Cash flows from Financing Activities			
Redemption of loan notes		**-**	(5,000)
Repayment of SAF third party funding		**(325,138)**	-
Proceeds from the issue of ordinary share capital		**75,000**	34,990
Net cash from Financing Activities		**(250,138)**	29,990
Net increase in Cash and Cash Equivalents		**106,389**	57,054
Cash and cash equivalents at 1 January		**73,729**	16,675
Cash and Cash Equivalents at 31 December	19 1	**180,118**	73,729

The notes on pages 22 to 64 are an integral part of these financial statements

14 Accounting Policies

14.1 Reporting entity

Shawbrook Bank Limited (the "Bank") is domiciled in the UK The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2012 comprise the Bank and its subsidiaries (together referred to as the Group and individually as Group entities)

14.2 Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) as adopted and endorsed by the EU The financial statements are drawn up in accordance with the Companies Act 2006 No individual profit or loss account is presented for the Company as permitted by section 408 (4) of the Companies Act 2006

14.3 Basis of preparation

The Consolidated Financial Statements are presented in Pounds Sterling They are prepared on the historical cost basis as modified by the fair value of available for sale assets and derivatives Uniform accounting policies are applied consistently across the Group

The Group's business activities together with its financial position and the factors likely to affect its future development and performance are set out in notes 1 to 4 In addition, the risk management information in note 20 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 20 4 provides information on the Group's capital policies and capital resources

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

Consequently, after making enquiries, the Directors are satisfied that the Group and Company 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

14.4 Basis of Consolidation

14.4 1 Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group

The Group measures goodwill at the acquisition date as

- the fair value of the consideration transferred, plus
- the fair value of the existing equity interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred in the consolidated accounts and capitalised within cost of investment in the Company accounts

14 4 2 Subsidiaries

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

The results of the subsidiary companies are consolidated from the date of acquisition as follows

- 15 July 2011 for the "Link Loans" group of companies comprising Apple Holdco Limited, Apple Acquisitions Limited, Ascot Funding Limited and Link Loans Limited

- 22 March 2012 for the "Singers" group of companies comprising Singers Corporate Asset Finance Limited, Singers Healthcare Finance Limited, SAF Funding Limited, Singers Asset Finance Holdings Limited, Coachlease Limited, East Anglian Finance Limited, Hermes Group Limited, Singer & Friedlander Commercial Finance Limited and six companies in liquidation as set out in note 16
- 19 November 2012 for Money2Improve Limited

14 4.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

14.4 4 Acquisition accounting

The Group recognises identifiable assets and liabilities at their acquisition date fair values Fair values are determined from the estimated future cashflows generated by the assets During the year, the acquisition of the Singers group indicated that there was a separate identifiable intangible asset which met the criteria for separation from goodwill, being customer relationships This has been valued through the application of a discounted cashflow model of future anticipated renewal revenue

14.5 Cash and cash equivalents

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

14.6 Financial assets and financial liabilities

The Group 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 Group'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 Group has not classified any assets or liabilities as held to maturity

14.6.1 Financial assets and liabilities at fair value through profit and loss

This category comprises interest rate swaps and caps Interest rate swaps 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, when the criteria for hedge accounting are met, 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 On disapplication of hedge accounting, the amounts held in the cash flow hedging reserve are amortised through the statement of comprehensive income over the remaining life of the hedged item 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

14 6 2 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market Loans and advances to banks and building societies are classified as loans and receivables Loans and advances to customers include

- those classified as loans and receivables, and
- finance lease and instalment credit receivables

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses

The net investment in finance leases and instalment credit agreements represents the future lease rentals and instalments receivable less profit and costs allocated to future periods Income is recognised throughout the life of the agreement to provide a constant rate of return on the net investment in each lease or instalment credit agreement

Where an agreement is classified as an operating lease at inception, but is subsequently reclassified as a finance lease following a change to the agreement or an extension beyond the primary term, income continues to be recognised on a straight line basis, this income recognition policy has been selected to avoid undue acceleration of income recognition whenever rentals are received in advance over a relatively short extension period

14 6 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 Interest income is recognised in the income statement over the life of the asset On disposal, gains and losses accumulated in equity are reclassified to the income statement Interest income is recognised in profit or loss using the effective interest method

Available for sale financial assets solely comprise UK Government debt securities

14 6 4 Financial liabilities

Customer deposits are non-derivative financial liabilities with fixed or determinable payments Deposits are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method

14 6 5 Derecognition of financial assets and liabilities

Derecognition is the point at which an asset or liability is removed from the balance sheet Policy is to derecognise financial assets when the contractual rights to the cash flows from the financial asset have expired or where all the risks and rewards of ownership have been transferred

A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire

14 6 6 Impairment of financial assets

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

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

- Delinquency in contractual payments of principal or interest,
- Cash flow difficulties 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 financial asset is uncollectible it is written off against the related provision for impairment Such financial assets 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 impairment in the income statement

Financial assets that are not written down individually become part of a portfolio which will be collectively assessed for impairment Assessment of a portfolio assumes that loans, leases and instalment credit receivables have similar credit risk characteristics Objective evidence of impairment of a portfolio of receivables exists if objective data indicates a decrease in expected future cash flows from a portfolio of receivables and the decrease can be measured reliably but cannot be identified with the individual receivables in the portfolio in which case a collective provision is applied

The Group operates a forbearance policy in situations where it becomes aware that an individual customer is experiencing financial hardship Repayment options are discussed with the customer as are appropriate to the customer's specific situation The Group will not seek to repossess a property unless all other reasonable attempts to resolve the position have failed Forbearance accounts do not have a direct impact on provisions as the impairment policy is applied to the original contractual position Further information is provided in note 20 1 1

14.7 Provisions

Provisions are recognised for present obligations arising from past events where it is more likely than not that an outflow of resources will be required to settle the obligations and they can be reliably estimated

14.8 Assets acquired in exchange for loans

Included within trade and other receivables are non-financial assets acquired in exchange for instalment credit, finance lease receivables and operating leases as part of an orderly realisation The asset acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange No depreciation is charged in respect of assets held for sale Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Income Statement Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write down, is also recognised in the Income Statement, together with any realised gains or losses on disposal

14.9 Hedge accounting

On initial designation of the hedge, the Group 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 Group 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 Group 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 If hedge accounting is discontinued, the amounts in the cashflow hedging reserve are amortised through the income statement over the remaining life of the hedged item

14.10 Property, plant and equipment

14 10.1 Operating Leases

Included within property, plant and equipment are operating leases where the Group provides finance to customers in respect of medical equipment The net book value of operating leases represents the original cost of the equipment less cumulative depreciation Rentals are recognised on a straight line basis over the lease term Depreciation is recognised on a straight line basis to a residual value over the life of the associated agreement

Further information on the reclassification from an operating lease to a finance lease is provided in note 14 6 2

14.10 2 Depreciation

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

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

• Office equipment	20% - 33%
• Fixtures and fittings	10%
• Motor vehicles	25%
• Freehold property	50 years
• Leasehold costs	life of the lease
• Operating leases	life of the lease

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

14.11 Intangible assets

14 11.1 Goodwill

Goodwill has arisen on the acquisition of companies whose businesses have been integrated within the Group and reflects the difference between the consideration paid and the fair value of net assets acquired Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses Goodwill is not amortised but is tested annually for impairment

An impairment loss is recognised if the carrying amount of an asset is greater than its recoverable amount No impairment losses were recognised during 2012

14 11 2 Customer relationships

Long-standing customer relationships are expected to enhance the Group's future income On acquisition of the Singers group, the future income steam arising from the loyalty of long standing customer relationships has been assessed and recognised as an intangible asset The cost is amortised over its useful economic life

14.12 Impairment of non-financial assets

The carrying amount of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment If such indication exists, then the asset's recoverable amount is estimated Goodwill is tested annually for impairment An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount

14.13 Revenue

Revenue represents income derived from loans and advances to customers, operating lease rentals together with fees and commissions receivable

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

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 Group takes into account all contractual terms of the financial instrument, for example prepayment options, but does not consider future credit losses The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts

Income from finance lease and instalment credit agreements is recognised over the period of the leases so as to give a constant rate of return on the net investment in the leases

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

14.14 Operating lease payments

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

14.15 Share based incentive schemes

Where the Bank engages in share based payment transactions in respect of services received from certain of its employees, these are accounted for as equity settled share based payments in accordance with IFRS 2 The equity is in the B and C Ordinary Shares of the ultimate holding company, Laidlaw Acquisitions Limited

The acquisition date fair value of a share based payment transaction, is recognised as an employee expense, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards In the absence of market prices, the fair value of the equity at the date of the acquisition is estimated using an appropriate valuation technique

The amount recognised as an expense in the Income Statement is based on amortising the acquisition date fair value at a constant rate to the expected date when the fair value will be realised

14.16 Post – retirement obligations

The Group does not operate a pension scheme Pension contributions are paid to staff and directors' personal pension schemes The costs of the Group's contributions to defined contribution pension arrangements are recognised as an employee benefit expense when they are due

14.17 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

14.18 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

14 18.1 IAS 1 (revised) 'Presentation of Financial Statements – Presentation of items of other comprehensive income'

Effective from 1 July 2012 and endorsed by the EU on 5 June 2012

The revised standard requires that an entity present separately the items of other comprehensive income that may subsequently be reclassified to profit or loss from those items that will not be reclassified to profit or loss

14 18.2 IFRS 7 (revised) 'Offsetting Financial Assets and Financial Liabilities

Effective from 1 January 2013 and endorsed by the EU on 13 December 2012

The revised standard amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position

14 18 3 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 Group once it becomes effective

14 18.4 IFRS 10 'Consolidated Financial Statements'

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012

IFRS 10 supersedes IAS 27 and incorporates the existing accounting and disclosure requirements of IAS 27 with some additional minor clarifications It also provides a single model to be applied in the control analysis for all investees This is unlikely to have a material impact on the Group

14.18 5 IFRS 11 'Joint Arrangements'

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012

This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and removes the choice of equity or proportionate accounting for jointly controlled entities, as was the case under IAS 31 This is unlikely to have a material impact on the Group

14 18.6 IFRS 12 'Disclosure of Interests in Other entities'

Effective from 1 January 2014 and endorsed by the EU on 11 December 2012

This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities This is unlikely to have a material impact on the Group

14 18 7 IFRS 13 'Fair Value Measurement'

Effective from 1 January 2013 and endorsed by the EU on 11 December 2012

This standard replaces the existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements This is unlikely to have a material impact on the Group

14 18 8 Amendments to IAS 32 'Offsetting Financial Assets and Liabilities'

Effective from 1 January 2014 and endorsed by the EU on 13 December 2012

This standard was amended to clarify the offsetting criteria, specifically when an entity currently has a legal right of set off, and when gross settlement is equivalent to net settlement This is unlikely to have a material impact on the Group

15 Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported income and expenses during the reported period 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

15.1 Effective interest rate

In determining the expected life of loans and receivables assets, the Group 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

15.2 Impairment losses on loans and advances

The Group regularly reviews its 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 the portfolio of loans and advances before the decrease can be identified with an individual agreement 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 To the extent that default rates differ from that estimated by 10%, the impairment provision would change by an estimated £0 3m

15.3 Acquisition accounting

Acquisition accounting involves a number of estimation techniques, including the determination of the fair value of assets and liabilities at acquisition, the fair value of consideration and the appropriate amortisation period for intangibles Management estimates of the fair values in relation to the acquisition of the Singers group and Money2Improve Limited are contained in note 16 The major judgements and estimates relate to the fair value of loans and advances and property, plant and equipment and the fair value of the customer relationship intangible

15.4 Fair value of identifiable net assets of the Singers group and Money2Improve

The acquisitions during the year have been accounted for in accordance with applicable accounting standards which require the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values

This exercise is inherently subjective and required management to make a number of assumptions and estimates Fair values were established using discounted cashflow models

During 2012, the effects of the fair value adjustments have started to unwind and be recognised in the Group's income statement The determination of the extent to which the adjustments unwind often require significant judgement The unwind of the acquisition date fair values on customer lending and property, plant and equipment is based on the estimated average life of the underlying asset

15.5 Cost of investment in subsidiaries

The business and underlying assets of Singers, Link Loans and Money2Improve have all been transferred into Shawbrook The value of these business units is not impacted by this, however the legacy legal entities are no longer required The decision has been made in Shawbrook to impair the cost of these investments The value of the businesses is reflected in the purchased goodwill that is held against these businesses, and the future revenues from these exceed the amount of goodwill held on the consolidated financial position

15.6 Residual values

Management use a combination of historic experience and future projections to estimate the appropriate residual value for particular vehicles or items of plant and equipment at least on a monthly basis The nature of the equipment, its state of condition, and obsolescence factors, are key determinants in estimating residual values at any point in time Management performs sensitivity analysis and compares a range of outcomes to include the possibility of extension or in the event of non-extension the possibility of sale or rehire as part of the assessment as to whether impairments are necessary If future residual values materialise at 10% lower than predicted then this could have an impact on profitability of approximately £1 1m

15.7 Deferred tax asset recognition

The deferred tax asset recognised at 31 December 2012 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated against which it can be utilised In arriving at this conclusion the Directors have estimated the future profit performance for the Group 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

16 Business Combinations

16.1 Subsidiary companies

The Bank has the following subsidiary companies whose results are included in these consolidated financial statements

	Country of Incorporation	Class of shares held	Ownership	Principal Activity
Singers Corporate Asset Finance Limited	England and Wales	Ordinary	100%	Finance and Leasing
Singers Healthcare Finance Limited	England and Wales	Ordinary	100%	Finance and Leasing
and its subsidiary				
SAF Funding Limited	England and Wales	Ordinary	100%	Securitisation vehicle
Singers Asset Finance Holdings Limited	England and Wales	Ordinary	100%	Holding company
and its subsidiaries				
Coachlease Limited	England and Wales	Ordinary	100%	Dormant
East Anglian Finance Limited	England and Wales	Ordinary	100%	Dormant
Hermes Group Limited	England and Wales	Ordinary	100%	Dormant
Singer & Friedlander Commercial Finance Limited	Scotland	Ordinary	100%	Dormant
Central Scotland Finance Limited *	Scotland	Ordinary	100%	In Liquidation
Hermes Leasing Limited **	England and Wales	Ordinary	100%	In Liquidation
Hermes Leasing (London) Limited **	England and Wales	Ordinary	100%	In Liquidation
Hermes Leasing (Western) Limited **	England and Wales	Ordinary	100%	In Liquidation
Hermes Lease Finance Limited **	England and Wales	Ordinary	100%	In Liquidation
Singer & Friedlander Finance Limited	England and Wales	Ordinary	100%	In Liquidation
Apple Holdco Limited	England and Wales	Ordinary	100%	Holding company
and its subsidiaries				
Apple Acquisition Limited	England and Wales	Ordinary	100%	Dormant
Ascot Funding Limited	England and Wales	Ordinary	100%	Dormant
Link Loans Limited	England and Wales	Ordinary	100%	Arranging consumer loans
Shawbrook Buildings and Protection Limited	England and Wales	Ordinary	100%	FSA authorised introducer of insurance
Money2Improve Limited	England and Wales	Ordinary	100%	Introducer

* Dissolved at Companies House on 22 January 2013

** Dissolved at Companies House on 24 January 2013

16.2 Acquisition of subsidiary companies

On 22 March 2012, the Bank acquired 100% of the share capital of Singers Asset Finance Holdings Limited ("SAFH") ("Completion"), for consideration of £55 8m SAFH and its subsidiaries represent the Singers group

Following Completion, the ownership of Singers Corporate Asset Finance Limited ("SCAF") and Singers Healthcare Finance Limited ("SHF") was transferred from SAFH to the Bank, the Singers group then settled its outstanding funding obligations of £325m and transferred all of its remaining assets and liabilities by way of an equitable assignment to the Bank at their net book value

The business of the Singers group is the provision of asset finance and leasing In the nine months since acquisition to 31 December 2012, the Asset Finance division contributed net operating income of £17 1m and profits of £9 0m to the Group's results

	Fair value of receivables £000	Gross contractual amounts receivable £000	Contractual cashflows not expected to be collected £000
Loans and advances to customers	262,723	263,495	1,100
Property, plant and equipment	63,956	62,297	-
Deferred Tax	8,412	8,909	-
Intangible assets	1,100	-	-
Other net assets	35,720	35,720	-
Total assets acquired	**371,911**	**370,421**	**1,100**

On 19 November 2012, the Bank acquired 100% of the share capital of Money2Improve Limited for consideration of £0 5m, a company whose business is to act as an introducer of unsecured consumer lending

These acquisitions were accounted for in accordance with IFRS 3 (Revised) 'Business Combinations' which requires the recognition of the identifiable assets acquired and liabilities assumed at their acquisition date fair values Information on specific fair value adjustments is provided in the tables below (Money2Improve figures have been aggregated with Singers as they are not individually material)

	Book value at acquisition £000	Fair value adjustment £000	Note	Take-on values £000	Amortisation of fair value during the year £000
Loans and advances to customers	263,495	(772)	a	262,723	169
Property, plant and equipment	62,297	1,659	b	63,956	(349)
Borrowings and loan notes	(325,138)	-		(325,138)	-
Deferred Tax	8,909	(497)		8,412	288
Intangible assets	-	1,100	c	1,100	(908)
Other net assets	35,720	-		35,720	-
Net identifiable assets and liabilities	**45,283**	**1,490**		**46,773**	**(800)**
Consideration paid				**56,259**	
Representing					
Goodwill on acquisition			19 7	9,486	
Total intangible assets on acquisition				**9,486**	

The goodwill is attributable to the skills and technical talent of the workforce and enduring quality of the acquired broker relationships The customer relationships intangible recognises the benefit to the Group of enduring relationships with existing customers and their beneficial impact on future new business advances and income

a) Finance lease and instalment credit agreements were adjusted to fair value using discounted cashflow models which used benchmark interest rates The adjustment reflects the movement in credit spreads since the lending was originated
b) Property, plant and equipment were adjusted to fair value using discounted cashflow models which used benchmark interest rates
c) The intangible asset is in relation to future business derived from existing and enduring customer relationships

Amortisation of the initial fair value adjustment

Market rate fair value adjustments are amortised on an even yield basis over the expected remaining life of the leases Credit loss fair value adjustments are amortised at the point of time that the loss crystallises Losses experienced in excess of those identified at acquisition are expensed through the Group Income Statement

Amortisation of the intangible asset

The intangible asset is amortised over the period over which revenue is earned from the existing and enduring customer relationships

16.3 Investment in Subsidiaries

	Company 2012 £000	Company 2011 £000
At 1 January	**8,157**	-
Acquisition of the Link Loans group of companies	-	8,157
Acquisition of the Singers group of companies	**57,818**	-
Capital reduction by subsidiary	**(31,041)**	
Dividends received from subsidiaries	**(13,707)**	
Acquisition of Money2Improve Limited	**601**	-
Provision for impairment	**(21,828)**	-
At 31 December	-	8,157

An impairment provision of £21 8m has been made against all of the investment in subsidiaries as at 31 December 2012 on the basis that these companies had £nil net assets following the transfer of their entire net assets to the Bank

17 Segmental Information

2012	**Secured Lending £000**	**Commercial Lending £000**	**Consumer Lending £000**	**Asset Finance £000**	**Other £000**	**Total £000**
Net operating income before interest expense and similar charges	12,247	7,985	1,873	28,065	114	50,284
Assets	163,094	200,630	29,435	348,493	302,454	1,044,106

2011	Secured Lending £000	Commercial Lending £000	Consumer Lending £000	Asset Finance £000	Other £000	Total £000
Net operating income before interest expense and similar charges	2,543	611	72	-	1,977	5,203
Assets	60,960	45,854	1,739	-	106,283	214,836

The Group is structured into four main segments which are Secured Lending, Consumer Lending, Commercial Lending and Asset Finance The central functions of the Group are included in 'Other' along with the Deposit and Treasury teams Profits generated from the Asset Finance division are for the period from acquisition of the Singers Group on 22 March 2012 to 31 December 2012

18 Income Statement Analyses

18.1 Interest receivable and similar income

	Group 2012 £000	Group 2011 £000
Interest on loans and advances to customers	**46,563**	3,599
Interest received and realised (losses) / gains on available for sale investment securities	**(86)**	835
Interest on loans and advances to banks and building societies	**389**	365
Interest receivable and similar income	**46,866**	4,799

18.2 Administrative Expenses

	Note	Group 2012 £000	Group 2011 £000
Staff costs	18 4	**15,749**	5,689
Profit on disposal of fixed assets		**(316)**	-
Depreciation (excluding operating lease assets)	19 6	**441**	150
Amortisation of intangible assets	19 7	**908**	-
Operating lease rentals - land and buildings		**723**	272
Impairment of intercompany balance		**-**	1,042
Other administrative expenses		**9,396**	5,577
Administrative expenses		**26,901**	12,730

18.3 Auditor's remuneration

	Group 2012 £000	Group 2011 £000
Audit of these financial statements	**170**	70
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	**70**	5
Other services pursuant to such legislation	**12**	-
Other services relating to taxation	**72**	16
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company or group	**-**	83
All other services	**14**	-

18.4 Staff numbers and costs

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

	Group 2012 No	Group 2011 No
Sales	**113**	43
Admin	**66**	28
	179	71

The aggregate payroll costs of these persons were as follows

	Group 2012 £000	Group 2011 £000
Wages and salaries	**14,010**	4,919
Social security costs	**1,173**	585
Pension costs	**566**	185
	15,749	5,689

The share based payment transactions gave rise to a £200k charge during the year which led to the creation of a Capital Contribution Reserve which is deemed to be fully distributable Full details of the share based payment scheme are shown in the accounts of the ultimate holding company

18.5 Directors' remuneration

	Group 2012 £000	Group 2011 £000
Directors' emoluments	**746**	574
Compensation for loss of office	**45**	-
Amounts paid to third parties for non-executive directors services	**30**	28
Contributions to money purchase pension plans	**12**	18
	833	620

Highest paid director	**Group 2012 £000**	Group 2011 £000
Directors' emoluments	**213**	185
Contributions to money purchase pension plans	**-**	13
	213	198

Retirement benefits are accruing to the following number of directors under

	Group 2012 No.	Group 2011 No
Money purchase schemes	2	2

18.6 Income tax expense

18 6 1 Recognised in the Income Statement

	Group 2012 £000	Group 2011 £000
Current tax		
Current year	3	6
Adjustment in respect of prior years	32	-
Total current tax	35	6
Deferred tax		
Origination and reversal of temporary differences	(1,341)	-
Adjustment in respect of prior years	147	-
Reduction in tax rate	747	-
Losses for the year	-	(2,313)
Total deferred tax	(447)	(2,313)
Total tax credit	(412)	(2,307)

18 6 2 Recognised in Other Comprehensive Income

	Group 2012 £000	Group 2011 £000
Effective portion of changes in fair value of cash flow hedges	1	(1)
Change in fair value of assets classified as available for sale	(147)	174
Tax on other Comprehensive Income	(146)	173

18 6.3 Tax reconciliation

	Group 2012 £000	Group 2011 £000
Loss for the year	(7,775)	(10,786)
Implied tax charge thereon at 24 5% (2011 26 5%)	1,905	2,858
Adjustments		
Prior year adjustment	(179)	-
Permanent difference arising from change in tax rate on deferred tax balances	(747)	(138)
Disallowable expenses and other permanent differences	(567)	(276)
Other adjustments	-	(137)
Total Tax	412	2,307

19 Statement of Financial Position Analyses

19.1 Cash and cash equivalents

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Cash and balances at central banks	229	229	-	-
Loans and advances to banks and building societies	117,114	116,962	28,891	26,982
Investment securities - available for sale (less than 3 months maturity from acquisition date)	62,927	62,927	46,747	46,747
Cash and Cash Equivalents	**180,270**	**180,118**	75,638	73,729

19.2 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 2012			
Interest Rate Swaps	108,372	-	-
At 31 December 2011			
Interest Rate Swaps	49,248	110	104

As part of the acquisition of the Singers group of companies, an amortising cap was acquired It has a strike price of 2 5%, and a notional value as at 31 December 2012 of £108m reducing to £nil by December 2014 The fair value of the cap at 31 December 2012 is £nil

19.3 Loans and Advances to Banks and Building Societies

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Placements with other banks and building societies included in cash and cash equivalents	117,114	116,962	28,891	26,982

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

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Aa2	-	-	57	57
Aa3	5,011	4,960	9,472	9,472
A1	-	-	4,556	4,556
A2	78,922	78,939	14,799	12,890
A3	33,181	33,063	-	-
Unrated	-	-	7	7
	117,114	116,962	28,891	26,982

The Bank only lends to UK high street banks and building societies Deposits are placed either overnight or for a short term with a duration of less than three months

19.4 Loans and advances to customers

Loans and advances to customers can be summarised as follows

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Loan receivables	394,750	394,817	111,413	111,513
Finance lease receivables	91,157	91,109	-	-
Instalment credit receivables	197,798	198,449	-	-
Total Loans and Advances to Customers	683,705	684,375	111,413	111,513

19 4 1 Loan Receivables

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Gross loan receivables	396,197	396,197	111,707	111,707
Allowances for impairment losses	(1,447)	(1,380)	(294)	(194)
Total Loan receivables	394,750	394,817	111,413	111,513

Loan Receivables (continued)

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Neither past due nor impaired	**393,873**	**393,873**	109,595	109,595
Past due but not impaired				
Up to 30 days	**808**	**808**	512	512
30-60 days	**465**	**465**	1,024	1,024
60-90 days	**370**	**370**	98	98
	1,643	**1,643**	1,634	1,634
Impaired	**681**	**681**	478	478
	396,197	**396,197**	111,707	111,707
Less allowances for impairment losses on loans and advances	**(1,447)**	**(1,380)**	(294)	(194)
Loans and advances to customers	**394,750**	**394,817**	111,413	111,513

The interest income recognised on impaired loans during the year was £95,562 (2011 £16,000)

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

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Secured on property	**364,833**	**364,833**	106,962	106,962
Unsecured	**31,364**	**31,364**	4,745	4,745
	396,197	**396,197**	111,707	111,707

The amount of collateral held at 31 December 2012 is £364 8m (2011 £107 0m) which is in the form of residential and commercial property

19.4 2 Finance Lease Receivables

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Gross amounts receivable				
within one year	44,136	44,136	-	-
in the second and fifth year inclusive	64,170	64,170	-	-
after five years	1,630	1,630	-	-
	109,936	109,936	-	-
Less unearned finance income	(17,767)	(18,176)	-	-
Allowances for impairment losses	(1,012)	(651)	-	-
Net investment in finance leases less provisions	91,157	91,109	-	-
Amounts falling due				
within one year	36,597	36,578	-	-
in the second and fifth year inclusive	53,208	53,180	-	-
after five years	1,352	1,351	-	-
Net investment in finance leases	91,157	91,109	-	-

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Neither past due nor impaired	86,480	86,071	-	-
Past due but not impaired				
Up to 30 days	4,335	4,335	-	-
30-60 days	79	79	-	-
60-90 days	12	12	-	-
over 90 days	19	19	-	-
	4,445	4,445	-	-
Impaired	1,244	1,244	-	-
	92,169	91,760	-	-
Less allowances for impairment losses on loans and advances	(1,012)	(651)	-	-
Finance lease receivables	91,157	91,109	-	-

19.4 3 Instalment Credit Receivables

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Gross amounts receivable				
within one year	108,976	108,976	-	-
in the second and fifth year inclusive	116,755	116,755	-	-
after five years	881	881	-	-
	226,612	226,612	-	-
Less unearned finance income	(26,855)	(26,755)	-	-
Allowances for impairment losses	(1,959)	(1,408)	-	-
Net investment in instalment credit less provisions	197,798	198,449	-	-
Amounts falling due				
within one year	95,119	95,433	-	-
in the second and fifth year inclusive	101,910	102,244	-	-
after five years	769	772	-	-
Net investment in instalment credit agreements	197,798	198,449	-	-

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Neither past due nor impaired	198,307	198,407	-	-
Past due but not impaired			-	-
Up to 30 days	152	152	-	-
30-60 days	36	36	-	-
60-90 days	35	35	-	-
over 90 days	79	79	-	-
	302	302	-	-
Impaired	1,148	1,148	-	-
	199,757	199,857	-	-
Less allowances for impairment losses on loans and advances	(1,959)	(1,408)	-	-
Instalment credit receivables	197,798	198,449	-	-

19 4 4 Cost of equipment acquired during the year

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Finance leases	50,684	50,684	-	-
Instalment credit	117,932	117,932	-	-
Total cost of equipment acquired during the year	168,616	168,616	-	-

19 4 5 Impairment

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

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
At 1 January	294	194	-	1,459
Acquired in business combinations	3,277	3,277	8	-
Fair value adjustment in business combinations	1,100	-	100	-
Provision for impairment losses	913	1,135	186	186
Provisions utilised	(494)	(494)	-	-
Provisions on loan disposal to Manchester Building Society	-	-	-	(1,451)
At 31 December	5,090	4,112	294	194

Analysis of impairment by type

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Write down on assets acquired in exchange for loans	26	26	-	-
Specific provisions against residual values on operating leases	646	647	-	-
Loan receivables	1,447	1,380	294	194
Finance lease receivables	1,012	651	-	-
Instalment credit receivables	1,959	1,408	-	-
At 31 December	5,090	4,112	294	194

19.5 Investment Securities - Available for Sale

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
UK Government Treasury Bills	144,868	144,868	21,983	21,983
UK Government Gilts	-	-	42,808	42,808
Investment securities - available for sale	144,868	144,868	64,791	64,791

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
At 1 January	64,791	64,791	-	-
Additions	991,639	991,639	76,447	76,447
Disposals and maturities	(912,162)	(912,162)	(10,998)	(10,998)
Net gains / (losses) from changes in fair value recognised in other comprehensive income	600	600	(658)	(658)
At 31 December	144,868	144,868	64,791	64,791

As at 31 December 2012, UK Government Gilts and Treasury Bills are rated AAA by Moody's

19.6 Property, Plant and Equipment

19 6 1 Group

	Freehold Property £000	Leasehold Property £000	Fixtures, Fittings & Equipment £000	Motor Vehicles £000	Operating Leases £000	Total £000
Cost						
At 1 January 2011	-	-	-	-	-	-
Acquired in business combinations	-	-	141	-	-	141
Additions	-	-	594	-	-	594
Disposals	-	-	(117)	-	-	(117)
At 31 December 2011	-	-	618	-	-	618
Acquired in business combinations	437	82	1,704	165	140,276	142,664
Additions	-	-	599	-	11,858	12,457
Disposals	-	-	(6)	(103)	(8,114)	(8,223)
Transfer to finance leases	-	-	-	-	(10,840)	(10,840)
Balance at 31 December 2012	**437**	**82**	**2,915**	**62**	**133,180**	**136,676**
Depreciation						
At 1 January 2011	-	-	-	-	-	-
Acquired in business combinations	-	-	128	-	-	128
Depreciation charge for the year	-	-	150	-	-	150
Disposals	-	-	(117)	-	-	(117)
At 31 December 2011	-	-	161	-	-	161
Acquired in business combinations	188	51	1,174	113	78,758	80,284
Fair value adjustment in business combinations	-	-	-	-	(1,659)	(1,659)
Depreciation charge for the year	7	9	418	7	11,992	12,433
Disposals	-	-	(3)	(60)	(6,697)	(6,760)
Impairment	-	-	-	-	81	81
Transfer to finance leases	-	-	-	-	(8,833)	(8,833)
Balance at 31 December 2012	**195**	**60**	**1,750**	**60**	**73,642**	**75,707**
Net book value						
At 31 December 2011	-	-	457	-	-	457
At 31 December 2012	**242**	**22**	**1,165**	**2**	**59,538**	**60,969**

Property, Plant and Equipment (continued)

19 6 2 Company·

	Freehold Property £000	Leasehold Property £000	Fixtures, Fittings & Equipment £000	Motor Vehicles £000	Operating Leases £000	Total £000
Cost						
At 1 January 2011	-	-	141	-	-	141
Additions	-	-	542	-	-	542
Disposals	-	-	(117)	-	-	(117)
At 31 December 2011	-	-	566	-	-	566
Transfer from subsidiaries	437	82	1,704	165	140,276	142,664
Additions	-	-	634	-	11,858	12,492
Disposals	-	-	(6)	(103)	(8,114)	(8,223)
Transfer to finance leases	-	-	-	-	(10,840)	(10,840)
Balance at 31 December 2012	**437**	**82**	**2,898**	**62**	**133,180**	**136,659**
Depreciation						
At 1 January 2011	-	-	128	-	-	128
Depreciation charge for the year	-	-	135	-	-	135
Disposals	-	-	(117)	-	-	(117)
At 31 December 2011	-	-	146	-	-	146
Transfer from subsidiaries	188	51	1,174	113	78,758	80,284
Depreciation charge for the year	7	9	418	7	11,642	12,083
Disposals	-	-	(3)	(60)	(6,697)	(6,760)
Impairment	-	-	-	-	81	81
Transfer to finance leases	-	-	-	-	(8,833)	(8,833)
Balance at 31 December 2012	**195**	**60**	**1,735**	**60**	**74,951**	**77,001**
Net book value						
At 31 December 2011	-	-	420	-	-	420
At 31 December 2012	**242**	**22**	**1,163**	**2**	**58,229**	**59,658**

19.7 Intangible assets

Group·

	Note	Customer Relationships £000	Goodwill £000	Total £000
At 1 January 2011		-	-	-
Acquired in business combinations		-	5,363	5,363
At 31 December 2011		-	5,363	5,363
At 1 January 2012		-	5,363	5,363
Acquired in business combinations	16 2	1,100	9,486	10,586
Amortised in the year		(908)	-	(908)
At 31 December 2012		**192**	**14,849**	**15,041**

19.8 Deferred Tax Asset

Deferred tax assets are attributable as follows

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Accelerated tax depreciation	9,016	9,016	-	-
Tax value of losses carried forward	1,912	1,912	2,312	2,312
Deferred tax on acquisition adjustments	(208)	-	-	-
Other	509	509	31	31
Deferred Tax Asset	11,229	11,437	2,343	2,343

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
At 1 January	2,343	2,343	31	31
Transfer Available for Sale debtor brought forward	174	174	-	-
Current period movement - recognised in income	1,341	1,075	2,313	2,313
Current period movement - recognised in equity	(147)	(147)	(1)	(1)
Prior year adjustment	(147)	(147)	-	-
Effect of tax rate changes	(747)	(770)	-	-
Deferred tax on acquisition adjustments	(497)	-	-	-
Acquired in business combinations	8,909	8,909	-	-
At 31 December	11,229	11,437	2,343	2,343

The Group has a deferred tax asset of £11 2m as of 31 December 2012 resulting from the accumulated losses during the start-up phase of development and also decelerated capital allowances The business reached breakeven in May 2012 and has generated profits thereafter The business plan projects profits in future years sufficient to utilise the £11 2m deferred tax asset

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively This will reduce the Company's future current tax charge accordingly The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement Based on the deferred tax asset at 31 December 2012 the impact of the future corporation tax rates reductions enacted and announced for 2014 and 2015 would be a reduction of benefit in 2013 of £0 9m in the Company and £0 8m in the Group and in 2014 of £0 6m in the Company and £0 6m in the Group

19.9 Other Assets

	Note	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Other debtors		**7,529**	**7,531**	1,203	1,183
Prepayments		**3,233**	**3,116**	191	191
Corporation tax recoverable		**101**	**144**	-	-
Amounts due from group companies	21	**88**	**212**	74	1,442
Other Assets		**10,951**	**11,003**	1,468	2,816

Other debtors in 2012 include £5 5m of operating lease rentals in advance

19.10 Customer Deposits

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
Instant access	**1,725**	**1,725**	1,888	1,888
Term deposits	**921,955**	**921,955**	178,531	178,531
Customer Deposits	**923,680**	**923,680**	180,419	180,419

19.11 Provisions for liabilities and charges

	Group 2012 £000	Company 2012 £000	Group 2011 £000	Company 2011 £000
At 1 January	**86**	**86**	20	20
Provisions utilised	**(25)**	**(25)**	(10)	(10)
Provisions made during the year	**731**	**731**	76	76
At 31 December	**792**	**792**	86	86

In common with all regulated UK deposit takers, the Group pays levies to the FSCS to enable the FSCS to meet claims against it The FSCS levy consists of two parts a management expenses levy and a compensation levy The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it

The FSCS meets these current claims by way of loans received from HM Treasury The terms of these loans were interest only for the first three years, and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members over this period

The Group FSCS provision reflects market participation up to the reporting date The above provision includes the estimated management expense levy for the scheme years 2012/13 and 2013/14 This amount was calculated on the basis of the Group's current share of protected deposits taking into account the FSA's estimate of total management expense levies for each scheme year

The management expenses levy for scheme year 2011/12, which formed part of the provision at 31 December 2011, was calculated using the agreed funding rate of 12 month LIBOR + 30bps Following the expiry of the initial three year fixed interest term, extensive negotiations between HMT and FSCS resulted in an agreed funding rate of 12 month LIBOR + 100bps which is the rate that will be charged for the HMT loans for the period from 1 April 2012, on which the management expenses levy for scheme year 2012/13 and 2013/14 has been based

In addition to the management levies, from scheme year 2013/14, triggered by participation in the market at 31 December 2012, the FSCS is to levy over three years the current estimated shortfall on capital loans outstanding of £802m In common with the management expenses levy, the compensation levy was calculated on the basis of the Group's current share of UK protected deposits

19.12 Other Liabilities

Other Liabilities

	Note	**Group 2012 £000**	**Company 2012 £000**	Group 2011 £000	Company 2011 £000
Other creditors		**16,104**	**16,165**	1,967	1,870
Accruals		**4,933**	**4,706**	1,949	1,975
Amounts due to group companies	21	**-**	**3,017**	-	1,880
Other Liabilities		**21,037**	**23,888**	3,916	5,725

Other creditors in 2012 includes £3 9m of operating lease rentals in advance and £4 4m of tax deducted at source from client deposit interest

19.13 Operating Leases

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

	Group 2012 £000	**Company 2012 £000**	Group 2011 £000	Company 2011 £000
Less than 1 year	**540**	**40**	-	-
Between 1 and 5 years	**1,037**	**1,105**	1,476	1,476
More than 5 years	**-**	**-**	-	-
	1,577	**1,145**	1,476	1,476

Leases as lessor

Operating lease rentals receivable from agreements classified as property, plant and equipment, as disclosed in note 19 6, are receivable as follows

	Group 2012 £000	**Company 2012 £000**	Group 2011 £000	Company 2011 £000
Less than 1 year	**14,276**	**14,276**	-	-
Between 1 and 5 years	**33,981**	**33,981**	-	-
More than 5 years	**1,403**	**1,403**	-	-
	49,660	**49,660**	-	-

19.14 Capital Commitments

The Group and Company have no capital commitments at 31 December 2012 (2011 - £nil)

19.15 Capital and reserves

19 15 1 Share Capital

Allotted and fully paid

	Ordinary shares of £1 each	
	2012	2011
	£000	£000
On issue at 1 January	**36,990**	2,000
Issued for cash	**75,000**	34,990
On issue at 31 December	**111,990**	36,990

During the year the Bank issued 75,000,000 Ordinary shares of £1 each for cash at par value

19.15 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

19 15 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

19 15.4 Capital Contribution Reserve

The Capital Contribution Reserve was created as a result of the share based payments scheme and is deemed to be fully distributable

19.16 Financial instruments

Fair values of financial assets and financial liabilities are based on quoted market prices If the market is not active the Group 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 Group 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 Group uses widely recognised 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)

19.16.1 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

19.16.2 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

19 16 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

19.16.4 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 tables

Group

	Fair value through Income Statement £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 2012						
Loans and advances to banks and building societies	-	117,114	-	-	117,114	117,114
Investment securities available for sale	-	-	144,868	-	144,868	144,868
Loans and advances to customers	-	683,705	-	-	683,705	683,705
	-	**800,819**	**144,868**	-	**945,687**	**945,687**
Customer Deposits	-	-	-	923,680	923,680	923,680
	-	-	-	**923,680**	**923,680**	**923,680**
At 31 December 2011						
Loans and advances to banks and building societies	-	28,891	-	-	28,891	28,891
Investment securities available for sale	-	-	64,791	-	64,791	64,791
Loans and advances to customers	-	111,413	-	-	111,413	111,413
Derivative Financial Instruments	110	-	-	-	110	110
	110	140,304	64,791	-	205,205	205,205
Derivative Financial Instruments	104	-	-	-	104	104
Customer Deposits	-	-	-	180,419	180,419	180,419
	104	-	-	180,419	180,523	180,523

Company

	Fair value through Income Statement £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 2012						
Loans and advances to banks and building societies	-	116,962	-	-	116,962	116,962
Investment securities available for sale	-	-	144,868	-	144,868	144,868
Loans and advances to customers	-	684,375	-	-	684,375	684,375
	-	**801,337**	**144,868**	-	**946,205**	**946,205**
Customer deposits	-	-	-	923,680	923,680	923,680
	-	-	-	**923,680**	**923,680**	**923,680**
At 31 December 2011						
Loans and advances to banks and building societies	-	26,982	-	-	26,982	26,982
Investment securities available for sale	-	-	64,791	-	64,791	64,791
Loans and advances to customers	-	111,513	-	-	111,513	111,513
Derivative financial instruments	110	-	-	-	110	110
	110	138,495	64,791	-	203,396	203,396
Derivative financial instruments	104	-	-	-	104	104
Customer deposits	-	-	-	180,419	180,419	180,419
	104	-	-	180,419	180,523	180,523

19.16.5 Fair value hierarchy

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

	Level 1 £000	Level 2 £000	Total £000
At 31 December 2012			
Available for sale financial assets	144,868	-	144,868
	144,868	**-**	**144,868**
At 31 December 2011			
Available for sale financial assets	64,791	-	64,791
Derivative financial assets	-	110	110
Derivative financial liabilities	-	(104)	(104)
	64,791	**6**	**64,797**

20 Risk Management

20.1 Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Bank The Bank faces this risk from its lending to

- Customer risk (Individual and business lending)
- Treasury credit risk

20 1 1 Customer risk

The key driver of credit risk remains a further slowdown in the UK economy which could lead to higher unemployment, deterioration in household finances and falls in house prices, all of which could increase arrears and defaults

The controlled management of credit risk is critical to the Bank's overall strategy The Bank has therefore embedded a comprehensive and robust risk management framework with clear lines of accountability and oversight as part of its overall governance framework The Bank has effective processes and policies to monitor, control, mitigate and manage credit risk within the Bank's risk appetite The GCPC provides oversight to the effectiveness of all credit management across the Bank and the controls in place ensure lending is within the Board approved credit risk appetite

The Bank's collections and recoveries processes aim to provide a responsive and effective operation for the arrears management process We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing a regular payment plan

The Group maintains a forbearance policy for the servicing and management of any customers entering into arrears across its lending products The Group 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 Group 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 Group 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 2012, the number of such forbearance arrangements in place was 11 (2011 15), the carrying value of which was £419,000 against which impairment provisions of £107,000 (2011 £15,000) were held

20.1 2 Treasury credit risk

Treasury credit risk arises from the wholesale investments made by the Bank's Treasury function, which is responsible for managing this aspect of credit risk in line with Board approved risk appetite and wholesale credit policies Wholesale counterparty limits are reviewed monthly by the ALCO based on analyses of counterparties' financial performance, ratings and other market information to ensure that limits remain within our risk appetite

The Group's maximum exposure to credit risk after provisions for impairment is as follows

	Group 2012 £000	**Company 2012 £000**	Group 2011 £000	Company 2011 £000
Cash and balances at central banks	**229**	**229**	-	-
Derivative financial instruments	-	-	110	110
Loans and advances to banks and building societies	**117,114**	**116,962**	28,891	26,982
Loans and advances to customers	**683,705**	**684,375**	111,413	111,513
Investment securities - available for sale	**144,868**	**144,868**	64,791	64,791
	945,916	**946,434**	205,205	203,396
Contractual commitments	**73,685**	**73,685**	25,950	25,950
Total Credit Risk	**1,019,601**	**1,020,119**	231,155	229,346

Contractual commitments represent agreements entered into but not advanced as at 31 December 2012

The above table represents the maximum credit risk exposure to the Group at 31 December 2012 and 2011 without taking account of any underlying security The security held at 31 December 2012 is £364 8m (2011 £107 0m) in the form of residential and commercial property and £291 9m (2011 £nil) in the form of finance lease and instalment credit agreements

An indication of the credit quality of loans and advances to customers can be seen in note 19 4 which shows the balances that have fallen past due and those that are impaired at 31 December 2012

Cash and cash equivalents primarily represent current account and UK money market balances with major UK financial institutions "Investment securities - available for sale" comprise high quality UK Government debt securities and further information can be seen in note 19 5

Included within loans and advances to banks and building societies as at 31 December 2012 is £nil (2011 £0 3m) which the Group has deposited as collateral against cash flow obligations under interest rate swap contracts held for cash flow hedging purposes

20.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost The Bank has, therefore, developed comprehensive funding and liquidity policies to ensure that it maintains sufficient liquid assets to be able to meet all financial obligations and maintain public confidence

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

The Bank reports its liquidity position against Individual Liquidity Guidance ("ILG") provided by the FSA for regulatory purposes

The Group 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 Treasury Bills 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 the Group's contractual undiscounted cashflows of its financial assets and liabilities

	Carrying amount £000	Gross nominal inflow / (outflow) £000	Less than 1 month £000	1 - 3 months £000	3 months to 1 year £000	1 - 5 years £000	More than 5 years £000
At 31 December 2012							
Assets							
Cash and balances at central banks	229	229	-	-	-	-	-
Loans and advances to banks and building societies	117,114	117,114	107,114	10,000	-	-	-
Loans and advances to customers	683,705	728,398	14,961	28,780	130,588	344,522	209,547
Investment securities - available for sale	144,868	144,952	95,452	47,500	2,000	-	-
	945,916	**990,693**	**217,527**	**86,280**	**132,588**	**344,522**	**209,547**
Liabilities							
Customer deposits	(923,680)	(1,383,930)	(164,657)	(350,878)	(352,860)	(515,535)	-
	(923,680)	**(1,383,930)**	**(164,657)**	**(350,878)**	**(352,860)**	**(515,535)**	-
At 31 December 2011							
Assets							
Derivative financial Instruments	110	110	-	-	1	109	-
Loans and advances to banks and building societies	28,891	28,891	28,891	-	-	-	-
Loans and advances to customers	111,413	199,636	1,067	2,133	9,595	78,813	108,028
Investment securities - available for sale	64,791	64,000	3,000	15,000	46,000	-	-
	205,205	292,637	32,958	17,133	55,596	78,922	108,028
Liabilities							
Derivative financial Instruments	(104)	(104)	-	-	-	(104)	-
Customer deposits	(180,419)	(192,934)	(4,990)	(76,414)	(51,071)	(60,459)	-
	(180,523)	(193,038)	(4,990)	(76,414)	(51,071)	(60,563)	-

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

	2012 Carrying amount £000	2012 Fair value £000	2011 Carrying amount £000	2011 Fair value £000
Balances with central banks	**229**	**229**	-	-
Loans and advances to banks and building societies	**117,114**	**117,114**	28,891	28,891
Investment securities - available for sale	**144,868**	**144,868**	64,791	64,791
Total liquidity reserve	**262,211**	**262,211**	93,682	93,682

The table below sets out the availability of the Group's financial assets to support future funding

	2012	2012	2012	2011	2011	2011
	Unencumbered			Unencumbered		
	Available as collateral £000	**Other £000**	**Total £000**	Available as collateral £000	Other £000	Total £000
Derivative financial Instruments	-	-	-	110	-	110
Loans and advances to banks and building societies	**117,114**	-	**117,114**	28,891	-	28,891
Loans and advances to customers	**683,705**	-	**683,705**	111,413	-	111,413
Investment securities - available for sale	**144,868**	-	**144,868**	64,791	-	64,791
Property, plant and equipment	**59,538**	-	**59,538**	-	-	-
Non-financial assets	-	**38,881**	**38,881**	-	9,631	9,631
Total assets	**1,005,225**	**38,881**	**1,044,106**	205,205	9,631	214,836

20.3 Market risk

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

The Bank has no foreign currency exposure and does not engage in any trading operations

The Bank's treasury function is responsible for managing the Bank's exposure to all aspects of market risk within the operational limits set out in the Bank's treasury policies ALCO approves the Bank's treasury policies and receives regular reports on all aspects of market risk exposure, including interest rate risk

20 3 1 Interest rate risk

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

20.3.2 Basis risk

Basis risk is the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics (for example, LIBOR and Bank of England Base Rate) This is monitored closely and regularly reported to ALCO This risk is managed where appropriate, through the use of derivatives, with established risk limits and other control procedures

The Bank's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with FSA guidance

20.3.3 Interest rate sensitivity gap

The Group considers a 200 basis points ("bps") movement to be appropriate for scenario testing given the current economic outlook and industry expectations The Group estimates that a 200 bps movement in interest rates paid / received would have impacted the 2012 results by £0 65m

The following table summarises the repricing periods for the Group'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

Group:

	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 2012							
Assets							
Cash and balances at central banks	-	-	-	-	-	229	229
Loans and advances to banks and building societies	117,114	-	-	-	-	-	117,114
Assets classified as available for sale	142,870	1,998	-	-	-	-	144,868
Loans and advances to customers	250,883	37,926	85,675	290,948	22,691	(4,418)	683,705
Operating leases	5,324	3,450	7,714	38,886	4,811	(646)	59,539
Other non-financial assets	-	-	-	-	-	38,651	38,651
	516,191	43,374	93,389	329,834	27,502	33,816	1,044,106
Liabilities							
Customer deposits	165,829	152,701	161,446	443,704	-	-	923,680
Other non-financial liabilities	-	-	-	-	-	21,829	21,829
Total equity	-	-	-	-	-	98,597	98,597
	165,829	152,701	161,446	443,704	-	120,426	1,044,106
Derivative Financial Instruments	-	-	-	-	-	-	-
Interest rate sensitivity gap	350,362	(109,327)	(68,057)	(113,870)	27,502	(86,610)	
Cumulative gap	350,362	241,035	172,978	59,108	86,610	-	
At 31 December 2011							
Assets							
Derivative financial instruments	-	-	-	-	-	110	110
Loans and advances to banks and building societies	28,891	-	-	-	-	-	28,891
Assets classified as available for sale	18,043	46,748	-	-	-	-	64,791
Loans and Advances to Customers	111,214	2	10	481	-	(294)	111,413
Other non-financial assets	-	-	-	-	-	9,631	9,631
	158,148	46,750	10	481	-	9 447	214,836
Liabilities							
Derivative financial instruments	-	-	-	-	-	104	104
Customer deposits	80,647	11,107	38,332	50,333	-	-	180,419
Other non-financial liabilities	-	-	-	-	-	4,020	4,020
Total equity	-	-	-	-	-	30,293	30,293
	80,647	11,107	38 332	50,333	-	34,417	214,836
Derivative Financial Instruments	(49,248)	-	500	48,748	-	-	-
Interest rate sensitivity gap	28,253	35,643	(37,822)	(1,104)	-	(24,970)	
Cumulative gap	28,253	63,896	26,074	24,970	24,970	-	

Company:

	Within 3 months £000	More than 3 months but less than 6 £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 2012							
Assets							
Cash and balances at central banks	-	-	-	-	-	229	229
Loans and advances to banks and building societies	116,962	-	-	-	-	-	116,962
Assets classified as available for sale	142,870	1,998	-	-	-	-	144,868
Loans and advances to customers	250,771	37,909	85,636	290,817	22,681	(3,439)	684,375
Operating leases	5,208	3,375	7,546	38,041	4,706	(647)	58,229
Other non-financial assets	-	-	-	-	-	23,869	23,869
	515,811	43,282	93,182	328,858	27,387	20,012	1,028,532
Liabilities							
Customer deposits	165,829	152,701	161,446	443,704	-	-	923,680
Other non-financial liabilities	-	-	-	-	-	24,680	24,680
Total equity	-	-	-	-	-	80,172	80,172
	165,829	152,701	161,446	443,704	-	104,852	1,028,532
Derivative Financial Instruments	-	-	-	-	-	-	-
Interest rate sensitivity gap	349,982	(109,419)	(68,264)	(114,846)	27,387	(84,840)	
Cumulative gap	349,982	240,563	172,299	57,453	84,840	-	
At 31 December 2011							
Assets							
Derivative financial instruments	-	-	-	-	-	110	110
Loans and advances to banks and building societies	26,982	-	-	-	-	-	26,982
Assets classified as available for sale	18,043	46,748	-	-	-	-	64,791
Loans and advances to customers	111,214	2	10	481	-	(194)	111,513
Other non-financial assets	-	-	-	-	-	13,736	13,736
	156,239	46 750	10	481	-	13,652	217,132
Liabilities							
Derivative financial instruments	-	-	-	-	-	104	104
Customer deposits	80,647	11,107	38,332	50,333	-	-	180,419
Other non-financial liabilities	-	-	-	-	-	5,811	5,811
Total equity	-	-	-	-	-	30,798	30,798
	80,647	11,107	38,332	50,333	-	36,713	217,132
Derivative Financial Instruments	(49,248)	-	500	48,748	-	-	-
Interest rate sensitivity gap	26,344	35,643	(37,822)	(1,104)	-	(23,061)	
Cumulative gap	26,344	61,987	24,165	23,061	23,061	-	

20.4 Capital risk and management

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

The amount and composition of the Bank's capital requirement is determined by assessing the Basel II Pillar 1 minimum capital requirement, the impact of stress and scenario tests under Pillar 2, and the Bank's ICG

The Bank adopts the standard approach to both credit and operational risk To meet Basel II Pillar 3 requirements, the Bank publishes further information about its exposures and risk management processes and policies on the Bank's website www shawbrook co uk

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

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 Group 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 ICG issued by the FSA

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

- Maintain a level of capital equal to the minimum that is set by the FSA in the ICG
- All capital will be Core Tier 1 capital Any change to this policy must be agreed by the Board

The following shows the regulatory capital resources managed by the Group and Company

	Group 2012 £000	**Company 2012 £000**	Group 2011 £000	Company 2011 £000
Share capital	**111,990**	**111,990**	36,990	36,990
Retained earnings	**(13,562)**	**(31,987)**	(6,199)	(5,712)
Core Tier 1	**98,428**	**80,003**	30,791	31,278
Intangible assets	**(15,041)**	**-**	(5,363)	-
Investments	**-**	**-**	-	(8,157)
Regulatory Capital	**83,387**	**80,003**	25,428	23,121

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

	Group 2012 £000	**Company 2012 £000**	Group 2011 £000	Company 2011 £000
Regulatory Capital	**83,387**	**80,003**	25,428	23,121
Intangible assets	**15,041**	**-**	5,363	-
Investments	**-**	**-**	-	8,157
Cash flow hedging reserve	**-**	**-**	4	4
Available for sale reserve	**(31)**	**(31)**	(484)	(484)
Capital contribution reserve	**200**	**200**	-	-
Total Equity	**98,597**	**80,172**	30,311	30,798

21 Other Analyses

21.1 Related party transactions

Related parties of the Group include the Bank's parent company, 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

21.1 1 Group

	Laidlaw Acquisitions Limited £000
At 1 January 2011	-
Transactions during the year	74
At 31 December 2011	74
At 1 January 2012	74
Transactions during the year	14
At 31 December 2012	**88**

21.1.2 Company

	Singers Corporate Asset Finance Limited £000	Singers Healthcare Finance Limited £000	Singers Asset Finance Holdings Limited £000	Link Loans Limited and Subsidiaries £000	Laidlaw Acquisitions Limited £000	Other Group companies £000	Total £000
At 1 January 2011	-	-	-	-	-	-	-
Net assets transferred to Shawbrook	-	-	-	(512)	-	-	(512)
Acquisition costs	-	-	-	-	1,116	-	1,116
Impairment of intercompany balance	-	-	-	-	(1,042)	-	(1,042)
At 31 December 2011	-	-	-	(512)	74	-	(438)
Amounts due to group companies							(1,880)
Amounts due from group companies							1,442
At 31 December 2011							(438)
At 1 January 2012	-	-	-	(512)	74	-	(438)
Net assets transferred to Shawbrook	(251,774)	(118,628)	(40,246)	(1,879)	-	-	(412,527)
Repayment of third party funding	218,195	106,943	-	-	-	-	325,138
Share capital cancelled	31,041	-	-	-	-	-	31,041
Dividend paid	2,470	11,237	-	-	-	-	13,707
Capital reduction	-	-	40,230	-	-	-	40,230
Other	(9)	42	-	-	14	(3)	44
At 31 December 2012	**(77)**	**(406)**	**(16)**	**(2,391)**	**88**	**(3)**	**(2,805)**
Amounts due to group companies							(3,017)
Amounts due from group companies							212
At 31 December 2012							**(2,805)**

21.2 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 and its subsidiaries 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