

Shawbrook Bank Limited
Annual Report and Accounts
For the Year Ended 31 December 2014

TUESDAY



A4C33Z9N

A25

21/07/2015

#186

COMPANIES HOUSE

Table of Contents

2014 Highlights	3
Strategic Report	4 – 24
Chairman's Statement	4 - 5
Chief Executive's Review	6 - 7
Business Model	8 – 9
Operating Environment	10
Principal Risks and Uncertainties	11 – 13
Business Review	14 - 24
Directors' Report	25 - 26
Financial Statements	27 – 91
Statement of Directors' Responsibilities	28
Independent Auditor's Report	29
Financial Statements	30 - 35
Notes to the Financial Statements	36 - 91
Glossary	92 – 95

COMPANY INFORMATION

Non-Executive Directors

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

Executive Directors

Richard Pyman (Chief Executive Officer)
Tom Wood (Chief Financial Officer)

Secretary & Registered Office

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

Independent Auditor

KPMG LLP
15 Canada Square
London, E14 5GL

Bankers

Royal Bank of Scotland plc
Bishopsgate
London, EC2M 4RB

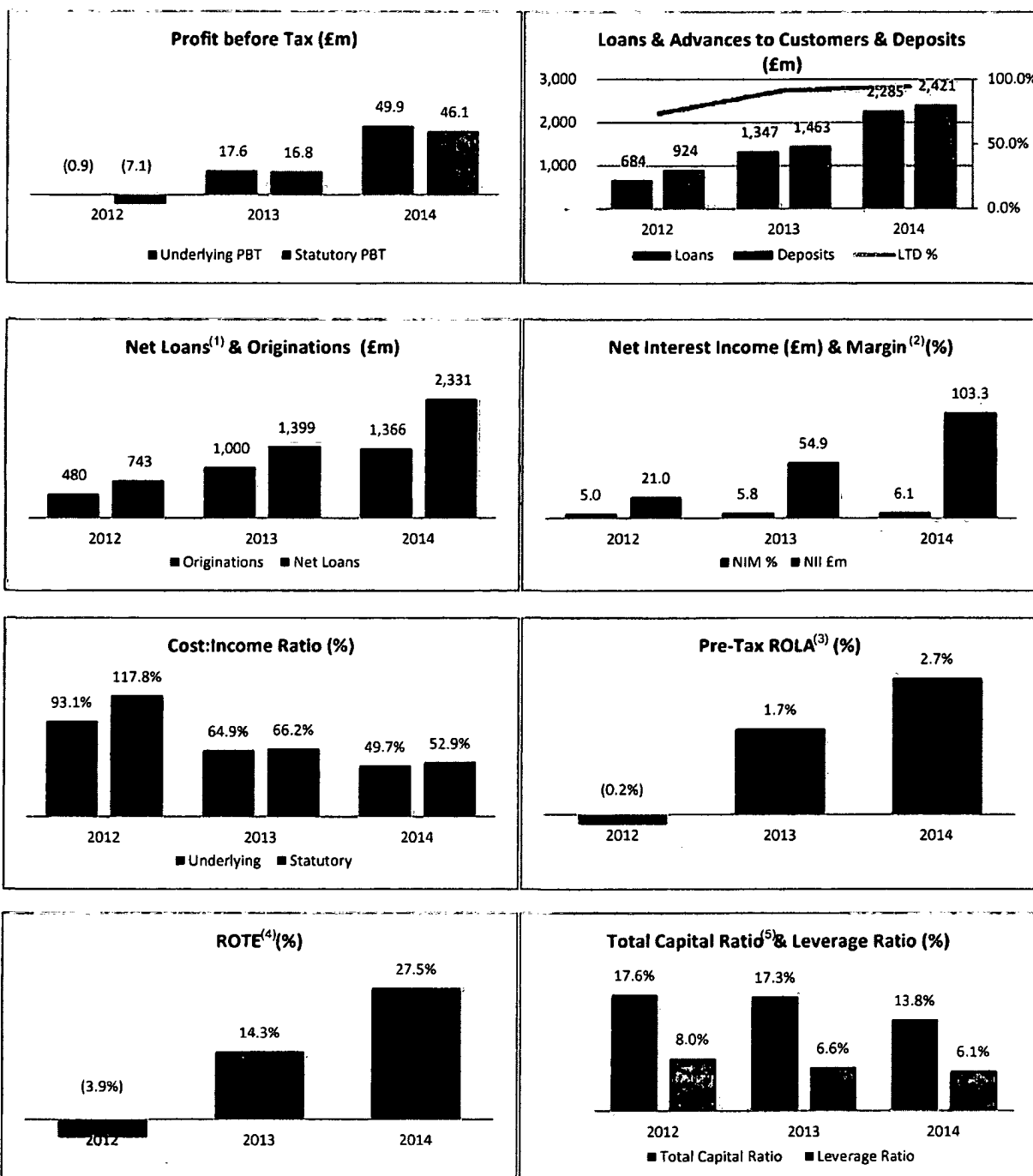
Solicitors

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

Company number: 388466

2014 Highlights

Financial performance



(1) Net loans include loans and advances to customer plus operating leases.

(2) Net interest margin is calculated as underlying net operating income divided by average principal employed.

(3) Return on lending assets before tax is calculated as underlying profit/(loss) before taxation divided by average principal employed.

(4) Return on tangible equity is calculated as underlying profit/(loss) for the year attributable to owners divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period divided by two.

(5) Total capital ratio is calculated as total capital for regulatory purposes divided by risk-weighted assets.

Strategic Report

Chairman's Statement

As a rapidly growing UK specialist lending and savings bank, 2014 was a transformational year for the Group. It saw the Group continue on its upward trajectory, delivering impressive growth and returns.

I am delighted, therefore, to announce a very strong set of 2014 results that validate the proposition upon which our business was founded, to demonstrate competitive advantage in our carefully chosen specialist markets. By staying true to our promise to offer a fresh, pragmatic approach to lending and savings based on traditional values, we have gained our customers' trust and are now experiencing significant repeat business and building valued relationships that combine to support sustainable returns.

Our differentiated lending proposition and the increased customer demand for specialist lending is enabling us to grow at a robust but steady rate. This growth is delivered from within the framework of a robust risk management culture and carefully fostered in an environment where everyone is responsible for risk; indeed individual responsibility is embedded in our DNA.

The results are impressive: in 2014, the Group originated an average of £114m in new loans per month to SMEs and consumers in the UK and we welcomed 66,000 new customers through our 'virtual' doors. Our origination grew steadily in the year from an average of £103m per month in the first half of 2014 to an average of £137m per month in Quarter 4 of 2014. Our deposit base increased by 65% to £2.4bn and we maintained strong liquidity and capital positions, further strengthening the Bank and enhancing its platform for growth. Liquidity remains of the highest quality, and we have made significant investments in our infrastructure and systems that are delivering tangible improvements. We also invested in an asset backed lending and invoice discounting business, acquiring the Centric Group in June 2014. It has since been rebranded Shawbrook Business Credit.

Our strategy of providing business partners and customers with a reliable, expert, dynamic and straightforward banking service in our chosen sectors is succeeding. Our strategic priority will be to deliver the visible growth potential that we believe is inherent in the business today. We will expect to realise incremental growth by increasing our presence within our current markets together with expanding into adjacent markets and introducing new product ranges, while maintaining the high-quality underwriting and individual talent that is fundamental to our lending decisions. We further expect to maintain and develop our reputation as a preferred partner among brokers, professional introducers and other business partners in our network, and leverage our infrastructure to drive further improvements in cost/income. We will also seek to enhance funding sources through our established and resilient savings operation and leverage our robust acquisition and integration track record. Our key priority, however, remains our focus on the customer, and in maintaining this focus we intend to continue to deliver strong financial performance and attractive returns while maintaining a stable and strong balance sheet that supports dividend payments.

The UK lending environment

As the standard of conduct required in connection with providing all financial products and services increases, high-street banks are facing increasing challenges in operating to the required standards across a complex range of products and multiple distribution channels. This has created an attractive market environment for specialist lenders such as Shawbrook, who targets areas of lending that are poorly served or underserved by the large high-street banks.

High-street banks have tended towards lending high volumes of commoditised products to the largest sections of the lending market, thus leaving many SMEs poorly served and increasingly looking to specialist lenders to satisfy their funding requirements. In areas that require specialist market knowledge, alternative lenders such as Shawbrook have been able to evolve a bespoke and personalised service that resonates with their audience, and allows them to develop long-term relationships with their customers built on trust and an in-depth understanding of their needs.

Many customers are also seeking a return to the traditional values of strong customer service, with preferences for human interaction, specialist underwriting and strong long-term customer relationships.

Other factors are also impacting the lending environment. Political support for alternative lenders has increased: the Treasury Select Committee is concluding its inquiry into SME Lending, whilst the CMA is investigating the provision of banking services to SMEs as part of its recently announced inquiry into competition in retail banking.

Higher capital requirements under Basel III and CRD IV have resulted in capital shortfalls at many large financial institutions, and this too has led to significant deleveraging across the banking industry. The result is that many high-street banks have chosen to realign their businesses to reflect the new regulatory and capital environment, and this again has led to a focus on commoditised product at the expense of areas that require more complex underwriting and more detailed knowledge of their counterparties.

This difficulty has created significant opportunities for lenders, including the Group, to address bespoke customer lending requirements. In our case this is achieved, and regulatory standards are met, through a combination of advanced data and analytical techniques, highly skilled and experienced staff with deep credit expertise, and strong customer and intermediary relationships.

Strategic Report

Chairman's Statement (continued)

Evolving customer preferences

In recent years, customers have become increasingly discerning. They perceive that large banks are not willing to lend to SMEs and are not maintaining support for their existing borrowers. The Group, with its strong customer ethos and focus, is well positioned therefore to broaden its customer base with relationships based on needs and personalised service.

SME customers and consumers are also demonstrating evolving behaviour in the way they approach their financial services providers. Many are now more willing to consider specialist providers of financial products and to purchase products from multiple providers rather than relying on their clearing bank for all of their financial needs. At the same time, greater customer awareness of the complexities of financial products has led to an increased role for intermediaries as customers seek expert advice. As a result the market environment has evolved from one where large institutions could rely on brand, customer inertia and cross-selling to dominate, to one where customers are more willing to engage directly with specialists or intermediaries to find products better suited to their requirements. The Group's strong broker and business partner intermediary network ensures we are well positioned to benefit from customers who retain specialists to source products that best meet their business needs.

Future Outlook

I believe the Group has come a long way in four years. Our results speak for themselves and are a clear demonstration that there is a demand in the UK financial services landscape for a bank that has at its heart a strong customer service ethos that delivers on its promises, and provides a service that is underpinned by a strong risk culture and expert teams. With a clearly defined strategy aligned to meet external market conditions the Group is well positioned for the next successful stage in its development. This is down to the hard work and dedication of the senior management team and staff throughout the Group, the Board would like to take this opportunity to thank each and every one of them and to appreciate the contribution of Sir Brian Ivory who stepped down from the Board of the Bank.

Strategic Report

Chief Executive's Review

A bank built on old-fashioned values of mutual respect

A well-balanced bank maintains equilibrium between the needs of customers, shareholders, staff and regulators; I am asked often what our bank, Shawbrook, stands for: I believe that it seeks, thoughtfully and respectfully to strike that cultural balance appropriately, to treat each of those four parties with professionalism and good manners, having as a consequential objective that we become known for our values just as we do for our results. Many will read this with a sigh and say that it has been said many times, and will sceptically turn the page; I hope that more of you will read on.....

Our story's foundation lies in the structural change that has arisen in British banking: customer disappointment in the large high-street banks arose not solely because of a lack of choice, or a weakness of service but also, critically for a specialist bank, because elements of the market were not well covered; specifically, some small and medium- sized businesses felt that they were given little choice for debt facilities and many savers were unhappy with how hard it appeared to be to deposit at a fair rate in an efficient way. This structural change has led to ever-increasing concentration by the largest banks on scalable markets...and it is that which offers specialist banks simultaneously the chance to create a good impression with the customer base and to earn a strong risk- adjusted return... with good service, specialist experience and high endeavour being our chosen tools of competition.

We therefore built the bank on our values: we would communicate with our customers as personally as possible, we would, within the strong boundaries of discipline, be pragmatic and not slavish to the dogma of the tick-box, we would have experts in our markets; finally, whilst having in some ways an old- fashioned approach to human interaction and long-standing relationships, we would make strong use of modern technology for customer service and use of data analytics.

We are proud of what we have built on these foundations

Of all the achievements in the year just gone, we are most pleased with what our customers have said; late in the year, we asked an external firm to canvass the views of over 1,500 borrowers and savers to see whether the attributes and values we earnestly pursue resonate and answer their needs: we achieved over 92% satisfaction, a net promoter score of 33 – at a time when some of the industry is in negative territory- and a wholehearted affirmation of our values; we have won multiple industry awards as well. We will strive to do more, but this is in all candour a great point of departure. Furthermore, in only Shawbrook's third full year, we achieved an underlying pre-tax profit of £49.9 million at an underlying post-tax return on tangible equity of 27.5%. We also have a happy and growing staff who enjoy being with us; we have robust capital and liquidity ratios well above the statutory minima. In short, we believe we have, without complacency, come a long way on our journey towards striking the correct balance I referred to earlier, between customers, shareholders, staff and regulators.

Our Chosen Markets

We have chosen carefully the markets where we believe that customers have a real need and where we, through the experience of our teams, understand the customers and the credits well; for SME customers, we offer Commercial Mortgages (£969m* and mainly secured on residential properties), Asset Finance (£564m*) and Business Credit (£170m* and principally invoice finance) and for consumers, we offer Secured Lending supported by second liens on their properties (£401m*) and Consumer Lending in the form of unsecured loans mainly for the acquisition of home improvement or other products (£227m*). We do not aim to cover all areas of these markets, but do celebrate the strength and longevity of the relationships we have with customers and business partners - those who introduce business across some of our segments - as this longevity brings repeat business, at once a source of greater quality (as we are interacting with proven counterparties) and efficiency, as a repeat customer is already known to us. The diversity of our offering, and this aspect of high repeat business, are two of the strengths of our model, and the fact that borrowers and business partners use us again and again is another affirmation of the customer's experience at Shawbrook. Our savings are principally retail, and our fixed rate, notice and ISA offerings are delivered swiftly and efficiently by a team in Brentwood, Essex, our primary location.

* total lending assets as at 31.12.14.

Chief Executive's Review (continued)

2014 Financial Highlights

Our underlying pre-tax profit was £49.9 million, compared to £17.6 million in 2013; the increase arises partly because we have grown the bank's asset base, with lending assets increasing from £1.4 billion as at 31/12/2013 to £2.3 billion as at 31/12/2014 and partly as we have become more efficient as our infrastructure scales; this latter point, the increasing efficiency, gives rise to an underlying cost to income ratio of 50% and expected to fall further. In addition, we not only achieved an underlying post-tax return on tangible equity of 27.5% for the full year but also saw this increase in the second half of 2014 to 30.2%, and, again, this trajectory is improving further. The growth we have achieved has come from new originations of £1.4 billion in the year, again with an increasing trajectory in both the second half and the last quarter of the year. We ended the year as we began it, with strong capital and liquidity positions: our total capital ratio was 13.8% and our average contractual deposit maturity was 14 months, a long duration relative to many of our peer group, and deliberately so.

Asset Quality

The experience of our teams continues to drive high asset quality; with c 90% of our lending collateralised, and with very low levels of arrears across all of our portfolios, we have continued to show a very low cost of risk, 0.36% of average principal employed for the full year. We lend at low loan to values in our property businesses – a weighted average of approximately 65%, and our policy is not to lend over 75% in the Commercial Mortgages business, for example – and believe that our risk culture is healthy: each customer-facing area has ownership of customer outcomes, asset quality as well as new business, and this is supported by strong challenge from the experienced second line of defence, and our internal auditors Deloitte as the third line of defence.

Acquisition of the Centric Group, now Shawbrook Business Credit

In June 2014 we were delighted to welcome the team from the Centric Group to Shawbrook; Centric's business filled an obvious gap for us as it offers businesses working capital facilities, whilst our offerings until it joined covered only the fixed asset finance for such companies. Furthermore, Centric's culture of customer support and stewardship matched strongly with our own. The team has been involved in invoice finance for many years and enjoys an excellent reputation.

Innovation and Technology

Among many important initiatives, we have created by our own investment and endeavour an innovative new system for our Secured Lending business; the 'DJ' platform (named after one of Shawbrook's founders, the late David Johnson) interacts simultaneously with the Credit Bureaux and the Land Registry, streamlining the application process for our business partners. Among many other important initiatives, we have developed an excellent e-signature capability in our Consumer Lending business, and have made a major investment in a new Asset Finance platform, expected to commence in the first half of 2015.

The Year Ahead

We believe that we have made great progress in 2014: we have remained true to our values and objectives as set out above; we have grown the balance sheet profitably and soundly, and are beginning to make Shawbrook a more familiar name; we are not complacent: we are aware we live in a benign credit climate but believe that our conservatism and experience give us well-founded confidence that we have considered this carefully; we accept that customers have a range of potential suppliers, but believe that our work ethic and attractive products and service are invaluable competitive advantages; we respect hugely our management and staff, and are appreciative of the commitment and tenacity they have shown in achieving all that has been done.

Finally, a review is by definition too focused on the past; it is a pleasure to be able to discuss what has been completed in 2014, but, much more importantly, we look ahead to 2015 and beyond....that is what is most important to Shawbrook, and we anticipate it with optimism and determination.

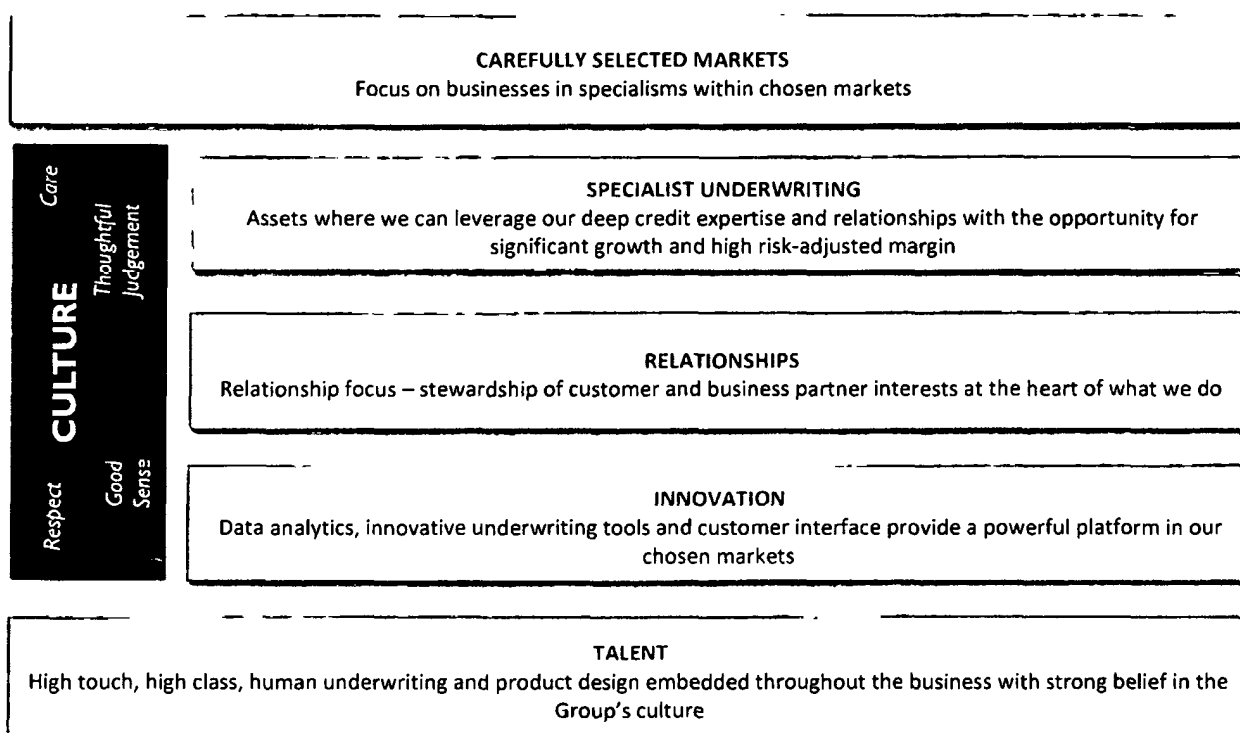
Strategic Report

Business Model

The Group's approach to lending is fresh and pragmatic, and based on the core values of respect, care, good sense and thoughtful judgement. It differentiates its service in many ways, focusing, for example, on carefully selected markets where its specialist knowledge and underwriting expertise can deliver competitive advantage. It understands the critical importance of relationships, both with its customers and its business partners, and how innovations ranging from new original platforms to the Shawbrook App can be harnessed to deliver best-in-class service. And it recognises the value of people, always ensuring the 'human touch' is applied to all of its business decisions.

The UK banking environment has changed radically over the last few years. Traditional, high-street banks have increasingly adapted their lending models to focus on high volumes of commoditised products, leaving many SMEs and individuals poorly served and actively looking for alternative sources of funding. This environment continued to provide a supportive backdrop to the Group's on-going growth and development in 2014.

The key pillars of the Group are:



The Group serves both SMEs and consumers in the UK with a range of lending and savings products. It focuses its activities on specific markets – including commercial mortgages, consumer loans, secured lending, asset-based lending and invoice finance services – where its strong relationships, specialist knowledge and commitment to service can be clearly evidenced, and where opportunities for significant growth have been identified.

Strategic Report (continued)

The Group has five lending divisions, each with individual reporting responsibilities:

- Commercial Mortgages - provides mortgages for residential investment and commercial and semi-commercial investment to professional property investors and SME owner-occupiers;
- Asset Finance - a proven lender in the UK SME and healthcare markets, financing a range of business critical assets;
- Business Credit - provides funding to UK SMEs with revenues of between £2 million and £100 million across 20 different business sectors. These facilities are mainly secured against accounts receivables;
- Secured Lending - offers what the Directors believe is one of the widest secured loan product ranges in the market to super prime, prime and near prime borrowers. The loans are mainly secured by way of a second charge on the client's primary residential property; and
- Consumer Lending - provides home improvement loans, holiday ownership loans, retail point of sale loans and personal loans predominantly to prime home owners.

There is also a sixth operating division comprising the Group's Retail Savings division and its central corporate functions and common costs.

The Group is funded predominantly through retail and SME deposits and as at 31 December 2014, it had a loan-to-deposit ratio of 94%. To date, the Group has focused on raising longer-dated contractual deposits across both the notice account and fixed-term retail bond markets to closely match its lending assets. As at 31 December 2014, 85% of the Group's deposits had a contractual duration of greater than 90 days.

The Group sources its deposits directly, mostly through an online origination platform that enables the Group to raise significant volumes of retail and SME deposits based on fair and consistent pricing. This direct sourcing model enables the Group to be flexible in its approach to funding, including managing inflows and tailoring maturity of the deposits to manage liquidity risk. This online channel is supported by a highly experienced Retail Savings team, which provides support to new and existing customers.

The Group's business model is designed to meet its key strategic priorities and is shaped by the environment in which it operates. Its strategic priorities are:

- progressively increasing originations across all lending divisions;
- maintaining the credit quality of the lending book;
- maintaining and enhancing its customer focus;
- embedding strong management of risks and controls; and
- building strong profit performance as the business grows into its cost and capital base.

In summary, in 2014, the bank originated £1.4bn of new loans, a 37% increase year-on-year, thus meeting its objective of increasing new business volumes. The quality of its lending book is evidenced by a strong average loan-to-value (LTV) of less than 65%, low arrears (2.0% of the book) and minimal cost of risk (0.36%). Positive feedback from both customers and business partners suggests that the Group is maintaining its customer focus and that it continues to operate within its credit and operational risk tolerances. A healthy loan-to-deposit (LTD) ratio of 94%, strong Tier 1 capital ratio of 13.8% and liquidity balances of £511 million shows that the Group has a strong and sustainable balance sheet.

Strategic Report (continued)

Operating Environment

The macroeconomic environment in the UK has affected, and will continue to affect, the Group's results. The Group is focused solely on the UK and has successfully grown its business despite the UK economy having endured turbulent economic conditions and a recession in the period following the onset of the global financial crisis in 2008. The UK economy continues to recover from the low point experienced during 2009, and this trend is expected to continue throughout 2015. GDP growth reached 2.6 per cent. in 2014, representing the fastest pace of growth since 2007, and up from 1.7 per cent. in 2013.

The overall performance of the UK economy drives SME performance, employment levels, property prices and aggregate savings balances, all of which can impact the Group's performance. The impact of these macroeconomic factors on the Group can be direct or, to the extent these factors impact business activity and consumer confidence, indirect. The Directors believe that the signs of improved economic activity, together with *gradual on-going improvements in labour market conditions*, will support continued growth in the Group's chosen specialist markets. The Directors believe that improvements affecting the Group's SME customers will drive increased demand for the Group's Commercial Mortgages, Asset Finance and Business Credit loan products and that improvements affecting the Group's consumer customers will drive increased demand for the Group's Secured Lending and Consumer Lending loan products.

Levels of unemployment affect the default levels experienced by banks, including the Group. Employment prospects have continued to improve during 2014 with the unemployment rate dropping from 7.2 per cent. at the end of 2013 to 5.7 per cent. at the end of 2014. Focus on the unemployment rate increased following initial indications from the Bank of England's Monetary Policy Committee ("MPC") that the MPC would not consider a rise in the Bank of England's base rate (the "Base Rate") until the unemployment rate had fallen below 7.0 per cent. The Group believes the MPC is likely to delay increasing interest rates which have remained unchanged since March 2009 until it sees evidence that suggests the recovery in the economy is widespread and sustainable. Consensus forecasts and guidance from the Governor of the Bank of England suggest gently rising interest rates over the coming years.

Property prices, which can affect the Group's Secured Lending and Commercial Mortgages divisions, are broadly correlated with economic growth and have increased since 2010. Consumer savings balances, which represent the supply of savings held by depositors and available for banks as a source of funding, and which are the Group's primary source of funding, have also grown recently. These developments reflect UK GDP growth and have, in addition to other factors, supported the Group's growth.

Price competition between banks eased after the financial crisis as the larger UK institutions addressed their structural imbalance between wholesale and retail funding and regulators facilitated access to lower marginal cost liquidity, for example, through the Funding for Lending Scheme ("FLS"). The Group's average rate paid on retail deposits was 2.5 per cent., 3.2 per cent. and 4.0 per cent. for 2014, 2013 and 2012, respectively. This decreased cost of funds for retail deposits funds has been a contributing factor to the Group's improved net interest margin over the past two years.

The introduction of the FLS in 2012 has, in addition to other factors, supported improving liquidity in the funding markets for UK lenders. Supplemented by the UK Government's Help to Buy scheme, these initiatives have helped to support UK property prices, particularly since the middle of 2013. The Group is a participant in the FLS and as such can borrow, supported by assets from both the Commercial Mortgages and Asset Finance divisions, highly liquid UK Treasury Bills, at a fee of 25 basis points (provided the Group maintains or expands its lending over the reference period), in exchange for eligible collateral, which has been pre-positioned with the Bank of England. These initiatives have contributed to improvements in the Group's net interest margin over the period under review, particularly during FY 2014, although the Group may not be able to take advantage of the FLS to the same extent as some of its competitors because certain collateral taken by some of the Group's divisions is ineligible for exchange under the FLS. In addition, the UK Treasury Bills borrowed under the FLS are eligible to be counted towards the Group's liquidity resources under the PRA's Individual Liquidity Guidance framework, and they are also available for, but not required to be used in, repurchase transactions. As at 31 December 2014, 34% (£163.1m) of the Group's liquidity buffer eligible assets comprised UK Treasury Bills borrowed under the FLS.

Strategic Report (continued)

Principal Risks and Uncertainties

Risk management focus areas come through the established management and committee structures that operate across the organisation; and through the Board Risk and Audit committees as well as the Board itself. Close scrutiny is applied in each committee meeting with strong Non-Executive representation on the principal committees.

We have listed below the principal risks and uncertainties we face, how we seek to mitigate those risks and where further information can be found in this report relevant to the risk or uncertainty.

The disclosures below should not be regarded as a comprehensive list of the risks and uncertainties faced by the Group but rather a summary of those which the Group currently faces and believes have the potential to have a significant impact on its financial performance and future prospects.

Risk/Uncertainty	Risk mitigation and management	Further information
<u>Macroeconomic and competitive environment:</u> Changing economic and competitive conditions in the UK, particularly in England where the majority of the Group's operations are based, could affect the Group's performance in a multiple of ways including: • Reduced demand for the Group's products and services; • Higher impairment charges resulting from customers inability to repay loans and lower asset values for security held against these loans; • Fluctuations in interest rates may negatively impact the net interest margin of the Group.	In setting strategy and Risk Appetite the Board pays close attention to the impact of the economic outlook on the competitive environment within which the Group operates. At present the overall operating environment is relatively benign, however the Board has been clear in setting Risk Appetite that it is cognisant of future risk should the environment change and as such has maintained underwriting discipline across the Group. The Board also establishes a prudent balance sheet strategy with robust levels of capital, liquidity and long-dated funding structure.	Strategic Report on pages 8 to 24.
<u>Credit risk:</u> Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. These risks are managed by the Board Risk Committee and Asset and Liability Committee. This risk has two main components: • Customer risk (individual and business lending) • Treasury credit risk	The controlled management of credit risk is critical to the Group's overall strategy. The Group has embedded a Risk Management Framework with clear lines of accountability and oversight as part of its overall governance framework. The Group has effective processes and policies to monitor, control, mitigate and manage credit risk within the Group's risk appetite. The Group Credit Committee provide oversight to the effectiveness of all credit management across the Group and the controls in place ensure lending is within the Board approved credit risk appetite. The Group's Treasury function, which is responsible for managing Treasury credit risk in line with the Board approved risk appetite and wholesale credit policies. Wholesale counterparty limits are reviewed monthly by the ALCO based on an analysis of counterparties' financial performance, ratings and other market information to ensure that limits remain within our Risk Appetite.	Further details on loans and advances to customers are in note 15 on pages 48 and 49 of the Financial Statements.

Liquidity and funding risk:

Liquidity risk is the risk the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.

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

The Group reports its liquidity position against ILG provided by the PRA for regulatory purposes.

A liquid asset buffer of government Treasury Bills acquired under the FLS and reserves with the Bank of England is maintained as a source of high quality liquid assets that can be called upon to create sufficient liquidity in order to meet liabilities on demand.

Further detail on the Group's funding and liquidity position is detailed in note 31.

Regulatory change:

The Group operates in a highly regulated environment. Regulatory and legislative changes have the potential to significantly impact the Group's markets and financial performance.

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

Not applicable

Operational risk:

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including strategy and reputational risks.

All of the Group's staff manage operational risk, in their day-to-day working lives, through policies, procedures, staff training, continuous development and checks put in place to mitigate errors, either unintentionally or otherwise.

The Group has an Operational Risk Register to monitor the key risks and more detailed departmental procedures to manage individual risks.

Not applicable

Conduct & Compliance risk:

Conduct Risk is the risk that the Group's behaviour will result in poor customer outcomes.

Compliance Risk is the risk of regulatory sanction, material loss or reputational damage due to poor implementation and operation of processes, systems and controls.

The Group has a zero appetite for any unfair customer outcomes arising from any element of the conduct risk lifecycle, which includes product design, sales or after sales processes and culture. Where it identifies conduct risks for customers the Group will be proactive in escalating, agreeing appropriate actions and communicating clearly with our customers to ensure a fair outcome is achieved.

All Directors and Management across the Group are acutely aware that, in choosing to operate in a highly regulated, competitive and customer-focussed environment, the Group's brand and franchise is consistently exposed to potential contagion and reputational risks, and they are all aware that encouraging the right cultural drivers, doing the right thing for the customer and prompt management actions are likely to reduce the impact of such events.

Not applicable

Cyber risk:

Cyber risk is the risk that the Group is subject to some form of disruption arising from interruption to its IT and data infrastructure.

The Group has placed increased emphasis on ensuring that its IT infrastructure, resilience and security meet the on-going needs of the business. In particular through an increased level of investment in cyber risk controls to ensure that the Group maintains appropriate levels of control to identify and counter an increased level of threat arising from cyber crime.

Not applicable

Interest rate risk:

Interest rate risk is the risk of financial loss through un-hedged or mismatched asset and liability positions that are sensitive to changes in interest rate risk.

The Group seeks to match the interest rate structure of assets with liabilities to create a natural hedge. Operating within internal limits the Group may enter into swap agreements to manage interest rate risk where internal hedges are not available.

Not applicable

Business Review

Basis of preparation

The Group has included underlying results in this report, on the basis that they are a useful indicator of the Group's operating performance before items which are believed to be exceptional and/or not relevant to the assessment of the Group's operating performance and that they are useful for comparing the Group's operating performance from period to period. However, because of the discretion that the Group and other banks have in defining and calculating underlying results, care should be taken in comparing the Group's underlying results with those of other banks, and such results may not be directly comparable.

Although the Directors use underlying results to assess the performance of the Group's business, such use is limited because they do not include certain material costs necessary to operate the Group's business. Underlying results should be considered in addition to, and not as a substitute for, the Group's statutory accounts, and the Group's presentation of underlying results should not be construed as an indication that future results will be unaffected by exceptional items. Underlying results have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of the Group's results as reported on a statutory basis. Some of these limitations are:

- they do not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments; and
- they do not reflect the impact of earnings or charges resulting from matters the Directors consider not to be indicative of our ongoing operations.

Because of these limitations, underlying results are not intended as an alternative to the Group's statutory accounts as an indicator of the Group's operating performance. The Group compensates for these limitations by using underlying results, along with other comparative tools, together with statutory accounts, to assist in the evaluation of operating performance.

The following items have been excluded from underlying results:

- **Corporate activity:** includes both external costs incurred in acquiring businesses and internal costs, such as surplus funding costs, incurred while building up the liquidity required to fund such acquisitions. During 2014, £2.5m was incurred in connection with the acquisition of Centric and £0.6m of additional acquisition related payments incurred in connection with the acquisition of Money2Improve in 2012. During 2013, £0.8m of acquisition related payments was incurred in connection with the acquisitions of Singers Asset Finance and Money2Improve.
- **IPO transaction costs:** transaction costs relating to the IPO.

Group performance

The Group's underlying profit before tax has improved significantly from £17.6m in 2013 to £49.9m in 2014 due to both the growth in the Company's asset base and increased efficiencies of scale in the Group's infrastructure. This improvement is against the background of a highly competitive market where margins have been compressed in some of the Group's divisions.

The statutory results for the Group improved over the previous year, from a profit before taxation of £16.8m in 2013, to a profit before taxation of £46.1m in 2014.

	2014 £m	2013 £m
Interest income and net fee & operating lease income	166.2	98.5
Interest expense and similar charges	(54.0)	(38.4)
Net operating income	112.2	60.1
Impairment losses on financial assets	(6.7)	(3.5)
Costs and provisions	(59.4)	(39.8)
Statutory profit before taxation	46.1	16.8
Corporate activity	3.2	0.8
IPO transaction costs	0.6	-
Underlying profit before taxation	49.9	17.6

In addition, the balance sheet reflects the results of the strong year the Group has had, with total assets increasing from £1,662m to £2,748m, an increase of 65.3% in the year.

Strategic Report (continued)**Key Performance Indicators (on an underlying basis)**

Certain of the key performance indicators ("KPIs") presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in compliance with, applicable banking regulations, but such regulations often provide for certain discretion in defining and calculating the measures. Because of the discretion that the Group and other banks have in defining and calculating these measures, care should be taken in comparing the Group's KPIs with those of other banks, and such KPIs may not be directly comparable.

The KPIs presented below are derived from the Group's statutory accounts and its financial reporting and management information systems. In addition, some of the KPIs are calculated using underlying results.

	2014	2013
Net loans (£m)*	2,331	1,399
Net originations (£m)	1,366	1,000
Net interest margin (%)	6.1	5.8
Cost to income ratio (%)	49.7	64.9
Pre-Tax ROLA (%)	2.7	1.7
ROTE (%)	27.5	14.3
Total capital (%)	13.8	17.3
Cost of risk (%)	0.36	0.34
New key performance indicators in 2014:		
Leverage ratio (%)	6.1	6.6
Liquidity coverage ratio ("LCR") (%)	326	-
Net stable funding ratio ("NSFR") (%)	156	-

* includes net loans and advances to customers and operating lease advances held within PPE.

Strategic Report (continued)**Divisional performance (on an underlying basis)**

The Group has six reportable operating segments as described below which are based on the Group's five lending divisions plus a Central segment which represents the Retail Savings business, central functions and shared central costs. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is considered to be the Chief Decision Making Officer.

2014	Commercial Mortgages	Asset Finance	Business Credit*	Secured Lending	Consumer Lending	Retail Savings/ Central	Total business
	£m	£m	£m	£m	£m	£m	£m
Interest income, and net fee and operating lease income	47.2	51.2	10.7	34.3	20.1	2.7	166.2
Interest expense and similar charges	(16.6)	(12.6)	(2.6)	(11.2)	(5.1)	(5.9)	(54.0)
Net operating income	30.6	38.6	8.1	23.1	15.0	(3.2)	112.2
Impairment losses on financial assets	(1.0)	(1.5)	(0.3)	0.1	(4.0)	-	(6.7)
Costs and provisions	(6.3)	(7.3)	(3.3)	(4.2)	(5.5)	(32.8)	(59.4)
Statutory profit/(loss) before taxation	23.3	29.8	4.5	19.0	5.5	(36.0)	46.1
Corporate activity	-	-	-	-	-	3.2	3.2
IPO costs	-	-	-	-	-	0.6	0.6
Underlying profit	23.3	29.8	4.5	19.0	5.5	(32.2)	49.9

* since acquisition on 9th June 2014.

2013	Commercial Mortgages	Asset Finance	Business Credit	Secured Lending	Consumer Lending	Retail Savings/ Central	Total business
	£m	£m	£m	£m	£m	£m	£m
Interest income, and net fee and operating lease income	23.6	42.7	-	23.2	7.7	1.3	98.5
Interest expense and similar charges	(12.8)	(13.8)	-	(8.4)	(2.3)	(1.1)	(38.4)
Net operating income	10.8	28.9	-	14.8	5.4	0.2	60.1
Impairment losses on financial assets	(0.3)	(1.1)	-	(0.8)	(1.3)	-	(3.5)
Costs and provisions	(3.7)	(7.0)	-	(3.6)	(3.4)	(22.1)	(39.8)
Statutory profit/(loss) before taxation	6.8	20.8	-	10.4	0.7	(21.9)	16.8
Corporate activity	-	-	-	-	-	0.8	0.8
Underlying profit	6.8	20.8	-	10.4	0.7	(21.1)	17.6

Strategic Report (continued)

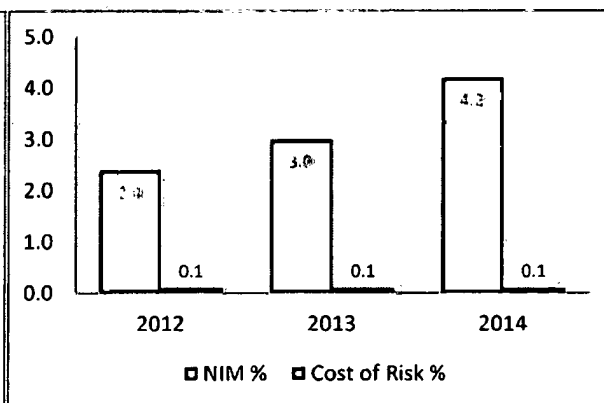
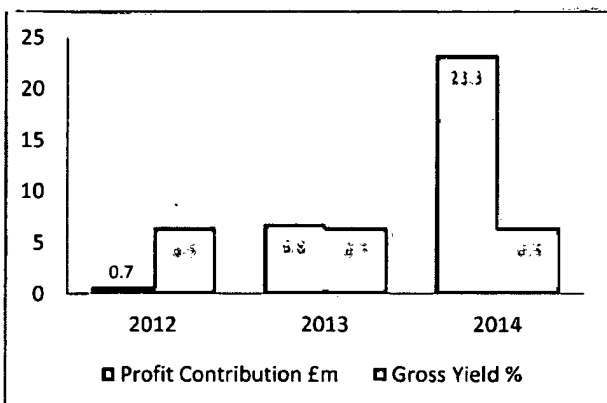
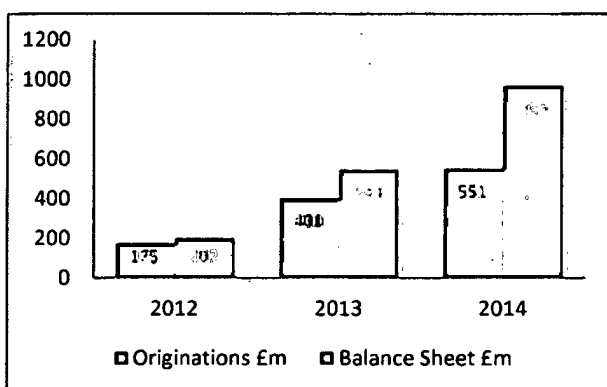
Commercial Mortgages

The Commercial Mortgages division provides mortgages for residential investment and commercial and semi-commercial investment to professional property investors and SME owner-occupiers. It also provides short-term loans to professional property investors to finance refurbishments, to finance acquisitions of new properties or to replace existing property development finance pending the property's sale.

While the majority (91%) of the division's loans are to established landlords and property professionals, the division also lends to well established SME owner-occupiers. The division is recognised industry-wide for the strength of its relationships, its highly professional personal service and its leading loan execution, which have encouraged substantial levels of repeat business.

Since its acquisition by the Group in February 2011, the division has originated over 4,200 loans with a total value of over £1.2bn. The loan book for the Commercial Mortgages division stood at £969m at 31 December 2014.

The gross asset yield for 2014 was 6.5%, cost of risk was 0.14% for 2014, and its contribution to the Group's overall operating profit for the year ended 31 December 2014 was £23.3m.



Strategic Report (continued)

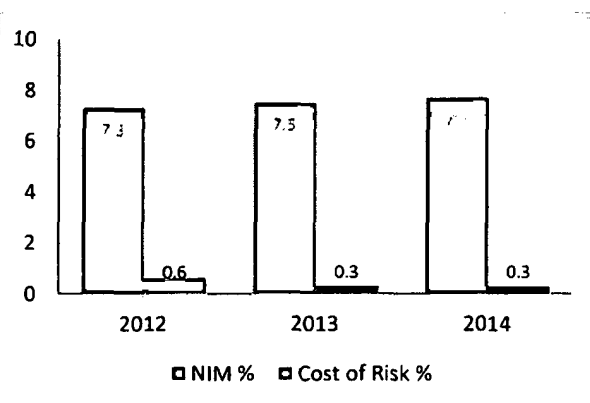
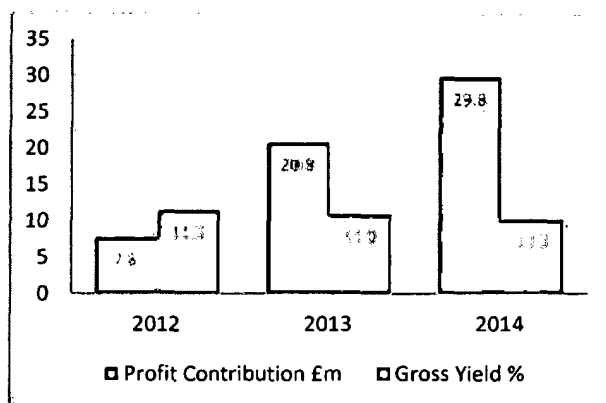
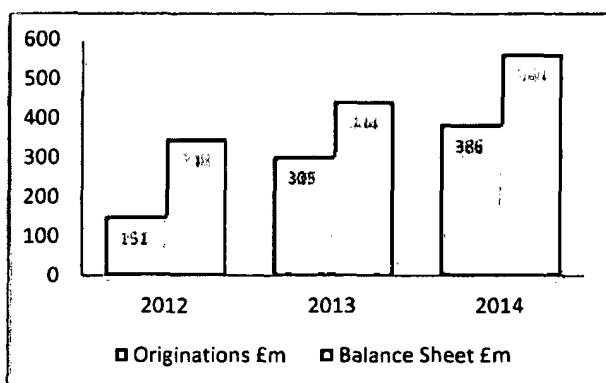
Asset Finance

The Asset Finance division is a proven lender in the UK SME and healthcare markets. It provides financing secured against a range of business critical assets across four main product categories – corporate asset finance (lending against principally hard wheeled assets, taxis and commercial marine vessels), block discounting (lending to SME finance companies secured against receivables within their portfolios, with the security given by the ultimate borrower taking the form of a hard asset or residential property), wholesale finance (lending to other small specialist lenders secured against a pool of loan receivables), and healthcare (operating leases for healthcare equipment to NHS trusts and finance leases to private healthcare operators). As at 31 December 2014, 53% of the division's loans were made against wheel-based assets.

The loan book for the Asset Finance division stood at £564m at 31 December 2014.

The gross asset yield for 2014 was 10.3% representing a reduction from 11.0% in 2014 mainly driven by the competitive environment driving margin compression.

Cost of risk was 0.3% for 2014 remaining consistent with 2013.



Strategic Report (continued)

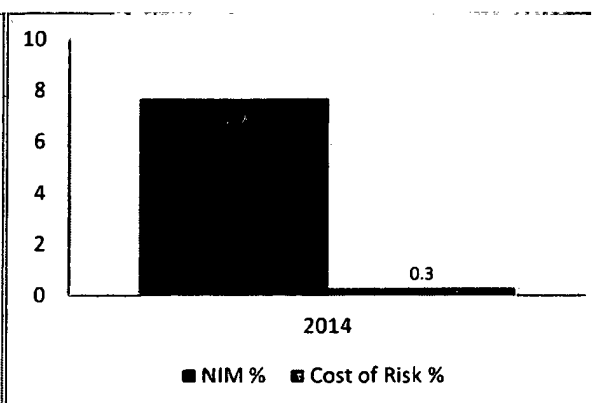
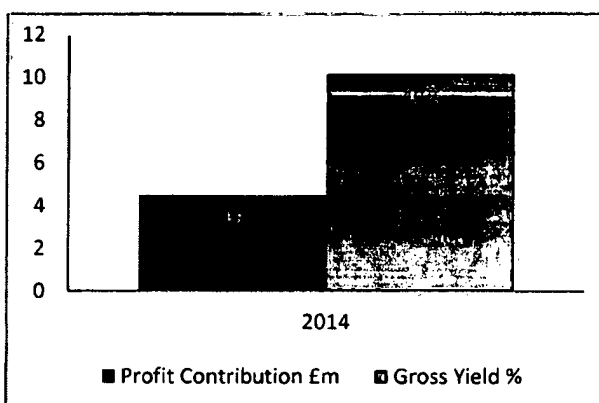
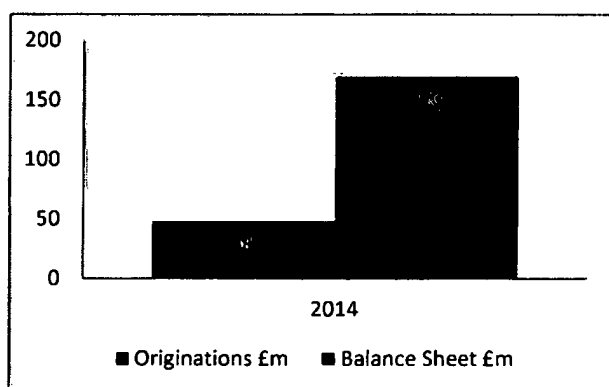
Business Credit

Following its acquisition of Centric Commercial Finance in June 2014, the Group established its Business Credit division, which provides funding to UK SMEs with revenues of between £2 million and £100 million across 20 different business sectors. These facilities are mainly secured against accounts receivables (86 per cent. as at 31 December 2014) to support a number of business operations, including working capital, growth opportunities, mergers and acquisitions, refinancing, restructurings, management buy-outs and buy-ins and turnarounds. The majority (approximately 81 per cent.) of the Business Credit division's facilities are in the manufacturing, distribution and business services sectors.

The division competes on the quality of its service, range of financing solutions and certainty and speed of delivery. All of the Business Credit division's clients have invoice discounting as part of their core relationship with the Group. The division's other asset-based lending products (property, plant and machinery, stock and cash flow) are only ever offered in tandem with its invoice discounting offering.

The loan book for the Business Credit division stood at £170m at 31 December 2014.

The gross asset yield for 2014 was 10.2% and cost of risk was 0.3% for 2014.



Strategic Report (continued)

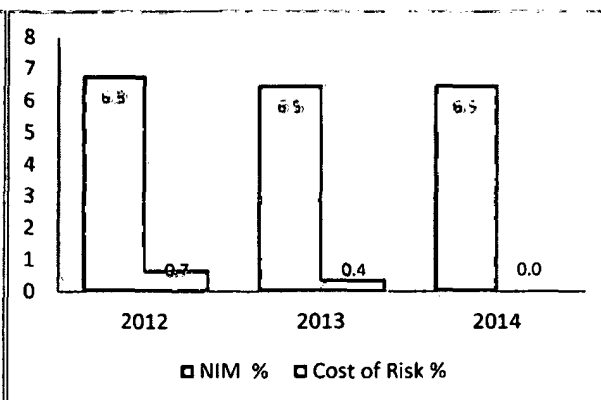
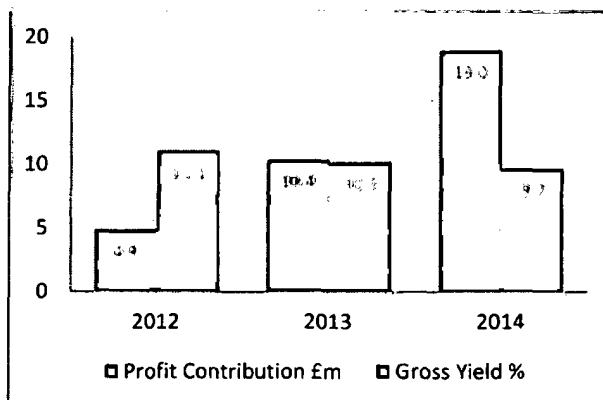
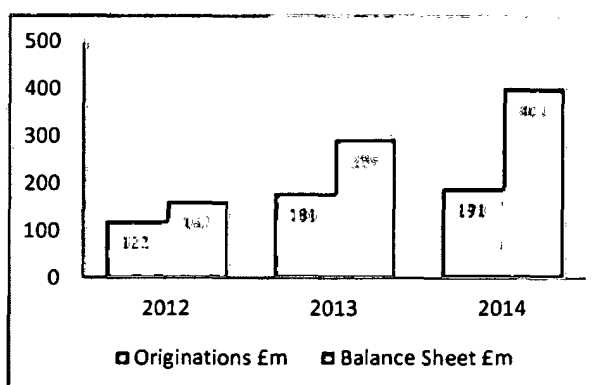
Secured Lending

The Secured Lending division offers what the Directors believe is one of the widest secured loan product ranges in the market to super prime, prime and near prime borrowers. The loans are secured by way of second charge on the client's primary residential property although in some cases the security may be the client's buy-to-let residential property. Lending is provided for a wide variety of purposes, including home improvements, loan consolidation and large consumer purposes.

The loan book for the Secured Lending division was £401m as at 31 December 2014.

The gross asset yield for 2014 was 9.7% a reduction from 10.2% in 2013 mainly driven by the competitive environment driving margin compression.

Cost of risk was (0.03)% for 2014 a reduction from 2013, reflecting the good performance in the book.



Strategic Report (continued)

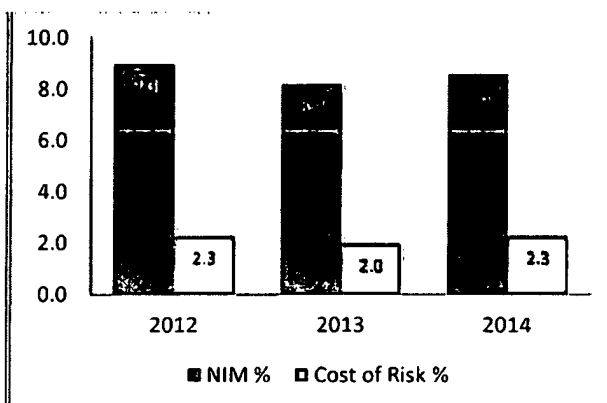
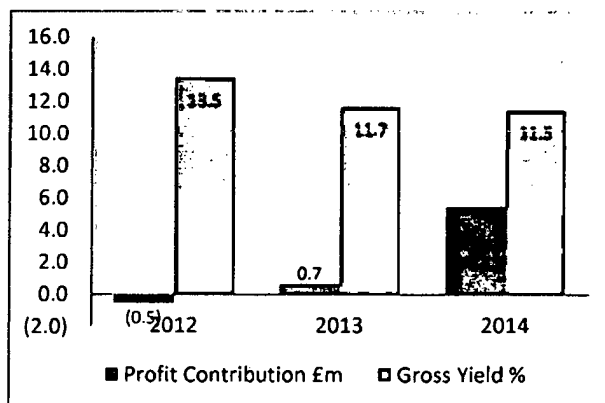
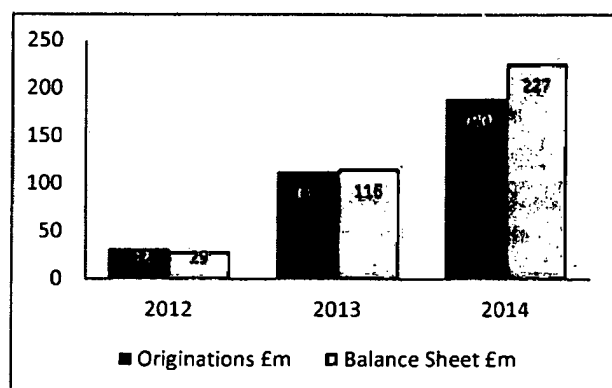
Consumer Lending

The Consumer Lending division provides unsecured loans for a variety of purposes, including:

- home improvement: working with selected leading national and regional home improvement companies, to finance the design and installation of windows, doors etc. and other bespoke home improvement products. Sales take place in clients' homes to homeowners;
- holiday ownership: the division has an established reputation in this sub-sector, working with carefully chosen holiday ownership companies, to offer their customers finance for vacations in resorts in the UK and Europe; and
- retail: working with in-store and online retailers, as well as dental clinics, to tailor the finance packages they offer to customers.

In 2014, the division launched an unsecured personal loans offering to clients through a selected network of business partners.

The loan book for the Consumer Lending division stood at £227m at 31 December 2014. The gross asset yield for 2014 was 11.5% and cost of risk was 2.3% for 2014. The business has seen origination growth increase by 68% from 2013.

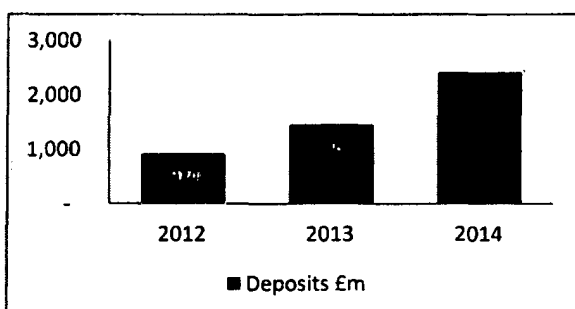


Strategic Report (continued)

Retail Savings

The Retail Savings business provides a range of bond deposits for terms of up to 5 years and notice accounts. This deposit base provides a stable source of funding for the Group's five lending divisions. Deposits are sourced predominantly from personal retail depositors (91%) with the remainder coming from business, trust and charity customers. The Retail Savings team works closely with the Treasury and Finance functions to manage the on-going funding and liquidity requirements of the Group.

Whilst the business attracts deposits from all customer demographics, almost two thirds of the deposit base has been sourced from more affluent customers with a wide range of savings needs.



Central Functions

The Group's cost base has increased from £39.1m in 2013 to £58.3m in 2014, a 49% increase year on year. The increase is a result of the continued investment the Group has made in people and infrastructure, but this cost growth is more than outstripped by the Group's income growth which manifests in a reduction of the underlying cost to income ratio from 64.9% in 2013 to 49.7% in 2014.

The Group's six front line businesses are supported by shared central functions.

Executive Committee	Responsible for executive management and day to day oversight of the Group.
Risk	Managing risk policies, frameworks and governance arrangements across the Business Units and Support Functions, including Credit, Market, Operational, Compliance and Conduct risk.
Human Resources	Provides HR support across all Business Units and Support Functions.
Legal	Provides in-house legal support and control across all Business Units and Support Functions. External counsel is used for taking counterparty security and also for debt collection and ad-hoc work.
Finance	Provides financial controls, financial reporting and tax planning across all Business Units as well as budgeting, planning and financial analysis and capital planning.
Treasury	Facilitates the management of the Company's balance sheet in line with ALCO approved risk tolerances.
Information Technology (IT)	Provides IT infrastructure, helpdesk and IT support across all Business Units and Support Functions.
Marketing	Provides marketing support including advertising and collateral across all Business Units.
Change Management	Provides programme and change management expertise to ensure projects are effectively introduced into the business and deliver the anticipated benefits.
Outsource Operations	Manages the key outsourced relationships including Target Servicing Limited and Pure Law LLP.
Internal Audit	Operations of internal audit are outsourced to Deloitte LLP - internal audit covers all Business Units and Support Functions.

Strategic Report (continued)**Balance Sheet Review****Asset quality**

The Group's impairment charge increased year on year by £3.2m to £6.7m in 2014 (2013: £3.5m). The increase in the charge has arisen due to the growth in the business with loan assets and operating leases increasing by £932.2m to £2,331.0m in 2014 (2013: £1,398.8m). The majority of the 2014 charge relates to impairment arising across the loan portfolios however the Group has also made provision for a specific fraud case in its Business Credit division of £0.3m.

The collective provision and individual provision coverage ratios have been stable throughout 2014 at 0.11% (2013: 0.13%) and 0.37% (2013: 0.39%) respectively which reflect a strong performance in the management of portfolios which have seen significant growth over the period from £1,398.8m at the end of 2013 to £2,331.0m at the end of 2014.

Impairment charge, year ended 31 December	Group 2014 £m	Group 2013 £m
Commercial Mortgages	1.0	0.3
Asset Finance	1.5	1.1
Business Credit	0.3	-
Secured Lending	(0.1)	0.8
Consumer Lending	4.0	1.3
Impairment losses on loans and advances to customers	6.7	3.5

Capital position

The capital requirements of the Group are monitored on a monthly basis and the results of this monitoring are reported to the Asset and Liability Committee ("ALCO") and the Board. Capital is ultimately held for the protection of retail depositors. The internal level of capital is set with the aim of ensuring that the business has sufficient levels of capital for current and projected future activities, to withstand downturn stresses, and to ensure that the minimum regulatory requirement is always met. The following table shows the composition of the Company's capital (which is the only regulated entity) at 31 December 2014 and 2013:

Capital position	Company 2014 £m	Company 2013 £m
Share capital	174.5	129.0
Retained earnings	20.4	(17.6)
Merger reserve	1.6	-
Capital contribution reserve	0.3	0.2
Intangible assets	(28.4)	(1.1)
Common equity tier 1 capital	168.4	110.5
Subordinated debt	30.8	27.6
Collective impairment allowance	3.0	1.4
Tier 2 capital	33.8	29.0
Regulatory capital	202.2	139.5
Risk weighted assets	1,461.0	822.0
Regulatory capital : risk weighted assets	13.8%	16.9%

The regulatory capital position of the Group is shown on page 84. Throughout the year the Company has complied with Individual Capital Guidance ("ICG") requirements.

Strategic Report (continued)**Funding and liquidity**

The Group adopts a prudent approach to asset and liability management. The Group 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, the Group's funding has been focused on the notice and term deposit market. The Group continues to optimise its cost of funds and sources of liquidity through retention programmes, access to the Funding for Lending Scheme ("FLS") and other wholesale funding sources; to the extent they provide more attractive alternatives and diversity. An analysis of the Group's liquidity position is shown below:

Group liquidity	Group 2014	Group 2013
Liquidity balances - £m	511.1	287.6
Liquidity balances : Deposits	21%	19.7%
Liquidity buffer eligible assets - £m	474.5	263.8
Liquidity buffer eligible assets : Liquidity balances	92.8%	91.7%
Loan : Deposit Ratio*	94.4%	92.1%

* Loans include operating lease assets.

The Group operates within limited risk appetite in respect of liquidity risk with the vast majority of liquidity held in cash at the Bank of England Reserve Account or as UK Treasury Bills. As part of the Group's liquidity management strategy the Group may invest in money market securities. The Group invests in these securities according to the Board approved investment policy that ensures these funds are invested in a prudent and diversified manner. Funds can only be invested with a counterparty that has at least long-term A3 Moody's credit rating, or equivalent, or systemically critical clearing banks.

The Group regularly conducts an Individual Liquidity Adequacy Assessment ("ILAA") in accordance with the PRA's liquidity guidelines and the Board remains satisfied that the Group has sufficient liquid assets at its disposal, even under stressed scenarios, to meet its obligations as they fall due.

Acquisition of the Centric Group

On 9 June 2014, the Group acquired 100% of the share capital of Centric Group Holdings Limited ("CGH") which together with its subsidiaries comprises the Centric Group ("Centric"). Centric provided working capital and growth finance to SMEs by way of invoice finance and other asset based loan activities. Since acquisition, Centric's business has become integrated into the Groups' activities and in October 2014, the business was rebranded as Shawbrook Business Credit.

The Strategic Report was approved by the Board of Directors on 31 March 2015 and was signed on its behalf by:



Richard Pyman
Chief Executive Officer

Directors' Report

The Directors present their annual report and accounts for the year ended 31 December 2014.

Principal activities

The Company and its subsidiaries comprise the "Group". The Company is a banking institution which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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;
- The provision of wholesale finance; and
- The provision of invoice discounting.

Results for the year

The Group made a profit before tax for the year of £46.1m (2013: £16.8m) and a profit after tax of £35.3m (2013: 13.5m).

The Company made a profit before tax for the year of £48.8m (2013: £19.4m) and a profit after tax of £38.0m (2013: £13.8m).

The reconciliation of statutory results to underlying results is set out in the Strategic Report.

Board composition

The Directors who served during the year were:

Sir George Mathewson

Sir Brian Ivory - resigned 31 March 2015

Lindsey McMurray

Robin Ashton

Graham Alcock

Roger Lovering

Richard Pyman* - appointed 2 April 2014

Tom Wood *

Ian Henderson - resigned 2 April 2014

* Executive Director

Employees

The Group is committed to being an equal opportunities employer and opposes all forms of discrimination. Applications from people with disabilities will be considered fairly and if existing employees become disabled, every effort is made to retain them within the workforce wherever reasonable and practicable. The Group also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

The Group regularly provides employees with information of concern to them, which incorporates the Group's current performance and its future aims and strategies. The Group conducts an Annual Employee Survey and uses the results of this survey to improve performance in areas that are important to staff.

Directors' Report (continued)

Political and charitable contributions

The Group made charitable donations of £56k during the year (2013: £nil) and did not make any political donations or incur any political expenditure during the year (2013: £nil).

Directors' and officers' 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.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the 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 the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including a range of stressed scenarios, taking into account the capital that is expected to be provided by the IPO, the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

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.

Auditor

On 25 June 2014, KPMG Audit Plc resigned from office and on the same day KPMG LLP was appointed as the Group's auditors by the Board of Directors.

By order of the board



Tom Wood
Chief Financial Officer
31 March 2015

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, 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.

Independent Auditor's Report

We have audited the financial statements of Shawbrook Bank Limited for the year ended 31 December 2014 set out on pages 30 to 90. 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 page 28, 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 2014 and of the Group's profit 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.

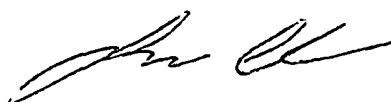
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.



Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
31 March 2015

Consolidated Income Statement

	Note	2014 £m	2013 £m
Interest receivable and similar income	3	156.7	93.3
Interest expense and similar charges	4	(54.0)	(38.4)
Net interest income		102.7	54.9
Operating lease rentals		15.7	17.1
Other income		1.1	1.1
Depreciation on operating leases	18	(13.1)	(13.8)
Net income from operating leases		3.7	4.4
Fee and commission income	5	7.6	0.8
Fee and commission expense	6	(1.7)	-
Net fee and commission income		5.9	0.8
Fair value losses on financial instruments	17	(0.1)	-
Net operating income		112.2	60.1
Administrative expenses	7	(58.3)	(39.1)
Impairment losses on loans and advances to customers	16	(6.7)	(3.5)
Provisions for liabilities and charges	24	(1.1)	(0.7)
Profit before taxation		46.1	16.8
Income tax charge	13	(10.8)	(3.3)
Profit for the year, attributable to owners		35.3	13.5

The notes on pages 36 to 90 are an integral part of these financial statements.

Consolidated Statement of Other Comprehensive Income

	2014 £m	2013 £m
Profit for the year, attributable to owners	35.3	13.5
Net change in fair value of investment securities – available for sale	-	0.1
Tax on other comprehensive income	-	(0.1)
Total other comprehensive income for the year net of taxation	-	-
Total comprehensive income for the year, net of tax	35.3	13.5

The notes on pages 36 to 91 are an integral part of these financial statements.

Statements of Financial Position

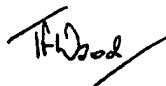
	Note	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Assets					
Cash and balances at central banks		313.1	313.1	206.6	206.6
Loans and advances to banks	14	36.4	36.4	23.7	23.7
Loans and advances to customers	15	2,284.8	2,284.7	1,346.9	1,346.8
Derivative financial assets	17	3.7	3.7	-	-
Property, plant and equipment	18	49.7	49.0	53.8	52.9
Intangible assets	19	43.2	28.4	15.9	1.1
Deferred tax asset	20	9.8	10.0	8.6	8.8
Other assets	21	6.8	6.8	6.1	8.6
Total assets		2,747.5	2,732.1	1,661.6	1,648.5
Liabilities					
Customer deposits	22	2,421.0	2,421.0	1,463.0	1,463.0
Due to banks	23	41.0	41.0	24.6	24.6
Provisions for liabilities and charges	24	0.6	0.6	0.4	0.4
Other liabilities	25	41.9	41.9	16.3	21.3
Subordinated debt	27	30.8	30.8	27.6	27.6
Total liabilities		2,535.3	2,535.3	1,531.9	1,536.9
Equity					
Share capital	28	174.5	174.5	129.0	129.0
Merger reserve		1.6	1.6	-	-
Capital contribution reserve		0.3	0.3	0.2	0.2
Retained earnings		35.8	20.4	0.5	(17.6)
Total equity		212.2	196.8	129.7	111.6
Total equity and liabilities		2,747.5	2,732.1	1,661.6	1,648.5

The notes on pages 36 to 90 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 31 March 2015 and were signed on its behalf by:



Sir George Mathewson
Chairman
Company number 388466



Tom Wood
Director

Consolidated Statement of Changes in Equity

	Share Capital £m	Available for Sale Reserve £m	Merger Reserve £m	Capital Contribution Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2013	112.0	-	-	0.2	(13.0)	99.2
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	13.5	13.5
Other comprehensive income:						
Fair value reserve (available for sale financial assets)	-	0.1	-	-	-	0.1
Tax on other comprehensive income	-	(0.1)	-	-	-	(0.1)
Total comprehensive income for the year	-	-	-	-	13.5	13.5
Transactions with owners recorded directly in equity:						
Contributions by and distributions to owners:						
Issue of shares	17.0	-	-	-	-	17.0
Total contributions by and distributions to owners	17.0	-	-	-	-	17.0
Balance at 31 December 2013	129.0	-	-	0.2	0.5	129.7
Balance at 1 January 2014	129.0	-	-	0.2	0.5	129.7
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	35.3	35.3
Total comprehensive income for the year	-	-	-	-	35.3	35.3
Capital contribution	-	-	-	0.1	-	0.1
Creation of merger reserve	-	-	1.6	-	-	1.6
Transactions with owners recorded directly in equity:						
Contributions by and distributions to owners:						
Issue of shares	45.5	-	-	-	-	45.5
Total contributions by and distributions to owners	45.5	-	-	-	-	45.5
Balance at 31 December 2014	174.5	-	1.6	0.3	35.8	212.2

The notes on pages 36 to 90 are an integral part of these financial statements.

Company Statement of Changes in Equity

	Share Capital £m	Available for Sale Reserve £m	Merger Reserve £m	Capital Contribution Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2013	112.0	-	-	0.2	(31.4)	80.8
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	13.8	13.8
Other comprehensive income:						
Fair value reserve (available for sale financial assets)	-	0.1	-	-	-	0.1
Tax on other comprehensive income	-	(0.1)	-	-	-	(0.1)
Total comprehensive income for the year	-	-	-	-	13.8	13.8
Transactions with owners recorded directly in equity:						
Contributions by and distributions to owners:						
Issue of shares	17.0	-	-	-	-	17.0
Total contributions by and distributions to owners	17.0	-	-	-	-	17.0
Balance at 31 December 2013	129.0	-	-	0.2	(17.6)	111.6
Balance at 1 January 2014	129.0	-	-	0.2	(17.6)	111.6
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	38.0	38.0
Total comprehensive income for the year	-	-	-	-	38.0	38.0
Capital contribution	-	-	-	0.1	-	0.1
Creation of merger reserve	-	-	1.6	-	-	1.6
Transactions with owners recorded directly in equity:						
Contributions by and distributions to owners:						
Issue of shares	45.5	-	-	-	-	45.5
Total contributions by and distributions to owners	45.5	-	-	-	-	45.5
Balance at 31 December 2014	174.5	-	1.6	0.3	20.4	196.8

The notes on pages 36 to 90 are an integral part of these financial statements.

Statements of Cash Flows

	Note	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Cash flows from operating activities:					
Profit for the year before taxation		46.1	48.8	16.8	19.4
Adjustments for non-cash items	29	23.8	23.6	17.6	14.0
Cash flows from operating activities before changes in operating assets and liabilities		69.9	72.4	34.4	33.4
Increase/decrease in operating assets and liabilities:					
Decrease in investment securities – available for sale		-	-	82.0	82.0
Increase in mandatory balances with central banks		(1.0)	(1.0)	(0.5)	(0.5)
Increase in loans and advances to customers		(749.0)	(749.0)	(665.6)	(664.5)
Increase in derivatives		(3.7)	(3.7)	-	-
Decrease in other assets		0.6	3.2	6.9	4.3
Increase in customer deposits		958.1	958.1	539.3	539.3
Increase in provisions for liabilities and charges		0.2	0.2	0.3	0.3
Increase / (decrease) in other liabilities		13.0	7.9	(4.6)	(2.6)
		218.2	215.7	(42.2)	(41.7)
Purchase of Group tax losses		-	-	(0.6)	-
Tax paid		(4.6)	(4.6)	(2.2)	(2.2)
Net cash flow generated from/(used by) operating activities		283.5	283.5	(10.6)	(10.5)
Cash flows from investing activities					
Purchase of property, plant and equipment		(11.0)	(11.0)	(11.2)	(11.2)
Sale of property, plant and equipment		2.2	2.2	3.8	3.8
Purchase of intangible assets		(3.9)	(3.9)	(1.1)	(1.1)
Investment in subsidiaries net of cash and cash equivalents acquired		(76.3)	(76.3)	-	-
Net cash used by investing activities		(89.0)	(89.0)	(8.5)	(8.5)
Cash flows from financing activities					
Increase in amounts due to banks		16.4	16.4	24.6	24.6
Repayment of Centric third party funding		(138.2)	(138.2)	-	-
Issue of subordinated debt	27	-	-	27.1	27.1
Proceeds from the issue of ordinary share capital		45.5	45.5	17.0	17.0
Net cash (used by) / generated from financing activities		(76.3)	(76.3)	68.7	68.7
Net increase in cash and cash equivalents		118.2	118.2	49.6	49.7
Cash and cash equivalents at 1 January		229.6	229.6	180.0	179.9
Cash and cash equivalents at 31 December	29	347.8	347.8	229.6	229.6

The notes on pages 36 to 90 are an integral part of these financial statements.

Notes to the Financial Statements

1. Basis of preparation

1.1 Reporting entity

Shawbrook Bank Limited (the "Bank") is domiciled in the UK. The Company's registered office is at Lutea House, Warley Hill Business Park, Brentwood, Essex, CM13 3BE. The Consolidated Financial Statements of the Group for the year ended 31 December 2014 comprise the results of the Company and its subsidiaries (together referred to as the Group and individually as Group entities).

1.2 Basis of accounting

The Group's financial statements have been prepared on a historical cost basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements are drawn up in accordance with the Companies Act 2006. No individual profit or loss account or related notes are presented for the Company as permitted by section 408 (4) of the Companies Act 2006.

1.3 Functional and presentation currency

The consolidated financial statements are presented in Pounds Sterling, which is the Group's functional currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in profit or loss. Non-monetary items (which are assets and liabilities which do not attach to a right to receive or an obligation to pay a fixed or determinable number of units of currency) measured at amortised cost and denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rate at the date of valuation. Where these are held at fair value through profit or loss, exchange differences are reported as part of the fair value gain or loss.

1.4 Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the 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 the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. The Group's capital and liquidity plans, including stress tests, have been reviewed by the Directors.

The Group's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including a range of stressed scenarios, taking into account the capital that is expected to be provided by the IPO, the availability of alternative sources of capital if required and appropriate management actions.

After making due enquiries, the Directors believe that the Group has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Group has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

1.5 Basis of consolidation

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.

These financial statements consolidate the results of the subsidiary companies set out in note 32.

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

1.6 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on Management's best knowledge of the amount, actual results may differ ultimately from those estimates.

Basis of preparation (continued)

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed within the notes to the financial statements which the estimate or judgement relates to as follows:

Area of significant judgement or estimate	Note reference
Effective interest rates	3
Fair value of share based payments	11
Impairment of loans and advances	16
Residual value of operating leases	18
Impairment assessment of goodwill	19
Fair value of identifiable net assets and consideration for the Centric group	32

1.7 New Standards and interpretations not yet adopted

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 Group are as follows:

- **IFRS 9 'Financial Instruments'**

Effective from 1 January 2018 and 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 no longer be used. 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 Group is monitoring the development of IFRS 9 and considering the associated impact on the Group's financial statements.

- **Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions'**

Effective from 1 February 2015 and endorsed by the EU on 9 January 2015. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. This is unlikely to have a material impact on the Group.

- **Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'**

Effective from 1 February 2016 and not yet endorsed by the EU. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. This is unlikely to have a material impact on the Group.

- **Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'**

Effective from 1 February 2016 and not yet endorsed by the EU. The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. While this is not an outright ban, it creates a high hurdle for when these methods may be used for intangible assets. This is unlikely to have a material impact on the Group.

Basis of preparation (continued)

- **IFRS 15 'Revenue from Contracts with Customers'**

Effective from 1 January 2017 and not yet endorsed by the EU.

The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. It also does not apply if two companies under the same line of business exchange non-monetary assets to facilitate sales to other parties.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This is unlikely to have a material impact on the Group.

1.7.2 New Standards and interpretations adopted in the current year

- **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 does not have a material impact on the group.

- **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 joint arrangements and makes limited amendments in relation to associates. This does not have a material impact on the group.

- **IFRS 12 'Disclosure of Interests in Other entities'**

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

This standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. This does not have a material impact on the group.

- **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 does not have a material impact on the group.

- **Amendments to IAS 36 'Recoverable amount disclosures for non-financial assets'**

Effective from 1 January 2014 and endorsed by the EU on 19 December 2013.

The amendments reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. There is no impact in the current year and thus this does not have a material impact on the group.

- **Amendments to IAS 39 'Continuing hedge accounting after derivative novation'**

Effective from 1 January 2014 and endorsed by the EU on 19 December 2013.

The amendments add a limited exception to IAS 39 to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. There is no impact in the current year. This does not have a material impact on the group.

2. Operating segments

The Group has six reportable operating segments as described below which are based on the Group's five lending divisions plus a Central segment which represents the Deposit business, Central functions and shared central costs. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is considered to be the Chief Decision Making Officer.

The following summary describes the operations in each of the Group's reportable segments:

- **Commercial Mortgages** – provides the following key products, distributed primarily via a broker panel of c. 400 accredited brokers:
 - Residential: loans to experienced buy-to-let property investors;
 - Semi-Commercial: loans for mixed use residential and commercial property operated by either seasoned SMEs or investors;
 - Commercial: loans for properties operated by either seasoned SMEs or investors; and
 - Short term loans: loans for property refurbishment for professional property investors.
- **Secured Lending** - Second charge mortgage lender, loans typically used for home improvements, large consumer purchases and debt consolidation. The book is weighted towards London and the South East, distributed through a broker panel of c. 85 accredited brokers.
- **Consumer Lending** - provides the following key products, predominantly to prime home owners:
 - Home improvement loans sold by c. 100 established suppliers focussing on products such as windows, kitchens, bedrooms, bathrooms, conservatories and solar panels;
 - Holiday ownership loans sold through proven specialist time share providers;
 - Retail point of sale loans sold through c. 20 retailers; and
 - Personal loans launched in January 2014.
- **Asset Finance** – provides the following key products, predominately originated via a direct origination team who have long standing relationships with clients:
 - Corporate Asset Finance: provides full pay-out finance leases and hire purchase agreements to UK SMEs secured on hard, mainly wheeled, assets ;
 - Block and Wholesale Finance: provides block lines and wholesale facilities to SMEs secured against loan receivables; and
 - Healthcare Finance: provides operating and finance leases to the NHS Trusts and other private healthcare providers.
- **Business Credit** – the Group acquired the Centric Group (rebranded to Shawbrook Business Credit in October 2014) in June 2014 with a book size of £195.5m and a contribution margin in excess of 3%. It provides asset backed loan facilities to SMEs with invoice discounting as the core product for all clients and accounts for 84% of the book. It also complements the invoice facility with other asset backed lending secured with stock, plant and machinery and property. New business is originated through a national network of direct sales staff with full UK coverage.
- **Central** – this represents the reconciling items between the total of the five lending segments and the consolidated income statement. As well as common costs, Central includes the Group's Treasury function and Retail Savings business which are responsible for raising finance on behalf of the lending segments.

Information regarding the results of each reportable segment and their reconciliation to the total results of the Group are included below. Performance is measured based on the product contribution as included in the internal Management reports. All revenue for each operating segment is earned from external customers.

Operating segments (continued)

Year ended 31 December 2014	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Retail Savings/ Central £m	Total business £m
Interest receivable and similar income	47.4	45.3	5.9	35.0	20.3	2.8	156.7
Interest expense and similar charges	(16.6)	(12.6)	(2.6)	(11.2)	(5.1)	(5.9)	(54.0)
Net interest income	30.8	32.7	3.3	23.8	15.2	(3.1)	102.7
Operating lease rentals	-	15.7	-	-	-	-	15.7
Other income	-	1.1	-	-	-	-	1.1
Depreciation on operating leases	-	(13.1)	-	-	-	-	(13.1)
Net income from operating leases	-	3.7	-	-	-	-	3.7
Fee and commission income	-	2.2	5.0	0.2	0.2	-	7.6
Fee and commission expense	(0.2)	-	(0.2)	(0.9)	(0.4)	-	(1.7)
Net fee and commission income	(0.2)	2.2	4.8	(0.7)	(0.2)	-	5.9
Fair value losses on financial instruments	-	-	-	-	-	(0.1)	(0.1)
Net operating income	30.6	38.6	8.1	23.1	15.0	(3.2)	112.2
Administrative expenses	(6.3)	(7.3)	(3.3)	(4.2)	(5.5)	(31.7)	(58.3)
Impairment losses on financial assets	(1.0)	(1.5)	(0.3)	0.1	(4.0)	-	(6.7)
Provisions for liabilities and charges	-	-	-	-	-	(1.1)	(1.1)
Product contribution	23.3	29.8	4.5	19.0	5.5	(36.0)	46.1
Income tax charge							(10.8)
Profit after tax							35.3
 Assets	 968.9	 564.1	 169.8	 401.3	 226.9	 416.5	 2,747.5
Liabilities	-	-	-	-	-	(2,535.3)	(2,535.3)
Net Assets / (Liabilities)	968.9	564.1	169.8	401.3	226.9	(2,118.8)	212.2

Operating segments (continued)

Year ended 31 December 2013	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Retail Savings/ Central £m	Total business £m
Interest receivable and similar income	23.6	37.8	-	23.0	7.6	1.3	93.3
Interest expense and similar charges	(12.8)	(13.8)	-	(8.4)	(2.3)	(1.1)	(38.4)
Net interest income	10.8	24.0	-	14.6	5.3	0.2	54.9
Operating lease rentals	-	17.1	-	-	-	-	17.1
Other income	-	1.1	-	-	-	-	1.1
Depreciation on operating leases	-	(13.8)	-	-	-	-	(13.8)
Net income from operating leases	-	4.4	-	-	-	-	4.4
Fee and commission income	-	0.5	-	0.2	0.1	-	0.8
Fee and commission expense	-	-	-	-	-	-	-
Net operating income	10.8	28.9	-	14.8	5.4	0.2	60.1
Administrative expenses	(3.7)	(7.0)	-	(3.6)	(3.4)	(21.4)	(39.1)
Impairment losses on financial assets	(0.3)	(1.1)	-	(0.8)	(1.3)	-	(3.5)
Provisions for liabilities and charges	-	-	-	-	-	(0.7)	(0.7)
Product contribution	6.8	20.8	-	10.4	0.7	(21.9)	16.8
Income tax charge							(3.3)
Profit after tax							13.5
Assets	543.8	444.4	-	295.0	115.6	262.8	1,661.6
Liabilities	-	-	-	-	-	(1,531.9)	(1,531.9)
Net Assets / (Liabilities)	543.8	444.4	-	295.0	115.6	(1,269.1)	129.7

Fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

3. Interest receivable and similar income

Accounting policy

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 ("EIRM").

The EIRM 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 ("EIR") 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 EIR are recognised on an accruals basis when the service has been provided or received.

Critical accounting estimates and judgements

Effective interest rate

IAS 39 requires interest earned from loans and advances to be measured under the EIRM. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The carrying value of loans and advances would therefore be affected by unexpected market movements resulting in altered customer behaviour models used to compare to actual outcomes and incorrect assumptions.

The Group has determined specific attributes of several loan profiles to model the expected experience across the consumer, commercial and secured portfolios. Management have reviewed these profiles on a quarterly basis and have recorded 'catch-up adjustments' as required in order to reflect the actual experience on the portfolios.

An increase in the behavioural life of a loan by 10% per calendar month would result in a net income statement charge of £0.1m (2013: £0.1m).

	2014 £m	2013 £m
Interest paid by customers	153.8	92.1
Interest received from derivative financial instruments	1.0	-
Interest on loans and advances to banks	1.9	1.2
Interest receivable and similar income	156.7	93.3

The interest income recognised during the year on loans impaired was £1.0m (2013: £0.6m).

4. Interest expense and similar charges

	2014	2013
	£m	£m
Interest paid to depositors	50.2	37.7
Interest on amounts due to banks	0.5	0.2
Interest on subordinated debt	3.2	0.5
Other interest	0.1	-
Interest expense and similar charges	54.0	38.4

5. Fee and commission income

	2014	2013
	£m	£m
Fee income on loans and advances to customers	5.4	0.5
Credit facility related fees	2.2	0.3
Fee and commission income	7.6	0.8

6. Fee and commission expense

	2014	2013
	£m	£m
Fee expense on loans and advances to customers	1.7	-
Fee and commission expense	1.7	-

7. Administrative expenses**Accounting policy***Operating lease rentals*

Rentals received from 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.

	Note	2014	2013
		£m	£m
Staff costs	9	31.2	23.8
Depreciation (excluding operating lease assets)	18	1.0	0.7
Amortisation of intangible assets	19	0.4	0.2
Operating lease rentals – land and buildings		0.7	0.6
Other administrative expenses		25.0	13.8
Administrative expenses		58.3	39.1

8. Auditor's remuneration

	2014 £000	2013 £000
Audit of these financial statements	270	277
Amounts receivable by the Company's auditor and their associates in respect of other services:		
Audit of financial statements of subsidiaries of the Company	68	20
Tax compliance services	58	43
Other tax advisory services	-	41
Audit related assurance services	40	15
All other assurance services	92	21
All other services	497	70
	1,025	487

9. Employees

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

	2014 No.	2013 No.
Customer facing	269	173
Non-customer facing	145	108
	414	281

The aggregate payroll costs of these persons were as follows:

	2014 £m	2013 £m
Wages and salaries	27.3	20.9
Social security costs	2.7	2.1
Pension costs	1.2	0.8
	31.2	23.8

10. Employee retirement obligations

Accounting policy

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.

The Group made contributions of £1.2m (2013: £0.8m) during the year.

11. Employee share-based payment transactions**Accounting policy**

Where the Company 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, Shawbrook Group plc.

The grant 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 grant date fair value at a constant rate to the vesting date.

Critical accounting estimates and judgements

The fair value of shares in the employee share scheme was determined using a valuation model. The significant inputs into this model were expected term, risk free interest rate, expected dividend yield and volatility.

On 31 January 2011 the Incentive Share scheme was introduced for directors and senior employees. All shares were issued at a prescribed exit event of the A shareholders. The Incentive Share scheme is governed by the Articles of Association of Shawbrook Group plc and is deemed by management to be an equity settled scheme and has been accounted for as such in the financial statements of both the Company and Shawbrook Group plc, the ultimate parent company. Participants have to remain in employment or be deemed as a good leaver to continue to qualify for the scheme.

Detail of shares issued are shown in the table below:

	2014	2013
	No. of	No. of
	shares	shares
At 1 January	94,630	69,997
Granted	19,750	37,300
Forfeited	(7,999)	(12,667)
At 31 December	106,381	94,630

The average fair value of shares issued was £5.15 (2013: £5.49). The fair values of the shares at the date of grant were valued using the Black-Scholes valuation model. The assumptions used are as follows:

	2014	2013
Expected volatility	20%	20.0% to 22.5%
Risk free rate	0.4%	0.4% to 0.5%
Dividend yield	0%	0%
Expected life	1-2 years	2-4 years

Although the Black-Scholes equation assumes predictable constant volatility, this is not observed in real markets. In order to estimate the annualised volatility we have assessed the past standard deviation of the stock price of comparable quoted banks over various time frames.

The charge to the Consolidated Income Statement was £60k (2013: £nil).

12. Directors remuneration

	2014	2013
	£m	£m
Directors emoluments	1.4	1.5
Compensation for loss of office	0.1	-
Contributions to money purchase pension plans	0.1	-
	1.6	1.5

	2014	2013
	£m	£m
Highest paid Director		
Directors emoluments	0.5	0.5

	2014	2013
	No.	No.
Retirement benefits are accruing to the following number of Directors		
Money purchase schemes	2	1

13. Taxation**Accounting policy**

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.

	2014	2013
	£m	£m
Recognised in the Income Statement		
Current tax:		
Current year	11.5	1.8
Adjustment in respect of prior years	0.5	(1.1)
Total current tax	12.0	0.7
Deferred tax:		
Origination and reversal of temporary difference	(0.8)	2.3
Adjustment in respect of prior years	(0.4)	(1.0)
Reduction in tax rate	-	1.3
Total deferred tax	(1.2)	2.6
Total tax charge	10.8	3.3
	Group	Group
Tax reconciliation	2014	2013
	£m	£m
Profit before tax	46.1	16.8
Implied tax charge thereon at 21.5% (2013: 23.25%)	9.9	3.9
Adjustments:		
Prior year adjustment	0.1	(2.1)
Permanent differences arising from change in tax rate on deferred tax balances	-	1.3
Disallowable expenses and other permanent difference	0.8	0.2
Total tax charge	10.8	3.3

14. Loans and advances to banks

	2014 £m	2013 £m
Placements with other banks included in cash and cash equivalents	36.4	23.7

15. Loans and advances to customers

Loans and advances to customers are summarised as follows:

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Loan receivables	1,861.4	1,861.4	981.2	981.2
Finance lease receivables	114.0	113.9	105.6	105.5
Instalment credit receivables	309.4	309.4	260.1	260.1
Total loans and advances to customers	2,284.8	2,284.7	1,346.9	1,346.8

At 31 December 2014, loans and advances to customers of £535.2m (2013: £156.6m) were pre-positioned with the Bank of England and HM Treasury for use as collateral within the Funding for Lending Scheme.

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Loan receivables				
Gross loan receivables	1,870.4	1,870.4	984.9	984.9
Less: allowances for impairment losses	(9.0)	(9.0)	(3.7)	(3.7)
Net loan receivables	1,861.4	1,861.4	981.2	981.2
Finance lease receivables				
Gross amounts receivable				
within one year	54.7	54.7	52.4	52.4
in the second to fifth year inclusive	78.8	78.8	72.6	72.6
after five years	1.0	1.0	1.1	1.2
	134.5	134.5	126.1	126.2
Less: unearned finance income	(19.8)	(19.9)	(19.8)	(19.8)
Less: allowances for impairment losses	(0.7)	(0.7)	(0.7)	(0.9)
Net investment in finance lease receivables	114.0	113.9	105.6	105.5
Amounts falling due:				
within one year	41.2	41.2	42.2	42.2
in the second to fifth year inclusive	72.0	71.9	62.7	62.6
after five years	0.8	0.8	0.7	0.7
Net investment in finance lease receivables	114.0	113.9	105.6	105.5

Loans and advances to customers (continued)

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Instalment credit receivables				
Gross amounts receivable				
within one year	149.3	149.3	125.4	125.4
in the second to fifth year inclusive	201.5	201.5	170.4	170.4
after five years	4.0	4.0	1.4	1.4
	354.8	354.8	297.2	297.2
Less: unearned finance income	(44.0)	(44.0)	(36.1)	(36.1)
Less: allowances for impairment losses	(1.4)	(1.4)	(1.0)	(1.0)
Net investment in instalment credit receivables	309.4	309.4	260.1	260.1
Amounts falling due:				
within one year	118.5	118.5	106.8	106.8
In the second to fifth year inclusive	186.9	186.9	152.1	152.1
after five years	4.0	4.0	1.2	1.2
Net investment in instalment credit receivables	309.4	309.4	260.1	260.1
Cost of equipment acquired during the year		Group and Company 2014 £m		Group and Company 2013 £m
Finance leases		66.4		65.0
Instalment credit		270.8		307.3
Total cost of equipment acquired during the year		337.2		372.3

16. Impairment provisions on loans and advances to customers

Accounting policy

On an on-going 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 experienced by the borrower; and
- Initiation of bankruptcy proceedings.

If there is objective evidence that an impairment loss on an individual financial asset has 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.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Objective evidence of impairment of a portfolio of receivables exists if objective data indicates a decrease in expected future cash flows from a collection 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 that are appropriate to the customer's specific situation. The Group seeks to ensure that any forbearance results in a fair customer outcome and will not repossess an asset unless all other reasonable attempts to resolve the position have failed. Forbearance accounts do have an impact on provisions as accounts move through arrears buckets at a slower rate. Further information is provided on page 71.

Critical accounting estimates and judgements

Individual impairment losses on loans and advances are calculated based on an assessment of the expected cash flows and the underlying collateral. For the purpose of collective impairment, financial assets are grouped on the basis of similar risk characteristics. Collective provisions are calculated using twelve month roll rates on different segments of the loan book not subject to an individual provision. Management also consider the need for a management overlay to take into account additional risk factors of the portfolio.

These key assumptions are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio.

The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. For loans and advances to the extent that:

- There is a change of one month in the emergence period across all portfolios, this would have the effect of changing the collective provision by £0.5m (2013: £0.4m);
- There is a change in the loss rate by 10 basis points, this would have the effect of changing the collective provision by £1.1m (2013: £0.5m);
- There is an increase in the forced sale discount by 5%, this would have the effect of increasing the individual provisions by £0.4m (2013: £0.4m); and
- There is an increase in the propensity to default by 10%, this would have the effect of increasing the individual provisions by £0.8m (2013: £0.2m).

Impairment provisions on loans and advances to customers (continued)

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

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
At 1 January	5.4	5.6	2.8	3.6
Charge for impairment losses	6.7	6.7	3.5	3.2
Provisions utilised	(1.0)	(1.2)	(0.9)	(1.2)
At 31 December	11.1	11.1	5.4	5.6
Analysis of impairment type:				
Loan receivables	9.0	9.0	3.7	3.7
Finance lease receivables	0.7	0.7	0.7	0.9
Instalment credit receivables	1.4	1.4	1.0	1.0
At 31 December	11.1	11.1	5.4	5.6

17. Derivative financial instruments

Accounting policy

Derivatives and hedge accounting

The Group's derivative activities are entered into for the purposes of matching or eliminating risk from potential movements in interest rates and foreign exchange rates in the Group's assets and liabilities.

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate. Fair values are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flow models and option pricing models. Derivatives are measured as assets where their fair value is positive and liabilities where their fair value is negative.

The Group has adopted hedge accounting in accordance with IAS 39 which specifies that the hedge relationship must be clearly documented at inception and the derivative must be expected to be highly effective in offsetting the hedged risk. Effectiveness is tested throughout the life of the hedge relationship.

Fair Value Hedge

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit and loss.

The Group uses derivatives to reduce exposure to market risks, and not for trading purposes. The Group uses the International Swaps and Derivatives Association ("ISDA") Master Agreement to document these transactions in conjunction with a Credit Support Annex ("CSA"). The fair value of derivatives is set out below:

	Notional Amount £m	Fair Value of assets £m	Fair Value of liabilities £m
Interest rate swaps:			
At 31 December 2014	195.0	3.7	-
Interest rate swaps:			
At 31 December 2013	-	-	-
Interest rate cap:			
At 31 December 2014	-	-	-
Interest rate cap:			
At 31 December 2013	38.0	-	-

During 2014, the Group adopted hedge accounting following the acquisition of its interest rate swaps.

The amortising interest rate cap had a notional principal that reduced to £nil during 2014.

Derivative financial instruments (continued)

Gains and losses from derivatives and hedge accounting are as follows:

	Group 2014 £m	Group 2013 £m
Gain on derivative financial instrument	3.7	-
Fair value loss on hedged risk	(3.8)	-
Fair value losses on financial instruments	(0.1)	-

The table below illustrates the amounts that are covered by enforceable netting arrangements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. Loans and advances).

2014 Group	Amounts subject to enforceable netting arrangements					Amounts not subject to enforceable netting arrangements £m
	Effect of offsetting on balance sheet			Related amounts not offset		
	Gross Amount £m	Amount offset %	Net amount reported on balance sheet £m	Cash collateral £m	Net amount £m	
Assets						
Derivative financial instruments	3.7	-	3.7	3.5	0.2	-
Total assets	3.7	-	3.7	3.5	0.2	-
2013 Group	Amounts subject to enforceable netting arrangements					Amounts not subject to enforceable netting arrangements £m
	Effect of offsetting on balance sheet			Related amounts not offset		
	Gross Amount £m	Amount offset %	Net amount reported on balance sheet £m	Cash collateral £m	Net amount £m	
Assets						
Derivative financial instruments	-	-	-	-	-	-
Total assets	-	-	-	-	-	-

Collateral amounts (cash and non-cash financial collateral) are reflected at their fair value; however this amount is limited to the net balance sheet exposure in order not to include any over-collateralisation.

18. Property, plant and equipment

Accounting Policies

Operating Leases

Included within property, plant and equipment are assets leased to customers under operating leases 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 31 under Loans and advances to customers.

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 as follows:

- Office equipment 3 years / 5 years
- Fixtures and fittings 5 years
- Motor vehicles 4 years
- Freehold property 50 years
- Leasehold costs life of the lease
- Operating leases* life of the lease

*Operating leases are assets leased to customers

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

Critical accounting estimates and judgements

Residual values

Management uses 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 re-hire 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 £0.9m (2013: £1.0m).

Property, plant and equipment (continued)

Group	Freehold property £m	Leasehold property £m	Fixtures, fittings & equipment £m	Assets on operating leases £m	Total £m
Cost					
At 1 January 2013	0.2	0.1	1.7	70.8	72.8
Additions	-	-	1.2	10.0	11.2
Disposals	-	-	-	(5.3)	(5.3)
Transfer to finance leases	-	-	-	(2.4)	(2.4)
At 31 December 2013	0.2	0.1	2.9	73.1	76.3
Acquired in business combinations	-	-	0.1	-	0.1
Additions	-	-	2.5	9.0	11.5
Disposals	-	-	-	(3.5)	(3.5)
Transfer to finance leases	-	-	-	(1.1)	(1.1)
Balance at 31 December 2014	0.2	0.1	5.5	77.5	83.3
Depreciation					
At 1 January 2013	-	0.1	0.5	11.1	11.7
Depreciation charge for the year	-	-	0.7	13.8	14.5
Disposals	-	-	-	(2.6)	(2.6)
Transfer to finance leases	-	-	-	(1.1)	(1.1)
At 31 December 2013	-	0.1	1.2	21.2	22.5
Depreciation charge for the year	-	-	1.0	13.1	14.1
Disposals	-	-	-	(2.1)	(2.1)
Transfer to finance leases	-	-	-	(0.9)	(0.9)
Balance at 31 December 2014	-	0.1	2.2	31.3	33.6
Net book value					
At 31 December 2013	0.2	-	1.7	51.9	53.8
At 31 December 2014	0.2	-	3.3	46.2	49.7

Property, plant and equipment (continued)

Company	Freehold property £m	Leasehold property £m	Fixtures, fittings & equipment £m	Assets on operating leases £m	Total £m
Cost					
At 1 January 2013	0.2	0.1	1.7	70.8	72.8
Additions	-	-	1.2	10.0	11.2
Disposals	-	-	-	(5.3)	(5.3)
Transfer to finance leases	-	-	-	(2.4)	(2.4)
At 31 December 2013	0.2	0.1	2.9	73.1	76.3
Acquired in business combinations	-	-	0.1	-	0.1
Additions	-	-	2.5	9.0	11.5
Disposals	-	-	-	(3.5)	(3.5)
Transfer to finance leases	-	-	-	(1.1)	(1.1)
Balance at 31 December 2014	0.2	0.1	5.5	77.5	83.3
Depreciation					
At 1 January 2013	-	0.1	0.5	12.4	13.0
Depreciation charge for the year	-	-	0.7	13.4	14.1
Disposals	-	-	-	(2.6)	(2.6)
Transfer to finance leases	-	-	-	(1.1)	(1.1)
At 31 December 2013	-	0.1	1.2	22.1	23.4
Depreciation charge for the year	-	-	1.0	12.9	13.9
Disposals	-	-	-	(2.1)	(2.1)
Transfer to finance leases	-	-	-	(0.9)	(0.9)
Balance at 31 December 2014	-	0.1	2.2	32.0	34.3
Net book value					
At 31 December 2013	0.2	-	1.7	51.0	52.9
At 31 December 2014	0.2	-	3.3	45.5	49.0

19. Intangible assets

Accounting policies

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 by reviewing detailed cash flow projections from the Group's latest approved forecast. Goodwill is stated at cost less any accumulated impairment losses.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed. Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units ("CGU"). An impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of pre-tax profits for the subsequent five years, and a residual value, discounted at a risk-adjusted interest rate appropriate to the cash generating unit.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. An impairment loss is recognised if the carrying amount of an asset is greater than its recoverable amount. No impairment losses were recognised during 2014 (2013: £nil).

Customer relationships

Long-standing customer relationships are expected to enhance the Group's future income. On acquisition of the Singers Group, the future income stream arising from the loyalty of long standing customer relationships was assessed and recognised as an intangible asset. The cost has been amortised over two years.

Computer software

Expenditure on software development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of direct labour and software licence costs. Other development expenditure is recognised in the income statement as an expense is incurred. Capitalised developments are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Intangible assets are amortised on a straight line basis through administrative expenses over the estimated useful life of the asset according to the following timescales:

- Customer relationships 2 years
- Computer software & licences 3 - 7 years

Intangible assets (continued)

Group	Customer relationships £m	Goodwill £m	Computer software £m	Total £m
At 1 January 2013	0.2	14.8	-	15.0
Additions in the year	-	-	1.1	1.1
Amortised in the year	(0.2)	-	-	(0.2)
At 31 December 2013	-	14.8	1.1	15.9
At 1 January 2014	-	14.8	1.1	15.9
Acquired in business combinations	-	23.7	0.1	23.8
Additions in the year	-	-	3.9	3.9
Amortised in the year	-	-	(0.4)	(0.4)
At 31 December 2014	-	38.5	4.7	43.2

Goodwill acquired in business combinations relates to the acquisition of the Centric Group Holdings Limited (refer to note 32).

Goodwill arising on acquisitions is allocated to the following Cash Generating Units ("CGU"): Secured Lending (£5.4m), Asset Finance (£8.9m), Consumer (£0.5m), Business Credit (£23.7m). This is attributable to the skills of the workforce.

The customer relationships intangible recognised the benefit to the Group of enduring relationships with existing customers and their beneficial impact on future new business advances and income. It was amortised over the period over which revenue was earned from the existing and enduring customer relationships.

Company	Goodwill £m	Computer software £m	Total £m
At 1 January 2013	-	-	-
Additions in the year	-	1.1	1.1
At 31 December 2013	-	1.1	1.1
At 1 January 2014	-	1.1	1.1
Transfer from subsidiaries	-	0.1	0.1
Additions in the year	23.7	3.9	27.6
Amortised in the year	-	(0.4)	(0.4)
At 31 December 2014	23.7	4.7	28.4

Intangible assets (continued)**(a) Impairment testing for CGUs containing goodwill**

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

Group	Group 2014 £m	Group 2013 £m
Secured Lending	5.4	5.4
Asset Finance	8.9	8.9
Consumer Lending	0.5	0.5
Business Credit	23.7	-
At 31 December	38.5	14.8

At 31 December 2014, the identification of CGUs was altered to reflect all of the operating segments of the Group. The goodwill has been reallocated to CGUs based on their contribution to the overall Group.

The recoverable amounts of the CGUs have been calculated based on their value in use, determined by discounting the cash flows expected to be generated from the continuing use of the CGU. No impairment losses were recognised in 2014 (2013: £nil) because the recoverable amounts of the CGUs were determined to be higher than their carrying values.

The key assumptions used in the calculation of value in use were as follows:

Group		Asset Finance	Consumer Lending	Business Credit	Secured Lending
Discount rate	%	10.5	10.7	9.5	8.5
Terminal value growth rate	%	2.0	2.0	2.0	2.0

The discount rate is an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset.

Three years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the long term compound annual profit before tax growth rate estimated by Management.

Forecasted profit before tax was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth.

The key assumptions described above may change as economic and market conditions change. The Group estimated that reasonably possible changes in these assumptions would not cause the recoverable amount of any CGU to decline below the carrying amount.

No reasonably possible change in any key assumptions in the Group's cash flow forecasts would result in impairment as each CGU has significant headroom.

20. Deferred tax**Accounting policy**

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.

Deferred tax assets are attributable as follows:

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Accelerated tax depreciation	9.6	9.6	8.4	8.4
Deferred tax on acquisition adjustments	(0.2)	-	(0.2)	-
Other	0.4	0.4	0.4	0.4
Deferred tax asset	9.8	10.0	8.6	8.8
At 1 January	8.6	8.8	11.2	11.4
Current period movement – recognised in income	0.8	0.8	(2.3)	(2.3)
Prior year adjustment	0.4	0.4	1.0	1.0
Effect of tax rate changes	-	-	(1.3)	(1.3)
At 31 December	9.8	10.0	8.6	8.8

The Group had a deferred tax asset of £9.8m at 31 December 2014 (2013: £8.6m) resulting primarily from decelerated capital allowances. The business plan projects profits in future years sufficient to recognise the £9.8m deferred tax asset. The tax assets will unwind over the remaining life of the underlying leased assets with which they are associated.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

21. Other assets**Accounting policy****Assets acquired in exchange for loans**

Included within other debtors 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.

	Note	Group and Company 2014 £m	Group 2013 £m	Company 2013 £m
Other debtors		4.1	2.3	2.3
Prepayments		2.7	1.7	1.7
Corporation tax recoverable		-	2.1	2.1
Amounts due from Group companies	32	-	-	2.5
Total other assets		6.8	6.1	8.6

22. Customer deposits

	Group and Company 2014 £m	Group and Company 2013 £m
Instant access	52.4	17.0
Term deposits and notice accounts	2,364.9	1,446.0
Fair value adjustment for hedged risk	3.8	-
Total customer deposits	2,421.1	1,463.0

23. Due to banks

	Group and Company 2014 £m	Group and Company 2013 £m
Due to banks	41.0	24.6

Amounts due to banks include £37.5m of Treasury Bills which are monies arising from the sale and repurchase of Treasury Bills drawn under the Bank of England's Funding for Lending Scheme (FLS) and fall due for repayment in 2015 and 2017.

24. Provisions for liabilities and charges

	Group and Company 2014 £m	Group and Company 2013 £m
At 1 January	0.4	0.1
Provisions utilised	(0.9)	(0.4)
Provisions made during the year	1.1	0.7
At 31 December	0.6	0.4

Financial Services Compensation Scheme

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 on-going management expenses, by way of annual management levies on members, including the Group, over this period.

The Group's FSCS provision reflects market participation up to the reporting date. The above provision includes the estimated management expense levy for the scheme year 2014/15. This amount was calculated on the basis of the Group's current share of protected deposits taking into account the regulator's estimate of total management expense levies for the scheme year.

In addition to the management levies, the FSCS commenced charging for compensation levies over a number of scheme years commencing 1 April 2012 and an instalment of this was paid during the year. No provision in respect of the capital compensation levy is included in the provision at 31 December 2014.

25. Other liabilities

	Note	Group and Company 2014 £m	Group 2013 £m	Company 2013 £m
Other creditors		23.8	8.7	8.7
Corporation tax payable		5.3	-	-
Accruals		12.8	7.4	7.4
Amounts due to Group companies	33	-	0.2	5.2
Total other liabilities		41.9	16.3	21.3

26. Operating leases**Leases as lessee**

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

	Group and Company 2014 £m	Group 2013 £m	Company 2013 £m
Less than 1 year	0.8	0.6	0.5
Between 1 and 5 years	2.3	0.5	0.5
	3.1	1.1	1.0

Leases as lessor

Operating lease rentals receivable from agreements classified as property, plant and equipment, as disclosed in note 18, are receivable as follows:

	Group and Company 2014 £m	Group and Company 2013 £m
Less than 1 year	14.4	15.1
Between 1 and 5 years	20.3	26.5
More than 5 years	0.5	0.5
	35.2	42.1

27. Subordinated debt**Accounting policy**

The subordinated debt is a non-derivative financial liability with fixed or determinable payments. The subordinated debt is recognised initially at fair value and subsequently measured at amortised cost. Interest costs arising are capitalised in accordance with agreed terms and incorporated into the total debt payable and recognised on an effective interest rate basis.

	Group and Company 2014 £m	Group and Company 2013 £m
1 January	27.6	-
Issued in year	-	27.1
Interest expense	3.2	0.5
Total subordinated debt at 31 December	30.8	27.6

On 31 October 2013, the Company entered into a subordinated facility agreement for a 10 year period at an interest rate of 11%. The terms of the agreement allow interest to be capitalised and repaid with the principal at the end of the agreement.

The subordinated debt is unsecured and ranks behind any claims against the Company from all depositors and creditors.

Notes to the cash flow statement (continued)

Cash and cash equivalents	Group and Company 2014 £m	Group and Company 2013 £m
Cash and balances at central banks	313.1	206.6
Loans and advances to banks	36.4	23.7
	349.5	230.3
Less: mandatory deposits with central banks	(1.7)	(0.7)
Cash and cash equivalents	347.8	229.6

Mandatory deposits are not available for use in the Group or Company's day to day business and are non-interest bearing. Prior year mandatory deposits have been reclassified.

28. Share capital**Authorised, issued and fully paid**

Ordinary shares of £1 each	2014 No.	2013 No.
On issue at 31 December	174,487,207	128,989,866

During the year, the Company issued 45,497,341 (2013: 17,000,000) Ordinary shares of £1 each. 39,338,567 shares were issued for cash at par value and 6,158,774 were issued as consideration in the acquisition of Centric Group Holdings Limited. Par value is £1 per share.

	2014 No.	2013 No.
On issue at 1 January	128,889,866	111,889,866
Issued during the year	45,497,341	17,000,000
On issue at 31 December	174,487,207	128,889,866

The holders of the A Ordinary shares are entitled to one vote per share.

29. Notes to the cash flow statement**Accounting policy**

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.

Non-cash items in the cash flow statement	Note	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Dividends received from subsidiary companies		-	-	-	(2.8)
Capitalisation of subordinated debt interest	27	3.2	3.2	0.5	0.5
Depreciation	18	14.1	13.9	14.5	14.1
Amortisation of intangible assets	19	0.4	0.4	0.2	0.1
Provisions against loans and advances to customers	16	6.7	6.7	3.5	3.2
Amortisation of share scheme fair value		0.1	0.1	-	-
Profit on sale of operating leased assets		(0.8)	(0.8)	(1.1)	(1.1)
Fair value losses on financial instruments		0.1	0.1	-	-
Total non-cash items		23.8	23.6	17.6	14.0

30. Financial instruments

Accounting policies

Financial assets

The Group classifies its financial assets in the following categories:

- At fair value through profit or 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 or 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.

Derivative financial assets are classified at fair value through profit or loss.

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

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 advances; and
- finance lease and instalment credit advances.

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, then the agreement is accounted for as a finance lease.

Financial liabilities

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

Derivative financial liabilities are classified at fair value through profit or loss.

Financial instruments (continued)

Accounting policies

De-recognition of financial assets and liabilities

De-recognition is the point at which an asset or liability is removed from the balance sheet. The Group's 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.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

If the terms of the financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows from the original financial asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an unexpected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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. For financial liabilities held at fair value, the Group takes into account changes in credit risk and other unobservable data in order to reflect the measurement of financial liabilities.

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); and
- 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).

Financial instruments (continued)**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.

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.

Derivatives

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

Amounts due to banks

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.

Subordinated debt

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.

Fair value hierarchy

The table below analyses the Group's financial instruments measured at cost into a fair value hierarchy:

Group	2014 Level 3 £m	2014 Level 2 £m	2013 Level 3 £m	2013 Level 2 £m
Financial assets				
Cash and balances at central banks	313.1	-	206.6	-
Loans and advances to banks	36.4	-	23.7	-
Loans and advances to customers	2,340.6	-	1,352.1	-
Financial liabilities				
Customer deposits	-	(2,447.8)	-	(1,457.1)
Amounts due to banks	(41.0)	-	(24.6)	-
Subordinated debt	(30.8)	-	(27.6)	-

The table below analyses the Group's financial instruments measured at fair value into a fair value hierarchy:

Group	2014 Level 3 £m	2014 Level 2 £m	2013 Level 3 £m	2013 Level 2 £m
Financial assets				
Derivative financial instruments	-	3.7	-	-

Financial instruments (continued)

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

Group	Loans and receivables £m	Other liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
At 31 December 2014				
Cash and balances at central banks	313.1	-	313.1	313.1
Loans and advances to banks	36.4	-	36.4	36.4
Loans and advances to customers	2,284.8	-	2,284.8	2,340.6
	2,634.3	-	2,634.3	2,690.1
Customer deposits	-	2,421.0	2,421.0	2,447.8
Due to banks	-	41.0	41.0	41.0
Subordinated debt	-	30.8	30.8	30.8
	-	2,492.8	2,492.8	2,519.6
At 31 December 2013				
Cash and balances at central banks	206.6	-	206.6	206.6
Loans and advances to banks	23.7	-	23.7	23.7
Loans and advances to customers	1,346.9	-	1,346.9	1,352.1
	1,577.2	-	1,577.2	1,582.4
Customer deposits	-	1,463.0	1,463.0	1,457.1
Due to banks	-	24.6	24.6	24.6
Subordinated debt	-	27.6	27.6	27.6
	-	1,515.2	1,515.2	1,509.3

31. Risk management

The main areas of risk that the business is exposed to are:

- Credit risk;
- Liquidity risk;
- Market risk;
- Capital risk and management;
- Operational risk; and
- Conduct Risk.

Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. These risks are managed by the Board's Risk Committee and Asset and Liability Committee. This risk has two main components:

- Customer risk (individual and business lending); and
- Treasury credit risk

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

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Cash and balances at central banks	313.1	313.1	206.6	206.6
Loans and advances to banks	36.4	36.4	23.7	23.7
Loans and advances to customers	2,284.8	2,284.7	1,346.9	1,346.8
Derivative financial assets	3.7	3.7	-	-
	2,638.0	2,637.9	1,577.2	1,577.1
Contractual commitments	469.3	469.3	138.2	138.2
Total credit risk	3,107.3	3,107.2	1,715.4	1,715.3

Contractual commitments represent agreements entered into but not advanced as at 31 December 2014.

The above table represents the maximum credit risk exposure to the Group at 31 December 2014 and 2013 without taking account of any underlying security. The amount of collateral held at 31 December 2014 is £1,637.9m (2013: £867.7m) of which £1,373.2m (2013: £840.9m) is in the form of residential and commercial property and £264.7m (2013: £26.8m) is secured on other assets and debt receivables. Collateral held in relation to secured loans is capped at the amount outstanding on an individual loan basis.

Customer risk

The Group maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Group. A concession may be either of the following:

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

Customer risk (continued)

Forbearance in relation to an exposure can be temporary or permanent in nature depending on the circumstances, progress on financial rehabilitation and the detail of the concession(s) agreed. A forbearance classification can be discontinued when all of the following conditions have been met:

- The exposure is considered as performing, including, if it has been reclassified from the non-performing category, after an analysis of the financial condition of the borrower shows it no longer meets the conditions to be considered as non-performing;
- A minimum 2 year probation period has passed from the date the forbore exposure was considered as performing;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- None of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

As at 31 December 2014, the number of forbearance arrangements in place was 531 (2013: 160), the carrying value of which was £8.7m (2013: £2.7m) against which impairment provisions of £2.9m (2013: £1.1m) were held.

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

Forbearance as at 31 December 2013	Capital Balances		Provisions	Coverage
	2013 Number	2013 £m	2013 £m	2013 %
Consumer	114	0.8	0.7	87.5
Secured	33	0.9	0.3	33.3
Asset Finance	13	1.0	0.1	10.0
Total	160	2.7	1.1	40.7

There were 10 repossessions during the year (2013: 1).

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

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

Customer risk (continued)

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

The Group enters into agreements with customers and where appropriate takes security. Loan receivables include amounts secured against property (commercial and residential), secured against other assets such as asset backed loans and invoice receivables. Finance lease and instalment credit is secured on a variety of assets including but not limited to plant and machinery.

The security profile of the loan receivable book is shown below:

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Loan receivables	1,861.4	1,861.4	981.2	981.2
Finance lease receivables	114.0	113.9	105.6	105.4
Instalment credit receivables	309.4	309.4	260.1	260.2
Total loans and advances to customers	2,284.8	2,284.7	1,346.9	1,346.8

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Loan receivables				
Neither past due nor impaired	1,841.4	1,841.4	966.0	966.0
Past due but not impaired:				
Up to 30 days	2.1	2.1	2.0	2.0
30-60 days	10.8	10.8	8.9	8.9
60-90 days	2.3	2.3	0.8	0.8
Over 90 days	2.8	2.8	1.3	1.3
	18.0	18.0	13.0	13.0
Impaired	11.0	11.0	5.9	5.9
	1,870.4	1,870.4	984.9	984.9
Less: allowances for impairment losses	(9.0)	(9.0)	(3.7)	(3.7)
Net loan receivables	1,861.4	1,861.4	981.2	981.2

Customer risk (continued)

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

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Secured on property	1,349.7	1,349.7	840.9	840.9
Secured on other assets	288.2	288.2	26.8	26.8
Unsecured	232.5	232.5	117.2	117.2
	1,870.4	1,870.4	984.9	984.9

The amount of collateral held at 31 December 2014 is £1,637.9m (2013: £867.7m) of which £1,373.2m (2013: £840.9m) is in the form of residential and commercial property and £264.7m (2013: £26.8m) is secured on other assets and debt receivables. Collateral held in relation to secured loans is capped at the amount outstanding on an individual loan basis.

Finance lease receivables	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Neither past due nor impaired	102.9	102.8	99.4	99.4
Past due but not impaired:				
Up to 30 days	6.9	6.9	3.6	3.6
30-60 days	1.5	1.5	0.9	0.9
60-90 days	0.9	0.9	0.1	0.1
Over 90 days	1.6	1.6	0.3	0.3
	10.9	10.9	4.9	4.9
Impaired	0.9	0.9	2.0	2.0
	114.7	114.6	106.3	106.3
Less: allowances for impairment losses	(0.7)	(0.7)	(0.7)	(0.9)
Finance lease receivables	114.0	113.9	105.6	105.4
Instalment credit receivables	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Neither past due nor impaired	305.2	305.2	257.0	257.1
Past due but not impaired:				
Up to 30 days	3.6	3.6	2.5	2.5
30-60 days	0.4	0.4	0.6	0.6
60 – 90 days	0.2	0.2	0.2	0.2
Over 90 days	0.1	0.1	0.1	0.1
	4.3	4.3	3.4	3.4
Impaired	1.3	1.3	0.7	0.7
	310.8	310.8	261.1	261.2
Less: allowances for impairment losses	(1.4)	(1.4)	(1.0)	(1.0)
Instalment credit receivables	309.4	309.4	260.1	260.2

Customer risk (continued)

	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
2014						
Neither past due nor impaired	963.8	502.6	169.9	387.0	226.1	2,249.4
Past due but not impaired						
Up to 30 days	0.4	10.5	-	1.7	-	12.6
30-60 days	4.4	1.9	-	6.4	-	12.7
60-90 days	-	1.1	-	2.3	-	3.4
Over 90 days	-	1.7	-	2.9	-	4.6
Total past due but not impaired	4.8	15.2	-	13.3	-	33.3
Total impaired	1.7	2.2	0.3	2.6	6.4	13.2
	970.3	520.0	170.2	402.9	232.5	2,295.9
Less: allowances for impairment losses	(1.4)	(2.1)	(0.4)	(1.6)	(5.6)	(11.1)
Total loans and advances to customers	968.9	517.9	169.8	401.3	226.9	2,284.8
	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
2013						
Neither past due nor impaired	539.8	383.2	-	284.8	114.5	1,322.3
Past due but not impaired						
Up to 30 days	0.4	6.2	-	1.4	0.2	8.2
30-60 days	1.9	1.5	-	6.1	0.9	10.4
60-90 days	-	0.2	-	0.8	-	1.0
Over 90 days	0.5	0.4	-	0.9	-	1.8
Total past due but not impaired	2.8	8.3	-	9.2	1.1	21.4
Total impaired	1.6	2.7	-	2.7	1.6	8.6
	544.2	394.2	-	296.7	117.2	1,352.3
Less: allowances for impairment losses	(0.4)	(1.7)	-	(1.7)	(1.6)	(5.4)
Total loans and advances to customers	543.8	392.5	-	295.0	115.6	1,346.9

Customer risk (continued)

The Group's lending portfolio is geographically diversified across the UK as shown below:

	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
2014						
East Anglia	34.8	26.1	36.2	14.1	13.3	124.5
East Midlands	29.6	21.2	6.7	16.7	19.7	93.9
Greater London	411.3	90.5	26.1	103.3	18.5	649.7
Guernsey/Jersey/Isle of Man	-	0.4	-	-	-	0.4
North East	15.5	5.1	2.1	8.2	14.5	45.4
North West	88.6	61.1	26.5	27.2	24.5	227.9
Northern Ireland	-	3.4	-	-	0.3	3.7
Scotland	43.4	85.7	3.7	27.9	34.8	195.5
South East	169.4	120.6	20.2	115.5	33.7	459.4
South West	82.1	45.9	6.6	35.8	19.0	189.4
Wales	17.8	20.8	8.8	13.5	8.5	69.4
West Midlands	31.9	22.3	21.1	21.2	27.5	124.0
Yorkshire/Humberside	45.9	16.9	12.2	19.5	18.2	112.7
	970.3	520.0	170.2	402.9	232.5	2,295.9
2013						
East Anglia	19.5	23.1	-	9.7	4.4	56.7
East Midlands	17.5	18.2	-	14.0	9.7	59.4
Greater London	224.2	66.9	-	68.0	8.4	367.5
North East	8.6	4.2	-	6.6	7.1	26.5
North West	43.2	40.7	-	23.1	13.2	120.2
Northern Ireland	-	5.0	-	-	0.1	5.1
Scotland	21.2	71.5	-	22.0	20.9	135.6
South East	97.9	78.4	-	81.4	17.9	275.6
South West	51.8	36.3	-	28.8	10.9	127.8
Wales	11.8	19.2	-	10.2	2.4	43.6
West Midlands	19.0	19.1	-	17.2	14.5	69.8
Yorkshire/Humberside	29.5	11.6	-	15.7	7.7	64.5
	544.2	394.2	-	296.7	117.2	1,352.3

Customer risk (continued)

The Group's lending portfolio falls into the following concentrations by loan size:

	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
2014						
0 - £50k	4.1	168.3	0.2	202.2	232.5	607.3
£50k - £100k	67.1	64.5	4.6	121.8	-	258.0
£100k - £250k	274.5	71.2	9.4	64.2	-	419.3
£250k - £500k	244.7	47.3	22.9	10.9	-	325.8
£500k - £1m	194.0	37.5	31.2	1.8	-	264.5
£1m - £2.5m	134.5	36.7	61.1	2.0	-	234.3
£2.5m - £5m	39.3	29.0	29.5	-	-	97.8
£5m +	12.1	65.5	11.3	-	-	88.9
Total	970.3	520.0	170.2	402.9	232.5	2,295.9

	Commercial Mortgages £m	Asset Finance £m	Business Credit £m	Secured Lending £m	Consumer Lending £m	Total £m
2013						
0 - £50k	1.1	154.4	-	167.9	117.2	440.6
£50k - £100k	37.4	52.5	-	88.6	-	178.5
£100k - £250k	153.0	52.2	-	35.9	-	241.1
£250k - £500k	151.1	38.9	-	3.6	-	193.6
£500k - £1m	120.2	21.0	-	0.7	-	141.9
£1m - £2.5m	66.5	25.0	-	-	-	91.5
£2.5m - £5m	9.3	24.5	-	-	-	33.8
£5m +	5.6	25.7	-	-	-	31.3
Total	544.2	394.2	-	296.7	117.2	1,352.3

Treasury credit risk

Treasury credit risk arises from the wholesale investments made by the Company's Treasury function, which is responsible for managing this aspect of credit risk in line with the Board approved risk appetite and wholesale credit policies. The credit quality of loans and advances to banks is assessed by rating agency designation as at 31 December 2014, based on Moody's long term ratings.

Loans and advances to banks	2014	2013
	£m	£m
A1	18.6	-
A2	1.1	0.1
A3	-	23.5
Aa3	-	0.1
Baa1	16.7	-
	36.4	23.7

The Group only lends to UK high-street banks. Deposits are placed either overnight or for a short term with a duration of less than three months.

The Group's exposure to the Bank of England is set out below:

Loans and advances to central banks	2014	2013
	£m	£m
Aa1	313.1	206.6

Credit risk derived from derivative transactions is mitigated by collateralising the exposures. Such collateral is subject to the standard industry CSA and is paid or received on a regular basis. At 31 December 2014 cash collateral of £3.5m had been received by the Group (2013: £nil).

Liquidity risk**Accounting policy***Funding for Lending Scheme (FLS)*

The Company is a participant in the FLS which enables it to borrow highly liquid UK Treasury Bills in exchange for eligible collateral. The Treasury Bills issued are for an original maturity of nine months and if delivered back prior to their maturity date can be exchanged for further nine month Bills. Costs of borrowing are charged directly to the Income Statement.

The Treasury Bills are not recorded on the Company's balance sheet as ownership remains with the Bank of England. The risk and rewards of the collateral provided remains with the Company and continues to be recognised in the Company's financial Statements.

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.

Liquidity risk (continued)

The table below analyses the Group's contractual undiscounted cash flows of its financial assets and liabilities:

Group	Carrying amount £m	Gross nominal inflow/ (outflow) £m	Less than 1 month £m	1-3 months £m	3 months to 1 year £m	1-5 years £m	More than 5 years £m
At 31 December 2014							
Assets							
Cash and balances at central banks	313.1	313.1	311.4	-	-	-	1.7
Loans and advances to banks	36.4	36.4	36.4	-	-	-	-
Loans and advances to customers	2,284.8	2,337.2	40.8	60.2	333.7	1,121.2	781.3
	2,634.3	2,686.7	388.6	60.2	333.7	1,121.2	783.0
Liabilities							
Customer deposits	(2,421.0)	(2,535.3)	(172.9)	(188.9)	(1,023.5)	(1,150.0)	-
Due to banks	(41.0)	(41.7)	(16.6)	-	(0.2)	(24.9)	-
Subordinated debt	(30.8)	(79.6)	-	-	-	-	(79.6)
	(2,492.8)	(2,656.6)	(189.5)	(188.9)	(1,023.7)	(1,174.9)	(79.6)
At 31 December 2013							
Assets							
Cash and balances at central banks	206.6	206.6	205.9	-	-	-	0.7
Loans and advances to banks	23.7	23.7	23.7	-	-	-	-
Loans and advances to customers	1,346.9	1,408.4	23.6	42.0	193.0	657.4	492.4
	1,577.2	1,638.7	253.2	42.0	193.0	657.4	493.1
Liabilities							
Customer deposits	(1,463.0)	(1,543.3)	(138.9)	(90.0)	(702.8)	(611.6)	-
Due to banks	(24.6)	(25.4)	-	-	(0.2)	(25.2)	-
Subordinated debt	(27.6)	(79.6)	-	-	-	-	(79.6)
	(1,515.2)	(1,648.3)	(138.9)	(90.0)	(703.0)	(636.8)	(79.6)

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at the balance sheet date.

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

	2014 Carrying amount £m	2013 Carrying amount £m
Balances with central banks	311.4	205.9
Loans and advances to banks	36.4	23.7
Debt securities	163.1	57.9
Total liquidity reserve	510.9	287.5

The total liquidity reserve includes £163.1m (2013: £57.9m) of securities issued by the Bank of England through FLS participation which are not recognised on the Consolidated Statement of Financial Position.

The average liquidity reserve throughout the year was £426.0m (2013: £274.0m).

Liquidity risk (continued)**Asset encumbrance**

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

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

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

	Encumbered	Unencumbered	Unencumbered	Total
	Pledged as collateral	Available as collateral	Other	
	2014	2014	2014	2014
	£m	£m	£m	£m
Asset encumbrance 2014				
Cash and balances at central banks	1.7	-	311.4	313.1
Loans and advances to banks	-	36.4	-	36.4
Loans and advances to customers	438.0	1846.8	-	2,284.8
Property, plant and equipment	-	46.2	-	46.2
Derivative assets held for risk management	-	-	3.7	3.7
Non-financial assets	-	-	63.3	63.3
Total assets	439.7	1,929.4	378.4	2,747.5

	Encumbered	Unencumbered	Unencumbered	Total
	Pledged as collateral	Available as collateral	Other	
	2013	2013	2013	2013
	£m	£m	£m	£m
Asset encumbrance 2013				
Cash and balances at central banks	0.7	-	205.9	206.6
Loans and advances to banks	-	23.7	-	23.7
Loans and advances to customers	156.6	1,190.3	-	1,346.9
Property, plant and equipment	-	51.9	-	51.9
Non-financial assets	-	-	32.5	32.5
Total assets	157.3	1,265.9	238.4	1,661.6

In addition to the above, the Company holds £163.1m (2013: £57.9m) of Bank of England securities which can provide further capacity through third party sale and repurchase agreements to support additional funding.

Liquidity risk – stress testing

Stress testing is a major component of liquidity risk management and the Group has developed a range of scenarios covering a range of market-wide and firm-specific factors. A comprehensive stress testing exercise is conducted at least annually and the methodology is incorporated into the Group's balance sheet risk management model to ensure that stress tests are run on a regular basis. The output of stress testing is circulated to the Board and to the ALCO who will use the results to decide whether to amend the Group's risk appetite and liquidity limits.

Market risk

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

The Company has minimal foreign currency exposure and does not engage in any treasury trading operations.

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

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.

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 the ALCO. This risk is managed by matching and where appropriate, through the use of derivatives, with established risk limits and other control procedures.

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

Foreign exchange risk

Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Group has low levels of foreign exchange risk which is managed by use of cross-currency derivatives. The table below sets out the Group's exposure to foreign exchange risk:

	Group 2014 £m	Group 2013 £m
Assets and liabilities in Euros at sterling carrying values		
Loans and advances to banks	0.1	-
Loans and advances to customers	8.4	-
Amounts due to banks	(7.8)	-
Net position	0.7	-
	Group 2014 £m	Group 2013 £m
Assets and liabilities in US dollars at sterling carrying values		
Loans and advances to banks	(0.9)	-
Loans and advances to customers	6.1	-
Amounts due to banks	(5.1)	-
Net position	0.1	-
	2014 £m	2013 £m
Assets and liabilities in Canadian dollars at sterling carrying values		
Loans and advances to banks	0.2	-
Net position	0.2	-

Market risk (continued)**Foreign Exchange Sensitivity**

The Group estimates that a 5% movement in exchange rates would have impacted the 2014 results as follows:

Euro	Change in Rate	Effect on
		Profit before tax £m
2014	+ 5%	0.04
	- 5%	(0.04)
2013	+ 5%	-
	- 5%	-
US Dollar	Change in Rate	Effect on
		Profit before tax £m
2014	+ 5%	0.01
	- 5%	(0.01)
2013	+ 5%	-
	- 5%	-
Canadian Dollar	Change in Rate	Effect on
		Profit before tax £m
2014	+ 5%	0.01
	- 5%	(0.01)
2013	+ 5%	-
	- 5%	-

Market risk (continued)**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 overall balance sheet values as follows:

+200 bps – £16.5m positive (2013: £14.4m positive)

-200 bps – £14.3m positive (2013: £6.1m positive)

The following table summarises the re-pricing periods for the Group's assets and liabilities at 31 December 2014. 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 £m	More than 3 months but less than 6 months £m	More than 6 months but less than 1 year £m	More than 1 year but less than 5 years £m	More than 5 years £m	Non-interest bearing £m	TOTAL £m
At 31 December 2014							
Assets							
Cash and balances at central banks	311.4	-	-	-	-	1.7	313.1
Loans and advances to banks	36.4	-	-	-	-	-	36.4
Loans and advances to customers	1,247.1	95.5	161.9	609.5	170.8	-	2,284.8
Other non-financial assets	3.6	3.6	7.1	30.7	1.2	67.0	113.2
	1,598.5	99.1	169.0	640.2	172.0	68.7	2,747.5
Liabilities							
Customer deposits	445.3	766.7	161.7	1,047.3	-	-	2,421.0
Due to banks	16.6	-	-	24.4	-	-	41.0
Other non-financial liabilities	-	-	-	-	-	42.5	42.5
Subordinated debt	-	-	-	-	30.8	-	30.8
Total equity	-	-	-	-	-	212.2	212.2
	461.9	766.7	161.7	1,071.7	30.8	254.7	2,747.5
Notional values of derivatives	195.0	-	-	(195.0)	-	-	
Interest rate sensitivity gap	1,331.6	(667.6)	7.3	(626.5)	141.2	(186.0)	
Cumulative gap	1,331.6	664.0	671.3	44.8	186.0	-	

Market risk (continued)

The following table summarises the re-pricing periods for the Group's assets and liabilities at 31 December 2013. 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 £m	More than 3 months but less than 6 months £m	More than 6 months but less than 1 year £m	More than 1 year but less than 5 years £m	More than 5 years £m	Non-interest bearing £m	TOTAL £m
At 31 December 2013							
Assets							
Cash and balances at central banks	205.9	-	-	-	-	0.7	206.6
Loans and advances to banks	23.7	-	-	-	-	-	23.7
Loans and advances to customers	620.4	62.6	121.8	425.4	116.7	-	1,346.9
Other non-financial assets	4.2	3.6	6.3	35.9	1.8	32.6	84.4
	854.2	66.2	128.1	461.3	118.5	33.3	1,661.6
Liabilities							
Customer deposits	266.5	373.6	278.3	544.6	-	-	1,463.0
Due to banks	-	-	-	24.6	-	-	24.6
Other non-financial liabilities	-	-	-	-	-	16.7	16.7
Subordinated debt	-	-	-	-	27.6	-	27.6
Total equity	-	-	-	-	-	129.7	129.7
	266.5	373.6	278.3	569.2	27.6	146.4	1,661.6
Interest rate sensitivity gap	587.7	(307.4)	(150.2)	(107.9)	90.9	(113.1)	
Cumulative gap	587.7	280.3	130.1	22.2	113.1	-	

Capital risk and management

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

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Share capital	174.5	174.5	129.0	129.0
Retained earnings	35.8	20.4	0.5	(17.6)
Merger reserve	1.6	1.6	-	-
Capital contribution reserve	0.3	0.3	0.2	0.2
Intangible assets	(43.2)	(28.4)	(15.9)	(1.1)
Common equity tier 1 capital	169.0	168.4	113.8	110.5
Subordinated debt	30.8	30.8	27.6	27.6
Collective impairment allowance	3.0	3.0	1.3	1.4
Tier 2 capital	33.8	33.8	28.9	29.0
Total regulatory capital	202.8	202.2	142.7	139.5

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

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Regulatory capital	202.8	202.2	142.7	139.5
Subordinated debt	(30.8)	(30.8)	(27.6)	(27.6)
Collective impairment allowance	(3.0)	(3.0)	(1.3)	(1.4)
Intangible assets	43.2	28.4	15.9	1.1
Total equity	212.2	196.8	129.7	111.6

32 Subsidiary companies**Accounting policy***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 Company has the following subsidiary companies whose results are included in these consolidated financial statements:

	Country of Incorporation	Class of shares held	Ownership	Principal activity
Shawbrook Buildings and Protection Limited	England & Wales	Ordinary	100%	FCA authorised introducer of insurance
Link Loans Limited	England & Wales	Ordinary	100%	Non-trading
Centric Group Holdings Limited *	England & Wales	Ordinary	100%	Non-trading
and its subsidiaries:				
Centric Group Finance 2 Limited	England & Wales	Ordinary	100%	Dormant
Centric Group Finance Limited	England & Wales	Ordinary	100%	Non-trading
and its subsidiaries:				
Centric Commercial Finance Limited	England & Wales	Ordinary	100%	Non-trading
Resource Partners SPV Limited	England & Wales	Ordinary	100%	Non-trading
Centric SPV 1 Limited	England & Wales	Ordinary	100%	Non-trading
Centric SPV 2 Limited	England & Wales	Ordinary	100%	Dormant
Singers Corporate Asset Finance Limited	England & Wales	Ordinary	100%	Non-trading
Coachlease Limited	England & Wales	Ordinary	100%	Dormant
East Anglian Finance Limited**	England & Wales	Ordinary	100%	Dormant
Hermes Group Limited	England & Wales	Ordinary	100%	Dormant
Singer and Friedlander Commercial Finance Limited	Scotland	Ordinary	100%	Dormant
Singers Healthcare Finance Limited	England & Wales	Ordinary	100%	Non-trading
and its subsidiary:				
SAF Funding Limited	England & Wales	Ordinary	100%	In Liquidation
Singers Asset Finance Holdings Limited	England & Wales	Ordinary	100%	In Liquidation
Singer and Friedlander Finance Limited	England & Wales	Ordinary	100%	In Liquidation
Apple Holdco Limited	England & Wales	Ordinary	100%	In Liquidation
and its subsidiary:				
Apple Acquisition Limited	England & Wales	Ordinary	100%	In Liquidation
and its subsidiary:				
Ascot Funding Limited	England & Wales	Ordinary	100%	In Liquidation
Money2Improve Limited	England & Wales	Ordinary	100%	In Liquidation

* Centric Group Holdings and its direct and indirect subsidiaries are referred to as the "Centric Group".

** East Anglian Finance Limited was sold on 18 February 2015.

Subsidiary companies (continued)

Business combinations

Accounting policies

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.

Acquisition accounting

The Group recognises identifiable assets and liabilities at their acquisition date fair values. Fair values are determined from the estimated future cash flows generated by the assets. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Critical accounting estimates and judgements

Fair value of identifiable net assets of the Centric Group

Acquisitions 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 was inherently subjective and required Management to make a number of assumptions and estimates. Fair values were established using discounted cash flow models. An 5% increase in the required return results in a £0.5m decrease in the fair value of the acquired book, a 5% decrease in the required return results in a £0.5m increase in the fair value of the acquired book.

Since the acquisition dates, 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 is based on the estimated average life of the underlying asset and the credit risk fair value is re-assessed on an on-going basis.

On the 9th June 2014, the Group acquired 100% of the share capital and voting rights of Centric Group Holdings Limited ("CGHL"), which along with its wholly owned subsidiaries Centric SPV1 Limited, Centric Commercial Finance Limited and Resource Partners SPV Limited provide invoice finance and other asset based lending facilities to UK based businesses. The principal reason for this acquisition was to further enhance our product offering to SME customers.

Following completion, the Centric Group settled its outstanding funding obligations of £138.2m and transferred all of its remaining assets and liabilities by way of an equitable assignment to Shawbrook Bank Limited at their net book value.

Subsidiary companies (continued)

This acquisition was 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. Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Note	Fair values £m
Trade debtors		195.5
Property, plant and equipment		0.1
Borrowings		(138.2)
Other net liabilities		(3.4)
Net identifiable assets and liabilities		54.0
Consideration transferred:		
Cash		70.0
Ordinary shares in Shawbrook Bank Limited		7.7
Total Consideration		77.7
Representing:		
Goodwill on acquisition	19	23.7

The gross contractual amounts due are £198.7m and £1.0m is expected to be uncollectable at the acquisition date.

Goodwill arising on acquisition of CGHL is not deductible for tax purposes.

Administration costs of £1.9m arose as a result of the transaction. These have been recognised as part of the administrative expenses in the Consolidated Income Statement.

The fair value of the consideration settled in shares (6,158,774 Ordinary A shares in Shawbrook Bank Limited) has been based on available open market valuations and market comparable multiples.

The goodwill is attributable mainly to the skills of the Centric Group's workforce and the synergies expected to be achieved from integrating the company into the Group's existing business.

Since the acquisition date, the Centric Group, whose business has subsequently been rebranded to Shawbrook Business Credit, contributed £10.9m to group revenues and £4.5m to group profit. If the acquisition had occurred on 1 January 2014, group revenue would have been £19.0m higher and group profit would have been £6.0m higher.

33 Related party transactions

Related parties of the Group include the Company's parent company, Shawbrook Group plc, 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.

Group

Intercompany movements with the Company's parent, Shawbrook Group plc, are as follows:

	2014 £m	2013 £m
Gross balance outstanding at 1 January	0.9	1.1
Payment of Link Loans deferred acquisition costs *	-	0.5
Issue of share capital to parent	39.3	2.0
Proceeds of share capital issued by parent	(39.3)	(2.7)
Professional fees incurred by parent	0.5	-
Transfer of funds	(1.4)	-
Gross balance outstanding at 31 December	-	0.9
Provisions at 31 December	-	(1.0)
Net balance outstanding at 31 December	-	(0.1)

*Link Loans is a subsidiary of the Company and the Company incurred costs relating to its acquisition.

The Company's parent, Shawbrook Group plc, is an investment company of Pollen Street Capital Limited.

Target Group Limited is an investment of Pollen Street Capital Limited. The Group has an amortising term loan, secured on mortgage assets, to Target Financial Systems Limited, a wholly owned subsidiary of Target Group Limited. Income earned during the year was £0.8m (2013: £nil) and the balance outstanding at 31 December 2014 was £7.3m (2013: £10.5m).

The Group has also entered into a contract with Target Servicing Limited, a wholly owned subsidiary of Target Group Limited, for administration services on various portfolios. Target Servicing Limited services various portfolios, under customary commercial arrangements, on behalf of the Group. The Group has been charged £4.6m during 2014 for these services (2013: £2.1m) and no amounts were due at 31 December 2014.

The Group has committed £20.0 million as lender under a Revolving Credit Facility to Arrow Global Guernsey Holdings Limited (an investment of Pollen Street Capital Limited up to March 2014). Income earned during the year was £0.4m (2013: £0.1m) and the balance outstanding at 31 December 2014 was £7.8m (2013: £10.0m).

The Group has paid £1.3m (2013: £1.3m) in broker fees to Freedom Finance Limited, an investment company of Pollen Street Capital Limited since August 2014.

The charge for share based payments provided to key Management personnel during 2014 was £0.1m (2013: £0.1m).

On 18 February 2015, the Group sold its entire shareholding in East Anglian Finance Limited to Pollen Street Capital Limited for £15k.

During the year, the Company issued a total of £39.3m of share capital to its parent (2013: £2.0m).

Related party transactions (continued)**Company**

	Singers Corporate Asset Finance Limited £m	Singers Healthcare Finance Limited £m	Link Loans Limited and Subsidiaries £m	Shawbrook Group plc £m	Total £m
At 1 January 2013	(0.1)	(0.4)	(2.4)	0.1	(2.8)
Group tax losses acquired from KSF	(0.4)	(2.5)	-	-	(2.9)
Purchase of group tax losses	0.1	0.5	-	-	0.6
Dividend paid	0.3	2.5	-	-	2.8
Payment of Link Loans deferred acquisition costs	-	-	-	0.5	0.5
Issue of share capital to parent	-	-	-	2.0	2.0
Proceeds of share capital issued by parent	-	-	-	(2.7)	(2.7)
Other transactions	0.1	(0.1)	-	-	-
At 31 December 2013	-	-	(2.4)	(0.1)	(2.5)

	Centric Group Holdings Limited £m	Link Loans Limited and Subsidiaries £m	Shawbrook Group plc £m	Total £m
At 1 January 2014	-	(2.4)	(0.1)	(2.5)
Net assets transferred to Shawbrook	54.0	-	-	54.0
Dividend received by Shawbrook	(54.0)	-	-	(54.0)
Professional fees incurred by parent			0.5	0.5
Transfer of funds			(1.4)	(1.4)
Release of provision	-	-	1.0	1.0
Write off of intercompany balances	-	2.4	-	2.4
Issue of share capital to parent	-	-	45.5	45.5
Proceeds of share capital issued by parent			(39.3)	(39.3)
At 31 December 2014	-	-	0.1	0.1

Transactions with key management personnel

The aggregate value of the transactions and outstanding balances related to key management personnel (as defined by IAS 24 Related Party Disclosure, were as follows:

	Transaction values for the year ended	
	31 December 2014 £000	31 December 2013 £000
Deposits	303	-

Related party transactions (continued)

	Maximum balance for the year ended	
	31 December 2014 £000	31 December 2013 £000
Deposits	314	11

	Balance outstanding at	
	31 December 2014 £000	31 December 2013 £000
Deposits	314	11

34 Capital commitments

The Group and Company have capital commitments totalling £1.3m at 31 December 2014 (2013: £1.5m).

35 Contingent liabilities

The Group outsources certain account administration, customer servicing and arrears management for its Commercial Mortgages, Secured Lending and Consumer Lending portfolios. Between 15 May 2014 and 26 January 2015, the outsourcer failed to send certain notices prescribed by the Consumer Credit Act ("CCA") to certain Secured Lending and Consumer Lending customers. These failures result in interest and charges of approximately £500,000 being incapable of collection or, being required to be refunded and other remediation costs estimated to be no more than £70,000. The Group's outsourcer has confirmed to the Group that it is responsible for reimbursing the Group in respect of the interest and charges which are incapable of being collected or need to be refunded to customers and for covering the vast majority of the other costs which are expected to be incurred. The outsourcer is working with the Group to take the necessary remedial action. The outsourcer has also assured the Group that it has addressed the cause of the failure to give notices and the Group intends to increase its monitoring of the outsourcer.

As stated above, part of the Group's business is regulated by the Consumer Credit Act ("CCA"), which contains very detailed and highly technical requirements. Independent of the above issue, in 2014, the Group commissioned an external review of its compliance with the CCA. The Group has identified some areas of potential non-compliance, although these are not considered to be material. While the Group considers that no material present obligation in relation to non-compliance with the CCA is likely, there is a risk that an eventual outcome may differ.

A recent European Court of Justice ruling has indicated that, under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay includes contractual commission, rather than being limited to basic salary. On 4 November 2014, the Employment Appeal Tribunal ("EAT") determined that 'normal pay' includes overtime and certain allowances such as travel time. The EAT also concluded that claims for arrears of holiday pay will be out of time if there has been a break of more than 3 months between successive underpayments. The EAT gave permission to appeal to the Court of Appeal. This gives rise to a possible obligation for the Group but, given the uncertainty of the outcome, the timing of the UK decisions and the uncertainty around the scope of any compensation arising, the Group is unable to quantify what, if any, liability may arise. The Group does not expect the ultimate resolution of any other threatened or actual legal proceedings to have a significant adverse impact on the financial position of the Group.

Singer & Friedlander Finance Limited (SFFL) was acquired by the Group in 2012. Until January 2005, SFFL sold insurance (including payment protection and "gap" insurance) as agent for an insurer. The relevant agency agreements provide for SFFL to indemnify the insurer in respect of certain losses which may be incurred by the insurer in connection with these arrangements. SFFL has been informed that the insurer has received a small number of complaints in relation to the mis-selling of certain insurance policies to SFFL's customers prior to January 2005. These complaints may result in the Group having to indemnify the relevant insurer under the terms of the relevant agreements, however the Group is not currently aware of any information which establishes that the Group has such an obligation or, if any such obligation arose, that it would be material.

36 Ultimate parent company

The Company is a subsidiary undertaking of the ultimate parent company, Shawbrook Group plc (previously named Laidlaw Acquisitions Limited), which is incorporated in England and Wales and is the largest company in which the results of the Company and its subsidiaries are consolidated. The consolidated financial statements of Shawbrook Group plc are available on request from Lutea House, Warley Hill Business Park, Brentwood, Essex CM13 3BE.

38. Country by country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the European Union's Capital Requirements Directive (CRD IV). The purpose of the Regulations is to provide clarity on the source of the group's income and the location of its operations.

The Company and its subsidiary undertakings are all UK registered entities. The Group's principal activities are set out in the Directors' Report on page 25. The Group's activities are performed by Shawbrook Bank Limited.

	2014	2013
Turnover	£156.7m	£93.3m
Profit before tax	£46.1m	£16.8m
Average number of full time equivalent employees	414	281

Glossary

ALCO	Asset and Liability Committee
BAC	Board Audit Committee
BRC	Board Risk Committee
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the 'International Convergence of Capital Measurement and capital standards'
Basel III	Global regulatory standard on Bank Capital Adequacy, Stress Testing and Market and Liquidity proposed by the Basel Committee on Banking Supervision in 2010. It aims to strengthen regulation, supervision and risk management in the banking sector. See also CRD IV.
Basis Point (bps)	One hundredth of a percent (0.01%). 100 basis points is 1%. It is used in quoting movements in interest rates or yields on securities.
BBA	British Bankers Association, the leading trade association for the UK banking sector.
BIPRU	The prudential sourcebook for banks, building societies and investment firms. The part of the Financial Conduct Authority's (FCA) Handbook that sets out these detailed prudential requirements for the banks that they regulate.
Board	The Company Board of Directors
BOE	Bank of England
Buy-to-let Mortgages	Buy-to-let mortgages are those mortgages offered to customers purchasing residential property as a rental investment.
Capital Requirements Regulation (CRR)	The European Union has implemented the Basel III capital proposals through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), collectively known as CRD IV. CRD IV was implemented on 1 January 2014.
Code	The FRC's UK Corporate Governance Code (2012 edition).
Common Equity Tier 1 Capital (CET1)	The highest quality form of capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
Cost of Risk	Cost of risk is defined as impairment losses on financial assets divided by average principal employed for a given period.
Cost:Income Ratio	Calculated as administrative expenses plus provisions for liabilities and charges, divided by net operating income.
CRD	Capital Requirements Directive
CRD IV	In June 2013, the European Commission published legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR) which form the CRD IV package. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. The rules are implemented in the UK via the PRA policy statement PS7/13 and came into force from 1 January 2014, with certain sections subject to transitional phase in.
Customer Deposits	Monies deposited by retail and commercial savings account holders. Such funds are recorded as liabilities of the Group.
Deferred Tax Asset	Income taxes recoverable in future periods as a result of deductible temporary differences (temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods) and the carry-forward of tax losses and unused tax credits.
Earnings at Risk (EaR)	Approach set out for the quantification of interest rate risk expressed as the impact of the

	sensitivity analysis on the change to net interest income.
Effective Interest Rate (EIR)	The effective interest rate method calculates the amortised cost of a financial asset or financial liability, and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or financial liability. Calculation of the effective interest rate takes into account all contractual terms of the financial instrument but includes all amounts received or paid that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.
Encumbrance	An interest in an asset held by another party. Encumbrance usually impacts the transferability of the asset and can restrict its free use until the encumbrance is removed.
EPS	Earnings per share
Expected Loss (EL)	This is the amount of loss that can be expected by the Group calculated in accordance with PRA rules. In broad terms it is calculated by multiplying the Default Frequency by the Loss Given Default by the Exposure at Default.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at Default	An estimate of the amount expected to be owed by a customer at the time of a customer's default.
Fair Value	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
FCA	Financial Conduct Authority
Financial Services Compensation Scheme (FSCS)	The Financial Services Compensation Scheme is the UK's independent statutory compensation fund for customers of authorised financial service firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by management expenses levies and, where necessary, compensation levies on the authorised firms.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to borrowers' financial difficulties. Forbearance options are determined by assessing the customer's personal circumstances.
FTP	Funds Transfer Pricing
Full Time Equivalent (FTE)	A full time employee is one that works a standard five day week. The hours worked by part time employees are measured against this standard and accumulated along with the number of full time employees and counted as full time equivalents. This is a more consistent measure of the amount of time worked than employee numbers which will fluctuate as the mix of part time and full time employees changes.
Funding for Lending Scheme (FLS)	The Bank of England launched the Funding for Lending scheme in 2012 to allow banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years. This was designed to increase lending to businesses by lowering interest rates and increasing access to credit.
Group	The Company and its subsidiaries
Gross Yield	Gross yield is calculated as the sum of interest receivable and similar income, net income from operating leases, net fee and commission income and fair value losses on financial instruments divided by average principal employed.
HPI	House Pricing Index
IFRS	International Financial Reporting Standards.
ILAA	Individual Liquidity Adequacy Assessment
Impaired Assets	Loans that are in arrears, or where there is objective evidence of impairment, and where the carrying amount of the loan exceeds the expected recoverable amount.
Impairment Allowance	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be individual or collective.
Impairment Losses	An impairment loss is the reduction in value that arises following an impairment review of an asset that determined that the asset's value is lower than its carrying value. For impaired

Interest Rate Risk in the Banking Book (IRRBB)	financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Impairment losses can be difficult to assess and critical accounting estimates and judgements are made when determining impairment losses. The risk to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment, based on Basel II requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events as they apply on a solo level and on a consolidated level.
IASB	International Accounting Standards Board
IPO	Initial Public Offering
Leverage Ratio	The leverage ratio is calculated as common equity tier 1 capital divided by the total of balance sheet assets adjusted for deductions.
LIBOR	London Inter-Bank Offered Rate
Liquidity Coverage Ratio (LCR)	The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress, and ideally, central bank eligible.
Loan-to-Deposit Ratio	The ratio of loans and advances to customers net of allowance for impairment divided by customer deposits
Loss Emergence Period	The loss emergence period is the estimated period between impairment occurring and the loss specifically identified and evidenced by the establishment of an appropriate impairment allowance.
Loss Given Default	The estimated loss that will arise if a customer defaults. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.
MLRO	A Money Laundering Reporting Officer (MLRO) is the officer nominated within a firm or practice to make disclosures to the Serious Organised Crime Agency (SOCA) under the Proceeds of Crime Act 2002 and the Terrorism Act 2000.
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Net Interest Income	The difference between interest received on assets and interest paid on liabilities.
Net Interest Margin (NIM)	Calculated as net operating income divided by average principal employed.
Net Loans	Loans and advances to customers, net of impairment provision, plus operating leases.
Net Stable Funding Ratio (NSFR)	The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. The ratio is required to be 100% with effect from 2018. Available stable funding would include such items as equity capital, preferred stock with a maturity of over 1 year, or liabilities with a maturity of over 1 year.
Past due	A financial asset such as a loan is past due when the counterparty has failed to make a payment when contractually due.
Past due but not impaired	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount.
PRA	Prudential Regulation Authority
Repurchase Agreements or 'Repos'	An agreement where one party, the seller, sells a financial asset to another party, the buyer, at the same time the seller agrees to reacquire and the buyer to resell the asset at a later date. From the seller's perspective such agreements are repurchase agreements (repos) and from the buyer's reverse repurchase agreements (reverse repos).
Return on Lending Assets	Return on lending assets before tax is calculated as profit/(loss) before taxation divided by average principal employed.
Risk-weighted Assets	Sum of all risk-weighted assets as required for regulatory capital ratio measures.

Secured Lending	Lending on which the borrower uses collateral such as equity in their home.
Standardised Approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings of obligators (where available) and supervisory risk weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of specified business lines.
Stress Testing	Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.
Tangible Equity	A subset of shareholders equity that is not intangible assets
Tier 1 Capital	A measure of banks financial strength defined by the PRA. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, but is subject to a deduction in respect of material holdings in financial companies.
Tier 1 Capital Ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 Capital	A further component of regulatory capital defined by the PRA. It comprises eligible collective assessed impairment allowances under CRD IV.
TNAV	Tangible net asset value.
Unencumbered Assets	Assets that are readily available to secure funding or to meet collateral requirements, and assets that are not subject to any restrictions but are not readily available for use.
Underlying EPS	Underlying profit after tax attributable to ordinary shareholders of the parent company divided by the weighted-average number of ordinary shares outstanding during the period excluding own shares held in employee benefit trusts or held for trading.
Underlying return on tangible equity	Underlying profit before tax divided by average tangible equity. Average tangible equity is calculated as total equity less intangible assets at the beginning of a period plus total equity less intangible assets at the end of the period divided by two.
Underlying profit before tax	Statutory profit before tax adjusted for Corporate activity and IPO transaction costs.
Yield Curve	A line that plots the interest rates, at a set point in time, of an asset class or swap rate at varying maturities. This can be used as a gauge to evaluate the future of interest rates.
